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Does value relevance drive better accounting data by adopting International Financial Reporting Standards? Evidence from Fan Milk Ghana Ltd

Benjamin Yeboah[1], Debrah Ofori[2], Samuel Addo-Paintsil[3] and Charlotte Kwarteng Ananiampong[4]
[1,3] Kumasi Technical University, Business School, Department of Accountancy and Accounting Information Systems, Box 854, Kumasi, Ghana
[2,4]Department of Accounting Studies, College of Technology of Education, University of Education, Winneba, Ghana
[1]**Correspondence: benjabinyeboah@yahoo.com;** Tel: +233 207661888
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Abstract

This paper focuses on examining the value relevant relationship between accounting data and the IFRS adoption in a data of Fan Milk Ghana Ltd. We employ the ordinary least squares regression technique in testing the relationship between accounting data and IFRS adoption. The analysis of data collected evidence and show that, overall results under IFRS implementation of Fan Milk Ltd depict a quality information content of earnings and dividend to explain their share prices. This paper is limited to data availability of several firms. The findings would be of interest to those charged with governance of Fan Milk and other manufacturing firms in Ghana that have adopted IFRS.

Keywords: accounting data, IFRS, value relevance, Fan Milk Ghana Ltd

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INTRODUCTION

The International Accounting Standards Board (IASB) proposed law that enforces all listed firms both in Europe and Africa capital markets to make firms' group accounts to comply with the International Financial Reporting Standards (IFRS). This enactment was enforced in January 1, 2005 in Europe, but for different effective date in Africa context. The importance of harmonization in accounting standards is to achieve efficient, effective and understandable accounting systems that provide users with better accounting numbers to promote information assimilations. The IFRS claims to achieve relative impact on accounting numbers as posited by several extant researchers as value relevant. Value relevant of accounting amount is much pronounced on equity market values (Clarkson, Hanna, Richard and Thompson, 2011; Yip and Young, 2012). In this paper, we look at the effect of accounting numbers and the IFRS adoption in a data of Fan Milk Ghana Ltd.

The government of Ghana mandated all listed firms to switch to IFRS on January 1, 2007 (Zori, 2011; GNA, Dec, 2008). This movement was necessary due to some weaknesses in the Ghana National Accounting Standards (GNAS) and its obsolete nature as espoused by the World Bank (World Bank, 2004). Moreso, long-standing political and social ties with the Britain enhanced Ghana's IFRS adoption (Gernon and Meek, 2001: Joshi et al, 2008). Important recognition of private sector contributions to Ghanaian economy promoted Ghana's adoption of IFRS, as posited by Samuell and Oliga (2000) that IFRS is irrelevant in developing nations with large public sector. Ghana places much premium on private sector as it refers to be the engine of growth as echoed by President Kuffour's government era. Such economy emphasizes the need to adopt efficient and reliable accounting standards.

Despite the above enhanced factors of adoption of IFRS in Ghana, others perceived that the adoption was not appropriate for developing countries, since it requires high human development and developed accounting profession, which Ghana fall short of (Hove, 1986; Perera, 1989a). Therefore IFRS was perceived to be alien to Ghana and it is not surprising that its adoption delayed in Ghana, compared with the European countries.

Distinctively from other value relevant literatures, this paper is about investigating accounting information in value relevance research studies of Fan Milk Ghana Limited under earnings, equity and dividend valuation models of share prices after IFRS adoption. The study result will shed light on the extent of embellish to value relevance literature in Ghana on accounting data. In addition, this study intends to broaden our understanding of focusing on the interplay of value relevance with accounting data and share prices for a single Ghana Stock Exchange (GSE) firm.

Key findings that emanate from the results are much pronounced in value relevance research in Ghana distinctively. Earnings per share and dividend per share as explanatory variables depict higher significant value relevance on share price after introduction of IFRS, opposed to equity per share at the same period. Combined multiple regression result of all variables reveal value relevant after IFRS adoption, and are more informative as compared to Ghana National Accounting Standards period.

The other sections of the study are divided as follows: second part reviews the relevance literatures from both theoretical and empirical stands, especially about accounting data and value relevance and hypotheses development. Section three addresses the research methods and research design. Fourth section discusses our empirical results and findings and fifth one draws conclusion remarks and highlights on further areas of next study.

LITERATURE REVIEW

IFRS Adoption in Ghana

Over 124 countries, including G20 have confirmed adoption of IFRS (PricewaterhouseCoopers, 2010). Out of this number, African countries are up to 21 (Delloitte, 2015). Ghana switched to IFRS in 1st January, 2007 (GNA, Dec., 2008) and therefore enjoined all public entities to apply for making their group final accounts. The adoption of new standards was enhanced by weaknesses and obsolete nature of then GNAS (ROSC, 2004). In addition, International Federation of Accountants Confederation (IFAC) admittedly advised all its members to adopt IFRS as directives to commit confidence and integrity on accounting numbers.

Features of IFRS

Ball and Brown (2010) posit that adoption of IFRS assures fair presentation and compliance with underlying economic events in accordance with accounting framework. Another feature is that IFRS makes a commitment to augment a true and apprehensible accounting information that are important and more understandable within the national standards to facilitate investors decisions (Anna, 2013). Within the context of Fan Milk Ltd under the IFRS adoption, their financial statements would be more reliable, consistence and understandable to facilitate quality investment financial decisions that are appropriate within IFRS framework (IFRS, paragraph 71).

IFRS adoption of earnings value relevance

Literature reviews on value relevance have been rapidly growing since the pioneering study by Ball and Brown (1968) especially in the areas of accounting data and other market measures. According to Beaver (2002), Collins et al., (1999), and Lev and Zarowin (1999) for investors to make quality investment decisions, they need potential information content of earnings to be superior, reliable and are value-relevant. Lev and Zarowin (1999) use both adjusted R-square indicator (R^2) and combined Earnings Coefficient (EC) to measure value relevance of accounting information to examine the degree of association between stock returns and earnings. These accounting measurements of value relevance are in consistent with empirical regression models of price and returns (Gjerde et al., 2005) as stock price serves dependent variable. Kwon (2009) reports positive significant relationship among profitable firms' equity amounts and earnings. The paper reports that earnings have significant positive value on equity of firms.

Shamki (2012) examined whether the firms shareholders amount as non-accounting information depict value relevant for Jordanian industrial firms. The study concluded that earnings are significant in depicting relevancy in relating to the book value of equity as statistically insignificant

Pelea and Scagnelli (2014) conducted a study using continental-European banks facilitating earnings computations under IFRS and domestic GAAP. They drew a conclusion that earnings have significant future potency in future cash flow under IFRS than under domestic GAAP. The conclusion revealed that IFRS is more relevant to investors and other stakeholders than domestic GAAP. Similar several studies like Latridis (2010) in UK, Cameran et al. (2014), Alali and Foote (2012), Agostino et al. (2011) about European banks, Kamath and Desai of Indian companies (2014), Horton and Serafeim (2010) of non-financial firms in England, Devalle et al. (2010) in France, Germany and United Kingdom, and Chunhui et al. (2011) confirmed that adoption of IFRS has improved information content of earnings

Notwithstanding the above findings, other strands of empirical studies depict contrary results under IFRS adoption. For example Callao et al. (2007) of Spanish non-financial institutions, and, Jarva and Lantto (2012) of Finland studies concluded that IFRS is not significantly value relevant compared to the GAAP.

IFRS and value relevance of equity book value

Equity book value denotes an assessment of minimum value of a firm's equity. Investors used equity book value to ascertain as to whether shares are undervalued. Equity book value is recognized in value relevance research. Price level regression is mostly applied to evaluate the value relevance research of book value, where share price serves as dependent variable in relation to book value per share (BVS) as an independent variable. Though, Berk and DeMarzo (2007) posited that book value is not a good measure of actual firm's value. Several studies are confirming a strong connection of equity book value with share price of firms. In like manner, there is statistically a tie-up at the share price and book value of equity, but statistically achieved much higher share price and profit (Gjerde et al., 2005). Investment analysis does not recognize book value because it has no bearing to the market value. Also, investment amount provides insufficient information at the balance sheet (Harrison and Horngren, 2008). This is contrary to the view that other investors use book value for making investment decisions (Gjerde et al., 2005).

Overinde (2011) used the panel ordinary least squares model to test the relationship between book value of equity and market value of share of listed Nigerian firms. Oyerinde (2011) found that book value of equity is value relevant. This result is in support of Karampinis and Hevas, 2011) studies about Athens listed firms' earnings and book value numbers. However, other empirical studies achieve insignificant profit and equity amount (Brimble and Hodgson, 2007; Tsalavoutas et. 2012).

IFRS and Value Relevance of Dividend

Effective stable dividend policy facilitates to resolve an uncertainty in the minds of investors and ensures good investment climate (Kumar et al. 2010). However, the study about the value relevance of dividend after IFRS adoption remains more research to be done. Some studies have looked at effect of dividend announcement on share price fluctuation whiles others have looked at the effect of dividend on share return (Abdulkadir, Ijaiya and Baffa, 2013). Abdulkadir, Ijaiya and Baffa (2013) noted that through regular provision of financial information and regular payment of dividends, shareholders' value would be maximized. Oyerinde (2011) concluded that dividend is the most widely used accounting information for investment decisions in Nigeria. The relevance of dividend in stock market valuation is equally supported by Abdulkadir, Ijaiya and Baffa (2013) because they observe that dividend payout is a significant explanatory variable in analyzing share prices of Nigerian banks.

Based on the review of this study, we thus hypothesize the following as:

1. We predict that using IFRS will extenuate the negative national standard effect of earnings book value on share price under value relevance.
2. We expect that using IFRS will extenuate the negative effect national standards effect of equity book value on share price under value relevance.
3. We posit that using IFRS will extenuate the negative national standards effect of dividend book value on share price under value relevance.

METHODOLOGY

Brief profile of Fan Milk Ltd

Though many manufacturing firms that are listed on the Capital Market of Ghana apply IFRS for financial reporting, the study used Fan Milk Ghana as a target company. The company became a limited liability in Ghana in 1967. Fan Milk Ltd has over 3250 shareholders.

Table 1: key facts of Fan Milk Ltd

Facts	**Explanations**
Branches	Benin, Togo, Burkina Faso
Products	Uses dairy products in forms like Fanice, FanGold, FanYogo, Tampico, FanVanile, FanChoco, FanExtra, Yoghurt, Ice Lollies
Selling mode	Ice cream carts, mini bicyles
Investors	Denmark branch, Danish Fund, enterprise Insurance,

Research design, sample selection and data

This study adopted quantitative research methods of design approach in testing the statistical models (Grix, 2004; Miller and Brewer, 2003). Regression method of price was used to estimate the impact of earnings, book value of equity and dividend on share price for two periods, namely pre-adoption and post-adoption. Two periods made use of the explanation power of adjusted R^2 for determining the extent of earnings relevance under IFRS implementation in Fan Milk accounting numbers.

The sample study is focused on only one company (Agyedu, et al., 1999) given the nature of data employed (Henn et al., 2006). The study used the audited financial statements for the period between 2000-2006 and 2008-2014 of Fan Milk (Ghana) Limited. Hand-collection mode of obtaining data was used. The accounting data used include: earnings per share, equity per share, dividend per share and cash flow from operations. Moreover, the study collected data on share prices from Ghana Stock Exchange website.

Model Specification

Price and return models (Ohlson, 1995) are extensively estimation methods to measure value relevance (Sawcen and Hakim, 2014). The model expresses a firm's market value as a function of earnings, book value and other accounting information. Ohlson (1995) noted that value relevance employed explanatory power under the share price regression on net income and equity book value or explanatory power of the regression of annual returns of net income. We could link the market value of equity and accounting variables of a firm to establish the value relevance.

The model is based on three analytical straightforward assumptions. First, the present value of expected dividend determines the market value. Second, the accounting data and dividends satisfy the clean surplus relation and the dividends reduce book value without affecting current earnings (Lindholm, 1995). Thirdly, a linear model frames the stochastic time series behavior of abnormal earnings.

Price model serves to elucidate a framework that posits in establishing the effect between market value and accounting data. Based on the model, this study specifies three divisions of relative value relevance in terms of earning per share, equity per share and dividend per share as given below.

$SP= \beta_0 + \beta_1 EPS + \varepsilon_1$……………………………………………………….........Model 1

$SP= \infty_0 + \infty_1 EQPS + \varepsilon_2$……………………………………………………......Model 2

$SP= \alpha_0 + \alpha_1 DPS + \varepsilon_3$…………………………………………………………..Model 3

$SP= \gamma_0 + \gamma_1 EPS + \gamma_2 EPSQ + \gamma_3 DPS + \varepsilon_4$…………………… (pooled)..……………Model 4

Operational variables are explained in Table 1:

Table 1: Explanations of variables

Variables	Definition	Measurement
Independent variable: SP	Share Price from 1/1 – 31/12	
Independent variables: EPS	Earnings Per Share	earnings/number of shareholding
DPS	Dividend Per Share	Dividend/number of shareholders
EQPS	Equity Per Share	Shareholders equity/number of shareholdings
IFRS		Coded as 1 for post-adoption period, otherwise coded 0
$\beta, \alpha, \infty, \gamma$	Parameters to estimate	
$\varepsilon_{1,2,3,4}$	Error term	

RESULTS AND DISCUSSIONS

Multicollinearity Test

Variance Inflation Factor (VIF) shows (Table 2) the multicollinearity of variables of research interest. The tolerance value for earnings per share, equity per share and dividend per share for both pre- and-post-adoption period were all above 0.4. Also, VIF values for earnings per share, equity per share and dividend per share for both pre-adoption period and post-adoption period were all less than 3.0. Therefore the study concludes that there is no problem of multicollinearity. Therefore, value relevance estimation can be done without any problem (Brien, 2007). *Tolerance* = $1 - R^2$, *VIF*= 1/ *Tolerance*

Table 2: Test for Multicollinearity

Variables	Pre-Adoption		Post-Adoption	
	Tolerance	**VIF**	**Tolerance**	**VIF**
Earnings per share	0.834	1.200	0.557	1.797
Equity per share	0.721	1.388	0.602	1.660
Dividend per share	0.706	1.417	0.460	2.174

Univariate analysis: Descriptive statistics

Panel A of Table 3 provides an Independence-Sample T-test summary of the descriptive statistics of variables used for the study in absolute terms. This shows the average indicators of accounting and market data. Earnings and equity indicators revealed higher mean values of 177150.1400 and 55715.1400 after IFRS adoption and therefore suggest a good performance during post adoption period comparatively at 1% significance level. Share price and dividend indicators revealed a good performance at the pre-adoption period as opposed to a post-adoption period.

Table 3, Panel A: Descriptive statistics (in absolute value)

	Mean	**std. Dev.**	**Pre-adoption (mean)**	**Post-adoption (mean)**	**p-value**
Share Price	2.6873	2.06813	2.0081	.33664	0.233
Earnings	10446.0714	8701.70285	3142.0000	177150.14	0.001
Equity	31268.0714	29299.2079	6821.0000	55715.14	0.001
Dividend	6066.8571	5580.8711	50001.7100	7132.0000	0.040

Further descriptive statistics revealed per share value of indicators the study employed (see Table 3 of Panel B). Earnings per share, equity per share and dividend per share indicators revealed a higher average scores (0.64049, 0.74474, and 0.26635) respectively under post-adoption comparatively (see Table 3, Panel B) at 1% significant level. Good performance of accounting data that are revealed under the IFRS period may be due to restriction of management of Fan Milk Ltd to manipulate accounting information, and enhanced disclosure of mandatory and essential information to give reasonable confidence to investors at all times.

Panel B of Table 3: Descriptive statistics (Per share value)

	Pre-Adoption		Post-adoption		P-value
	Mean	Std. Dev.	Mean	Std. Dev	
Earnings per Share	0.4829	0.4522	0.64049	0.59195	0.001
Equity per share	0.7871	1.4843	1.9915	0.74474	0.000
Dividend per share	0.0492	.42572	0.2364	0.26635	0.000

Bivariate Analysis: Pearson's Correlation Matrix

The Pearson's correlation coefficients result are shown in Table 4. It shows all variables used in this study for the both periods. Although the share price has a positive correlation strengths with all variables, but the magnitude of both EPS and EQPS (see Panel A, Table 4) correlations are relatively low under the pre-adoption. Earnings per share is (see Panel B, Table 4) measuring the same for post-adoption period. Low correlations suggest that multicollinearity is not an issue for our estimation.

Panel A, Table 4: Pearson's correlation matrix (Pre-adoption period)

Variable	Share price	Earnings per share	Equity per share	Dividend per share
Share price	1.000	0.178	0.170	0.838*
Earnings per share		1.000	0.194	0.240
Equity per share			1.000	0.431
Dividend per share				1.000
	Panel B, Table 4:Post-adoption			
Share price	1.000	0.215	0.895**	0.647
Earnings per share		1.000	0.501	0.654
Equity per share			1.000	0.617
Dividend per share				1.000

**** Significant at 1%, * Significant at 5%**

Testing for Value Relevance of Earnings per share (EPS)

This section reports the estimation result for research objective one which assesses the relative relevance of EPS of Fan Milk (Ghana) Limited under IFRS implementations. With this, the study estimates R^2 for the both periods comparatively. The period that has a higher R^2 denotes more improved in accounting numbers. The EPS results denotes a significant improvement on share price (see Table 5) (β=0.833), R^2 of 0.912 after adoption as opposed to before adoption period of a coefficient of β=0.861 with R^2 of 0.742. Earnings per share explained share price better after IFRS adoption. The post adoption period R^2 was higher comparatively. This implies that earnings per share is more value relevant after IFRS adoption. The finding is consistent with many past studies. Cameran et al (2014) and Agostino et al. (2011) have concluded that earnings are value relevant after IFRS adoption. A study by Chunhui et al. (2011) revealed that IFRS adoption significantly improves earnings quality and decreases earnings smoothing. Latridis and Rouvolis (2010) added that IFRS is value relevant than domestic GAAP in Greece for non-financial firms in confirmation.

Table 5: Test of value relevance for earnings per share

	Pre-Adoption			Post Adoption		
Model	Coef.	R^2	F-statistic	Coef.	R^2	F-statistics
Earnings per share	0.861** (4.978)	0.742	14.371**	0.912**	0.833	24.853**

Source: field Data (2016); ***, **, * at 1%, 5% and 10% significant respectively; parenthesis is for t-statistic; Share price is dependent variable

Pelea and scangnelli (2014) used sampled banks from France, Germany, Italy and Spain and concluded that earnings have significant higher predictive ability of future cash flow under IFRS than domestic GAAP, as it confirmed improvement in earnings per share (Latridis, 2010). This finding is negating Callao et al. (2007) result which established an insignificant value relevant compared with the domestic GAAP of Spanish non-financial firms. In Finland, Jarva and Lantto (2012) found that IFRS adoption did not significantly improved accounting quality of non-financial firms.

Value Relevance of Equity per share (EQPS)

Focusing on our second objective of 'assessing impact of IFRS in relation to equity per share and share price under the value relevance' in the Fan Milk (Ghana) Ltd. The result is fairly clear cut. The result of equity per share with share price, it suggests that EQPS achieves a coefficient of β=0.895** and the R^2 of 0.801 at 5% significant level for the pre-adoption period, as compared to lower R^2 of 0.153 under the post-adoption period as shown in Table 6. This means that equity per share of pre-adoption period explained 80.1% of the variation in the share price. However, after IFRS adoption, equity per share has no significant impact on share price. This suggests that equity per share was not more value relevant in the post-adoption period than the pre-adoption period. The finding contradicts Oyerinde's (2011) finding that equity book value is value relevant. Brimble and Hodgson (2007) noted that equity book value alone has no potency in measuring of firm value in Asian continent, as it continues to decline with a passage of time. Hung and Subramanyam (2007) ascertained no significant incremental improvement in predictive power of the new standards in value relevance of equity in support of Brimble and Hodgson (2007).

Table 6: Test for value relevance for equity per share

	Pre-adoption			Post-adoption		
Model	Coef.	R^2	F-statistic	Coef.	R^2	F-statistic
Equity per share	0.895** (4.492)	0.801**	20.175**	0.391 (0.951)	0.153	0.904

Source: field Data (2016); ***, **, * significant at 1%, 5% and 10% respectively; t-statistic is in parenthesis; Dependent variable = Share price

Value Relevance of Dividend per share

The objective three is 'to assess the relationships that exist between dividend per share and share price of IFRS under the value relevance of the Fan Milk (Ghana) limited'. Table 7 shows that dividend per share explained 41.9% of the variation in share price (R^2=0.419) for the pre-adoption period. Dividend per share significantly explained at 46.6% of variation in share price for R^2 of 0.466, higher than prior period of IFRS switch. This implies that dividend per share is more value relevant after IFRS adoption. This finding is consistent with Abdulkadir, Ijaiya and Baffa (2013) studies. Their results revealed that dividend payout is a significant explanatory variable in analyzing share prices of Nigerian banks and exhibits accounting connection with the new standards implementation. Oyerinde of Nigeria (2011), in her study concluded that dividend is the prominent indicator acceptable for analyzing investment decisions. The relevance of dividend in stock market valuation is equally supported by Abdulkadir, Ijaiya and Baffa (2013), because they observed that dividend payout is a significant explanatory variable in analyzing share prices of Nigerian banks.

Table 7: Test for Value relevance for dividend per share

	Pre-adoption			post-adoption		
Model	Coef.	R^2	F-statistic	Coef.	R^2	F-statistic
Dividend per share	0.647 (1.899)	0.419	3.608	0.683*	0.466	4.361*

Source: field Data (2016); ***, **, * significant at 1%, 5% and 10% respectively; t-statistic is in parenthesis; Share price is the dependent variable

Multivariate Analysis: Testing relevancy of accounting data

The study examines value relevance of earnings per share, equity per share and dividend per share contemporaneously through the multiple regression of price model as depicted in Table 8. For the pre-adoption period, the results of all variables together explained 64.1% of the variation in share price (Adj. R^2=0.641). However, after IFRS adoption, earnings per share, equity per share and dividend per share results accounted for 91.2% of the variation in share price (see Table 8). This implies that IFRS was more value relevant than the Ghana National Accounting Standards era (GNAS).

Furthermore, Table 8 shows that earnings per share have a significant positive impact on share price in the post-adoption period as compared to the pre-adoption period. Shamki (2012) argued that earnings alone have significant value relevance but inclusion other accounting variables like equity and dividend lead to statistically insignificant effect. This study found Shamki's (2012) conclusion to be applicable for pre-adoption period of IFRS but not post-adoption period.

Table 8: Test for value relevance for all variables
(Pre-adoption)

Model	Earnings per share	Equity per share	Dividend per share	R^2/Adj. R^2	F-statistic
4(pooled)	0.205 (0.295)	0.659** (1.151)	0.084 (0.217)	0.641	9.590*
		Post-adoption			
4(pooled)	0.928** (5.672)	-.0491* (-2.713)	0.442 (2.359)	0.912*	21.842**

*Source: field Data (2016); ***, **, * significant at 1%, 5% and 10% respectively; t-statistic is in parenthesis; Share price is the dependent variable*

CONCLUSIONS

Summing together all the objectives, the study is purposed to ascertain the relationship that exist within ledgers, journals data of accounting and market value of Fan Milk, Ghana Ltd of IFRS implementation under value relevance. As we expected, the value relevance of earnings per share and dividend increased for the applied sample after IFRS adoption. Equity value per share result was not value relevant. However, combined results from multiple regression reveals an improved value relevance under new standards (Adj. R^2= 0.912) at 10% significance level on all the variables used with corresponding positive effect on share price of Fan Milk Ltd. This implies that information content of accounting data has enhanced the share prices of Fan Milk Ltd.

The reviews of other results are consistently support previous empirical studies suggesting that accounting information correspondingly explained the share prices of Fan Milk Ltd, and therefore affect firm's accounting profits relevancy after IFRS adoption (Christensen et al. 2007). However, the result reveals that dividend of Fan Milk Ltd has a positive impact than to earnings and book value of equity. Collins et al. (1999) explained that current earnings has no effect on considering better earnings to measure in future due to inherent manipulations engaged by management of firms.

Taken together, overall results under IFRS implementation of Fan Milk Ltd more or less depict a quality information content of earnings and dividend to explain their share prices for the period under study. Overall, the findings presented in this study have important policy implications regarding the importance and impact of the investment decisions on Fan Milk Ltd, based on accounting data and share price information. Furthermore, the present study augments prior studies on the value relevance in relation to accounting data and share price, and makes a case for single firm study perspective.

Given that our study focuses on foreign-owned large listed Ghana firm, future research might investigate the topic for all foreign-owned listed Ghana firms as compare to locally-owned listed firms. This would allow a greater understanding of the topic for legitimate findings generalization.

This study should do more to pursue some recommendations such as, the need for the study to enhance earnings capacity level of the firm to augment information content thereby improving the EPS and dividend; and further research should expand to have multiple firms study perspective to heighten and generalize key conclusions emerged in this paper.

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