VALUE RELEVANCE OF ACCOUNTING NUMBERS

(A CASE STUDY ON MALAYSIAN MARKET)

by

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ABSTRACT

This study evaluates and reports the results of the research that had been undertaken to explore the value relevance of accounting numbers such as Book Value of Assets (BVA), Book Value of Liabilities (BVL), Total Cash Flows (TCF) and the Net Total Value of Assets (NTVA) to determine the Market Value of Equity (MVE) of the top hundred companies listed on the KLSE main board.

The objectives of this study are to investigate the relationship between the accounting numbers such as Book Value of Assets (BVA), Book Value of Liabilities (BVL) and the Net Total Value of Assets (NTVA) with the Market Value of Equity (MVE) and to evaluate at the impact of using the Total Cash Flows (TCF) as one of the variable factor in the accounting numbers to determine the Market Value of Equity (MVE).

The results of this indicate that there is a positive relationship between the accounting numbers of BVA and NTVA with the MVE, and a negative relationship between BVL and MVE. Based on the analysis being done, the significant level of p-value is 0.000 for BVA and 0.045 for TCF which are less than alpha 0.05. Whereas, BVL and NTVA are having significant relationships with MVE as the p-value is 0.000 which is also less than alpha 0.05.

CHAPTER ONE

INTRODUCTION AND SCOPE OF RESEARCH

1.1. Introduction

Investors, creditors and other business people in reality rely on accounting information in enhancing their businesses. Hence the accounting information comprises of the balance sheet, the profit and loss account, and the statement of cash flows that becomes an important part in decision making (Horngren et al, 1997). The contains in the balance sheet, profit and loss account and the statement of cash flows formed the accounting numbers such as Book Value of Assets (BVA), Book Value of Liabilities (BVL), Total Cash Flows (TCF) and Net Total Value of Assets (NTVA).

Accounting being widely used to describe all types of business activities and it is sometime referred to as *the language of business* (Williams et al, 2003). According to Williams et al (2003), investors, creditors, managers, and others who have a financial interest in an organization need a clear understanding of the accounting terms and its concepts before pursuing their business activities.

The characteristics of accounting information must be good, useful, relevant, reliable and desirable. Diamond et al (1999) highlighted that in order for the information being useful in making decision, it must be relevant and reliable.

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CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This chapter discusses the relevant literature concerning the accounting numbers. Section 2.2 provides the definition of the accounting numbers. Section 2.3 discusses on the prior research on the importance of the accounting numbers. Finally, section 2.4 introduces the conceptual framework for the study that will be the guideline in carrying out this research.

2.2.   Definition of Accounting Numbers

Accounting is formally defined as a system of "providing" quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions (Diamond et al, 1999). The following are the key features of the accounting definition highlighted by Diamond et al (1999):

- ***Numbers:*** *Accounting is quantitative. This is the strength of the accounting because numbers can be easily tabulated and summarized.*