Value Relevance of Information Disclosure: A Case Study of Companies Listed in LQ45 Index of Indonesian Stock Exchange in Period 2016 - 2017

Kiki Khoifin* and Dej-anan Bungkilo

Abstract--- Challenges will be always exist and undeniable on stockexchange. Providing high-quality information disclosure and transparency is one of the challenges, which required byinvestors for assessment purposes and better economic decision making. For the sake of boosting the information disclosure and transparency issue among Publicly Listed Companies (PLCs), Indonesia has released act of directors of Jakarta Stock Exchange No. Kep-306/BEJ/07-2004 and act of Financial Service Authority or Otoritas Jasa Keuangan (OJK) No.KEP-134/BL/2006. The regulations have been significantly contributed in improving the information disclosure and transparency, which was revealed by the report of Asian Development Bank in 2015. The report showed the increase in scores from 13.43 points in 2012 to 17.50 points in 2015, or a 30.31% improvement. However, the score is still lower than its neighboring countries such as Malaysia (18.86 points), Thailand (20.07 points), and Singapore (19.06 points). Nevertheless, query has been rising from researchers as to whether information disclosurehas value relevance for investors. In responding to the question, understanding about the value relevance is necessary to be delivered. Value relevance is the ability of accounting numbers to summarize the information underlying the stock price, hence the value relevance is designated by a statistical association between financial information and price or return. Therefore, this study aims to investigate whether information disclosure consists of financial statements and voluntary disclosure of the companies that were listed in LQ45 index on IDX in period 2016-2017 have value relevance. The most significant result found that financial statements represented by BVPS and EPS have value relevance. This study has implications and isuseful for readers due to as the information preparation. The listed companies will gain knowledge of what extent, what type, and the amount information that should be disclosed in order to be successful in attracting investors to source for funds on the stock exchange. The finding is beneficial for future literature regarding accounting information and contribution to investors in weighting which information is the most concerned for assessment.

Keywords--- Value Relevance, Financial Statements, Voluntary Disclosure, Stock Return.

I. INTRODUCTION

Stock exchange has a strategic role to significantly enhance development of the country in order to improve equality, growth, and national stability in economy. Therefore, stock exchange iswidely regarded as an economic-driven for developing countries, like Indonesia. Indonesia has Indonesia Stocks Exchange (IDX)that has been actively operating almost 42 years, which brings together issuers and investors. There are many types of securities offered by IDX such as stock, bonds, warrant, right, and convertible bonds. From many alternatives, stocks are the

Kiki Khoifin, School of Management, Mae Fah Luang Univeristy, Chiang Rai, Thailand. E-mail: kiki.kho@mfu.ac.th*
Dej-anan Bungkilob, School of Management, Mae Fah Luang Univeristy, Chiang Rai, Thailand. E-mail: dej-anan@mfu.ac.th

most preferred by investors. However, challenges are always exist and undeniable on the stock exchangesuch as the need of relevant information. Investors have been requiring and looking for high-quality information disclosure for an assessment process of company's performance in order to make better economic decision(1). As such, IDXrealized that high-quality information disclosureis one of the important parts of accomplishment for the sake of achieving well-ordered stocks trade, fair, and efficient. Therefore, issuers are regularly requested to publishan annual report under the act of directors of Jakarta Stock Exchange No. Kep-306/BEJ/07-2004 followed bythe act,which were issued by Financial Service Authority or *Otoritas Jasa Keuangan*(*OJK*)No. KEP-134/BL/2006.These regulationshave been tremendously effectedon the increase of the information disclosure and transparency among Publicly Listed Companies (PLCs). In 2015, according to the ASEAN corporate governance scorecard country reports and assessments, which released by Asian Development Bank, implementation of information disclosure and transparency of PLCs in Indonesia showed a year-on-year improvement since 2012. The increase was reported from 13.43 points in 2012 to 17.50 points in 2015. Yet, those points are still lower than its neighbors. Other ASEAN countries that outperform Indonesia, like Malaysia (18.86 points), Thailand (20.07 points), and Singapore(19.06 points). On the contrary, other countries such as China and Hong Kong can be a good example of successful of information disclosure and transparency implementation. For example, China highly considers that information disclosure is an importantconcern for successfulness and sustainability of the Chinese stock market and Chinese economy(2). Therefore, under the China Securities Regulatory Commission, the efforts have been tremendously made to push forward good governance through applicable laws and regulations.In 1997, Hong Kong experienced a financial crisis and it was majorly caused by lowinformation disclosure (3). The case has madethe regulatory setter of Hong Kong to set a high-standard of information disclosures for PLCs. There is no doubt that nowChina and HongKong have higher information transparency than Indonesia. This is an important lesson for particularly emerging countries that investorsmay necessitate even more corporate disclosure in order to make a proper evaluation and better understanding of the definite company's future economic performance (4).

This study is expected to extend the limitation of Indonesian literature on particularly accounting information disclosure as well as empirically fills a gap research on corporate voluntary disclosure. The importance of voluntary disclosure study is required for some reasons. First, lack of accounting information disclosure has been deemed as one of the main causes of the financial crisis (3). This makes regulatory bodies especially in emerging countries to comprehensively set the corporate information to extend greater corporate governance. Second, in reducing the gap between issuers and investors, voluntary disclosure is considered as a solution in the stock exchange.However, a query has been rising from academic researchers as to whether information disclosure that is embodied on the annual report has value relevance for investors. In responding to this question, understanding about the value relevance is necessary to deliver comprehension into whetherinformation disclosure is relevant in the new economy (5). According toLiu and Liu[6]isclearly addressed that value relevance is one of the fundamental elements of the quality of information disclosure. More specifically, value relevance is the ability of accounting numbers to recap the information underlying the stock price. Hence, the association between financial information and price or return can be observed through a statistical tool. Further, to explore the issue of information disclosure, the level of accounting information disclosure of issuers will be observed as well. Because,one of the basic and effective

prerequisites on the relevance of accounting information is the quality and level of disclosure, which were used in the preparation of the information (1). As such, the objective of the value relevance is basically to evaluate the level in which accounting information reflects relevant data for company's value as characterized by the stock price or return(7).

Finally, after grounding the theory and pondering the phenomenon in terms of the value relevance of information disclosure, this study aims to investigate whether accounting information disclosure,whichconsists of financial statements and voluntary disclosureshave value relevance. The sample utilized on the study is the public companies that were listed in LQ45 index of IDX in period 2016-2017. LQ45 index is observed due tohigh liquidity performance, the most actively traded, and was selected through several criteria. Beside the selection based on the liquidity, market capitalization is considered as well. IDX regularly monitors performance growth of the companies twice a year. If there is a case of a company is absent from the criteria, it will be excluded in the list and replaced. Furthermore, this study is expected to be beneficial for future literature regarding accounting information, then suggested to policymakers and investors in respect to the evaluation purposesabout which information has to be more concerned and assessed.This study consists of introduction (section 1); literature reviewrelated to the value relevance, financial statements, and voluntary disclosure (section 2); research methodology (section 3); result and discussion (section 4), and conclusion (section 5).

II. LITERATURE REVIEW

2.1 Financial Statements

The objective of financial statements is set in the framework of the international financial reporting standards (IFRS), which reflects any accounting information of the company such as financial position, financial performance, and financial flexibility of business unit that is useful for a broad users consist of investors, governments, lenders, creditors, and other users for decision making purposes(8). Financial statement's practices are mandatory to be disclosedby company according to statutory regulations and considered as the minimum level of information to be disclosed in annual reports(8,9). Since the act of directors of Jakarta Stock Exchange and Financial Service Authority or *Otoritas Jasa Keuangan*(*OJK*) were issued, the listed companies in IDX are compulsory to compile and disclose financial statements. This prerequisite is set by authority to fulfill the regulation about the guideline for presentation of financial statements, and guidelines for presentation and disclosures of issuers. Financial statements consist of balance sheet, income statement, statement of change in equity, statement of cash flows, other statements and explanatory material which constitutes integral part of the financial statements if required by the competent agency in accordance with the type of the industry, and notes to the financial statements.

Financial statements that should be published by issuers have been set by Institute of Indonesia Chartered Accountants based on Indonesian Financial Accounting Standard or *Pernyataan Standar Akuntansi Keuangan* (*PSAK*)1 about financial statements disclosure and *PSAK* 2about statement of cash flows. Afterward, financial statements will assist an investor to assess the firm's value, financial performance, and predict future profit, which means that the information can be effectively exerted for economic decisions of investors in the evaluation of either past and present events, or confirmation and correction of their past assessments (1). However, to fit in statistical

tools, this study used some ratios to representthe financial statementsto reflect information disclosure (1). For example, balance sheets represented by Book value per share (BVPS), income statements represented by Earnings per share (EPS), and statement of cash flows represented by Cash flows ratio (CFR). Through the statistical tools, it is expected to reflect the value relevance of accounting information disclosure. There have been many prior studieson the issue found that there is a significant positive relationship between disclosure level and the information content of EPS and its BVPS. It indicates that the more the level of disclosure, the more the information content of EPS and its BVPS. In addition, Arthur et al[10]found that cash flow information is important to predictcompany's performance in the future. It concludes that information of cash flow statement have value relevance and been fundamentally asuggestionfor companies to disclose such information in order to reduce disproportionateness information.

2.2 Value relevance

Value relevance of information disclosure has been increasingly concerned byacademic researchers(11). There are studies found that value relevance is exerted as the basic elements of the financial statement's quality (11). The concept of value relevance of accounting information is defined as the ability of accounting numbers to recap the information underlying the stock price, hence the association between financial information such as earnings, book value of equity, and price or return to capture firm value (6,12–14). However, the value relevance of accounting information has many viewpoints and contradicting results. There are thoughts focusing on who actually can use such accounting information. For example, Holthausen and Watts[7]criticized that value relevance conducted solely from the perspective of investors rather than regulatory setters. Regulatory setters have to consider the information disclosure needof a wider range of the users. Further, Barth et al[5] addressed the challenging perspective that how value relevance of accounting information as part of a new developed economy. Therefore, understanding the value relevance is required due to it provides insights into whether accounting is relevant in the new economy and how accounting information reflects better information for investors in evaluating the company's value and making decision.

Glezakos[15]conducted the study in respect to the information disclosure represented by book value and EPS to share prices. There is a relationship between information disclosure and market price per share. It is found that the value relevance of book value and EPS increased over time. This finding supported by Alali and Foote[16], it is stated that earnings are positively related to returns and information disclosure proxied by EPS and BVPS. Robust finding found by Kargin[12]and Power et al[17]thatinformation disclosure reflected by balance sheet and income statement have value relevance. The prior findings conclude that information disclosure represented by accounting number has a lot of value relevance (5).This will assist academic researchers to ground the theory in exploring the phenomenon, which has been occurred in the stock exchange about the importance of the information disclosure.

2.3 Voluntary Disclosures

The voluntary disclosure and its determinants have been interested in academic researchers since 1970s (4). The issue has been investigated based on agency theory (18), signaling theory (19), and competition theory (20). According toMeek et al[21], voluntary disclosure is the information disclosure,which is embodied on the annual report as an effort of companies to excess of requirements and communicatecorporate governance as part of the

management information to provide relevant data to users. In terms of the categories of voluntary disclosure, academic researchers have been classifiedthe voluntary disclosure into several points such as strategic information, which includes general corporate information, corporate strategy, acquisition and disposals, research and development and future prospect; and financial information, which includes segmental information, financial review, foreign currency information, stock price information, and non-financial information disclosure. This includes sections such as non-financial information about directors, employee information and social policy (21,22). All of the criteria and level of voluntary disclosures are basically depended on the country-specific cultural forces and prevailing economic decision.The criteria that are used in observing the value relevance of this study are fit to be explored for PLCs in Indonesia.

III. RESEARCH METHODOLOGY

3.1 Population and Sample

Population of this study is companies were listed inLQ45 index of IDX. There are 81 data observation from 2016-2017 could be analyzed due to normality issue.In order to widely observe of BPVS, EPS, CFR and Stock Return (SR), the periods that will be analyzed are t (publication day), t+1 (one day after publication), t+2 (two days after publication), and t+3 (three days after publication).

3.2 Variable Instruments

This study used four independent variables and one dependent variable that will be explained in the following table:

Table 1: Variable Instruments

Variable	Explanation
Independent Variables	
BVPS	Book value per share is defined as book value of the company's fiscal year divided by outstanding common stock (23).
EPS	Earnings per share is amount of income earned per share of the company's outstanding common stock (24)
CFR	The cash flow ratio is calculated by operating income before depreciation minus interest expense, taxes, preferred dividends, and common dividends, divided by the book value of total assets (25).
VDI	The voluntary disclosure index is calculated as row scores divided by the total possibility of voluntary disclosure scores.The voluntary disclosure is calculated as the ratio of the total voluntary disclosure to the maximum possibility of voluntary disclosure (26).
Dependent Variable	
SR	Stock return calculated by stock price period t minus stock price period t-1 divided by stock price period t-1(27).

3.3 Statistical Analysis

Data were analyzed by using multiple regression analysis through SPSS-software. At the beginning, descriptive statistics and normality test were conducted for process analysis. Descriptive statistics are basically describes the features of data were used in the study such as minimum, maximum, mean, and standard deviation. A normality test is conducted by using Kolmogorov-Smirnov and utilized for examining whether the sample data were used in the study has been drawn from a normally distributed population. In addition, for the statistical analysis purposes, hypothesis tests are required as well. The following information describes regression equation proposed in this study.

$$SR = \beta_0 + \beta_1 BVPS_1 + \beta_2 EPS_2 + \beta_3 CFR_3 + \beta_4 BVPS_4 + \varepsilon$$

Where:

H1 = BVPS have value relevance

H2 = EPS have value relevance

H3 = CFR have value relevance

H4 = VDI have value relevance

IV. RESULTS AND FINDINGS

4.1 Descriptive Statistic

Table 2: Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
BVPS	81	48.50	20562.59	2554.5984	3308.29360
EPS	81	.01	13842.00	674.2683	2126.89823
CFR	81	-.01	.41	.0863	.08918
VDI	81	.47	.79	.6684	.07051
SR	81	3.49	66999.00	7136.4319	11627.60183
Valid N (listwise)	81				

According to the data above shows that BVPS have mean 2,554.59, with minimum amount is 48.50, and maximum shows 20,562.59. EPS have mean, which is accounted for 674.26, with minimum amount is 0.01, and maximum shows 13,842.00. In addition, CFR are observed with mean is accounted for 674.26, with minimum amount is –0.01, and maximum in the amount of 0.41. VDI shows mean value is 0.66, with minimum is accounted for 0.47, and maximum is 0.79. Lastly, SR have mean which is accounted for 7,136.43, minimum is 3.46, and maximum is accounted for 66,999.00. In general, the descriptive data shows that the value of each variable has various data and able to be analyzed.

Table 3: Percentage of Voluntary Disclosure

Indicators	%
General Corporate Information	100%
Corporate Strategy	100%
Acquisitions and Disposal	86%
Research and Development (R&D)	24%
Future Prospects	42%
Information about Directors	100%
Employee Information	69%
Social Policy and Value Added Information	77%
Segmental Information	63%
Financial Review	66%
Foreign Currency Information	33%
Stock Price Information	85%

In general, companies that were listed in lq45 indexhave disclosed information in respect to general corporate information, corporate strategy, and information about directors, which are respectively observed 100%. Yet, it should be noted that some information are found weaklydisclosed by companies such as information about research and development, future prospect information, and information about foreign currency, which are respectively accounted for 24%, 42%, and 33%.

4.2 Normality Test

Table 4: Kolmogorov-smirnov

		T	t+1	t+2	t+3
N		81	81	81	81
Normal Parameters[a,b]	Mean	7.915	7.916	7.918	7.915
	Std. Deviation	1.032	1.027	1.028	1.027
Most Extreme Differences	Absolute	.095	.095	.096	.096
	Positive	.067	.067	.067	.067
	Negative	-.095	-.095	-.096	-.096
Test statistic		.095	.095	.096	.096
Asymp. Sig. (2-tailed)		.068[c]	.069[c]	.061[c]	.062[c]

According to the table of Kolmogorov-smirnov above shows that the value of Asymp.sig (2-tailed) in period t, t+1, t+2, t+3 are respectively 0.068, 0.069, 0.061, and 0.062 greater than 0.05. It concludes that the data of this study are normal and can be analyzed in multiple regressions.

4.3 Hypothesis Test

Table 5: T-test

Period	BVPS		EPS		CFR		VDI		R^2
	T	sig.	T	sig.	T	sig.	T	sig.	
t	4.398	0.000	2.719	0.008	0.280	0.780	-0.386	0.700	0.380
t+1	4.362	0.000	2.738	0.008	0.323	0.747	-0.354	0.724	0.378
t+2	4.348	0.000	2.745	0.008	0.302	0.764	-0.365	0.716	0.378
t+3	4.374	0.000	2.714	0.008	0.300	0.765	-0.367	0.715	0.378

4.3.1   H1 = BVPS have Value Relevance

According to the table above shows that significant level of BVPS in period t, t+1, t+2, and t+3 are respectively 0.000, 0.000, 0.000, and 0.000 greater than 0.05 (95% confidence level). According to t-statistic in the table shows that t-statistic of BVPS in period t, t+1, t+2, and t+3 are respectively 4.398, 4.362, 4.348, and 4.374 greater than t-table 1.99. Therefore, it concludes that BVPS have value relevance. This finding is supported by Ahmadi et al[28]and Nadana Abayadeera[29],those are found that book value is sensitive to share price with a large proportion being positively sensitive to share price. The finding proves that book value is the most widely used accounting variable for investment decision. The result of this study is also consistent with Al-Shubiri[30] and Abiodun[31]. Those are discovered that there are many investors are more concern on the balance sheet information. It indicates that BVPS is the most significant factor in deciding to SR in LQ45 index of IDX. BVPS as the representative of the balance sheet in the financial statements that was published along with the annual report is able to be exerted for evaluation purposes by investors, thus investors can make a better decision through this information. Therefore, accounting information, which is represented by BVPS have a lot of value relevance.

4.3.2   H2 = EPS have Value Relevance

Based on the table above shows that significant level of EPS in period t, t+1, t+2, and t+3 are respectively 0.008, 0.008, 0.008, and 0.008 lower than 0.05 (95% confidence level). According to t-statistic in the table also shows that t-statistic of EPS in period t, t+1, t+2, and t+3 are respectively 2.719, 2.738, 2.745, and 2.714 greater than t-table 1.99. Hence, it concludes that EPS have value relevance. This robust finding consistent with Khanagha et al[32]. It is found that EPS have value relevance. Yet, in comparison to BVPS, the result shows that EPS are less value relevance. The study was conducted by Nadana Abayadeera[29]also proved that earnings are the least significant than deciding to share prices of industries in Australia. Consistent with the study was held by Ahmadi et al[28], it isproved that EPS are less relevant in the explanation of share price variation than the BVPS. This study empirically conforms to the studies conducted by Ghayoumi et al[33] and Khanagha et al[32], where income statements index is more significant in dictating the market value of company's shares than balance sheet index.

4.3.3   H3 = CFR have value relevance

According to the table above shows that significant level of CFR in period t, t+1, t+2, and t+3 are respectively 0.780, 0.747, 0.764, and 0.765 greater than 0.05 (95% confidence level). According to t-statistic in the table also shows that t-statistic of CFR in period t, t+1, t+2, and t+3 are respectively -0.386, -0.354, -0.365, and -0.367 lower

than t-table 1.99. Therefore, it proves that CFR have no value relevance. Contradictive with the finding of Ahmadi et al[28],revealed that cash flow has value relevance, then able to explain the variation of share price valuation. This study empirically confirmed that in respect to the information about cash flows, it unable to become an additional information use rather than balance sheet and income statement for economic decisions by Indonesian investors.The result is basically stated that cash flows information is less value relevance. In contrast,Bilinski[34]found that analysts are unlikely to issue cash flow forecast when firms earning quality is low. This is one of the reason why predicting future earnings is more crucial to the market than cash flow forecast (35). Therefore, The result of this study supports Call et al[36], it stated thatcash flow has a little use of valuation. This implies that analysts and investors especially in Indonesia deem the prediction of future earnings is an important issue for assessment process.

4.3.4   *H4 = VDI have value relevance*

Based on the table above shows that significant level of VDI in period t, t+1, t+2, and t+3 are respectively 0.700, 0.724, 0.716, and 0.715 greater than 0.05 (95% confidence level). According to t-statistic in the table also shows that t-statistic of VDI in period t, t+1, t+2, and t+3 are respectively -0.386, -0.354, -0.365, -0.367 lower than t-table 1.99. Therefore, it concludes that VDI have no value relevance. There are some limitations found in this study due to exploratory study. Therefore, it does not have any struggles to generally examinethe determinants of voluntary disclosure. The result showed in the study conducted by Al-shammari[8], it stated that companies who poorly disclosed any voluntary disclosure could be attributed to the absence of encouragement and pressures from stakeholders.However, according to the result that was gathered, the study has the limitation in respect to the information that voluntarily disclosed by constituents of LQ45 index. Standard setter has to put in the top place in this issue that they have no power to persuade the issuers to disclose such information that is needed by the investors as a basic prerequisite.There are some weaknesses in terms of voluntary disclosure of companies that was listed in LQ45 index of IDX. Based on the data of this study, in terms of research and development is only accounted for 24% of the companies disclosed in the annual report, information about future prospect was only accounted for 42%, and foreign currency information that only 33% of the companies were disclosed in the annual report.

V. CONCLUSION

This study empirically examined the value relevance of information disclosure on Indonesia Stock Exchange or IDX. Information disclosures that were explored are financial statements and voluntary disclosure, which were embodied in annual report as the compliance of the statutory regulation in Indonesia. The scope of this study is limited to the data from 2016 to 2017 of companies were listed in LQ45 index. A prospective policy implication is that companies that were listed in LQ45 index requiresuch complementary information sources to be disclosed in annual report in order tohave more additional information. As the data showed that in terms of the information disclosure of the companies are still weak. There are many companies are found do not disclose any information such asresearch and development information, future prospect, and foreign currency information. These weaknesses basically always exist in emerging countries, like Indonesia. In addition, this study has findings that balance sheet which is represented by BVPS have value relevance. In addition, income statement that is represented by EPS havea strongervalue relevance than BVPS. It indicates that investors in Indonesia are more concern on the mandatory

disclosure in particular of financial statements such as balance sheet and income statement. Therefore, this study is very useful for readers due to following reasons. First, PLCs will obtain knowledge of what level, what type, and the amount information that should be disclosed in order to be successful in attracting investors to source for funds on the stock exchange. In particular, understanding of the influences on voluntary disclosure will also assist users consist of investors and financial analysts to form reasonable expectations about the type and amount of information disclosures. An important suggestion might be exerted by issuers that companies with a high level of value relevance information disclosure have a stronger association between stock return and future earnings than those with a low level of value relevance of information disclosure.

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