The Nature of Losses and the Value Relevance of Earnings and Book Values: The Case of Malaysian Companies

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Thesis is submitted in partial fulfilment of the requirements for the degree of Master of Accountancy Faculty of Accountancy

June 2005
Dedicated to
my parents
and to members of my family
as well as
to all those who have been
a source of motivation and inspiration to me.
ACKNOWLEDGEMENTS

All praise is to Allah the Almighty, for giving me strength and patience in completing this dissertation within the stipulated time.

The completion of this paper is possible with the help and support of many people, and I would like to take this opportunity to express my sincere gratitude and appreciation. First and foremost, to my advisor, Professor Dr Muhd Kamil Ibrahim. As an advisor, he had guided me with his advice and suggestions, as well as the invaluable time that he had spent to assist me in various matters. Thank you to Professor Dr Ibrahim Kamal Abdul Rahman, the Dean of the Faculty of Accountancy, Associate Professor Dr Suzana Sulaiman, Program Coordinator for Master of Accountancy, and to the staff of the Faculty of Accountancy, for their support and help throughout my period of study.

I am also extremely grateful to UiTM for awarding me the scholarship to pursue my postgraduate studies. I would like to extend my heartiest thanks to Mr Khairul Anwar Kamaruddin for his invaluable assistance during my data collection at UiTM Segamat. The completion of this paper is very much aided by the Research Methodology lecture by Professor Dr Normah Omar, who has helped me to better understand this topic, and Associate Professor Dr Isahak Kassim who has provided me with invaluable assistance in statistics.

My gratitude also goes to Miss Siti Nuraishah Ahmad for helping me in editing this research paper. My deepest gratitude also goes to all lecturers, for their guidance, encourage and insights. Thanks also to my classmates, Anis, Norkhazimah, Nurmala, Rahayu and Saforah, who have helped me in various ways during my period of study.

Last but not least, my deepest gratitude is recorded to my family, and Mr Muhd. Aizul Norayaini for their understanding, tolerance, patience, and encouragement throughout, which had played a great part in the completion of this paper. Without their loving support my dissertation would have been a difficult and long journey. Beyond a simple thank you, I want them to know that I love them all very dearly.
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The purpose of this study is to investigate the role of earnings and book value in explaining market valuation for firms reporting loss. In this study, it is suggested that loss are not homogenous across firms, and specifically explores the economics of two types of loss, which are (1) transitory loss and (2) recurring loss. Transitory loss is temporary and do not reflect the ongoing economic circumstances of the firm, whereas recurring loss is consecutive loss that are due to ongoing poor operating performance. Recurring loss could lead to either an adaptation by the firm to return to profitability or abandonment of the firm.

The sample comprises of loss companies, which are listed on the Main Board of Bursa Malaysia from 1994 to 2003. An equity valuation model developed by Ohlson (1995) is employed to test the hypotheses. Additionally, logit analysis is also carried out to further examine the probability of the occurrence of the two independent variables. Two hypotheses are tested; (1) For transitory loss, earnings will have a non-negative association with market value (2) For recurring loss, earnings will have a negative association with market value. The empirical evidence for this study show mixed results over the six years analysis.