Value Relevance of Accounting Information: A Literature Review

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Abstract:

The value relevance research empirically investigates the usefulness of accounting information for investment decisions to shareholders. Value is defined as the ability of accounting numbers in the financial statements to explain stock market measures. Accounting Information is defined as the value relevance if there is a statistical correlation between the accounting numbers and the market value of the shares. In reviewing the previous empirical studies, there are number of international and local evidence on value relevance of accounting information available to the public. These research articles are generally selected from top accounting journals. This review primarily focusses forty recent empirical studies conducted on value relevance of accounting information during the past ten years. The review presents the main findings from studies on the value relevance of two measures used in the financial statements, namely, earnings and book value. The review concludes that almost all empirical studies have used the price regression model of Ohlson (1995) and therefore earnings and book value were used as important measures in the financial statement to predict the market value of share. It further describes the value relevance of accounting information to predict the share price over time in different accounting perspectives and provides value relevance literature to researchers who are in search of empirical studies on value relevance of accounting information.

Keywords: Earnings, Value Relevance, Book Value, Ohlson Model and Accounting Information.