



**T.C.
GAZI UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES**

**DOKTORA
TEZİ**

**EFFECTS OF IFRS MANDATORY ADOPTION
ON THE ACCOUNTING QUALITY AND FIRM
VALUATION: EVIDENCE FROM PALESTINE**

TARIQ DARABEE

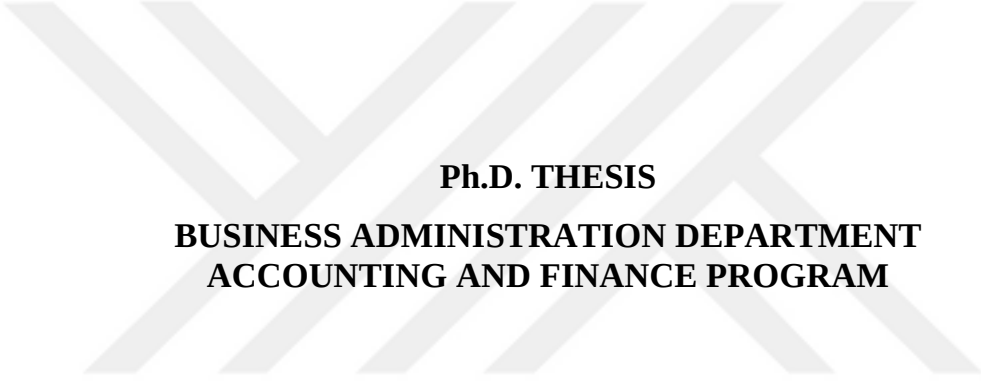
**BUSINESS ADMINISTRATION DEPARTMENT
ACCOUNTING AND FINANCE PROGRAM**

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Ph.D. THESIS

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ETİK BEYAN

Gazi Üniversitesi Sosyal Bilimler Enstitüsü Tez Yazım Kurallarına uygun olarak hazırladığım bu tez çalışmasında; tez içinde sunduğum verileri, bilgileri ve dokümanları akademik ve etik kurallar çerçevesinde elde ettiğimi, tüm bilgi, belge, değerlendirme ve sonuçları bilimsel etik ve ahlak kurallarına uygun olarak sunduğumu, tez çalışmasında yararlandığım eserlerin tümüne uygun atıfta bulunarak kaynak gösterdiğimi, kullanılan verilerde herhangi bir değişiklik yapmadığımı, bu tezde sunduğum çalışmanın özgün olduğunu, bildirir, aksi bir durumda aleyhime doğabilecek tüm hak kayıplarını kabullendiğimi beyan ederim.



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EFFECTS OF IFRS MANDATORY ADOPTION ON THE ACCOUNTING QUALITY AND FIRM VALUATION: EVIDENCE FROM PALESTINE

(Ph. D. Thesis)

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ABSTRACT

This study investigates whether accounting information quality affects the cost of capital and firm value during the IFRS mandatory adoption period. It uses a sample of 378 firm-year observations from 27 Palestinian listed firms during 2003 and 2016. The design of the research includes applying the multiple regression analysis to test the developed hypotheses. Furthermore, it involves a wide range of accounting information quality measures; we classify these measures into two categories: earnings management and earnings attributes measures, which include accounting and market-based earnings attributes. Furthermore, this study targets Palestine, which is a unique case country in terms of its economic and political position in the world; few know about the ramifications of IFRS in Palestine. However, this study has three dimensions of research. The first dimension examines the impact of IFRS mandatory application on the quality of accounting information. It concludes that the IFRS application in a mandatory base enhances the quality of accounting information. Through the IFRS mandatory adoption period, a reduction in earnings management activities, the reported earnings have become more persistent, predictable, value relevant, and report the negative results on time. The second dimension shows the primary contribution of our study in finding the integration between the research that measures the impact of IFRS on the accounting information quality and other streams that investigate the impact of accounting information quality on the cost of capital and firm value. It investigates the effect of accounting information quality on the cost of capital and firm value in light of IFRS mandatory adoption. The results indicate that during the IFRS mandatory adoption period, the lower intentional earnings management, the higher accrual quality, the more persistence of earnings, and the lower earnings smoothing activities lead to diminishing the cost of capital and leverage firm value. The third dimension measures the effect of corporate governance quality on earnings management and the cost of capital during the period of applying IFRS compulsorily. The results show that compliance with the code of corporate governance along with IFRS mandatory adoption reduces the levels of earnings management. Moreover, during the compulsory period of IFRS adoption, firms having CEO and chairman in the different positions, and employ big four auditors have little intent to manage earnings and, thus, have a lower cost of capital.

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UFRS UYGULAMASININ MUHASEBE KALİTESİ VE ŞİRKET DEĞERLENDİRMESİNE ETKİLERİ: FİLİSTİN'DEN KANIT

(Doktora Tezi)

Tariq Darabee

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ÖZET

Bu çalışma, muhasebe kalitesinin UFRS'nin zorunlu olarak benimsendiği dönemde sermaye maliyetini ve firma değerini etkileyip etkilemediğini araştırmaktadır. 2003 ve 2016 yılları arasında 27 Filistinli şirketten 378 firma-yıl gözlem örneği temel alınmıştır. Araştırmanın tasarımı, geliştirilen hipotezleri test etmek için çoklu regresyon analizinin uygulanmasını içermektedir. Ayrıca çalışma çeşitli muhasebe kalitesi temsilci değişkenleri içermektedir, bu ölçütler iki kategoriye ayrılmaktadır: kâr yönetimi göstergeleri ve kâr özellikleri (muhasebe ve piyasaya dayalı kazanç özellikleri). Bu çalışma, dünyadaki ekonomik ve politik konumu açısından eşsiz bir örnek ülke olan Filistin'i hedeflemektedir; UFRS'in Filistin'deki etkileri hakkında çok az bilgi vardır. Araştırmanın üç boyutu bulunmaktadır: Birinci boyut, UFRS zorunlu uygulamasının muhasebe bilgilerinin kalitesi üzerindeki etkisini incelemektedir. Zorunlu bir temelde UFRS uygulamasının muhasebe bilgilerinin kalitesini artırdığı sonucuna varılmıştır. UFRS'ye zorunlu adaptasyon döneminde, kâr yönetimi faaliyetlerinde bir azalma ile, raporlanan kâr daha kalıcı ve öngörülebilir olduğu gözlemlenmiştir. Bundan başka, UFRS'nin uygulanması üzerine muhasebe bilgileri hisse senedi fiyatlarına yansımış ve muhafazakar hale gelmiştir. İkinci boyut, UFRS'nin muhasebe bilgi kalitesi üzerindeki etkisini ölçmekte, muhasebe bilgi kalitesinin sermaye maliyeti ve firma değeri üzerindeki etkisini araştırmakta, bahsedilen olgular arasındaki ilişkinin bulunmasına çalışmamızın birincil katkısını göstermektedir. Sonuçlar, UFRS zorunlu benimseme döneminde, daha düşük hile ve kâr yönetiminin (daha düşük İsteğe Bağlı Tahakkuklar), daha fazla tahakkuk kalitesinin, daha fazla kâr kalıcılığının ve daha düşük kâr düzeltmesi faaliyetlerinin sermaye maliyetinin düşmesine ve dolayısıyla daha yüksek firma değerine yol açtığını göstermektedir. Üçüncü boyut, uygulanan kurumsal yönetim kalitesinin UFRS'nin zorunlu olarak benimsendiği dönemde kâr yönetimi ve sermaye maliyeti üzerindeki etkisini ölçmektedir. Sonuçlar, UFRS'nin zorunlu benimsenmesiyle birlikte kurumsal yönetim kurallarına uyumun kâr yönetimi seviyelerini azalttığını göstermektedir. Ayrıca, UFRS'nin zorunlu olarak benimsendiği dönemde, CEO ve başkan farklı pozisyonlarda olan ve büyük dört denetçi istihdam eden firmalar kârları yönetmede daha az isteklidir ve bu nedenle daha düşük bir sermaye maliyetine sahiptirler.

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ABBREVIATIONS

Some of the abbreviations used in this study are presented below with their explanations.

Abbreviations	Explanation
ASC	Accounting Standards Codification
AccQual	Accrual Quality
BPA	Board of Professional Auditing
BVS	Book Value Per Share
CAPM	Capital Assets Pricing Model
CFO	Cash Flows from Operating Activities
GOVCOD	Code of Corporate Governance
CONSER	Conservatism
CG	Corporate Governance
DID	Difference in Difference
DAC	Discretionary Accruals
EPInd	Industry Earning-Price Ratios
EPS	Earnings Per Share
SMOOTH	Earnings Smoothing
EU	European Union
FASB	Financial Accounting Standards Accounting Board
SZ	Firm Size
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Principles
G	Growth
ADOP	IFRS Adoption
CLOSE	Insiders Ownership Interest
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee

IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commission
LED	Leadership
MFI	Micro-Finance Institutions
OLS	Ordinary Least Squares
P	Ordinary shares' market price
PCMA	Palestine Capital Market Association
PEX	Palestine Exchange
PACPA	Palestinian Association of Certified Public Accountants
PERS	Persistence of Earnings
PRED	Predictability of earnings
PB	Price to Book Ratio
P/E	Price-Earnings Ratio
PPE	Property, Plant, and Equipment
ROSC	Report on Observance of Standards Code
ROA	Return on Assets
SOX	Sarbanes-Oxley Act
SEC	Securities and Exchange Commission
STD	Short term Debts
SMOTH	Smoothness of Earnings
SFAS	Statement of Financial Accounting Standards
PNA	Palestinian National Authority
SMEs	Small and Mid-Sized Entities
UK	United Kingdom
UN	United Nations
US	United State of America
Time	Timeliness of Earnings
WTO	World Trade Organization

1. INTRODUCTION

The financial accounting device undertakes a financial communication function between external resources providers and what is occurring financially internal a business. This function consists of a production procedure of the financial statements about an entity's economic position, outcomes of operations, cash flows, and the associated disclosures. The reporting entities design their financial statements to serve the information needs of resource providers through offering the essential information that allows them to determine whether or no longer to begin a relationship, continue the relationship, or change their relationship with a company (Gibson, 2013). Most of the accounting standards determine the major resources providers or direct external users as potential, present equity investors, lenders, and other different creditors (IASB, 2018). These users additionally characterize the principal capital market participants. Because these users are directly affected by using the reporting entity's financial results, at the same time, they are often unable to request this kind of information immediately from the company (Zeghal, Chtourou, and Fourati, 2012).

Furthermore, the information needs of these users are exceedingly representative of the needs of many different users. Failing to fulfill the needs of investors leads to the incapability to meet the financial information need of other users (Palea, 2013). Therefore, the financial reporting system permits these users to evaluate the general effects of business performance. It will allow them to make the right decision concerning the efficient allocation of resources (Brüggemann, Hitz, and Sellhorn, 2012). However, what if the published financial statements do not meet the stakeholder needs, in particular equity investors and different creditors? Which means an information risk exists. Information risk represents a mismatch between the information content of the financial reporting and the needs of the involved users. Investors recognize the significance of this difficulty in their funding decision. Thereby, they price the information risk due to two reasons: First, the information asymmetry problem and the existence of agency problems due to the absence of an efficient corporate governance device (Leuz, 2003; Bhattacharya, Desai, and Venkataraman, 2013). Second, the dependence on low-quality accounting information due to a lack of compliance with accounting standards (Francis, LaFond, Olsson, and Schipper, 2004). Thereby, information asymmetry and the poor

quality of reported accounting information feed the information risk. Most of the prior studies supply evidence that the information risk is non-diversifiable or systematic (Lambert, Leuz, and Verrecchia, 2012) and provide additional premium in computing the investment's cost of capital and firm value (Francis, LaFond, Olsson, and Schipper, 2005)

However, to limit the effect of information risk, financial reporting has to comply with the established and universal accounting standards. Accounting standards are necessary to defend the interest of direct external users of financial reporting; these standards make sure that this information is accurate, useful, transparent, and understood by way of interested users (Masoud, 2014). Producing high-quality accounting information is no longer an easy process in light of the enlargement of free trade around the world, which encourages many firms to make investments in different countries and now not depend solely on local markets (Pownall and Wieczynska, 2018). During this enormous impact of globalization, in particular, the globalization of financial markets, it has to turn out to be necessary to have a uniform and complete standards of accounting to facilitate the greatest allocation of capital between different countries. Hence, it has become necessary for the world to speak one accounting language, and making the financial decisions in the global context has to turn out to be inevitable (Chen, Tang, Jiang, and Lin, 2010).

In responding to the demand for high-quality and internationally popular accounting standards, the International Accounting Standards Board (IASB) has developed one set of principles-based accounting standards. IASB refers to these standards as the International Financial Reporting Standards (IFRS); over 166 nations around the world use these standards (IASB, 2017). In these countries, greater than 350 greatest multinational companies are making use of IFRS (Kieso, Weygandt, and Warfield, 2014). Year over year, the number of countries implementing IFRS is rising. The principal mission and challenge of IASB are creating and issuing high-quality accounting standards to be flexible and suitable at the international level (Barth, Landsman, Lang, and Williams, 2008). They work to gain this goal by issuing IFRS, which includes standards that limit the allowable accounting options and choices (Ahmed, Neel, and Wang, 2013). It also requires measurement and recognition ideas that better reflect the overall financial position (Kouki, 2018). These standards work toward meeting the information needs of investors and enhancing the capital market structure (Iatridis, 2010).

The development of IFRS leads to enormous research works to study the reality that IFRS adoption is in all likelihood to enhance the levels of accounting information quality and its ability to present the overall financial position of the firm fairly. Prior researches indicated different results about the impact of IFRS adoption on accounting quality. Studies such as Chen et al. (2010), Iatridis (2010), Liu and Sun (2015), and Almaharmeh and Masa'deh (2018) point out that the adoption of IFRS enhances the quality of accounting information. On the other hand, Paul, Filip, and Paugam (2013), Ahmed et al. (2013), Lyu, Yuen, Zhang, and Zhang (2014), Li and Yang (2016), and Jin (2017) provide the contrary direction by way of indicating that the adoption of IFRS reduces the quality of accounting information. Investors understand the function of this information and the importance of its quality in their investment decision. Therefore, they price the low quality of accounting information by adding an extra risk premium to compensate them for maintaining the low quality and risky information. As a result, the accounting information quality is a crucial part of identifying the cost of capital and firm value. Francis et al. (2004), Francis et al. (2005), Gray, Koh, and Tong (2009), Lambert et al. (2012), Eliwa, Haslam, and Abraham (2016) provide tremendous evidence of the positive effect of information risk on determining the cost of capital. They also point out that high information risk reduces the firm value because of the greater cost of capital.

The above debate includes two streams of researches. The first stream focuses on the role of IFRS in enhancing the accounting quality; the subsequent one examines the impact of accounting quality on the cost of capital and firm value. These streams of researches encourage us in this thesis to make the integration between them by showing the effect of accounting quality on the cost of capital and firm value in light of the mandatory application of IFRS in Palestine. This integration of the above two streams of researches permits us to construct a new aspect of research manifested in analyzing to what extent the investors price the information risk for the duration of IFRS application in Palestine.

Most of the prior research works have highlighted the role of applying IFRS in many developed countries such as some European Union (EU) countries and well regulated developing countries in Asia and Africa. This thesis comes to show the IFRS impact of enhancing the accounting information quality, concentrated on a country of a distinct political

and economic nature as Palestine. However, Palestine, as a country with many political and economic constraints, needs common financial languages that allow it to open up to the global market and encourage investment opportunities and sustainable development, thus achieving sustainable economic growth. The current research assumes that the full application of IFRS in a mandatory base amongst Palestinian listed firms would raise the degree of transparency and quality of accounting information, hence lowering the risk of accounting information, which is an integral part of the cost of capital and firm value.

The concept of accounting quality is a multidimensional concept (Chen et al., 2010); the previous studies investigated this concept using different measures and indicators. While most of these studies focus on specific measures such as discretionary accruals, accrual quality, and smoothness of earnings, this thesis provides a comprehensive framework of different means of accounting information quality. This study measures accounting information quality using earnings management and earnings attributes measures. Earnings management measure is discretionary accrual. Earnings attributes indicators are accounting and market-based earnings attributes.

We divide this thesis into three dimensions of researches. The first dimension investigates the impact of IFRS adoption mandatorily on accounting information quality; the second one examines the impact of accounting information quality on the cost of capital and firm value during the IFRS mandatory adoption period. The third dimension shows the role of corporate governance in modifying the effect of accounting information quality on the cost of capital and firm value during the mandatory adoption of IFRS. This dimension is very significant due to investigating the role of IFRS adoption on the quality of accounting information and the cost of capital in light of a unique case country that has a weak and unregulated corporate governance system.

This thesis purported to find out whether the accounting information quality has a significant impact on the cost of capital and firm value throughout the IFRS mandatory adoption period in Palestine. The critical issue in this research is to measure the extent the investors price the information risk that results from low accounting quality during the application of IFRS in a

mandatory base. However, to achieve this objective, the study works to find answers to the following questions:

- Does the accounting information quality differ between before and after the IFRS mandatory adoption period?
- Does the accounting quality effect on the cost of capital differ between before and after IFRS mandatory adoption?
- Does the impact of accounting information quality on the firm value differ between before and after IFRS mandatory adoption?
- To what extent does the corporate governance effect on accounting information quality and cost of capital differ between before and after IFRS mandatory adoption period?

This thesis provides a qualitative addition to the literature related to the expected benefits from applying IFRS in adding value to the quality and transparency of the reported accounting information in a specific case country like Palestine and by employing various techniques to measure the accounting quality concept.

The prominent addition in this thesis is studying the effect of accounting quality on the cost of capital and firm value in light of the mandatory adoption of IFRS. However, it also consists of measuring the pricing process of information risk after the implementation of IFRS. Accordingly, the study expects the governance bodies, standard-setters, and policymakers in Palestine to take advantage of the findings of this study. This study presents signs about the Palestinian's willingness to communicate with the world, hence attracting foreign investments that would assist the economic development in Palestine.

The statistical procedures to test the developed hypotheses make use of data drawn from 27 Palestinian listed firms between 2003 and 2016. In total, the number of final observations in this study is 378 firm-year observations. To test the variables before and after the mandatory adoption of IFRS, we define the period from 2003 to 2007 as IFRS pre-mandatory adoption period and 2008 to 2016 as IFRS post-mandatory adoption period. Furthermore, this study depends on three levels of statistical techniques. The first level is the univariate analysis,

which contains the primary descriptive statistics to understand the general trend of the data set. The second level is the bivariate analysis by conducting both Pearson and Spearman correlation analysis in the form of a correlation matrix. The third level is the multivariate analysis by employing multiple regression analysis with its related measures as the primary tool to test the developed hypotheses.

This study is different from many other studies, particularly in employing a large group of accounting quality measures. These measures cover a different dimension of the reported financial information. For instance, some of them focus on accrual income; others focus on the cash flows concept. In this study, the operational definition of accounting quality depends on two categories of measures: The first category measures accounting quality in terms of earnings management activities; this category includes discretionary accruals. The second category of the accounting quality measures investigates the quality concept in terms of the main qualitative characteristics of financial information. This category includes accounting-based earnings attributes containing accrual quality or Dechow and Dichev's (2002) model, earnings persistence and predictability, and smoothness of earnings. Market-based earnings attribute containing value relevance or Ohlson's (1995) model, timeliness, and conservatism (Francis et al., 2004). Each measure has its regression model that is necessary to extract the value of these measures.

This study pursues this research work with three research dimensions. Each one has the necessary procedures to test the research hypotheses. These analyses are essential to feed the testing process of the developed hypotheses. Furthermore, each aspect has a separate robustness test. The first dimension of this research interests in testing the impact of IFRS mandatory adoption on the quality of accounting information. It contains an examination of IFRS mandatory adoption on each measure of accounting information quality individually. The results show that the quality of accounting information significantly differs between pre- and post- IFRS mandatory adoption period. However, the degree and direction of this effect are varying from one measure of accounting information quality to another. Most of the used indicators confirm the role of IFRS in enhancing the quality of accounting information. According to the undertaken analyses, during the compulsory adoption period of IFRS, there

is a reduction in intentional earnings management, earnings have become more persistent and predictable, more value relevant, and also report the negative results on time.

The second dimension of this research works toward examining the effect of accounting quality on the cost of capital and firm value during the IFRS mandatory adoption period. We measure the cost of capital and firm value using the adjusted earnings price ratio and Tobin's Q, respectively. The developed models have an interaction variable between the employed proxies of accounting quality and the IFRS adoption variable. This variable has an essential role in examining the effect of accounting information quality on the cost of capital and firm value during the IFRS mandatory adoption period. This dimension provides implications of the pricing of information risk after implementing IFRS in the compulsory base. In measuring the accounting quality effect on the firm value using Tobin's Q, the results show a decline in firm value when the observations show the low quality of accounting information. Furthermore, during the mandatory adoption of IFRS, the lower intentional earnings management, more value relevant to the reported information, and the attitude to report the negative results on time boost the accounting quality, hence leveraging the firm value.

The third dimension adds the quality of corporate governance in the investigation process of accounting information quality impact on the cost of capital during the IFRS mandatory adoption period. It aims to investigate the role of corporate governance quality on the quality of accounting information and the cost of capital during the IFRS mandatory adoption period. We use several measures to investigate the corporate governance quality. They include; the compliance with the Palestinian code of corporate governance, number of reporting segments, the leadership style, the percentage of insiders ownership interest, and the type of audit firm. The results indicate that the adoption of IFRS in a mandatory base, besides the compliance of the code of corporate governance, leads to lower earnings management. Firms with chairman and CEO in the same position tend to manage earnings more than those whose chairman and CEO in a different position. Firms with multiple segments during the IFRS mandatory adoption period have lower earnings management activities.

In summary, IFRS implementation is one of the core factors that are necessary to improve the quality of the disclosed accounting information. The high quality of accounting information

means lower information risk, which is one type of systematic risk. In addition to the importance of IFRS, the operation in a well-organized corporate governance environment is also essential to leverage the accounting information quality.

This thesis contains six chapters. Chapter one provides a background and overview of this thesis with a summary of each chapter. Chapter two virtually review of the related kinds of literature; the first section contains an overview about the development process of IFRS, the organizing process of IFRS, the main characteristics of these standards, the expected benefits and limitations of IFRS, the IFRS development in the developing counters, and the accounting and IFRS conditions in Palestine. Then, it also includes detailed information about the accounting information quality concept and the primary measures of that concept. Finally, it argues the empirical shreds of evidence about the IFRS effect on the quality of accounting information. The second section discusses the capital market effect in terms of the concepts of information risk and information asymmetry. The last section infers to the corporate governance quality concept and its measures. Chapter three shows the conceptual framework, and the hypotheses developed for this research work. Chapter four is the methodology of the study, which contains the nature of the research approach and strategy. Then, it represents the data and the sample of the study. This chapter contains a definition of the primary and control variables. Finally, it exhibits the developed regression models that are necessary to test the developed hypotheses.

Chapter Five represents the empirical results after implementing all the statistical analyses. We arrange the empirical results according to the developed hypotheses. The first section relates to the first hypothesis that investigates the effect of IFRS adoption on the quality of accounting information. The second section discusses the empirical results of the second and third hypotheses of accounting information quality impact on the cost of capital and firm value in light of IFRS mandatory adoption. The last section shows the empirical results of the final hypothesis, which relates to the effect of corporate governance quality on earnings management and the cost of capital during the mandatory adoption of IFRS. Chapter six is the conclusion of this thesis. It contains a discussion of the results in comparison with prior studies in this field, the possible limitation and future research opportunities, the implication of the study, and the conclusion.

2. LITERATURE REVIEW

2.1. Introduction

This chapter represents a comprehensive review of the study's associated kinds of literature, which contains the answers to how and why the study's variables relate to each other. The literature review is crucial to develop a robust theoretical framework and enable us to produce testable hypotheses to test to what extent the theory is valid (Sekaran and Bougie, 2016). This study pursues three research dimensions. This study extracts the theoretical framework from the flow of many prior published research studies. This research involves a depth debate concerning the relationship between IFRS mandatory adoption, quality of accounting information, capital market determinants (i.e., cost of equity capital and firm value), and corporate governance quality measures.

Moreover, there are a massive number of research works and efforts, which examined the effect of IFRS on accounting quality. On the other hand, many studies investigate the effect of accounting information quality on the cost of capital and firm value. These studies consider the quality of accounting information as a component of risk premium, and the investors need compensation against accepting the poor quality of accounting information (the pricing of information risk). However, researchers undertake these investigations in developed countries with limited research waves in low and inefficient markets. Therefore, our study develops a new different model by measuring the effect of accounting quality on the cost of capital and firm value in light of IFRS mandatory adoption. On the other hand, it takes into consideration the corporate governance quality, which may play an essential role in explaining these relationships. This study targets Palestine, which is an example of a less developed, emerging, and unique case country.

2.2. International Financial Reporting Standards (IFRS): An Overview

Globalization results not only affect the degree of the country's openness to each other but also create economic globalization of capital markets around the world. The evolution of multinational organization since 1990 (Kouki, 2018) is the inevitable result of the capital market globalization (Lungu, Caraiani, and Dascălu, 2017). As a result, making a financial decision in the global context has become an essential requirement for all multinational corporations (Liu and Sun, 2015). Therefore, IFRS and previously International Accounting Standards (IAS) are developed as a complete set of principal-based accounting standards to meet the accounting and financial reporting needs of these corporations (Masoud, 2017). These needs can be summarized of high quality, transparent, comprehensive, and comparable accounting information to confront the diversity and heterogeneity of accounting applications in different countries around the world (Kouki, 2018).

IFRS provides a comprehensive framework of the definition, recognition, measurement, and disclosure of the financial statement items, such as assets, liabilities, income, and expenses (IFRS Foundation, 2017). On the other hand, Ball (2006) describes IFRS as accounting rules, IASB, as an independent entity that is issuing these standards since 1973. It has a primary goal of providing public companies a comprehensive set of rules, principles, and standards that could be applied equally among them. These standards are globally recognized to be a common and global language among countries whose different economic, political, and cultural environment. Depending on "who we and what we do" report, which is issued by the IFRS Foundation in 2017, 125 of 149 jurisdictions mandate the IFRS application as accounting standards for all or most publicly held corporations. However, the remaining jurisdictions allow the use of IFRS. On the other hand, approximately 27,000 of 50,000 local firms listed in the 88 largest securities exchange in the world are adopted and used IFRS either mandatory or voluntary use IFRS (IFRS Foundation, 2017).

2.2.1. The Historical Development of IFRS

The need to create a global extensively accepted accounting standards lead to establishing a new accounting standard setter body called International Accounting Standards Committee (IASC) in London in 1973 (Tendeloo and Vanstraelen 2005; Barth *et al.* 2008). The establishment of this committee arose from the agreement made by several local professional accounting bodies from Australia, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom (UK), Ireland, and the United States (US) (Deloitte, 2019a). Since the creation of this committee, the additional sponsoring member was entered in the upcoming years to be a key player in developing accounting standards to achieve uniformity in accounting standards that are necessary for preparing and disclosing financial reporting for many business and organizations (Delliotte 2015; Barth *et al.* 2008). In 1975, IASC released the first IAS, and since that year, the issuance of IAS has undergone (Barth *et al.*, 2008).

In the late 1980s, IAS faced criticism related to its nature as a descriptive standard and its content of multiple alternative treatments, which negatively affected its flexibility and comparability across different countries (Ball, 2006). To confront these challenges, IASC established the “comparability project in 1987 and undertook several processes to reduce the alternative treatments in many standards and improve the discloser requirements; these amendments become effective in 1995 (Nobes, 2005). In July 1995, side by side with the International Organization of Securities Commission (IOSCO), IASC investigated many accounting issues in many IAS that needed further investigation, which led again to material changes and adjustments in these standards (Nobes 2005; Tendeloo and Vanstraelen 2005).

In 1997, IASC arrived at a first result of the need to figure out how to realize successful convergence between worldwide or international accounting standards and diverse nearby and local accounting standards. Hence, in 1997, IASC framed a "Strategy Working Party" to reinvestigate its structure and strategy and establish another "Discussion paper" before the end of 1998. During 1999 and 2000, a few discussions and dealings, thinking about the requesting remarks on the working party. On July 1, 2000, the IASB had become the sponsor of the international accounting standard around the world. Since April 2001, the standards-setting

activity of the IFRS Foundation had embraced by IASB (Deloitte 2019; Langmead and Soroosh 2009).

In 2002, the EU nations understood the significance of having high quality, adaptable, and comparable accounting standards (Gastón, García, Jarne, and Láinez Gadea, 2010). In this way, on July 19, 2002, the European Parliament passed the guideline of "The European Union Act 1606/2002-the Application of International Accounting Standards (Chen et al., 2010). The actual utilization of these standards began in January 2005 (Jansson, Jönsson, and Koch, 2012; Sun, Cahan, and Emanuel, 2011). In 2005, more than 7000 nations in 25 EU nations had begun to change their accounting standards from national and local GAAP to IFRS (IFRS Foundation 2017; Francois and Gary 2011). The change of accounting standards in the EU viewed as a significant quantum leap in the financial reporting history (Lee, Kang, and Cho, 2015). Numerous studies depicted this change in accounting as a revolution on accounting history that will altogether influence the accounting and financial reporting future related detailing future in the EU yet in addition to different nations around the world (Sun et al. 2011; Zeghal et al. 2012). Besides, since 2005 (the IFRS compulsory application year by EU nations), the research works in this field has quickened to show the impact of IFRS inception on accounting information quality (Iatridis 2010; Lee et al. 2015; Houqe, Monem, Tareq, and van Zijl, 2016; Kouki 2018), and on the cost of capital and other capital market factors (Daske, Hail, Leuz, and Verdi, 2008; Armstrong, Barth, Jagolinzer, and Riedl, 2010; Turki, Wali and Boujelbene 2017). The essential driver of accepting IFRS among EU nations is the requirement for a typical arrangement of high-quality accounting standards to put the European organizations at a similar level as the US organizations. Especially for the capacity of these organizations to arrive external financing sources (Capkun, Collins, and Jeanjean 2012). Furthermore, EU nations understand the significance of these standards in encouraging development in the EU equity market, by giving exhaustive, practically identical, and high-quality financial reporting information (Zeghal et al. 2012).

Besides, the Financial Accounting Standards Board (FASB) had begun the internationalization of US Generally Accepted Accounting Principles (GAAP). These actions, called "Convergence of Accounting Standards between US GAAP and IFRS" (Herz and Petrone 2005). The convergence procedure began by building up the "Norwalk Agreement," which is a

joint meeting among IASB and FASB in September 2002 (Langmead and Soroosh 2009; Herz and Petrone 2005). The suggestions from this meeting inferred that both FASB and IASB focused on the advancement of high-quality accounting standards for both local and worldwide financial reporting purposes. They also focused on the significance of having compatible, comparable, and possible accounting standards by reducing the differences between US GAAP and IFRS (Herz and Petrone, 2005). In consistence with this effort, on November 14, 2008, the Securities and Exchange Commission (SEC) gave a manual for empowering a potential usage of IFRS by US-listed firms (Sun et al., 2011). They deadline no later than 2009 to accept the financial reporting of foreign listed companies that comply with IFRS (Ball, 2006). Because of this demonstration, in 2007, SEC expelled the prerequisite for outside firms that originally use IFRS and need to list its shares in US financial markets to reconcile with US GAAP, on the off chance that they apply IFRS (Barth, Landsman, Lang, and Williams, 2012).

The convergence between the two accounting leaders (FASB and IASB) is significant for a few reasons. Barth et al. (2012) discuss the ramifications of the convergence in terms of the full spread of IFRS throughout the world and show the importance of introducing worldwide auditing standards, and upgrading the coordination between various global securities markets. Herz and Petrone (2005) show the convergence between accounting standards is important to upgrade comparability of financial reporting, lessen the cost of preparing and auditing financial statements, and finally assist in lever the degree of coordination between different security or capital markets.

Since the initiation of the Norwalk Agreement, the convergence among IASB and FASB has an incredible execution by adjusting and revising many accounting standards. Recently, FASB and IASB have endorsed the standard of revenue recognition called " Revenue from Contract with Customer." This standard holds a code Accounting Standards Codification (ASC) 606 by FASB and IFRS 15 by IASB, this achievement in accounting standards implied to improve the comparability across various nations and capital markets (EY, 2016). Appendix 2 shows a figure summarizes the timeline and the main stations in IAS/IFRS adoption and implementation.

2.2.2. IFRS Organizing Structure

As stated earlier, IASB is responsible for developing, issuing, and amending IFRS. This standard-setting organization contains five related functions as follows:

- The IFRS Foundation assumes an oversight function to the IASB, IFRS Advisory Council, and IFRS Interpretation Committee. Additionally, this establishment puts forth an extraordinary attempt to gather funds for these associations.
- The IASB goes about as a designer of one set of quality and complete international accounting standards.
- IFRS Advisory Council, this body has a directive function on the center strategies and specialized issues.
- The IFRS Interpretation Committee explores on a convenient base the accounting issues to find the appropriate solution in light of the IFRS general framework.
- Monitoring Board, this body has governance function in making a linkage between standards setters and the public authorities, which for the most part, direct and control them promptly. (Kieso et al. 2014; IASB 2017).

2.2.2.1. The pronouncement of IASB

IASB issues three kinds of pronouncement:

- IFRS, until now, IASB has released thirteen standards (IFRS Foundation, 2019). Preceding the creation of IASB, the standards-setting process was performed by IASC, which is liable for IAS (Ernst and Young 2006). Appendix 1 exhibits a list of IAS and IFRS issues as of April 2017.
- Conceptual Framework for Financial Reporting incorporates the primary objectives, elements, and qualitative characteristics of financial reporting. It likewise contains the

assumptions, principles, and constraints that are important to set up a complete set of financial reporting (IASB, 2018). It is a building block of financial accounting as a whole since it has a lot of cohesive and interrelated ideas that are vital for alleviating existing and emerging accounting issues and cases in the best possible way (Kieso et al., 2014).

- IFRS Interpretation, these interpretations are important to explain and manage unacceptable understandings that have created without definitive direction. IFRS understandings have given more than twenty of these interpretations (IFRS Foundation, 2017a).

2.2.3. Characteristics of Accounting Standards

The study discusses the nature of accounting standards from two sides. First, in terms of whether the accounting standards are principles or rules-based accounting standards. Second, whether the accounting standards in compliance with common law or code law legal system.

2.2.3.1. Principles versus Rules-Based accounting standards

IFRS accounting standards are principles-based standards with little details, explanations, and direction examples about these principles (M. P. Kim, 2018). The main role of having principles-based accounting standards is to create progressively open and adaptable accounting standards to be fitting for numerous nations with various lawful, social, monetary, and worlds of politics (Agoglia, Doupnik, and Tsakumis, 2011). These standards give general guidance; however, leave the detailed applications to practitioners and auditors (Nobes, 2005). On the other hand, rules-based accounting standards characterized by the meaning of "Rule," which alludes to exacting models, edge, brilliant line scope limitation, and execution rules and guidance (Schipper 2013; Nelson and Nelson 2003; Nobes 2005).

The primary feature of the U.S. GAAP is its rules-based nature of accounting standards. The essential explanation for this issue is that U.S. GAAP has too broad application rules with countless models and examples about different accounting issues (Webster and Thornton, 2005). Additionally, the nature of accounting in the U.S as rules-based standards described as "*suggestive procedural activity without an intellectual foundation*" (Bennett, Bradbury, and Prangnell 2006).

There are numerous critics of rules-based accounting standards. Webster and Thornton (2005) show the rules-based standards are expensive to create because it must contain all the conceivable application challenges that could confront both practitioners and auditors. In a similar line, Benston, Bromwich, and Wagenhofer (2006) brought up that the utilization of completely rules-based standards during the fluctuation of the economic environment could be useless and enforce managers to smooth profit. They additionally referenced that the detailed rules, clarifications, and explanations lead to less informative and justifiable financial reporting because, under such standards, the attention will be on letters as opposed to the objective of GAAP.

Because of the impediments in rules-based accounting standards, numerous harmonization and convergence endeavors from U.S GAAP sponsors go toward principles-based accounting standards. FASB has begun serious activities to change over U.S. standards from pure rules-based to principles-based standards (Agoglia et al., 2011). Besides, in the U.S Section 108 (d) of the Sarbanes-Oxley Act (SOX), 2002 requires the SEC to contemplate the normal changes, ramifications, and costs that may happen upon the advancing toward principles-based accounting standards in the U.S (Shin and Kim, 2018). The clearest case of the FASB's attitude toward principles-based accounting standards in the agreement with IASB in 2014 on the revenue recognition standard. These standards have become more principles-based standards than past standards (EY, 2016).

Even though of the inspirations toward applying principles-based standards, numerous limitations could result from the pure reliance on principles-based standards. For example, principles-based standards limit the other options and require the practitioners and auditors to use their professional judgments with an adequate framework to build their judgment and

discretions (Benston et al., 2006). Some contended that the attitude toward the control of accounting numbers because these standards have an absence of detailed explanations (Agoglia et al., 2011). Finally, to conform to principles-based standards, it is important to concentrate on both comparability and consistency in more depth than other qualitative characteristics. In this way, at both transactions and financial reporting levels, it is necessary to expand the extent of allowance of professional judgment (Bennett et al., 2006).

2.2.3.2. Country's legal system (Code-Law versus Common-Law Systems)

In accounting standards research, there are two comparative models. The primary model is the shareholders oriented model, joined with the common law legal system. The second model is the stakeholder-oriented model and relates to the code law legal system.

Common-Law legal system relies upon creating capital through the issuance of debts and equity in the financial markets (Bartov, Gul, and Tsui, 2000). Along these lines, the basic player under this methodology is equity investors and lenders. Meeting the information needs of these users requires a significant focus on the disclosure function of financial accounting to mitigate the problem of information asymmetry (Bartov et al. 2000; Ball, Kothari, and Robin 2000). This framework is the root and origin of establishing commonly and widely accepted accounting standards (Ball, Robin, and Wu, 2003). Accordingly, the international accounting standards displayed in terms of the common law view of high quality, comparative, transparent standards that contain detailed disclosure promptly (Ball et al. 2000). Recently, the attitude toward commonly and internationally related standards has increased. Specifically, nations with high reliance on capital raising on the capital market, for example, EU nations, which have an incredible motive to change from local to global and commonly adopted standards (Christensen, Lee, Walker, and Zeng, 2015).

On the other hand, the code law framework nations, which are more stakeholders oriented with financial reporting rules and taxation requirements and implications (Bartov et al. 2000). This framework has a political and legislative impact and prompts build up local and national

accounting standards (Ball et al., 2000). In code law nations, less reliance on open or public information and financial, investors able to access private information. Therefore, such a framework has fewer disclosure requirements, doesn't support the capital market, and has a high dependence on intermediaries (Bartov et al., 2000).

2.2.4. The Expected Benefits and Limitations of IFRS

The discussion of IFRS implications and ramifications in accounting research activities for many years ago falls into two groups; proponents and opponents of IFRS (Chen et al., 2010). The opponents and supporter of IFRS application state that the commonly and internationally accepted accounting standards limits the information asymmetry and improve the quality of accounting information (Barth et al. 2008; Chen et al. 2010; Iatridis 2010). It also lessens the cost of capital and improves the firm value by limiting the information asymmetry, which prompts the efficient allocation of capital (Leuz and Verrecchia 2000; Bushman and Piotroski 2006; Soderstrom and Sun 2007; Daske et al. 2008). The IFRS opponents contend that because of huge deviations between different countries in different geographical areas, it is hard to track down one size of accounting standards that fit all nations. They likewise contend that IFRS has not a significant role in improving the quality of accounting information (Ahmed et al. 2013); Lyu et al. 2014; Hilliard and Neidermeyer 2016). The adoption of IFRS has taken place in numerous countries because these nations understood the benefits of applying such standards. For example, the European Commission's objective from the compulsory adoption of IFRS is the commitment toward capital market effectiveness, simplicity of capital transfer among nations, and the reasonable rivalry on the accessible financial and capital assets among EU members (Francois and Gary, 2011).

The main research paper that investigated the essential advantages of implementing the IFRS is Ball (2006); this paper demonstrates the base structure of much-coming studies in this field. Ball (2006) shows that there are direct and indirect benefits of adopting IFRS. The essential direct advantage is to enhancement in transparency, comparability, and the quality of the reported financial information, which makes the investors' decisions more informative and

wise and leads to a reduction in information risk. Horton, Serafeim, and Serafeim (2013) characterize the expected benefits from embracing IFRS as far as encouraging the comparability in cross borders, financial reporting quality and transparency improvement, and then a reduction in information risk. IASB's essential strategic building up the IFRS is the improvement in the comparability, transparency, and empower investors to make more wise decisions (IFRS Foundation, 2017b).

In the same line, Daske et al. (2008) and Sunder (2009) demonstrate that the utilization of IFRS improves the quality of financial reporting because these standards provide more transparent and comparable financial reporting. Similarly, Tendeloo and Vanstraelen (2005) investigate this issue by expressing that the presence of IFRS lessens the confusion from utilizing various indicators of financial reporting across various nations, thus prompting increasingly educated decisions by diminishing the degree information risk. Many prior studies include Barth et al. (2008), Chen et al. (2010), Atwood, Drake, Myers, and Myers (2011), Sun et al. (2011), and Newman, Edmore, Milondzo, and Ongayi (2016) give complete outcomes of the basic function of IFRS in changing and improving the straightforwardness and the accounting quality. Likewise, the center advantage of IFRS is a decrease in the discretions accessible to the managers from different levels, which enables them to manage, distort, and manipulate earnings.

Ball (2006) likewise gives proof that the quality of IFRS-based accounting information expands the efficiency of the capital market and positively affects the shares price and firms value. This investigation additionally shows that the IFRS application enhances the productivity between contracting parties and sound management, such as the relationship among the board and investors, which consequently diminishes agency cost and improves the quality of corporate governance. The study underpins the fairness or equality between investors by decreasing the risk of the uninformed investor to adverse selection of shares, in this manner, enabling them to make more efficient and informed decisions. The utilization of thorough, single, and broadly confided in accounting language empowers investors to understand the opportunities and threats that are important to inspect the risk and return from investment in various countries, which prompts diversification advantage and more efficient allocation of capital (IFRS Foundation, 2017a).

Daske et al. (2008) support the findings of Ball (2006) and demonstrate that the selection of IFRS gives a wide variety of advantages. These advantages incorporate high quality of accounting, reduce the adverse selection of investment by uninformed investors, improve the liquidity of the market, decrease the cost of capital, and in this way, augmenting Tobin's Q, which is the proportion of firm worth. Newman et al. (2016) show the significance of IFRS in lessening the information asymmetry between the firm's management and capital providers, which prompts to attracting more favorable investment and reducing the adverse selection of shares. These observations came in consistent with Robert and Smith (2003), who find that the IFRS application diminishes the information asymmetry between various related parties in the firm, especially informed and uninformed investors. This outcome joins with the decrease in agency cost by making increasingly effective correspondence between the company's management and other related parties. In this manner, diminishing information risk, cost of capital, and appreciated market value (Leuz and Verrecchia 2000; Tendeloo and Vanstraelen 2005; Iatridis 2010; Madawaki 2012).

Furthermore, different research works demonstrate that the selection of IFRS may prompt an unfavorable impact. The essential issue of IFRS moves in its nature as pure principles-based accounting standards. Barth et al. (2008) show that the national or local accounting standards may have a higher quality than IAS since IAS constrains several accounting alternatives and discretions; such constraint could contrarily influence the reasonable introduction of the financial position of the firm. Applying general principles that ought in various nations containing various firms with various strategies and technologies is not an easy task; its time consuming and expensive process (Shil, Das, and Pramanik, 2009). Also, the change from local GAAP to IAS/IFRS has a cost that can't be measured effectively, particularly the reconciliation of some complex accounting issues such as financial instruments, pension, impairment testing, and shared based payment (Ernst and Young, 2006).

Besides, IFRS, as principles-based standards, contains judgments and estimations, which give managers chances to manage and manipulate earnings (Lyu et al., 2014). The expense of applying IFRS and reconciliation from local GAAP to IFRS could exceed its advantage (Daske, 2006). For instance, IFRS 1, First Time IFRS adoption, alludes to incorporate a reconciliation of GAAP-based equity to IFRS at the transition date of IFRS (Deloitte, 2019b).

This reconciliation requires such a large number of details and explanations to improve the understandability of financial reportings by interested users; thus, the cost of preparing such information could exceed the benefit from this information (Hilliard and Neidermeyer 2016). The IFRS supplementary information and interpretation are lower than local GAAP; IFRS incorporates only a few summaries and debilitates users to comprehend these standards; thus, powerless disclosures of basic accounting issues are covered (Ernst and Young 2006).

2.2.5. IFRS Development in Developing Countries

Since the economic, political, and technological environment in developing countries is the same as that developed countries, the accounting standards adoption motives are also different (Brown 2011; Barth et al. 2012). Concerning the appropriateness of IFRS to developing countries, there are huge debates on this issue. From one perspective, the supporters of the IFRS necessities to developing countries argue that IFRS is flexible to meet the developing countries' financial reporting needs (Chebaane and Othman, 2014). Besides, this school supports IFRS for developing countries because these standards could give chances for soliciting new capitals to these nations, hence leading to sustainable economic development (Gordon, Loeb, and Zhu 2012; Lungu et al. 2017). Conversely, the other school represents the opponent of the IFRS appropriateness to developing countries. They contend that IFRS is complicated and advanced standards. Along these lines, they fit just developed countries, especially the Anglo-American culture (Chebaane and Othman, 2014).

Developed countries have highly developed capital and money markets, and the financial markets characterize their economies, such as the U.S. and EU countries. These nations are additionally ready to spend considerable assets or resources on developing high-quality accounting standards such as IFRS (Bushman and Smith, 2003). IFRS in these nations is important to lessen the level of information asymmetry that is important to limit the agency problem among management and investors (Gordon et al., 2012). The economies of developed countries contain generous multinational corporations that want to expand their investment abroad and need IFRS to enhance the comparability of accounting information (Brown, 2011).

Emerging or developing countries have weak financial systems, less transparency in their financial reporting, and their primary interest is how to attract a Foreign Direct Investment (FDI) (Ramanna and Sletten, 2011). Therefore, the selection of IFRS will encourage acquiring such investments that are important to expand the economic improvement in these nations (Gordon et al., 2012). Gordon et al. (2012) locate a positive connection between IFRS appropriation and FDI in developing countries. Lungu et al. (2017) reach similar results; they additionally demonstrate the beneficial outcome of IFRS selection on FDI among developing countries in the EU. Pricope (2017) additionally contends that the development in FDI is one of the essential commitments from adopting IFRS in rising and developing countries.

Besides, in developed countries, the nature of corporate governance and accounting standards are high; henceforth, the local GAAP could have a higher quality and viability than IFRS (Barth et al., 2012). Accordingly, the switching cost from local GAAP to IFRS is high. While, in developing countries and because of unregulated governance and accounting systems, the switching cost from local GAAP to IFRS is lower than that in developed and advanced countries (Ramanna and Sletten 2011; Zehri and Chouaibi 2013; Madawaki 2012).

2.2.6. Accounting Conditions in Palestine

2.2.6.1. Overview

Palestine is located on the western side of Asia, in the Middle East region, because of its fluctuated political and geographical structure; different names demonstrated it. Generally, the regular name is Palestine. However, after the Israeli occupation in 1967, Palestine Territories or Occupied Palestinian Territories are utilized (History.com, 2017). After 1994, it was known as the Palestinian National Authority (PNA) upon the foundation of a politically between time self-government body (Pappe, 2006). Recently, it has known as the territory of Palestine after the United Nations (UN) recognition of Palestine as a non-spectator part state (Jumaa, 2019). In 2018, the number of inhabitants in Palestine was 4.8 million, orchestrated between the West Bank and the Gaza Strip (Palestinian Central Bureau of Statistics, 2018). On the economic

side, the Palestinian GDP has arrived at 14.7 billion U.S. Dollars (Palestinian Central Bureau of Statistics 2018; The World Bank Group 2017).

Although of the political and economic limitations which are forced by Israel and extend for over sixty years, PNA since its foundation has figured out how to make a steady and supportive investment condition (Darwish, 2014). PNA endeavors showed in the foundation of the financial sector, making many sub-divisions incorporates banks, insurance agencies, securities market, microfinance institutions, housing, and leasing firms (The World Bank, 2008). Moreover, private-sector improvement is inside the priorities of PNA. Accordingly, they allowed of building up large investment organizations to undertake numerous improvement projects and programs, this commitment, with collaboration with huge Palestinian investors lead to setting up Palestine Exchange (PEX) in 1995, and now it contains 48 listed firms. To provide an oversight role over Palestinian economic sectors, PNA has built up many foundations. These foundations include the Palestinian Monetary Authority (PMA) as a patron of the banking and money related organizations segment; Palestine Capital Market Association (PCMA) as a direct supervisor of PEX (The World Bank, 2008).

2.2.6.2. Summary of the historical development of accounting in Palestine

Accounting is one of the social sciences that have experienced numerous phases to arrive at its position these days in Palestine. For the most part, on account of the Israeli control of the region that influenced the political, economic, social aspects of Palestinian history (Pappe, 2006). Toward the start of the twentieth century, Britain's Mandate on Palestine influences the advancement procedure of accounting. In 1929, British High Commissioner imposed the first law related to the accounting profession and auditing in Palestine that holds the number 1929/18. Nonetheless, after the 1948 war, which caused the loss of huge parts of the Palestinian land, it has contrarily influenced the accounting profession. Thus, most of the professionals of accounting moved to nearby Arab countries, particularly Jordan (Pappe, 2006; Darwish, 2014).

Also, one of the consequences of the 1948 war, the UN isolates the unoccupied land of Palestine into two sections: the west bank, which was under the Jordanian administration. Besides, Gaza, which was under the Egyptian administration. In the west bank, the law gave by the British Mandate was legitimate from 1929 until 1961; at that point, it was exchanged with a Jordanian law having the number 1961/10. However, in Gaza, the British Mandate's law was valid until 1967 (Jumaa, 2004).

In 1967, after a complete occupation of Palestine, the Israeli authorities kept the laws identified with the organization of the accounting profession as they are in the West Bank and Gaza heavily influenced by the Israeli military governor. Then, after the Oslo agreement in 1994, the Palestinian Authority assumed responsibility for the managerial undertakings and added changes following certain laws. For instance, in 1997, the organization of accounting profession law and the Jordanian calculation canvass number 1961/10 were announced in the Palestinian land. In 2005, the Palestinian Legislative Council gave another law holding the number 2004/9 to organize the auditing profession in Palestine. This law gave the establishment of a government body that was called the council of regulating the profession of auditing in Palestine (Darwish, 2014; The World Bank Group, 2017).

The Organization of Accounting Profession and Auditing Procedures contains three affiliations, known as the Palestinian Accountants and Reviewers Council, which was established in 1979. The other one was established in 1997 and known as the Auditors Council. The third affiliation was set up in the West Bank; to be the focal board that represents Palestine. In 1995, PNA formed the Palestinian Association of Certified Public Accountants (PACPA). It has an essential role in developing the profession by developing the qualifications of the accountants. That included holding particular instructional classes, participation in local, regional, and international conferences (IFAC, 2019).

In general, the accounting profession and auditing in Palestine despite everything need advancement, particularly in which the majority of the working firms are small and medium-sized. These firms' dependability on accounting is very limited and just for reducing taxable income and other taxes due. Moreover, some of the leading universities and colleges teach accounting under US GAAP rather than IFRS. However, since 2012, some universities have

started to apply the IFRS in accounting curricula, such as financial accounting principles and intermediate accounting course (Abu-sharbeh, 2017).

2.2.6.3. IFRS in Palestine

Palestine is a small, less developed, emerged, and unique case country. The appropriation and utilization of IFRS are important to integrate with the world economy through a gradual shift toward the worldwide economy (Darwish, 2014). The transition process to IFRS in Palestine implies finding common and global accounting language, in which facilitate entrance new market to find new investment opportunities. Palestine is a case of an emerging country that relies upon foreign investment in its economic development process; the Palestinian economy primarily depends on inflows from the outsiders, such as foreign investors and non-governmental organizations (NGOs) (The World Bank, 2008). Subsequently, the essential purpose behind adopting IFRS in Palestine is exploiting the advantage of being a member of the World Trade Organization (WTO) because the enrollment in this body is a compulsory prerequisite of numerous donors to proceed and control their financing of PNA's budget (Abu-sharbeh, 2017).

Even though the selection of IFRS is a necessity to go internationally and to improve economic development, the IFRS application and application process is confronting several obstacles, representing in its complicated political situation, particularly the isolation between the West Bank and Gaza (The World Bank Group, 2017). To assess the conditions and practices of accounting and auditing professions in Palestine, the World Bank arranged a thorough report to reveal insight into the plan and utilization of IFRS in Palestine and named this report as "Report on Observance of Standards Code (ROSC) Accounting and Auditing."

2.2.6.3.1. The IFRS project in Palestine

Given the ROCS report, the IFRS adopters in Palestine are the regulated and listed firms in PEX. Therefore, IAS/IFRS is required for every single listed firm, as indicated by Article no.3 under point (d) of PEX disclosure requirement, this article imposed in 2007(Palestine Securities Exchange, 2007). For example, the banking law (2002), PCMA guidelines identifying with the insurance sector (2007); and for Micro-Finance Institutions (MFI) as indicated by draft guidelines arranged by the PMA (The World Bank Group, 2017). On the other hand, the non-regulated sector is still without a compulsory requirement to apply IAS/IFRS. Simultaneously, there are no clear local accounting standards to control and regulate these parts, and there is no obligatory requirement of IFRS for these firms (The World Bank Group, 2017).

2.2.6.3.2. The Practical application of IFRS in Palestine

A few perceptions can describe the act of IFRS in Palestine. Initially, there is a discussion for fair value accounting, especially whether applying historical cost or revaluation models on plant, property, and equipment; the absence of effective appraisal ability for these types of assets leads to high commitment toward the historical cost classical model. Second, the existence of reliable and high-quality auditors such as big four audit firms is necessary to comply with IFRS, since these auditors require the listed firms to have a full consistence of IFRS. Third, for unregulated firms, for example, small and medium-sized firms (SMEs), in this type of firm, auditors undertake a compilation and review assurance services rather than practitioners themselves. The attitude of these firms is tax purposes rather than the relevance and fair presentation of financial information. Finally, users of the financial statements prefer to hire a staff of international audit firms, like the big four due to its competence, experience in accounting and auditing field works (The World Bank Group, 2017).

Some key players have a fundamental role in controlling and regulating the accounting practices in Palestine and have a significant contribution in applying the IFRS in Palestine.

Regarding the accounting and auditing profession, in 1995, PNA set up the Palestinian Association of Certified Public Accountants (PACPA) (IFAC, 2019). PACPA is presently the essential regulator of accounting and auditing in Palestine. In 2013, PACPA had named to be an individual from IFAC (PACPA, 2019). Notwithstanding PACPA, the Board of Professional Auditing (BPA) was additionally created to regulate CPAs in Palestine (IFAC, 2019). At the level of the financial market, PCMA has an observing and oversight function on the listed firms in PEX; they conduct a periodic check to assure the ability of listed firms to meet financial reporting and listing requirements (PCMA, 2019).

2.3. The Concept of Accounting Quality

2.3.1. Introduction

In the most recent years, after the adoption of IFRS in a wide range of nations around the globe, particularly among European nations, the consideration toward examining and estimating the quality of accounting information under IFRS comparative with other previously adopted standards have expanded significantly (Hwang, Hur, and Kang 2018). In the same line, several accounting kinds of research have arisen to operationalize the concept of accounting information quality, which is combining with earnings quality construct (Dechow and Divhev 2002; Francis et al. 2004; Eliwa et al. 2016). These studies represent the base point in measuring the quality of accounting information in most of the upcoming studies in this field.

This section addresses the concept of accounting information quality with its related measures. Much of the previous research utilized earnings quality to display the quality of accounting information, which is viewed as a multidimensional construct (IFRS Foundation 2016). Besides, each proportion of accounting quality gives different implications from another measure. Some earlier studies utilized a wide range of measures of accounting information quality; one measure provides a positive indicator; another measure provides a negative

indicator using the same data and research environment. Thus, there is no precise or adopted a single measure of accounting information quality (Ahmed et al., 2013).

2.3.2. Approaches in Determining the Quality of Accounting Information

A large portion of the accounting research has inferred that there is no single and all-inclusive measure of accounting information quality (Penman and Zhang 2002; Schipper and Vincent 2003; Sunder 2009). Penman (2003) states that the concept of accounting information quality still unclear and as often as possible deciphered in the tentative term. Chen et al. (2010) describe the quality of accounting as a subtle and elusive term, given the different uses of financial reporting. Thereby, earlier studies talked about the accounting quality term utilizing various methodologies and theories. Financial accounting theory examines this term through the agency theory. In this theory, the reporting entity is an integral part of different contracts with different related parties; they characterize these contracts as a reward contract with executive, and financial contracts with equity investors, lenders, and creditors (Walker, 2013). Other studies described these users as a customer who has an information desire and needs this financial information to satisfy their financial information desire (Penman and Zhang 2002). In this way, financial reporting users need accounting information with consistent and high quality to make well-educated and informed decisions (Herath and Albarqi 2017; IASB 2018). Although the attempted investigations in this field have not agreed concerning the meaning of the quality concept (Penman and Zhang 2002), there is consensus among these studies on the significance of accounting information quality in decision usefulness (Sadidi, Saghafi, and Ahmadi, 2011).

Regarding the accounting quality definitions, both FASB and IASB have created as agreed upon a conceptual framework that contains a building block and coherent structure of financial accounting (Sunder 2009; Herath and Albarqi 2017). This framework contains three levels in a pyramid structure, at the highest point of the pyramid, the general objectives of financial reporting, which involves giving information to potential and current equity investors, lenders, and other creditors to make an educated decision (IASB, 2018). The subsequent level contains

qualitative characteristics that represent an important condition to have useful information (Pășcan, 2015). A similar level likewise contains the basic components of financial statements. The third level in this framework shows the recognition, measurement, and disclosure principles that are necessary to apply standards and achieve the overall objectives (IASB, 2018). In this manner, accounting information quality is going about as a bridge between the financial reporting objectives and the basic implementation of these objectives (Kieso et al., 2014). Therefore, to have useful financial information, it is important to be relevant and faithfully represent what it aims to present, to support and enhance these qualities, financial information need to be comparable, verifiable, timely, and understandable (Kieso et al. 2014; Pășcan 2015). Dechow et al. (1995) build up a definition of earnings quality in association with its ability to be relevant and able to make a difference to users. Chen et al. (2010) exhibited accounting quality in terms of the capacity of accounting information to good present and reflect the underlying economic position.

Several studies have characterized the quality of accounting information in terms of the qualitative characteristics of accounting information. Schipper and Vincent (2003) characterize earnings quality through the faithful representation of earnings and define it as the correspondence between a measure and the purported phenomenon to present. Failure to comply with the essential characteristics of accounting information leads to negative ramifications, including low-quality earnings that are undesirable for decision usefulness regarding the efficient allocation of resources. In the same line and relying upon fundamental qualitative characteristics of accounting information, Francis et al. (2004) define earnings attributes such as persistence, predictability, value relevance, timeliness, and conservatism in terms of FASB and IASB developed conceptual framework. Other prior studies also follow this approach, for example, Gray et al. (2009), Gaio and Raposo (2011), Bhattacharya et al. (2013), and Eliwa et al. (2016). These studies characterize the quality of accounting information utilizing either or both accounting-based and market-based earnings attributes. These studies also measure the effectiveness of these proxies on the cost of capital. They rely upon the firm value utilizing either Tobin's Q (Gaio and Raposo, 2011) and ordinary shares prices (Kim and Shi 2012).

The concept of accounting information quality is also examined and defined in terms of influences on financial reporting and the pattern of earnings from one period to another (Herath and Albarqi, 2017). These influences primarily include earnings management and manipulation concepts, including the smoothness of earnings and managing earnings toward a target (Barth et al. 2008; Chen et al. 2010; Lin, Riccardi, and Wang 2012; Ahmed et al. 2013); Liu and Sun 2015). In this field, Penman and Zhang (2002) characterize earnings quality by sustainable earnings with low levels of smoothing. Ball (2006) shows the quality concept is widespread; this study characterized it by an accurate representation of economic position, low managerial manipulation, on-time reporting economic events, and promptly incorporation of good and bad financial news. Barth et al. (2008) describe high-quality earnings as the association between shares prices and earnings, fair and faith presentation of the underlying economic position of reporting entities, lower levels of subjectivity opportunistic discretion. Brown (2011) alludes that low-quality earnings happen when the firms engaged in more income smoothing and too many adjustments of earnings. Following this methodology, Ahmed et al. (2013) manifest that the low earnings quality has come from more smoothing of earnings, overstatement of earnings, and postponement of loss recognition. Many studies have constructed and classified the concept of accounting information quality. Schipper and Vincent (2003) extract the earnings quality measures from three sources: First, time-series property of earnings including persistence, predictability, and smoothing; Second, the conceptual framework qualitative characteristics of accounting information, such as value relevance; Third, measures combined with a correlation between income, accruals, and cash flows, such as discretionary accruals and accruals quality. In other classification of accounting information quality measures, Francis et al. (2004) classify the quality measures using earnings attributes, they divide them into accounting-based earnings attributes and market-based earnings attributes. Barth et al. (2008) use a different methodology by examining the accounting quality based on earnings management measures and value relevance.

Our study makes integration of the above approaches by arranging accounting information quality measures into two categories. The first category contains earnings management measures, including discretionary accruals. Following Francis et al. (2004), the second category contains accounting-based earnings attributes (including accrual quality, persistence,

and predictability), and market-based earnings attributes (including value relevance, timeliness, and conservatism). Appendix 3 exhibits the hierarchy of these measures.

2.3.3. Earning Management

The focal explanation behind earnings management and manipulation is the nature of accrual accounting. In accrual bases, entities record the financial transactions in the period in which the transaction happens, without connection with cash receipts and payments (Weygandt, Kimmel, and Kieso, 2015). As indicated by IFRS 15 and ASC 606, companies can recognize revenue during a specific period that the performance obligation is satisfied (EY, 2016). Expense recognition (also called matching principle) refers to expense or efforts must be coordinated with revenue or results in the same period (Grobet al., 2009). In this manner, the existence of accruals, deferrals, and allocation procedures that are significant components of accrual base accounting and to fairly present the correct financial performance during a period (Dechow and Skinner, 2000). Although of the critical role of accrual accounting in firm's performance measurement, this base of accounting likewise gives incredible chances to managers to manage, manipulate, or smooth the reported accounting numbers to obtain personal gains and on the expense of the relevance and fair presentation of accounting information (Hung, 2001).

The management of earnings could emerge because accrual accounting gives caution to managers and different insiders in figuring and disclosing the real profit of a particular entity (Dechow et al. 1995; Dechow, and Divhev 2002). These discretions empower managers to adjust the timing of expense recognition, such as maintenance, advertising, and depreciation expenses. Simultaneously, accrual accounting empowers insiders to change and modify the timing of revenue recognition, including deferring revenue to the next period and advancing the revenue recognition or delaying the loss recognition (Xie, Davidson, and Dadalt, 2003).

2.3.3.1. Definitions of earnings management

As stated earlier, the earnings management concept combined with the nature of accrual accounting, especially in the timing of revenue and expense recognition. Thereby, “*earnings management is the planned, timing of revenue, expense, gains, and losses to smooth out the overstatement of earnings to raise income in the current year at the expense of income in a future year and the opposite*” (Kieso et al., 2014).

Shipper (1989) provides the classical definition of earnings management as management intrusion in the preparation of financial reporting to obtain the purported benefits and gains (Tucker and Zarowin, 2006). Dechow et al. (1995) defined this concept as achieving the planned level of earnings within the constraints of GAAP. Healy and Wahlen (1999) take the negative side of this definition. They stated that earnings management is the use of judgment and estimates to alter the financial results deliberately to mislead the stakeholders about the underlying economic and financial position of the entity. Beneish (2001) defines earnings management in terms of the information perspective as reliance on opportunistic managerial discretion to exhibit information about the entity’s future cash flows to mislead interested users. Leuz, Nanda, and Wysocki (2003) defined earnings management as modifications of the entity’s reported performance by insiders to mislead stakeholders and affect the contractual outcome. Mulford and Comiskey (2002) defined the concept of earnings management in terms of alteration and manipulation of earnings to achieve predetermined results. Walker (2013) described this construct by the use of available discretion under the umbrella of GAAP to influence the way of presenting events in financial reporting.

2.3.3.2. Motives of earnings management

Managers may manipulate earnings to achieve specific implicit or explicit benefits. These benefits may combine with contracts with investors, other outsiders, the incentives to managers when these incentives combined with earnings, regulatory, and political pressure also could motivate to manage earnings.

Numerous contracts between the organization and others depend on profit. Such agreements are essential motives to manage earnings. The vast majority of the earlier studies indicated that the contractual-based earnings management lead to manage earnings in increasing or upsloping pattern (Walker 2013; Xie et al. 2003). One of the primary examples, in this case, is the upsloping managing of earnings to meet loan covenant conditions, which also contains an exaggeration of earnings to be far from violating this contract with a bank (Walker 2013; Baig and Khan 2016).

Building the compensation structure on the achieved earnings provides an opportunity to mask the earnings to obtain the desired bonus (Leuz et al., 2003). In this issue, managers mostly make upward earnings management to provide a favorable look of income and getting increasingly extraordinary rewards and impetuses (Xie et al. 2003; Walker 2013). These motivating forces are either directly introduced by sales and rewards or indirectly through actions by management to have more job security (Xie et al., 2003).

The capital market, likewise, one of the essential factors that could prompt earnings management. Walker (2013) demonstrates that managers make the earnings management to influence the shares price; in this way, earnings management could be upward or descending. Accordingly, the presence of earnings management will empower the agency problem and lead to an inaccurate valuation of investments. Bushman and Piotroski (2006) give proof that the country's regulation framework, taxing system, and capital market structure, and political pressure influence the shape and elements of earnings and could facilitate the manipulation of earnings.

2.3.4. The Employed Measures of Accounting Information Quality

There are two categories of accounting information quality. The first category involves the earnings management measure using discretionary accruals. The second category related to earnings attributes; these attributes are accounting-based earnings attributes and market-based earnings attributes.

2.3.4.1. Earnings management measures

There is no single metric to exhibit earnings management observations (Abdullahi and Abubakar, 2017). Following Leuz et al. (2003), and Chen et al. (2010), the primarily used metric of earnings management is the discretionary accrual model.

2.3.4.1.1. The magnitude of absolute discretionary accruals

Following accrual base accounting, firms reported earnings or income involve two essential parts: the accrual components and cash flow component (Ball and Shivakumar, 2005). Accrual components require management to attempt different types of judgments, estimations, and allocations (Francis et al. 2005). For instance, many firms estimate the amount of credit loss expenses that reflect the allowance for uncollectable accounts receivables. They likewise rely upon estimation in estimating the assurance type warranties, which affect the presentation of warranty liabilities, and the estimation of plant assets' useful life and residual value in calculating depreciation expenses. In like manner, the estimation and judgment in the accrual system are unavoidable, the reliance on estimations contain errors that impact the overall quality of earnings (Schipper and Vincent 2003; Kothari, Leone, and Wasley 2005).

The earnings manipulation exists when the firm's management intentionally and opportunistically uses the accrual tools and discretions to achieve the desired and attained level of income (Kothari et al., 2005). Simultaneously, the large portion of accruals relative to cash flows implies the increase in estimation and judgments, consequently the possibility of earnings management (Dechow and Divhev 2002). This perception motives researchers to classify accruals into two types: standard or regular (non-discretionary) accruals; and irregular or abnormal (discretionary) accruals (Bartov et al. 2000; Beneish 2001; Schipper and Vincent 2003; Walker 2013). Routine or regular accruals contain normal alterations in earnings components to make the disclosed income reasonably introduced the real firm's performance. However, in the abnormal (discretionary)accruals, which is the title of earnings management, management deliberately and intentionally manipulates earnings to achieve personal gains at

the expense of quality of presented accounting numbers (Dechow, Sloan, Sweeney, Sloan, and Sweeney, 1995). In this manner, the expansion in the discretionary accrual portion implies more earnings management and thus, diminishing the levels of accounting information quality.

Prior literature designed two models to segregate discretionary from non-discretionary accruals. The main model is the Jones model (1991), which is the classical model to investigate the discretionary accruals. The initial version of this model stated that the essential determinants of total accruals are: the growth in sales revenue and property, plants and equipment, these components necessary in determining the discretionary accruals by examining the unexplained portion of regressing these variables with total accruals (Ball and Shivakumar, 2005). Schipper and Vincent (2003) show that Jones model (1991) utilizes accrual as dependent variables with two accounting fundamentals such as, sales growth and fixed assets, which drive the non-discretionary or normal accruals that are free from distortions or manipulations. The estimation error or residual from this model is the unexplained portion and represents discretionary accruals (Chen et al., 2010).

Dechow, Ge, and Schrand (2010) censured this model because of the absence of explanatory power of Jones model (1991) and the existence of Type II error which classify some observations as discretionary accruals when it is non-discretionary and the opposite (Almaharmeh and Masa'deh, 2018). To mitigate this problem in the Jones model (1991), they created two changed models. Dechow et al. (1995) provide the first modification of this model, then called the modified Jones model (1995). give the main adjustment of this model, at that point, called the modified Jones model (1995). In this adjustment, they added the adjustment in accounts receivables to the underlying model to upgrade the explanatory power and lessen the prediction error of discretionary accruals when the earnings manipulation exists over credit sales (Dechow et al. 1995; Chen et al. 2010; Almaharmeh and Masa'deh 2018). Kothari et al. (2005) built up the subsequent change, which is known as and a performance-matched model. They contend that the firm performance may associate with accruals by adding the return on assets (ROA) to the original modified model (Chen et al., 2010). The connection point between these models is its aim to gauge non-discretionary accruals and deduct it from total accruals to produce the discretionary accrual, which represents the proxy of earnings management.

Despite the particular impediment of these developed models, several studies, for example, Chen et al. (2010), Iatridis (2010), Horton et al. (2013) Liu and Sun (2015), Houqe et al. (2016), Da Silva and Nardi (2017), Hwang, Hur, and Kang (2018), and Almaharmeh and Masa'deh (2018) utilized this model to examine the earnings management levels after the application of IFRS in different countries.

2.3.4.2. Earnings attributes measures

The second way to investigating accounting quality is the use of earnings attributes. Francis et al. (2004) classify these attributes into two categories: the first category is accounting-based attributes; they depend on the use of accounting output to compute these attributes. This category includes accrual quality, earnings persistence and predictability, and smoothness. The second category is the market-based earnings attributes; these attributes investigate the relationship between financial reporting information and market data, particularly shares prices. It contains value relevance, timeliness, and conservatism. Both accounting and market-based attributes comply with the conceptual framework that issued by IASB in September 2010 and revised in March 2018 (IASB, 2018). For example, the predictability measure shows the predictive value of the reported financial statement, which is a primary element of relevance quality. The persistence measure explained in terms of the comparability and consistency of the reported information. The value relevance attribute exhibits the relevance quality, which represents one of the fundamental and essential qualities of accounting according to the developed and updated conceptual framework. Timeliness and conservatism are enhancing quality measures. Finally, accrual quality is a measure that views the relationship between accrual base and cash flows information. Thus, it is necessary to understand the effect of IFRS on these attributes.

2.3.4.2.1. Accounting-based earnings attributes

Accounting-based earnings attribute includes accrual quality, persistence, predictability, and smoothness.

2.3.4.2.1.1. Accrual quality

The essential benefits and contributions of financial accounting are providing quality information to serve every kind of user in the decision-making process, especially the capital allocation related decisions (Bhattacharya et al., 2013). Accrual base accounting is a central principle in financial accounting (Schipper and Vincent 2003; Weygandt et al. 2015). Therefore, IASB, in its developed conceptual framework, puts the accrual base as a core principle of accounting (IFRS Foundation, 2017a).

Theoretically, within a specific operating cycle, cash flows should match the recognized accrual revenue and expense. However, the real match between cash flows and accrual reported revenue and expense vary from time to time (Lu, Callen, and Khan, 2013). These variations in matching between accruals and cash flows could affect the quality of reported earnings (Bhattacharya, Ecker, Olsson, and Schipper, 2012). Dechow and Divheev's (2002) model operationalized the degree of matching between accruals and cash flows. This model's base point is the role of accruals of shifting and adjusting the recognition of cash flows over time (Dechow and Divheev 2002; Francis et al. 2005). Because it relies on assumptions and judgments, accruals contain estimation errors that must adequately present in the future reported earnings, these statistical errors represent the accrual quality measure (Dechow and Divheev 2002).

Dechow and Divheev (2002), likewise called the (DD model), apply a regression between working capital accruals and the current, earlier, and future operating cash flows. The accrual quality measure is the resulted error term or the unexplained portion of the variation in working capital accruals. This measure is negatively related to the earnings quality, the increase in this measure implies more inferior earnings quality (Dechow and Divheev 2002;

Francis et al. 2004; Chen et al. 2010; Gaio and Raposo 2011). It additionally characterized as the level of uncertainty of accrual and cash flow mapping (Lu et al., 2013).

In this methodology, the estimation error or residual from regressing working capital accruals with operating cash flows from time to time views both intentional and unintentional earnings manipulation (Schipper and Vincent, 2003). On the other hand, this model assumes that the working capital accruals and operating cash flow are realized inside one working cycle to have a progressively tractable model (Dechow et al., 1995). As a result, Dechow et al. (2010) and Francis et al. (2005) criticized the original Dechow and Divhev (2002) since this model concentrates just on current accrual and cash flows realization within one operating cycle (short-term view). It doesn't have a long-term view to include observations result from non-current accounts such as depreciation, amortization, and impairment of long-lived assets. Thereby, a modified version of Dechow and Divhev's (2002) model was developed by Francis et al. (2005), which includes several adjustments and modifications by adding the percentage growth of sales revenue and depreciation accruals to the original model. This addition of additional independent variables enhances the explanatory power of that model (Francis et al. 2005; McNichols 2008).

Besides discretionary accruals, many published papers in the field of quality of accounting information use Jones (1991) model and modified Jones (1995) model as the investigator of accounting information quality. This model provides a more primitive construct for information risk related to cash flow more than any other measure (Francis et al. 2005). Thus, in explaining the effect of information risk on the cost of capital and firm value, (Francis et al. 2005; Gray et al. 2009; Gaio and Raposo 2011; Bhattacharya et al. 2013; Eliwa et al. 2016) use accrual quality measure as a proxy of information risk. Regarding the effect of IFRS in the accounting information quality, (Chen et al. 2010; Bryce, Ali, and Mather 2015; Kabir and Laswad 2015; Trimble 2018; Almaharmeh and Masa'deh 2018) examine this metric before and after IFRS adoption to present to what extent the IFRS implementation adds value to the accounting quality.

2.3.4.2.1.2. Predictability and persistence of earnings

The predictive value of financial information is a core ingredient of the relevance quality (Kieso et al., 2014). The IASB and FASB conceptual framework define the predictive value as the potential of financial information to be used by way of users to construct their expectations about the future (IASB, 2018). This indicator employs the past and presently mentioned information to forecast the amount, timing, and uncertainty of future cash flows (Eliwa et al. 2016). Schipper and Vincent (2003) describe the predictive value of the reported information as the potential of earnings element to predict any object of interest. The increase in predictive value means a new faithful illustration of accounting information, decrease income manipulation, hence high quality of accounting information (Atwood et al., 2011).

The most extensively used description of earnings predictability in the most prior literature is the ability of reported earnings to predict itself (Francis et al. 2004), through prediction of future earnings. (Dechow, Ge, and Schrand 2010; Atwood et al. 2011; Francis et al. (2004), Gaio and Raposo (2011), and Eliwa et al. (2016) extract earnings predictability from regressing the current earnings with the next period earnings. The resulted standard deviation of the unexplained portion (error term) is the proxy of earnings predictability, the more considerable value of this proxy implies a low predictive value of earnings, and the opposite is correct. The predictive value of earnings relates to the value relevance and fair presentation of income and the general financial information (Ball, 2006). It additionally immediately relates to analysts' forecasts capabilities of future earnings and regularly used in fundamental analysis associated research (Dichev and Tang, 2009). This value also regarded a principal input of firms' valuation and has a direct impact on firms' cost of capital (Francis et al. 2004; Gaio and Raposo 2011; Eliwa et al. 2016).

The persistence of earnings is a complement measure of earnings predictability. Prior studies interpreted this concept in phrases of sustainability; sustainable earning implies high-quality earnings (Schipper and Vincent, 2003). Eliwa et al. (2016) describe the persistence of earnings as the extent of earnings to be stable, less volatile and have a lower transitory value (Gordon et al. 2012).

Prior research depends on the identical regression model to extract predictability of earnings. However, the slope coefficient in that regression model represents the proxy of earnings persistence (Schipper and Vincent 2003; Francis et al. 2004; Gaio and Raposo 2011). The high persistence of earnings happens when the slope coefficient close to one; the low persistence of profits takes place when the slope coefficient close to zero (Francis et al. 2004; Eliwa et al. 2016). Moreover, the high persistence of earnings represents a greater stable, permanent, and less transitory, hence high quality to use in investment decisions (Schipper and Vincent, 2003). However, there is important considering that the sustainability of earnings is ideal if it stays in a particular sequence of time forever. But, the decline in the persistence degree involves the decay of earnings innovation overtime (Schipper and Vincent, 2003).

Due to its role in growing the accuracy and precision of earnings forecast over time, many of the prior research use both persistence and predictability as to the favored measure of earnings quality (Eliwa et al., 2016). In measuring the impact of accounting information quality on the cost of capital (Francis et al. 2004; Eliwa et al. 2016) and firm valuation (Dichev and Tang 2009; Gaio and Raposo 2011), earnings persistence and predictability employed these metrics as measures of the information risk. On the other hand, Sun et al. (2011), Atwood et al. (2011), and Cutillas-Gomariz, Sánchez-Ballesta, and Yagüe (2016) use predictability and persistence of income to contemplate the effect of IFRS on accounting quality.

2.3.4.2.1.3. Smoothness of earnings

Smoothing of income is a process of earnings dampening (Tucker and Zarowin, 2006), by streamlining the fluctuations to accomplish progressively steady and representative (Leuz et al. 2003; Eliwa et al. 2016). Income smoothing is a purposeful action utilizing management discretion in the range of GAAP to lessen the variability of income (Zeghal et al., 2012). Schipper and Vincent (2003) recognize two kinds of income smoothing. The first is the inherent smoothing of income because of the nature of the business model and a less volatile business environment (stability of earnings over time). The second one is the fake or artificial smoothing utilizing diverse management practices inside the scope of applied accounting standards.

The estimation and examination of earnings smoothness rely upon the connection between income and cash flows (Abdullahi and Abubakar, 2017). Leuz et al. (2003) measure the earnings smoothness using the fluctuation of income and operating cash flows by employing the standard deviation of these measurements. They additionally build up a related measure utilizing the relationship between's volatility in accruals and volatility in operating cash flows and also measure the standard deviation of earnings to the standard deviation of operating cash flows. The lower proportion of earnings volatility to operating cash flows volatility, and the negative correlation between change in earnings, and change in operating cash flows imply the existence of more smoothing of earnings. Many studies use this measure in examining the effect of earnings quality on the cost of capital and firm value, for instance, (Francis et al. (2004), Tucker and Zarowin (2006), Gaio and Raposo (2011), and Eliwa, et al. (2016). On the other hand, the metrics of earnings smoothing also employed to investigate the effect of IAS/IFRS on the earnings quality, for example, Barth et al. (2008), Chen et al. (2010), Zeghal et al. (2012), Ahmed et al. (2013), Capkun, Collins, and Jeanjean (2016), and Morais, Fialho, and Dionísio (2018).

Smoothing of earnings exists in light of accounting standards by artificially and misleadingly diminishing the variability of earnings (Francis and Wang 2008). This activity will negatively influence the quality of earnings to delineate to depict a firm's actual performance and the informativeness of earnings (Leuz et al. 2003; Eliwa et al. 2016), weaken the investors' confidence of firms reported information. Subsequently, a high smoothing of income prompts low quality of earnings. On the other hand, the set numbers of studies indicate that the smoothness of income may be favorable in particular circumstances. For example, Tucker and Zarowin (2006) show that the earnings smoothing could enhance the informativeness of earnings if a manager uses this tool to assess and predict future earnings and cash flows under the umbrella of GAAP.

2.3.4.2.2. Market-Based earnings attributes

These measures depend on finding an association between the reported earnings in the financial reporting and financial market-related variables such as the market price of shares and price-earnings ratio (Francis et al. 2004). This side of earnings attributes still use specific components of financial statements such as earnings per share and book value per share, but it expresses these indicators as a function of the market price of shares (Francis et al. 2004; Gaio and Raposo 2011). These measures include value relevance, timeliness, and conservatism.

2.3.4.2.2.1. Value relevance of accounting information

“Relevance” concept is one of the principal characteristics of accounting information; it refers to “*the ability of reported accounting information to make a difference to users, particularly present and potential equity investors*” (Kieso et al., 2014). Therefore, any information can't change or affect the users' decision is irrelevant information. The value relevance is the primary market-based attribute since it makes an association between the reported financial information and what's going on in the capital market (Schipper and Vincent, 2003).

There are different definitions and explanations of value relevance. Barth et al. (2008) show that the value relevance attribute examines the market response degree to the change in the financial reporting condition. Value relevance represents the ability of accounting information to explain and influence the value of the firm (Devalle, Magarini, and Onali 2010; Kargin 2013; Pășcan 2015). Statistically, value relevance can exhibit the explanatory power or R-square that results from regressing accounting earnings with a market value of the firm (Hellström 2006). Francis et al. (2004) show that the value relevant information contains earnings ability to explain the deviations and variations in the shares market value; thus, the higher explanatory power means greater value relevance of reported earnings. Other different studies focus on the degree of reflection of reported earnings in the shares prices through value relevance construct (Hellström 2006; Palea 2013). Hellström (2006) derives that value relevant information adds to the capital market efficiency when the firms' market prices reflect the available information, hence a more significant contribution to the equity

investment decision. Furthermore, the value relevance information enhances the decision usefulness through minimizing information asymmetry and agency costs (Barth et al., 2008).

Prior studies investigate the value relevance measure using two models: the price and return models. The price model was developed by Ohlson (1995) through extracting the explanatory power (R-Square) from investigating the relationship between accounting measures (using earnings and book value per share) and the market price of shares using multiple regression analysis (Zeghal et al., 2012). This model also extracts the coefficient of book value per share as the value relevance of the firm's reported book value, and the coefficient of earnings per share as the value relevance of earnings per share (Barth et al. 2008; Devalle et al. 2010). On the other hand, Lev (1989) initially developed the Return Model. This model also a regression model to determine the explanatory power by regressing return on the level of change in return, including both earnings per share and the change in earnings per share divided by the lagged market value of equity (Francis et al. 2004).

The significance of value relevance measure represents in examining the degree of sensitivity of the change in reported earning on the variation of the shares prices. Thereby, previous research such as Francis et al. (2004) and Bushman, Piotroski, and Smith (2011) utilizes this measure as accounting quality measure in examining the information risk and its effect on the firm's value and cost of capital. Barth et al. (2008), Iatridis (2010), Devalle et al. (2010), Ismail, Kamarudin, Van Zijl, and Dunstan (2013) Yurisandi and Puspitasari (2017), and Hwang, Hur, and Kang (2018) use value relevance to examine the effect of IFRS adoption on the quality of accounting information.

2.3.4.2.2. Timeliness and conservatism

Traditionally, one of the main constrains of financial accounting is conservatism, which enables the accountant not to overstate assets and income (Ball et al., 2000). The previous FASB and IASB conceptual framework before September 2010 considered conservatism as a qualitative characteristic of accounting information. However, in the updated version of the conceptual framework, they exclude it from the framework (Paul et al., 2013) even though conservatism beside timeliness is a basic attribute to operationalize the quality of accounting

information. Penman and Zhang (2002) describe the concept of conservatism by choosing accounting policies and methods that make net assets generally value low by limiting the exaggeration of income and assets in the reported financial statement. Basu (1997) set the classical definition of conservatism as a methodology of lowering income and net assets because of bad news, rising income, and net resources because of good news. Watts (2003) develops the concept of “asymmetric differential verifications required recognizing the anticipated loss before the completion of the earnings process, while the gain is recognized when it has occurred. Subsequently, conservatism incorporates speeding up bad news and slow down the recognition of good news (Bushman and Piotroski 2006). Conservative accounting procedures consist of expensing research and development in internally developed intangibles rather than capitalize it. It also uses aggressive depreciation method and lowering the estimated useful life or residual value; overestimate of credit loss expense and assurance type warranty expense (Penman and Zhang 2002). The absolute consequence of utilizing conservative accounting policies is that both assets and retained earnings are less inclined to be overstated anytime (Watts, 2003).

Timeliness and timely loss recognition are interrelated to conservatism attributes (Bushman and Piotroski 2006). According to the IASB and FASB conceptual framework, timeliness is giving users of appropriate information before it loses the ability to influence a decision, having timely information lead more value relevant information (IASB, 2018). In conjunction with conservatism, timeliness is the ability of reported earnings to reflect both good and bad news in return (Ball et al. 2000; Zeghal et al. 2012). It also defined as conditional accounting conservatism of asymmetric verification standards for expected good news rather than for expected bad news (Watts 2003; Bushman et al. 2011).

According to Watts (2003) and Paul et al. (2013), they divide conservatism into unconditional and conditional conservatism. Unconditional conservatism means a step by step understating the carrying value of net assets or equity to become lower than its actual economic value (Watts, 2003). This kind of conservatism may incorporate bias and earnings manipulation activities by expensing specific transactions early and deferring specific revenue items to the future. Thus, both IASB and FASB in their developed conceptual framework are trying to limit this type of conservatism because it represents a source of earnings management and

manipulation, which leads to harm accounting information quality (Paul et al., 2013). On the other hand, conditional conservatism means early recognition of the expected losses; it also includes understating income and net assets simultaneously with expected negative events (Paul et al., 2013). Conditional conservatism is more related to decision usefulness and supports the idea of timely loss recognition (Ball and Shivakumar, 2005). Examples of conditional conservatism are recognition of impairment loss and recognizing of lower of cost or net realizable value in inventory valuation. Standards support conditional conservatism because of its role in relevance and faithful representation of accounting information and also work to reduce the levels of unconditional conservatism due to its contents of bias and manipulation of earnings (Paul et al. 2013).

Conservatism accounting has several benefits, including performance monitoring and evaluation, effective corporate governance (Ball et al., 2000), reduction in earnings management activities, limiting information asymmetry, reduction in agency cost, and improves the estimation of the firm value (LaFond and Watts, 2008). It likewise reflects the quality of accounting information (Sadidi et al., 2011). Increasing accounting conservatism enhances the ability of earnings to forecast future cash flows, thus increasing the degree of value relevance, accrual quality, and predictability of earnings (Gordon et al. 2012).

To quantify conservatism and timeliness, earlier investigations by Ball, Kothari, and Robin (2000a), Francis et al. (2004), and Bushman and Piotroski (2006) have utilized multiple regression analysis, by regressing earnings with return measures including negative return measures. Timeliness measure is the explanatory power from this model; conservatism is the ratio of the coefficient on lousy news to the coefficient in the good news (Francis et al. 2004).

However, there are limited applications of conservatism and timeliness in prior studies. Francis et al. (2004) use these attributes to examine the effect of accounting information quality on the change in the cost of capital. On the other hand, Barth et al. (2008), Chen et al. (2010), Iatridis (2010), Devalle et al. (2010), Sun et al. (2011), Ahmed et al. (2013), Chan, Hsu, and Lee (2015), and Rodríguez García, Cortez Alejandro, Méndez Sáenz, and Garza Sánchez (2017) use timely loss recognition to examine the effect of IFRS acceptance on the level of timely loss recognition.

2.3.5. Empirical Evidence on the IFRS Effect on the Accounting Quality

The primary aim of IFRS is concentrating on limiting the accounting discretions and options that are available to managers to manage earnings (Barth et al., 2008). Also, IFRS selection contributes to lowering a degree of information asymmetry by activating the communication between firms' management and its potential and current equity investors, lenders, and other creditors (Leuz and Verrecchia 2000; Ashbaugh and Pincus 2001). This contention is regularly dependent on the primary characteristics of IFRS as principal-based accounting standards. This nature empowers IFRS to be more open and adaptable than other domestics or rules-based standards (Webster and Thornton, 2005). Consistent with this assertion, Ashbaugh and Pincus (2001) provide one of the first evidence the globally-based accounting information has a higher quality than the domestic-based standards. They demonstrate that the predictive value of accounting information is different between domestic-based accounting standards and global-based accounting standards. This study depends on a sample from 13 different countries and employed the forecasting error as a predictability measure; they find that the predicting ability in the IAS adoption period has improved due to the decline in the forecasting error in that period. Furthermore, Bartov, Goldberg, and Kim (2005) likewise utilize a sample from German-listed firms to examine the value relevance of the reported earnings under IAS in comparison with earnings under the U.S. GAAP. They find that the value relevance of IAS reported earnings is higher than U.S. GAAP reported earnings.

In differentiating between principles and rules-based accounting standards, Webster and Thornton (2005) provide empirical evidence of the accounting quality, which is measured by accrual quality under both rules-based and principal-based accounting standards. The sample consists of Canadian listed companies between 1990 and 2002. They find that the accrual quality of Canadian firms that apply principal-based accounting standards higher than those applying rule-based accounting standards. This study implies that the IAS based accounting information quality is higher than that under U.S GAAP.

Before the launch of IFRS, Barth et al. (2008) considered the starting point of much future research work in this field. They provide evidence of the effect of IAS on the accounting information quality, using data from 21 distinct countries in the years 1994-2003. They use

earning smoothing, managing earnings toward a target, timely loss recognition, and value relevance as indicators of accounting information quality. They measure these measurements between two testing groups, the IAS and non-IAS applied firms. Likewise, between before and after applying the IAS for firms that already adopt these standards. The results demonstrate that firms applying IAS have a higher accounting quality than firms that do not.

Furthermore, accounting quality measures improved in the IAS adoption period. In IAS adoption period and among IAS applying firms, the variability of income and cash flow are higher than in non-IAS applying firms and pre-IAS adoption period. The IAS applying firms are more timely loss recognition, less managing earnings toward a target. They have more value relevant information than non-IAS applying firms and in the pre-IAS adoption period.

Besides the same measures of accounting quality that are used by Barth et al. (2008), Chen et al. (2010) use absolute discretionary accruals and accrual quality as additional measures of accounting quality to explore the role of IFRS in accounting quality. They examined a sample of 21,707 firm-year observations in 15 European countries between 2000 and 2007 to show to what extent accounting quality measures differ between pre-and-post- the implementation of IFRS. Findings suggest that after following IFRS as accounting standards, there are less managing earnings toward a target, lower accrual quality proxy, and lower discretionary accruals as an indicator of higher accounting quality after the adoption of IFRS in Europe zone. However, the results came to confirm Barth et al. (2008) results, which conclude less earning smoothing and more timely recognition of losses in the IFRS adoption period.

The study by Iatridis (2010) evaluates the previously used measures by Barth et al. (2008) and Chen et al. (2010) in two testing periods before and after IFRS adoption, by examining financial data of 241 UK firms. The study employs earning smoothing, managing earning toward targets, large loss recognition, value relevance, and absolute discretionary accruals. The results give proof that the quality of IFRS-based accounting quality is higher than that reported under UK GAAP. Furthermore, the measures mentioned above have positive indicators for accounting information quality. Consistent with this assertion and using data from the largest five stock exchanges in Europe (Frankfurt, Madrid, Paris, London, and Milan), Devalle et al. (2010) evaluate the value relevance of accounting information after the

adoption of IFRS between the years 2002 and 2007. They find the accounting information becomes more value relevant in the IFRS adoption period.

The study by Aharony, Barniv, and Falk (2010) evaluates the value relevance of specific items in a financial statement using data from 14 EU. Countries contain 2298 publicly listed firms. They measure the value relevance of goodwill, research and development (R&D), and revaluation of PPE, the overall results from this paper show a positive effect of IFRS adoption on the value relevance of accounting data. Similarly, Agostino, Drago, and Silipo, (2011) examine the value relevance of earnings after the implementation of IFRS using a sample from 221 European banks between the years 2000 and 2006 and also find an enhancement of value relevance of earnings and book value per share after the introduction of IFRS in EU.

Depending on the primary vital indicators of earnings management, Aussenegg, Inwinkl, and Schneider (2011) investigate the results of transition from U.S. GAAP to IFRS among 17 EU countries. They find a reduction in earnings management activities upon the adoption of IFRS in the EU because of a decline in both discretionary accruals and smoothness indicators in that period. Using the same measures, the paper by Sun et al. (2011) examines the accounting information quality using data from cross-listed foreign firms in the US. It utilizes five measures of accounting quality identified with absolute discretionary accruals, managing earnings toward targets, and timely loss recognition. Furthermore, they adopt a new different measure of the persistence of earnings, called the earnings response coefficient. The outcomes show that earnings persistence and managing earnings toward target improve the accounting quality after the IFRS implementation.

The paper by Atwood et al. (2011) examines the difference between earnings persistence of the IFRS-based earnings and earnings persistence that US GAAP-based reported earnings. It depends on the sample involved 58,822 firm-year observations arranged in 33 different countries from 2002 to 2008. It provides evidence that the persistence of earnings depends on whether firms have positive or negative profit. Firms with positive income have no difference in earning persistence under both IFRS and US GAAP. However, the IFRS-based reported loss is less persistent than the loss reported under US GAAP.

Chua, Cheong, and Gould (2012) investigate the quality of accounting information after the adoption of IFRS using 1376 firm-year observations from Australia. They find a decline in the smoothness of income and managing earnings toward a target in the IFRS mandatory adoption period and increase in the value relevance of earnings; hence the mandatory adoption of IFRS provides better quality of accounting information than local GAAP.

Zeghal et al. (2012) use more comprehensive view in measuring the quality of accounting information by examining earnings management indicators, accrual quality, timeliness and conservatism among 15 European countries between 2002 and 2007, the results support the prior studies' result of the positive impact of IFRS on the quality of accounting information.

The paper by Kim and Shi (2012) examines the value relevance of accounting information that is reported under IFRS, depending on data from 34 different countries between 1998 and 2004. They provide evidence that the IFRS reported information is more value relevant than that reported under non-IFRS or national standards. This result infers information the reported information in compliance with IFRS has more explanatory power of stock price than the non-IFRS reported information. Using the value relevance metric, Müller (2014) also used a price model to investigate the value relevance of IFRS using a sample from London, Paris, and Frankfurt stock exchange between 2003 and 2008. They find that the value relevance of accounting information in the IFRS adoption period is higher than the period before.

Chan, Hsu and Lee (2015) measure the extent of conservatism using timely loss recognition of accounting information that is reported under IFRS, using a sample from 16 European countries between 2002 and 2007. The authors find rising in timely loss recognition after the mandatory adoption of IFRS as an indicator of a high conservatism after the inception of IFRS. The study by Kabir and Laswad (2015) uses data from three different European countries between 2006 and 2010 to examine the accrual quality model, which is initially developed by Dechow and Divhev (2002) before and after IFRS adoption. The authors suggest improvement of accrual quality in the IFRS enforcement period. In the same line, Houqe et al. (2016) examine the impact of mandatory IFRS adoption on earning quality. The sample in this study contains firms from 16 European countries for the years 1998-2014. They measure the

quality of earnings by the abnormal accruals. The results show that the compulsory application of IFRS improves earnings quality in all EU countries.

Rathke, Santana, Lourenço, and Dalmácio (2016) provide a comparative analysis of the effect of IFRS adoption on earning management between Latin America, Anglo-Saxon, and European countries over the period 2011-2012. The study contains an assessment of discretionary accrual in the different firms from Brazil, Chile from Latin America, France, Germany, and the U.K. from Europe, Australia, as Anglo-Saxon country. The results show that the earning management level in Latin America is higher than in European and Anglo-Saxon countries.

The study by Cutillas-Gomariz et al. (2016) investigates the value relevance, Persistence, and predictability of the earning components after the adoption of IFRS in Spain. The investigation uses data from 2001 to 2008. They conclude that the value relevance of income after the adoption of IFRS is higher than that before the adoption period. However, both the persistence and predictive value of income does not change after the inception of IFRS.

Using data from Canadian listed firms, Okafor, Anderson, and Warsame (2016) investigate the value relevance of earnings and book value per share under the IFRS in comparison with those reported under Canadian GAAP. They find higher value relevance of IFRS based earnings and book value than Canadian GAAP based earnings and book value.

The paper by Perafán Peña and Franco (2017) uses a sample of the U.K. and France between 1991 and 2014. It uses discretionary accrual as a proxy of earnings management between pre- and post-IFRS adoption; they find that the different directions of the IFRS effect on accounting quality between the U.K. and France. In the U.K., there is a positive impact of IFRS and earning quality only in large companies. In France, the results show no significant effect of IFRS on earnings quality.

Besides discretionary accrual, Hwang, Hur, and Kang (2018) examine the value relevance of accounting information that is reported under IFRS using data from Korea, China, Germany, France, the UK, and Australia, between 2005 and 2011. The primary findings deduce the

earning management with its relation to IFRS adoption is different from one country to another; in the EU, there is an improvement in earnings quality after the adoption of IFRS. However, in the commonwealth countries, there is an insignificant change in earnings quality after the adoption of IFRS. However, there is no material difference in value relevance between the pre-and-post-adoption period in Germany, France, the UK, and Australia.

Similarly, the paper by Kouki (2018) investigates the value relevance of IFRS-based accounting information for IFRS and non-IFRS adopters in Germany, France, and Belgium over the period 2000-2011. It concludes that, due to the rising in value relevance in the IFRS adoption period, the quality of accounting information increased in that period.

The article by Oz and Yelkenci (2018) examines the effect of IFRS adoption on real and accrual earnings management using discretionary accrual. It uses a large sample from different countries between 1997 and 2015. The result shows that the application of IFRS affects both accrual and real earnings management and improves accounting information quality by declining the extent of earnings management. Almaharmeh and Masa'deh (2018) also analyses the impact of IFRS adoption on the earning quality using absolute discretionary accrual. The investigation of earnings quality depends on the sample from the UK between 1994 and 2013. The results suggest that the IFRS implementation in the U.K. improves the quality of accounting information.

In Latin America, Black and Nakao (2017) use value relevance, discretionary accruals, and conservatism to investigate the earning quality in Brazil between 2003 and 2014. The findings of the value relevance, conservatism, and accrual quality are not significantly differing for firms with low economic or financial incentives. Nevertheless, these measures can't be applied similarly to all firms. In the same line, Rodríguez García et al. (2017) use samples from firms in Argentina, Brazil, Chile, and Mexico to provide evidence about whether the adoption and application of IFRS improve the value relevance and timeliness of earnings between the years 2000 and 2014. They find that the adoption of IFRS improves the value relevance of earnings. Consistent with previous studies in Latin America, Da Silva and Nardi (2017) examine the accounting quality after the adoption of IFRS using discretionary accruals and value relevance. They took a sample a sample from Brazil between 2000 and 2011. The result of this

study shows an increase in earnings quality under IFRS, which leads to various benefits such as efficient allocation of resources, lowering information asymmetry, and thus minimizing the cost of capital.

In emerging economies such as China, Bao, and Chow (1999) examine the value relevance of earnings and book value before and after the implementation of IAS and provide evidence of an increase in value relevance of earnings and book value per share after the adoption of IAS. At emerging and developing countries level, and using value relevance and discretionary accruals measures, Ismail et al. (2013) concentrate on a sample from Malaysia between 2002 and 2009 and find that the adoption of IFRS leads to high earnings quality and high-value relevance of accounting information. Using also the value relevance model, Kargin (2013) investigate the value relevance of accounting information before. After the application of IFRS in Turkey, the main findings of this study are the improvement in the value relevance of earnings during the IFRS mandatory adoption period. Mousa and Desoky (2014) use value relevance of accounting information using data from Bahrain as an example of Arab Gulf Country. Their findings confirm the results in the previous studies of the IFRS role in the enhancement of the value relevance of earnings.

Chebaane and Othman (2014) use the value relevance of accounting information using data from Bahrain. They find an increase in the value relevance indicator of earnings and book value per share after the application of IFRS. In South Africa, Mnif Sellami and Slimi (2016) depend on data from 413 firm-year observations to measure discretionary accruals and accrual quality to operationalize the concept of accounting quality. The results indicate that in the period of mandatory adoption of IFRS, there is a decline in earnings management and manipulation activities, hence a contribution to the improvement in the quality of accounting information.

The paper by Baig and Khan (2016) measure the effect of IFRS adoption on earnings management using discretionary accruals in Pakistan, between 2001 and 2009. They find a decline discretionary accrual in the IFRS adoption period, which indicate to the limited and low earnings management activities after the application of IFRS. Consistent with previous studies in emerging and developing countries, Yurisandi and Puspitasari (2017) analyses the

value relevance and discretionary accruals of accounting information after the adoption of IFRS in Indonesia between 2009 and 2014. The result confirms most of the other previous studies by providing evidence of the improvement of the accounting quality after the adoption of IFRS. In Turkey, Temiz and Güleç (2018) investigate the value relevance of accounting information that is reported under IFRS using a sample between 2001 and 2008. The result shows improvement in the value relevance of accounting information after the adoption of IFRS in the compulsory base. Using earnings persistence as a measure of accounting information quality, Makhsun, Yuliansyah, Razimi, and Muhammad (2018) provide evidence that the earnings in the IFRS adoption period in Indonesia become more Persistence than the IFRS pre-adoption period.

The discussed studies have the following characteristics: First, these studies conclude the positive effect of IFRS on accounting information quality and the role of IFRS as a primary factor of declining the levels of information asymmetry. Second, most of these studies focus on specific and standard measures of accounting quality, mainly value relevance and absolute discretionary accruals, with limited use of accrual quality, earnings persistence, and predictability. Finally, most of these studies from developed countries, particularly in European countries, there are a limited number of studies in developing countries.

The next stream of analysis studies concludes the negative or negligence impact of IFRS on accounting information quality. The opponents of the IFRS application argue that the first reason for such a conclusion is that nature principles-based accounting standards. This nature limits the extent of offered accounting selections and discretions, which can negatively affect the communication ability of firms' financial information. Paananen and Lin (2009) measure the quality concept using earnings smoothing and timely loss recognition measures on 448 firm-year observations from Germany. They find a decline in the level of accounting information quality during the IFRS adoption period. Sun et al. (2011) examine the role of the compulsory IFRS adoption in the cross-listed firms in the US. They use absolute discretionary accruals, managing earnings toward a target, timely loss recognition, earnings persistence, and earnings response coefficient to examine the quality of accounting information. The results show no significant difference in discretionary accruals, timely loss recognition, and earnings response coefficient between pre-and post-IFRS adoption period. Lin, Riccardi, and Wang

(2012) examine whether earning smoothing, managing earnings toward the target, and timely loss recognition differs among the US GAAP and the IFRS adoption periods in Germany. They find contrasted results with Barth et al. (2008) and Chen et al. (2010), the results show more income smoothing, a decline in timely loss recognition, and lower value relevance on the IFRS-based accounting information.

In the same line, Ahmed et al. (2013) examine the effect of IFRS mandatory adoption on accounting quality using earning smoothing, managing earnings toward a target, timely loss recognition, and discretionary accruals. They use data from 20 different countries (both European and non-European countries) over the period 2002-2007. They are implying that the adopters of IFRS report more earning smoothing, high aggressive accruals recognition, a declined attitude toward loss recognition and small positive income, as an indicator of low accounting quality in that period. Similarly, Paul et al. (2013) measure the quality of accounting information using a different metric, called conditional conservatism. They find a decline in conditional conservatism as an indicator of the low quality of accounting information after the implementation of IFRS.

Apart from Europe, Lyu *et al.* (2014) examine a sample of 8,886 firm-year observations from China and find the earnings management and manipulation activities become more severe after the application of IFRS in China. Lee et al. (2015), in their analysis, use discretionary accrual quality measures to investigate the effect of voluntary IFRS adoption on earning quality. The study contains data from unlisted firms in Korea from 2009 to 2011. The results show no material change in discretionary accrual quality during IFRS adoption. Using a similar measure of earnings management, the study by Li and Yang (2016) depends on a sample from 30 different countries between 2002 and 2010. The results show a great attitude toward earning management following the mandatory adoption of IFRS. In the same line, Liu and Sun (2015) also examine the impact of mandatory adoption of IFRS on earnings quality among Canadian firms, between 2011 and 2014 using discretionary accruals, small positive earnings, earning persistence and response coefficient. The results show no significant difference in these earning quality proxies between the two testing periods. Bryce et al. (2015) examine accounting quality within the pre- and post-IFRS implementation period using each absolute discretionary accruals and accrual quality. They use a sample from Australia between

2003 and 2008. The results counsel that each accounting quality measures are steady, with no vital modification between local GAAP and IFRS.

Cutillas-Gomariz, Sánchez-Ballesta, and Yagüe (2016) provide evidence that earnings persistence of income doesn't preclude modification within the IFRS adoption period. Moreover, there's a decrease in the persistence of operating income following the adoption of IFRS in Spain. Utilizing an identical measure of accounting information quality, Jin (2017) examines earnings persistence on a sample from Canadian companies between 1987 and 2010 and concludes lower earnings persistence upon the adoption of IFRS.

Different studies show no significant differences in accounting information quality before and after IFRS adoption. For instance, Tendeloo and Vanstraelen (2005) suggest that there is no difference in accounting information quality between the period of IFRS adoption and the period of German GAAP adoption. Similarly, Paananen (2008) use the earnings smoothing, managing earnings toward a target, and value relevance to examine the role of IFRS in changing the quality of accounting information in Sweden, their result shows no significant difference between pre- and post IFRS adoption period. Gordon, Jorgensen, and Linthicum (2010) conclude that there's no distinction in accounting info quality for companies that use IFRS locally and US GAAP to satisfy SEC listing conditions. In the same field, Jansson et al. (2012) find that IFRS does not affect analysts forecasting ability of firms' earnings per share.

Trimble (2018) provides evidence of the impact of IFRS adoption on accounting quality. The author examines accounting quality using both discretionary accruals and accrual quality, applying on large samples from 46 countries between 1997 and 2013. The results show that there is no clear trend of accounting quality measures in the IFRS adoption period.

The study by Morais et al. (2018) examines to what extent the quality of accounting information during the mandatory adoption of IFRS has a random walk movement. They take a sample from different EU between 2005 and 2010. They used value relevance and earnings smoothing as accounting quality metrics. The results show that the IFRS effect did not lead to a similar level of accounting quality across 14 EU countries.

Makhsun et al. (2018) investigate the IFRS role on the relevance of equity and earning book value in Indonesia between 2009 and 2013. The study contains an investigation of the value relevance of earnings using the market model. The result provides proof that there is no increase in value relevance of book value of equity and income once the adoption of IFRS, attributable to the decrease within the adjusted R-square after the adoption of IFRS.

Some studies show that the role of IFRS is changing the quality of accounting information according to the countries political and legal environment. For instance, Ramanna and Sletten (2011) show that a less developed governance system constrains the power of a country to adopt IFRS, and countries with long-distance from EU are more seemingly to prevent IFRS adoption. Clarkson, Hanna, Richardson, and Thompson (2011) indicate that the effect of IFRS on accounting quality differs according to whether a country under code law or common law. They also show the value relevance of book value and earnings per share declined after the adoption of IFRS in common law countries and the increase in code law countries. Christensen *et al.* (2015) find that during the voluntary IFRS adoption, a decrease in earning management, increase value relevance, and timely loss recognition. However, in the environment of enforceable IFRS adoption, earnings management is high, and both value relevance and timely loss recognition are low.

Although the existence of different and even opposite results among the discussed studies, most of them used the same measures of accounting quality, such as value relevance, discretionary accruals, accrual quality, persistence, and predictability. Other studies use a completely different set of accounting quality measures such as Byard et al. (2011) that use absolute forecast errors, forecast dispersion, and many analysts following. Moreover, Horton et al. (2013) also use forecasting errors and comparability of accounting information as measures of accounting quality. Brochet, Jagolinzer, and Riedl (2013) also use comparability measure and abnormal insider return as proxies of accounting quality. Table 2.1, Panel A contains the studies that find a significant impact of IFRS on accounting information quality. Panel B involves the studies that conclude a negative impact of IFRS on accounting information quality; Panel C shows studies that show no significant association between IFRS and accounting information quality. Table 2.2 provides an overview of the primary studies discussed above.

Table 2.1. Studies' results of the IFRS effect on accounting information quality

Panel A: The positive impact of IFRS on accounting quality (IFRS Supporters)	Panel B: The negative impact of IFRS on accounting quality (IFRS Opponents)	Panel C: No significant impact of IFRS on accounting quality (Indifference of IFRS)
Batrov et al. (2000), Ashbaugh and Pincus (2001), Webster and Thornton (2005), Aussenegg et al. (2011), Barth et al. (2008), Chen et al. (2010), Iatridis (2010) Aharony et al. (2010), Agostino et al. (2011), Atwood et al. (2011), Kim and Shi (2012), Capkun et al. (2012), Zeghal et al. (2012), Ismail et al. (2013), Kargin, (2013), Mousa and Desoky (2014), Chebaane and Othman (2014), Müller (2014), Kabir and Laswad (2015), Baig and Khan (2016), Rathke et al. (2016), Cutillas-Gomariz et al. (2016), Okafor et al. (2016), Mnif Sellami and Slimi (2016), Black and Nakao (2017), Da Silva and Nardi (2017), Perafán Peña and Franco (2017), Temiz and Güleç (2018), Hwang, Hur, and Kang (2018), Oz and Yelkenci (2018), Kouki (2018), Makhsun <i>et al.</i> (2018)	Paananen and Lin (2009), Lin, Riccardi, and Wang (2012), Paul et al. (2013), Ahmed et al. (2013), Lyu <i>et al.</i> (2014), Li and Yang (2016), Jin (2017)	Tendeloo and Vanstraelen (2005), Paananen (2008), Gordon et al. (2010), Sun et al. (2011), Jansson et al. (2012), Lee et al. (2015), Liu and Sun (2015), Bryce et al. (2015), Trimble (2018), Makhsun et al. (2018)

Table 2.2. Empirical studies on IFRS effect on the accounting quality

Study	Period	n ¹	Country	Earnings Management	Accounting-Based Earnings Attributes				Market-Based Earnings Attributes		
				DAC ²	AccQual ³	PERS ⁴	PRED ⁵	ES ⁶	VR ⁷	Time ⁸	CONSER ⁹
Bao and Chow (1999)	1992-1996	213	China						+		
Bartov et al. (2000)	1980-1997	112,384	US	+					+		
Ashbaugh and Pincus (2001)	1993	80	13 Country				+				
Webster and Thornton (2005)	1990-2002	947	Canada		+						
Tendeloo and Vanstraelen (2005)	1999-2001	636	Germany	0							
Barth <i>et al.</i> (2008)	1994-2003	1,896	21 Country					-	+		
Paananen and Lin (2009)	2000-2006	448	Germany					-			
Gordon et al. (2010)	2004-2006	389	26 Country	0	0	0	0	0	0	0	0
Aharony et al. (2010)	2005	2,298	EU						+		
Chen <i>et al.</i> (2010)	2000-2007	21,707	EU	+	+			+			
Iatridis (2010)	2004-2005	241	UK	+				-	+		
Devalle et al. (2010)	2002-2007	13,849	EU					0	+		
Aussenegg et al. (2011)	1995-2005	18,000	EU	+				+			
Agostino et al. (2011)	2000-2006	1,201	EU						+		
Sun et al. (2011)	2001-2008	1,698	US	0		+					
Atwood <i>et al.</i> (2011)	2002-2008	27,231	33 Country			0					
Lin, Riccardi and Wang (2012)	2004-2009	1,376	Australia					+	+		
Chua et al. (2012)	2000-2010	582	Germany					+	-		
Jansson et al. (2012)	1996-2009	17,449	EU				0				
Capkun et al. (2012)	1994-2009	16,919	EU					+			
Kim and Shi (2012)	1998-2004	15,382	34 Country						0		
Ahmed et al. (2013)	2002-2007	16,310	20 Country	-				+			
Paul et al. (2013)	2002-2007	7,251	EU								-
Horton et al. (2013)	2001-2007	47,209	42 Country	+							
Ismail <i>et al.</i> (2013)	2002-2009	4,010	Malaysia	+					+		
Kargin (2013)	1998-2011	1,954	Turkey						+		
Lyu <i>et al.</i> (2014)	2002-2011	8,886	China					-			
Chebaane and Othman (2014)	1998-2012	10,838	7 Country						+		
Müller (2014)	2003-2008	588	EU						+		
Mousa and Desoky (2014)	2005-2011	280	Bahrain						+		
Liu and Sun (2015)	2011-2014	1,644	Canada	0		0					
Bryce et al. (2015)	2003-2008	1,200	Australia	0	0						
Chan et al. (2015)	2002-2007	11,860	EU								

Lee et al. (2015)	2009-2011	33,869	Korea	0							
Kabir and Laswad (2015)	2006-2010	18,690	EU		+						
Houqe et al. (2016)	1998-2004	24,034	EU	+							
Sellami and Slimi (2016)	2002-2012	413	South Africa	+	+						
Baig and Khan (2016)	2002-2008	700	Pakistan	+							
Li and Yang (2016)	2002-2010	42,922	30 Country	-							
Rathke et al. (2016)	2011-2012	3,164	Latin America	+							
Cutillas-Gomariz, et al. (2016)	2001-2008	504	Spain			0	0		+		
Rodríguez García et al. (2017)	2000-2004	12,922	Latin America						+	+	
Jin (2017)	1987-2010	3,811	Canada			-					
Da Silva and Nardi (2017)	2000-2011	797	Brazil	+							
Perafán Peña and Franco (2017)	1991-2014	16,184	France, UK	+							
Yurisandi and Puspitasari (2017)	2009-2014	660	Indonesia	+					+		
Temiz and Güleç (2018)	2001-2008	1,183	Turkey						+		
Trimble (2018)	1997-2013	46,939	46 Country	0	0						
Hwang, Hur, and Kang (2018)	2005-2011	26,148	6 Country	+					+		
Oz and Yelkenci (2018)	1997-2015	53,861	14 Count	+							
Kouki (2018)	2000-2011	1,166	EU						0		
Morais et al. (2018)	2005-2010	2,078	EU					0	0		
Almaharmeh and Masa'deh (2018)	1994-2013	9,056	UK	+							
Makhsun et al. (2018)	2009-2013	25	Indonesia						-		

¹ Firm-Year Observations

² Discretionary Accruals

³ Accrual Quality

⁴ Persistence of Earnings

⁵ Predictability of Earnings

⁶ Earnings Smoothness

⁷ Value Relevance

⁸ Timeliness

⁹ Conservatism

+ Increase in the accounting information quality during IFRS adoption; (-) Decrease in the accounting information quality; (0) No relationship between IFRS and accounting information quality

2.4. Capital Market Effect

2.4.1. Introduction

Investment in the capital market relies upon several factors, including the past financial relationships between investor and investee and the investee's general financial condition, as presented in the financial statements (Arens, Elder, and Beasley, 2014). The investment decision usefulness approach comprises two essential sides. In the first place, The primary beneficiaries from the reported accounting information, such as Investors, lender's, managers, unions, standard setters, and government (Scott and O'Brien, 2019); these users also can be categorized into three whole groups: existing and potential equity investors, lenders and other creditors (IASB, 2018). Second, all of these users have information needs, and the user needs this information to fulfill their information needs and empower them to make a more informed and educated decision. Thereby, the users' decision usefulness occurs when there is an efficient tolerance between the information content of the financial reporting and the users' information needs (Scott and O'Brien, 2019). However, the failure of financial reporting to satisfy the users' information needs means the existence of information risk. This risk may result from low quality of accounting information (Eliwa et al., 2016) and information asymmetry between many Contracting parties (Scott and O'Brien, 2019).

Credible financial information is a cornerstone of effective investment decisions. Relevant, timely, and consistent accounting information enables a broad category of users to assess better and evaluate the overall performance of the firm (Gaio and Raposo, 2011). Most of the theoretical models such as Easley and Hara (2001), Leuz and Verrecchia (2005), and Francis et al. (2005) provide empirical evidence of the presence of the relationship between information risk and the determinants of market value such as shares price and cost of capital. They also stated that firm-specific information risk is a type of systematic risk that is non-diversifiable and has a direct effect on the required rate of return.

In summary, there is a relationship between the quality of released accounting information and the cost of capital (Eliwa et al., 2016). Investors realize the importance of accounting

information in their decision-making process; they price the information risk due to the primary two reasons. First, the existence of a mismatch of interest also called information asymmetry between two types of investors informed and uninformed investors (Easley and Hara, 2001). Second, the degree of the quality of the released accounting information by issuers (Lambert et al. 2012). Thereby, the issue of asymmetry information besides the reported accounting information quality feeds the information risk. Prior studies classify this risk as systematic risk and provide additional premium in computing cost of capital and determining the value of the firm.

This section provides the theoretical background of the information risk concept and the main reasons and determinants of this concept. It also presents the relationship between this type of risk and both the cost of capital and firm value. Then, this section discusses the primary measurement of firm value and the cost of capital. Finally, it provides detailed and solid empirical evidence has of the effect of information risk on the cost of capital and firm value, the role of IFRS in information risk and cost of capital, and firm value measures.

2.4.2. Information Risk and Information Asymmetry

Most investors consider information risk in their investment and other related decision. There are several definitions of information risk in numerous earlier studies. Bhattacharya et al. (2013) characterize information risk as various kinds of risks that reflect insufficient and imprecise information processing; this kind of risk influences the investment choices available to the investor. Francis et al. (2005) express that the information risk relates to the low quality of accounting information; financial specialists value that. Gaio and Raposo (2011) link the information risk with the degree of imprecision and uncertainty of reported income. Arens et al. (2014) show that the information risk reflects the probability of utilizing erroneous or inaccurate information in the decision-making process; the inaccuracy of information results from inaccurate or insufficient financial reporting disclosure.

There is a wide variety of reasons that causes information risk. Arens et al. (2014) outline these reasons as follows. First, because of the development and expansion of the worldwide economy, it isn't exceptionally simple to find firsthand financial information about the reported entities; a large portion of the financial information originates from others. In this manner, acquiring secondhand information from others may contain inaccuracy, irrelevancy, and the inability of this information to present the real economic position of the firm. The second reason is the goals inconsistency between the information providers (such as management) and investment decision-makers (such as lenders or equity investors). This inconsistency would lead to bias and inaccuracy of the provided information to meet the specific goals of information providers. For example, providing information contains favorable results of the bottom line and liquidity to obtain a large number of loans from a bank with a reasonable interest rate. Third, the company's size and the volume of information, especially in huge and global firms; the expansion in firm size leads to an increase in the exchange transactions and the probability of dependence on inaccurate financial information. At last, the complexity of certain types of transactions leads to difficulty in the recording, reporting, and disclosing process. The complexity of such transactions requires unique treatment from standard-setters.

Therefore, to confront the problem of information risk, it is necessary to use verified, relevance, faithfully presented accounting information in compliance with applicable rules and standards such as IFRS (Chen et al., 2010). Thus the application of IFRS and other related standards is an essential condition and requirement to minimize information risk and enhance the levels of information equality (Iatridis, 2010). Thus, the low quality of accounting information feeds the information risk, and lead to an expansion in the cost of capital.

Besides, information asymmetry plays a vital role in information risk. Information asymmetry occurs due to inequality of the information availability between market participants, One Market participant has information more than other, and the existence of such a problem leads to hampering the capital markets operations system (Scott and O'Brien, 2019). Theoretically and under the assumption of market efficiency, the share prices must reflect all the information, and no one has information than others. However, shares prices reflect the public information that is available in the disclosed financial reporting. However, it is still probably

some parties called insiders who know something that does not become available to outsiders; these insiders may use a specific piece of information to obtain excess return more than outsiders such as resource providers (Hope, Thomas, and Vyas, 2011). Information asymmetry involves the adverse selection problem; this problem reflects the insider effect (Bhattacharya et al., 2013). As expressed before, in a perfect and efficient market, security market value fully reflects all information (no insiders' effect). On the other hand, the actual conditions represent market inefficiency (the existence of insider's effect), the firm's value reflects only publicly available information, the difference between these two conditions is the insider information (Scott and O'Brien, 2019).

Investors realize the presence of this issue, particularly informed and rational investors; they will modify and adjust their expectations of the cost of capital and their willingness to pay to obtain any investment (Krismiaji and Raharja, 2018). Since the issue of information asymmetry adds additional risk, investors will require an additional premium to compensate for their expected loss of having unequal information against insiders (Scott and O'Brien, 2019). The full disclosure of financial reporting is an essential device to mitigate information asymmetry issues. Thus, the reliance on high-quality financial reporting will also enhance the efficiency of the capital market system. Therefore the choice of accounting standards and policies is necessary to obtain high-quality financial reporting. Hence, the establishment of IASB came to achieve the mission of enhancing the full disclosure of all required information that affects and change investor's decision and improves the timeliness of reported information to reduce insiders' ability to make an extra return.

In summary, the low quality of accounting information from the inaccuracy, imprecision, irrelevant, non-reliable disclosed financial information, and the adverse selection feed the information risk, which adversely affects the cost of capital and firm value. The upcoming section involves a discussion of the main cost of capital and firm value metrics.

2.4.3. The Primary Measures of the Cost of Capital and Firm Value

The primary goal of any corporation is maximizing shareholder value or wealth. Consequently, any financial manager needs to understand the components and determinants of firm value, not only for shareholder wealth achievement but also to know the extent of their ability to achieve this goal effectively. (Van Horne and Wachowicz, 2013). Moreover, firms link the bulk of the incentive system to the performance evaluation process. However, in actual conditions, the market value of the firm's outstanding ordinary or other types of shares is not sufficient to have a thorough valuation of the firm. The lack of total dependence on the value of the firm as a tool for evaluation because many financial experts and specialists do not believe in the efficient market theory (Van Horne and Wachowicz, 2013).

Previous literature operationalized the cost of capital using different metrics. In this, we use the earnings price ratio (i.e., the inverse of the P/E ratio be a measure of the cost of capital. Moreover, we use Tobin's Q as a measure of firm value. In this section, a short clarification of the theoretical foundation of these metrics. Moreover, the study methodology contains a comprehensive explanation of the computation methods of these measures.

2.4.3.1. Cost of capital measures in this study

2.4.3.1.1. Earnings price ratio

This ratio represents the inverse of a price-earnings ratio (P/E ratio). P/E ratio is a widely accepted accounting-based indicator of firm value (Eliwa et al., 2016). It relies upon earnings per share measure, which based on accounting profits components (accrual basis recognized revenues and expenses) (Van Horne and Wachowicz, 2013). It measures the market value of ordinary shares for one dollar of the firm's earnings. It also can be described as shareholders' ability to pay for one dollar of company earnings (Pike, Neale, and Linsley, 2006). This measurement likewise can be interpreted in conjunction with the cost of capital; the increase in

this ratio suggests that the investors are willing and ready to pay more to acquire firms' outstanding shares and hence lower cost of capital (Francis et al. 2005).

Following Francis et al. (2005), Gray et al. (2009), and Eliwa et al. (2016), who employ the price-earnings ratio as an inverse measure of the cost of capital. They develop a measure called “industry adjusted earnings price” ratio as a proxy of the cost of capital. This measure is easy to apply and comprehend because of its information accessibility. Various studies utilized this measurement using samples from different sizes (Eliwa et al., 2016).

2.4.3.2. Firm valuation measures

Prior finance literature employs many measures to determine the firm value, such as discounted cash flow and the Capital Assets Pricing Model (CAPM). In this study, the choice of firm value depends on the availability of financial data. Therefore, this study makes use of Tobin's Q as a primary metric of the value of a firm.

Tobin's Q represents the total assets' market value to the replacement cost (Gaio and Raposo, 2011). Tobin's Q has several benefits and uses beyond just capturing the market liquidity and cost of capital (Daske et al., 2008), this ratio distinguishes between efficient and inefficient investment in the right way (Wurgler, 2000). It also provides a measure of the degree of efficient use of the firm's resources. It exhibits a long-term valuation model by showing the future market expectation of the firm's investment return that extracted from the firm's assets (Gaio and Raposo, 2011).

Tobin's Q, besides the market value of outstanding shares measure, is important to reflect the better allocation of capital. Daske et al. (2008) depend on this measure to analyze the advantages of IFRS in improving firm value. Barth et al. (2012) show the significance of shares price and return as a major of firm value in explaining the change in equity value that reflects the efficient capital allocation decisions.

2.4.4. Pricing the Information Risk

As stated earlier in the previous sections, when investors hold or want to invest in specific firm's shares that have low-quality financial information, they will require an investee's additional premium to compensate for their expected loss. Several studies discuss this issue due to its importance in investment decisions. Robert and Smith (2003) summarize the role of accounting information quality in lessening information risk and the cost of capital utilizing three-point. The first point shows that the financial accounting framework should give outputs in terms of financial reporting. These reports empower managers and financial specialists to obtain adequate information that is vital for them in determination shares value and to diminish the levels of the cost of capital due to diminishment in information risk. In the second point presents the guidance work of the accounting information quality to assist managers in taking fundamental activities toward reducing the cost of capital. At last, the high quality of accounting information mitigates information asymmetry, which leads to decreased numerous sorts of risk, such as liquidity risk and thus minimizing the cost of capital. In like manner, we can conclude that the essential two reasons for data risk are the low quality of published financial information and the information asymmetry between agents (management) and principals (owners).

In the pricing process of information risk, the two leading studies are Easley and Hara (2001) and Leuz and Verrecchia (2005), which can be considered the starting point of many upcoming studies. Easley and Hara (2001) demonstrate that information risk influences only uninformed investors. They consider this sort of risk is systematic or non-diversified. There's another sort of information risk that influences both informed and uninformed investors; this risk comes about reliance on low quality or less exact accounting information. By taking the other approach, Leuz and Verrecchia (2005) suggest that the low quality of financial reporting raises the disconnection between a firm's management and investor and hence expanding the levels of the information asymmetry between them. These perceptions empower the investor to require an extra premium for risk remuneration, hence expanding the cost of capital. Also, they develop a basic model to show the information quality effect on the cost of capital to provide answers to why and how cash flow influences the quality of information. According to

their model, higher data quality increases anticipated cash flow by improving the predictability of financial information, which so diminishes the cost of capital.

Lambert, Leuz, and Verrecchia (2007) argue that the primary reason for information risk is the poor quality of public accounting information rather than information asymmetry. Both Easley and Hara (2001) and Lambert et al. (2007) share the same theoretical base, in which both of them conclude that the information risk notwithstanding of its sources is priced by investors and influence the cost of capital and investment decision. However, Easley and Hara (2001) differentiate between informed and uninformed investors and the information risk that result from poor quality of accounting information and information asymmetry. Whereas Lambert et al. (2007) show that the degree and the content of distributed information among investors are not as important as the quality of that information.

Francis et al. (2004) explore the information risk by creating a comprehensive framework of quality measures; they classify them into two categories: accounting-based earnings attributes and market-based earnings attributes. Accounting based earnings qualities contain accrual quality, persistence, consistency, and smoothness; market-based earning attributes incorporate value relevance, timeliness, and conservatism. This study uses a sample from the U.S. listed firms between 1975 and 2001 to provide an operational definition of the quality concept. They discover a critical relation between earnings attributes and the cost of equity capital. However, accounting-based profit attributes have a higher impact on the cost of equity than market-based earnings attributes. It infers, the accounting-based earnings attributes clarify more variation within the cost of equity than market-based earnings attributes. Also, accrual quality proxy is the overwhelming attribute over the others in explaining the variation in the cost of equity capital.

Francis et al. (2005) confirm the results of Easley and Hara (2001) and Leuz and Verrecchia (2005) that investors price the information risk and consider it in the cost of capital determination. However, they depend on cash flows forecasting to examine the quality of accounting information by employing the accrual quality model, which is initially developed by Dechow and Divhev (2002).

Gray et al. (2009) follow Francis et al. (2004) and Francis et al. (2005) in using the accrual quality as a measure of accounting quality. They took a sample from listed firms in Australia between 1998 and 2005. They come about to appear a positive relationship between accrual quality and the cost of capital. Inferring, the increase in accrual quality proxy is an indicator of low accounting quality and leads to a high cost of capital. Their dependence on discretionary accrual as an indicator of information quality shows no significant effect of this measure on the change of cost of capital.

In terms of measuring the effect of information risk on the firm value, Gaio and Raposo (2011) employ accrual quality, earning persistence, earning predictability, value relevance, timeliness, smoothness, and conservatism to investigate earnings quality and its effect on the firm value. The study uses data from 38 different countries between 1990 and 2003 by employing Tobin's Q as a measure of firm value. They find a positive and significant association between earnings quality and firm value. The results here imply the higher quality of earnings and accounting information leads to a higher market value of the firm.

In the other study of Lambert et al. (2012) conclude that the degree of market efficiency contains a crucial part in clarifying the relationship between information asymmetry and the cost of capital. The degree of this relationship depends on the average precision of published financial information. Besides, they conclude that the poor quality of accounting information leads to more information risk and hence more cost of capital. Armstrong, Core, Taylor, and Verrecchia (2011) find a consistent result with the previous studies but under the market imperfection assumption. They find that when markets are imperfect, the increase in information asymmetry leads to an increase in the cost of capital. In the same field, Bhattacharya et al. (2013) provide evidence about the effect of accounting quality on information asymmetry. It contains a measurement of accrual quality as a proxy of earning quality for a large sample of U.S listed firms between 1998 and 2007. They find that firms with poor quality of earnings have a high information asymmetry and cost of capital.

One of the recent studies in this field, the study by Eliwa, Haslam, and Abraham (2016), uses four measurements of accounting quality, including accrual quality, earnings persistence, earnings predictability, and smoothness. This study depends basically on Francis et al. (2004)

in measuring the accounting quality indicators. Besides, they measure the cost of equity capital by the industry earning price ratio. Their investigation also contains several listed firms in the UK over the period 2005 and 2011. Consistent with earlier studies, they find a significant role in earning quality in reducing the cost of capital. However, each earning quality proxy includes a diverse degree of effect on the cost of capital. Earnings predictability clarifies more variation in the cost of capital, then accrual quality, and finally, persistence and smoothness.

An example of examining the financial information quality and cost of capital in the emerging market is Dakhlaoui, Lajmi, and Gana (2017). This study examined the quality of financial information utilizing three measures: earning quality, financial transparency, and audit quality and its impact on the cost of equity capital in Tunisia. The data contains 26 listed firms between 2004 and 2010. This study utilizes Dechow and Dichev (2002) model to measure the earning quality. They measure financial transparency using residual that exhibits the degree of a price or returns variation that's not explained by accounting earnings (i.e., error term). They also measure audit quality utilizing the type of audit firms, whether big four or not. The results show an insignificant impact of accrual quality on the cost of capital.

In the same line, Xing and Yan (2019) explore why the poor quality of accounting information is one type of systematic risk. They use accrual quality and absolute discretionary accruals as measures of accounting information quality. They took a sample from diverse countries between 1962 and 2012. Besides, it takes the impact of the Sarbanes-Oxley Act (SOX) on the relationship between accounting information quality and the cost of value capital. These results demonstrate a negative relationship between accounting information quality and systematic risk. It recommends that firms with high quality of accounting information tend to have a more critical reduction in systematic risk after the application of SOX 2002.

Table 2.3 present the main pieces of literature that investigate the pricing of information risk. From this table, we find the following facts: First, most of the explained studies measure the information risk using either absolute discretionary accrual Jones (1991) Model, the accrual quality Dechow and Dichev (2002) Model, or both of them. Second, most of the undertaken studies in developed countries, particularly the US. Finally, all of these studies provide a shred

of important evidence that the investor prices the information risk that results from low quality of accounting information, hence, a higher cost of capital and low firm value. Therefore, one of the primary contributions of our study is measuring the information risk using a wide variety of accounting information quality measures. Moreover, this study depends on a sample from a unique and special case country like Palestine.

2.4.5. Empirical Evidence of IFRS Effect on the Firm Value Components

IFRS, as global accounting standards, has a valuable role in reducing the cost of capital and enhancing firm value. Several studies have investigated the issue of the benefits of adopting IFRS and its role in reducing the cost of capital by inferring to the direct effect of IFRS on the cost of capital. Leuz (2003) investigates the difference between the effect of IAS and US GAAP on information asymmetry. The study uses data from Germany between 1999 and 2003. The results indicate that both IAS and US GAAP have the same ability to reduce information asymmetry. Besides, both of them have a similar quality of accounting information.

Daske (2006) differentiates the economic benefit of IFRS from the economic benefit of US GAAP. It depends on a large sample of Germanian companies between 1993 and 2002. The results show no significant difference in the cost of capital between IFRS adopter and non-adopter firms. As a result of this study, there is no measurable benefit from adopting IFRS. In the same direction, Daske et al. (2008) provide evidence of the IFRS benefits in 26 different countries. They operationalize the benefits from IFRS using market liquidity, cost of capital, and Tobin's Q. They find that the adoption of IFRS plays a vital role in increasing market liquidity, decreasing the cost of capital, and increasing Tobin's Q. Daske, Hail, Leuz, and Verdi, (2013) provide contradictory evidence from previous studies. They conclude a little evidence that voluntary IAS adoption relates to increases in market liquidity or a decline in the cost of capital. They took a sample from different countries between 1990 and 2005. Also, the results show that serious adopters of IFRS have a lower cost of capital than the label adopters.

Li (2010) depends on a large sample of 6,455 firm-year observations from different EU companies in different countries. This study finds that the application of IFRS reduces the cost of capital. However, this effect concentrated on countries that have vigorous legal enforcement of adequate disclosure and comparability. On the contrary, the study by Gatsios et al. (2016) which uses a sample from Brazil between 2004 and 2013. They find no reduction in the cost of capital after the adoption of IFRS.

Taking one country of Europe, Turki et al. (2017) examine the IFRS application role in France in reducing the information asymmetry and cost of capital. They use data from 250 firms between 2002 and 2012. They conclude a significant decrease in the cost of capital in the first two years of IFRS adoption due to its positive impact on information asymmetry.

Onali, Ginesti, and Ballestra (2017) show the market reaction from applying IFRS 9 that is related to financial instruments. They use data from 79,006 firm-year observations and find that the application of IFRS 9 leads to a reduction in information asymmetry.

Table 2.3. Empirical studies on the pricing of information risk

Author	Journal	Study Sample	Sample Years	Information Risk Measure	Cost of Capital/ Firm Value Measure	The Main Results
Penman and Zhang (2002)	The Accounting Review	38,540 Firm-year observation from US	1976-1997	Conservatism Index	Stock Price	There is a reward with abnormal returns due to holding the low quality and low conservative return.
Francis et al. (2004)	The Accounting Review American Accounting Association	39,717 firm-year observation	1975-2001	All the accounting-based and market-based earnings attributes	Value line price target and dividends	The cost of capital is associated with poor accounting information quality
Francis et al. (2005)	Journal of Accounting and Economics	91,280 firm-year observations from the US	1970-2001	Accrual Quality Dechow and Dichev (2002) Model	Cost of debts Cost of equity using industry EP ratio	Investors price the quality of accounting information
Francis et al. (2008)	Journal of Accounting Research	677 firms from the US	2001	Discretionary Accrual (Jones (1991) model) Accrual Quality Dechow and Dichev (2002) Model	Value line price target and dividends CAPM Beta	The higher quality of accounting information leads to higher cost of capital
Gray et al. (2009)	Journal of Business Finance and Accounting	2,057 firm-year observation from Australia	1998-2005	Discretionary Accrual (Jones (1991) model)	Cost of debts Cost of equity using industry EP ratio	The investor considers and prices the information risk, which leads to an increase in the cost of capital
Gaio and Raposo (2011)	Accounting and Finance	7,211 firms from 38 different countries.	1990-2003	All the accounting-based earnings attributes	Tobin's Q	Firms with high quality of accounting information have more value in the stock market

Bhattacharya et al. (2012)	Accounting Review	12,684 firm-year observation from the US	1993-2005	Discretionary Accrual (Jones (1991) model) Accrual Quality Dechow and Dichev (2002) Model	Value line price target and dividends	A direct relationship between earnings management and the cost of capital
Bhattacharya et al. (2013)	Contemporary Accounting Research	14,389 firm-year observation from US	1997-2006	Accrual Quality Dechow and Dichev (2002)	Percentage price impact	There is a significant association between poor accounting information quality and information asymmetry
Lu et al. (2013)	Contemporary Accounting Research	29,345 firm-year observation from US	1981-2006	Accrual Quality Dechow and Dichev (2002)	Stock Price Delay	The low quality of accounting information is associated with up normal stock price delay
Eliwa, Haslam, and Abraham (2016)	International Review of Financial Analysis	4,214 firm-year observations from the UK	2005-2011	Accounting-based earnings attributes	Cost of equity using industry EP ratio	Investors price the low quality of accounting information.
Nguyen, Nguyen, and Nguyen (2017)	Working Paper	538-firm from Vietnams	2007-2016	Discretionary Accrual (Jones (1991) model)	CAPM Cost of Capital	Investors do not price information risk.
Dakhlaoui et al. (2017)	Journal of Applied Economics and Business Research	26 listed from Tunisia	2004-2010	Accrual Quality Dechow and Dichev (2002) Model	Four Factor Pricing Model (FFPM)	There is an insignificant association between earnings quality and the cost of capital
Zhang and Wilson (2018)	Contemporary Accounting Research	17,070 firm year observation from the US	1998-2006	Accrual Quality Dechow and Dichev (2002) Model	Stock Return CAPM Beta	Accrual quality affects the degree of premium in calculating the cost of capital.
Xing and Yan (2019)	Review of Quantitative Finance and Accounting	150,245 firm-year observation from the US	1962-2012	Discretionary Accrual (Jones (1991) model) Accrual Quality Dechow and Dichev (2002)	Beta	The high quality of accounting information leads to low systematic risk.

2.5. Corporate Governance Quality

The reliability of the information, mainly financial information is one of the primary objectives of corporate governance. Thus, the quality of corporate governance is a prerequisite of having high information quality that enables corporations to enhance the communication between management and shareholders. Hence, reducing the information risk, cost of capital, and enhancing firm value. This section presents the importance of corporate governance in the reliability of financial reporting and its role in reducing the agency problem. Furthermore, it contains a review of empirical evidence that has interacted with governance issues and its relation with information risk, cost of capital, and firm value. This section also sheds light on primary measures or proxies to understand the quality degree of corporate governance.

2.5.1. Agency Theory

Before understanding the concept of corporate governance, it is necessary to review the agency theory or agency problem because the primary aim of corporate governance is to solve this problem. Agency theory is a specific type of “Game Theory,” which states that there are two contracting parties, and each party wants to maximize its benefit at the expense of the other party. (Scott and O’Brien, 2019). According to this theory, a contract contains engagement between one person called the principal and other person called agent, this agent is entitled to perform specific services to enhance principal’s benefits or interests (Daghsni, Zouhayer, and Mbarek, 2016)

This theory involves two types of contracts: employment and lending contracts (Scott and O’Brien 2019; Walker 2013). In employment contracts, which is an agreement between the shareholders of the company and the management. They also called this type of contract a bonus and concession contracts between the owners of the company and their agents, that is, the administration that represents them. (Walker, 2013). Lending contracts contain an agreement between the firm’s shareholders and lenders, such as bond investors (Scott and

O'Brien, 2019). These contracts contain a conflict of interest between the different contracting parties. The real struggle in this type of contract results from the fact that the shareholders get their benefits at last. They obtain their benefit after paying salaries due to management, as well as paying the dues to lenders and creditors. Hence, the ordinary shareholders come in the last order in case the company goes bankrupt. (Walker, 2013). This problem may negatively affect the firm's ability to achieve its objectives when a firm's management maximizes their benefits instead of working toward maximizing the firm value (Watts, 2003). The negative ramifications of the agency problem present an increase in the state of uncertainty, which would lead to the problem of information asymmetry and the decrease in the quality of information disclosed to the interested parties. (Krismiaji and Raharja, 2018).

Agency theory explains the reasons behind earnings management. It exhibits a theoretical background of the relationship between accounting standards, accounting information quality, and cost of capital (Dakhlaoui et al., 2017). The capital suppliers, such as equity and debt holders, require relevant and fairly presented financial information that empowers them to make suitable investment decisions (Daghsni et al., 2016). However, firm management does not want to reveal all the needed information that the capital provider wants (Scott and O'Brien, 2019). Subsequently, some managers attempt to perform off-balance-sheet financing by overlooking a specific sort of liabilities or manage earnings by modifying some accounting policies to have a particular level of benefit. These activities also contain manipulating financial information for either efficient contracting, such as meeting the loan covenant or opportunistic purposes, including getting a high level of rewards (Scott and O'Brien, 2019).

The necessity of this theory lies in explaining the reasons and consequences of the earnings management process, which in turn affects the information quality. This theory helps in finding the foundations of a process for corporate governance, and this includes finding effective communication between contracting parties and stakeholders in the company. The use of high-quality financial information evidences all this. (Dakhlaoui et al., 2017).

2.5.2. Corporate Governance Concept

The concept of corporate governance is broad and contains too much detail and principles. In our study, we discuss the concept of corporate governance in terms of its role in minimizing earnings management and manipulation activities. It is also necessary to facilitate the communication between investors and managers by providing a reasonable assurance about relevance and faithful representation of financial reporting, which leads to reduce information risk and thus lowering the cost of capital and enhancing the value of a firm.

Corporate governance (CG) is “*the way the business controlled and administered; it includes rules, principles, policies, and customs that affect the management methods and styles*” (OECD, 2016). The core of any corporate governance system is the assignment and distribution of responsibilities of the board of directors and management, which are necessary to design and control the relationship with stakeholders (Singh, Aggarwal, and Anand, 2016). Nouri and Abaoub (2016) defined this concept as an internally designed system that contains several components, including people, public policies, and various sets of procedures necessary to meet the needs of stakeholders. Singh et al. (2016) defined the CG concept based on the principle of equality among the users of the financial statements. They pointed out that the essence of corporate governance lies in many of the procedures that the management and the audit committee must take to ensure the integrity of the issued financial reporting.

According to these definitions, we can conclude that the main task of corporate governance is obtaining information with high-quality (Daghsni et al., 2016). It is also an essential means of ensuring the transparency and quality of the financial information issued. (Jiang, Lee, and Anandarjan, 2008). Bushman and Smith (2003) The fundamental goal of corporate governance is to reduce the agency’s issue by ensuring incentives and privileges for the managers who responsible for managing the company. To ensure that they work toward the company’s interest by focusing on increasing the company's value rather than an overall focus on personal interests and benefits. The importance of a governance system is also evident in ensuring the rights of shareholders, especially minorities, by providing them with highly reliable information that helps them to evaluate their investments optimally. Due to the significant role of corporate governance, much prior literature such as Hope et al. (2011),

Abba and Suleiman (2016), and Herath and Albarqi (2017) document a significant positive relationship between the compliance of CG principles and the quality of reported financial information.

2.5.3. Corporate Governance Quality Measures

There have been many alternative metrics of the existence of an effective Corporate Governance (CG) structure. These indicators include board size and independence, nature of audit committee members, and CEO age and tenure (Jiang et al., 2008). Other factors may affect the quality of CG, including audit quality, board characteristics, number of board meetings, institutional ownership, and the existence of specialized committees (Nouri and Abaoub, 2016). In our study, we employ the quality of audit firm, CEO duality, managerial ownership interest, and whether the firm single or multiple segments firms.

The main characteristic of the board of directors in establishing the responsibility of the board, which lies in building, managing, and controlling the process of preparing and issuing financial reports. (Sellami and Slimi, 2016). Therefore, focusing on the independence of board members, board size, the duality of the CEO, and the existence of an independent audit committee are essential key points in examining the quality of CG. CEO duality based on the combination of the positions of chairman and CEO; that is, one person performs both functions together (Daghsni et al., 2016). The existence of this observation means that one person can control every aspect of a particular firm, which negatively affects the quality of CG (Sellami and Slimi, 2016). Fama and Jensen (1983) recommend that having an effective management system with a lower level of agency problem requires a separation of CEO and chairman. Most of the prior studies document a significant positive relationship between CEO duality and earnings management and manipulation activities. Zouari, Lakhel, and Nekhili (2015) and Nugroho and Eko (2012) find that firms with a dual role of CEO and board chairman have more opportunities to undertake earnings management, which leads to low quality of accounting information and more information risk. In contrast, Lyu et al. (2014),

Chouaibi, Harres, and Ben Brahim (2018) find no relationship between the duality of CEO and earnings management.

Managerial ownership interest is another CG quality measure that affects accounting information quality. There is a debate about this idea and its effect on reducing agency costs and enhancing information quality. The classical study of Jensen and Meckling (1976) refers to giving the management members an ownership interest to become similar to shareholders the best way to mitigate the agency problem. Daske et al. (2013) find the management ownership interest is necessary to overcome the degree of information risk and the cost of capital. Huang, Wang, and Zhang (2009) indicate that a combination of shareholders' interest with management ownership interest is a perfect way to reduce agency problems and the cost of capital. Krismiaji and Raharja (2018) support the evidence of the importance of managerial ownership interest in reducing information risk and the cost of capital. In contrast, Gabrielsen, Gramlich, and Plenborg (2002) and Limpaphayom and Manmettakul (2002) find a positive association between managerial ownership and earnings management, which leads to lower accounting information quality. Both of these two studies show the increase in discretionary accruals as a result of the increase in the ownership interest of management as an indicator of low accounting information quality.

The role of the auditor is to provide reasonable assurance about the fairness of financial reporting. However, the type of audit firm (weather big four or not) affects the firm's attitude toward earnings management. Francis and Wang (2008) pointed out that the big four audit firms have a greater commitment to accounting standards and also have a team of highly experienced and skilled personnel, which reflects positively on their ability to reduce the problem of profit management. The capital of these companies lies in their reputation, which constitutes an incentive for them to move towards improving the quality of financial information. A measure of the existence of the agency problem is whether the firm is single or multiple segments firm. Demirkan, Radhakrishnan, and Urcan (2012) indicate that the agency problem in multiple segment firms is more than that in single-segment firms. Therefore, the attitude toward earnings management in multiple segments firms is higher than that in single-segment firms. Thus, information risk and cost of capital in multiple segments firms is higher than that in single-segment firms.

2.5.4. The IFRS and Corporate Governance Impact on the Accounting Quality and Firm Value

The primary principle of corporate governance is the reliability of financial reporting; as a result, our last study hypothesizes based on corporate governance quality. In this field, many studies have discussed the role of accounting standards on corporate governance quality. They also discussed many corporate governance issues such as institutional factors, agency problems, audit firms effect, and investor protection issues. Ball, Kothari, and Robin (2000) study the role of the globally adopted standards of accounting in general on the primary characteristics of the reported earnings and corporate governance quality. They use timeliness and conservatism as a base to examine accounting quality. The results show the existence of the corporate governance system has a prominent and important role in reducing the earnings management process. Also, reports issued based on IAS are more transparent and reliable than reports issued based on local standards. The study by Leuz et al. (2003) examines the effect of earnings management on investors' protection. They investigate the earning quality using smoothness, discretionary accruals, and small loss prevention. The results show that the reduction in earnings management combined with good governance, reliable investor protection, and efficient stock markets.

The study by Aksu and Espahbodi (2016) indicated the role of applying IFRS as well as adhering to the regulations and regulations related to corporate governance in raising the level of transparency and disclosure through the design of the transparency and disclosure index. This study used data from the companies listed on the Istanbul Stock Exchange between 2002 and 2005. The results indicated that adherence to IFRS as well as corporate governance standards, positively affect the disclosure and transparency index. Abdullah, Maruhun, Tarmizi, and Rahman, (2018) investigate the impact of earning management on corporate governance practices during the IFRS mandatory adoption period. The study depends on a sample from Malaysia between the years 2013 and 2016, using discretionary accruals; the results indicate that there is a significant relationship between the board's characteristics and earning management during the compulsory IFRS implementation. Also, the application of IFRS, in conjunction with the application of corporate governance principles, leads to high levels of accounting quality. The study by Shin and Kim (2018) provides evidence about the

association between corporate governance procedures and the quality of earnings. It uses data from the Korea Stock Exchange from 2013 to 2016. Corporate governance quality is measured using two proxies: the independence of the board of directors and foreign ownership. They find that earnings quality is higher when corporate governance is effective.



3. THEORETICAL FRAMEWORK and HYPOTHESES DEVELOPMENT

3.1. Introduction

Researches carried out in recent years on the effect of IFRS on the quality of reported accounting, firm value, and other issues are extensive and diverse. The adoption of IFRS in Europe zone between the years 2002 and 2005 contributed mainly to increase the research works about the role and implications of IFRS adoption. The primary wave of research has carried out to shed light on the economic benefit of applying IFRS in Europe. These benefits are minimizing the discretions that are available to management to reduce the earning management and enhancing accounting information quality. Therefore, the improvement in accounting information quality could lead to a decline in the cost of capital and raise the firm's value. Then, the research activities have shifted towards many other countries from outside of Europe, such as Canada, Australia, Korea, and Japan. Recently, the focus has started to shift to emerging and less developed countries due to the extensive use of IFRS among them.

This chapter relies on the previous empirical and theoretical literature reviews to construct the research questions and hypotheses regarding the relationship between IFRS mandatory adoption among Palestinian listed companies and accounting information quality. Moreover, this study contains an examination of the effect of IFRS-based accounting information on the cost of capital and firm value. In the same line, this study tries to investigate the relationship between IFRS-reported accounting information and corporate governance quality. However, to achieve these aims of the study, four questions and hypotheses were developed. These questions and hypotheses based on three research streams; the first research stream deals with studies of the effect of IFRS on accounting information quality. The second research stream contains studies that examined the relationship between accounting information quality and cost of capital and firm valuation measures. The last research stream provides an overview of studies interacting with corporate governance issues in the context of IFRS adoption. Figure 3.1 at the end of this chapter shows the developed study's model and theoretical framework

3.2. The Impact of IFRS on the Quality of Accounting Information

This dimension provides an answer to the first question of our research, which is related to the effect of IFRS mandatory adoption on the quality of accounting information among Palestinian listed firms.

In this stream of research, two competing theories discussed the role of IFRS/IAS in improving the quality of accounting information (Lee, Walker, Christensen, and Zhao, 2010). The first school of thought has supported the IFRS convergence and harmonization efforts that are undertaken by many countries to adopt IFRS ultimately. This school realizes the importance of adopting IFRS in achieving the primary objectives of the financial accounting theory of minimizing the information asymmetry, by disclosing global, comparable, and high-quality accounting standards (Soderstrom and Sun, 2007; Brochet et al. 2013). It also documents the role of IFRS in reducing allowable accounting alternatives and discretions that enable managers to manipulate earnings (Barth et al., 2008), thus minimizing earnings management leads to enhancement in accounting information quality (Ashbaugh and Pincus, 2001; Liu and Sun, 2015).

On the other hand, the contrasting theory argues that the adoption of IFRS alone is not sufficient to have completely comparable financial reporting between different capital markets and countries that have a different political and economic environment (Lee et al., 2010). Furthermore, IFRS, as principle-based accounting standards, maybe too flexible and open, which encourages managers to manage and manipulate earnings, thus reducing the quality of accounting information (Ahmed et al., 2013).

When investigating the effect of IFRS/IAS on the quality of accounting information, the starting classical point is the study of Barth *et al.*, (2008). This study investigates the impact of IAS on the change in accounting quality in many different countries, the finding of this study support the role of IAS adoption in reducing the attitude toward earnings management activities and enhancing the value relevance of reported income. In proofing this role of IFRS, Chen *et al.*, (2010), Iatridis (2010), and Devalle et al. (2010) followed Barth *et al.*, (2008) and

provide evidence that the IFRS application in Europe adds value to the quality of reported accounting information.

The acceptance of IFRS in the EU in 2005 encourages the waves of research in this field. For instance, Müller (2014), Chan et al. (2015), Cutillas-Gomariz et al. (2016), Perafán Peña and Franco, (2017), Kouki, (2018), and Almaharmeh and Masa'deh (2018) find enhancement of accounting quality after the acceptance of IFRS in EU. In developing and emerging countries, many studies provide theoretical and empirical evidence that the application of IFRS leads to more quality and transparent financial reporting. For instance, Ismail *et al.*, (2013) in Malaysia; Baig and Khan, (2016) in Pakistan; Rathke *et al.*, (2016), Rodríguez García *et al.*, (2017) and Da Silva and Nardi, (2017) in Latin America; Temiz and Güleç, (2018) in Turkey; Yurisandi and Puspitasari, (2017) in Indonesia. These studies focus on the effect of IFRS adoption in single developed countries, particularly in Europe. Other studies such as Ashbaugh and Pincus (2001), Barth *et al.* (2008), Hwang, Hur and Kang (2018), and Oz and Yelkenci (2018) provide evidence of the significant impact of IFRS on the quality of accounting information using data from different countries, including both developed and emerging countries.

On the contrary, Devalle et al. (2010), Ahmed et al. (2013), Liu and Sun (2015), Bryce et al. 2015, Lee et al. (2015), Kouki, (2018), and Trimble (2018) find an opposite result of the negative or no significant role of IFRS in boosting the overall accounting information quality.

Accounting information quality is a multidimensional concept (Chen *et al.*, 2010); no single measure can be sufficient to provide a complete picture of this indicator. Thereby, most of the prior studies depend on different metrics to operationalize the quality concept. Barth *et al.* (2008), Chen *et al.* (2010), Iatridis (2010), Devalle et al. (2010), Ahmed et al. (2013), Liu and Sun (2015), and Morais, Fialho, and Dionísio (2018) Investigate the IFRS functional role on improving the accounting quality using earnings smoothing indicators. Chen *et al.* (2010), Iatridis (2010), Ahmed et al. (2013), Horton et al. (2013), Lee et al. (2015), Houqe *et al.* (2016), Baig and Khan (2016), Da Silva and Nardi, (2017), Hwang, Hur and Kang (2018), and Almaharmeh and Masa'deh (2018) use the absolute discretionary accruals using the Jones Model (1991). This measure is the global standard measures of earnings management.

A primary component of accounting-based earnings attributes is accrual quality. Chen *et al.*, (2010), Bryce *et al.* (2015), Kabir and Laswad (2015), and Trimble (2018) use this model to show the effect of IFRS on accounting information quality this measure originally developed by Dechow and Divheev, (2002). Predictability and persistence measures are also used by a limited number of studies to show the role of IFRS in maintaining the persistence and predictability of earnings, for instance, Ashbaugh and Pincus (2001), Sun *et al.* (2011), Atwood *et al.* (2011), and Cutillas-Gomariz *et al.* (2016). Market-related measures can also operationalize accounting information quality. The primary measure of market-based earnings attributes is value relevance, which is used by many studies in investigating the effect of IFRS/IAS on improving the quality of accounting information, for instance, Barth *et al.* (2008), Iatridis (2010), Devalle *et al.* (2010), Ismail *et al.*, (2013), Chebaane and Othman (2014), Müller (2014), Cutillas-Gomariz *et al.* (2016), Temiz and Güleç (2018), Hwang, Hur and Kang (2018) and Kouki (2018). Other market-related earnings attributes are timeliness and conservatism, which are used by a small number of studies, such as Rodríguez García *et al.*, (2017).

Previous related literature focuses its attention in developed countries, mainly European countries, which have efficient and developed capital markets. Furthermore, most of these studies operationalize the quality of accounting information using specific accounting quality measures, such as smoothness of earnings, absolute discretionary accruals, and value relevance. However, limited dependence exists on other measures such as accrual quality, predictability, persistence, timeliness, and conservatism. Thus, in this dimension of our study, a design of the comprehensive framework of multiple measures of accounting information quality, which aims to shed light on the role of introduction IFRS on making a difference in accounting information quality in less developed and particular case country like Palestine. Consequent upon the previous discussion, we develop the following hypothesis:

H₁: The mandatory adoption of IFRS significantly affects accounting information quality.

3.3. The Effect of Accounting Information Quality on the Cost of Capital and Firm Value during the IFRS Mandatory Adoption

This dimension focuses on the determinants of the capital market, which manifested in the cost of capital and the firms' market value. It touches the significance of this study is presenting the role of accounting information quality on the cost of capital and firm valuation during the mandatory adoption of IFRS in Palestine. It leads to the development of the testable hypothesis that is necessary to answer the following questions: Is there any association between accounting information quality and cost of capital and firm value? To what extent the quality of accounting information affects the cost of capital and firms' value upon the mandatory adoption of IFRS among Palestinian listed firms?

In the first stream of prior research, an indication of the importance of the information content of earnings. Inaccurate, irrelevant, and inconsistent accounting information leads to low quality of disclosed accounting numbers, particularly earnings components. This phenomenon creates additional risk; investors should price this type of risk by requiring a higher rate of return as compensation for holding low-quality information.

Several studies document the negative impact of low accounting information quality on the cost of capital. Francis *et al.* (2004) conclude an increase in the cost of equity capital due to the low quality of accounting information. In more specific studies, Leuz and Verrecchia (2005) provide evidence that the increase in the predictive value of earnings and cash flows leads to reduce the cost of capital. Francis *et al.* (2005) investigate to what extent investors price the low quality of accounting information; they find the increase in accrual quality measure leads to a rise in the cost of capital. Eliwa, Haslam, and Abraham (2016) followed. They also find the low quality of accounting information adds additional risk and more cost of equity capital. Similarly, Dakhlaoui *et al.* (2017) provide evidence of a direct relationship between accounting information quality and the cost of capital.

The quality of accounting information has a direct effect on information asymmetry and information risk. Easley and Hara (2001) classify information into two types. First, public information that is available to all stakeholders, and the second type is the private information

that is available to the limited number of users. This classification presents additional information risk that could result from information asymmetry or inequality of information contents between different types of users. In the same line, Gray et al. (2009) indicate that the increase in accrual quality proxy adds more information risk, hence more cost of capital. Other studies Armstrong *et al.* (2011) and Bhattacharya et al. (2013) investigate the consequences of the low quality of accounting information in increasing the information asymmetry between different types of investors, and cost of capital. Gaio and Raposo (2011) provide evidence of the positive relationship between accounting information quality and firms' value

To sum up, the above-discussed studies of the following points. The first point indicates that all of these studies find a direct and adverse relationship between accounting quality and cost of capital. Second, all of these studies depend on accounting-based earnings attributes, particularly accrual quality measures. Third, the low quality of accounting information is directly related to the degree of information asymmetry and lead to create additional information risk. Finally, these studies undertook their investigations in developed countries with efficient capital markets and overlooked the situation in developing and emerging countries.

The second stream of research examines the economic benefits of adopting IAS/IFRS without mentioning the accounting information quality effect directly. These studies to consider the reduction in the cost of capital are the primary benefit of adopting IFRS. Daske (2006) shows one of the primary benefits of IFRS in reducing the levels of cost of capital and increase the value of the firm. Armstrong *et al.* (2010) indicate that there is a positive reaction of shares price upon the adoption of IFRS. Turki et al. (2017) show the benefits of adopting IFRS in minimizing the information asymmetry and cost of capital. However, our study provides an integrated view between these two streams and develops the following two hypotheses:

H₂: There is a relationship between accounting quality and cost of capital in the IFRS mandatory adoption period.

H₃: There is a relationship between accounting quality and firms' value in the IFRS mandatory adoption period.

3.4. The Empirical Evidence of IFRS and Corporate Governance Impact on the Quality of Accounting and the Value of Firm

Corporate governance is a broad concept with different determinants and objectives. However, the primary objective of corporate governance is to achieve the quality and transparency of disclosed financial information (Aksu and Espahbodi, 2016). We can translate this objective by adopting high-quality standards of accounting that enable companies to disclose relevant and fairly presented financial information (Schipper, 2013). Furthermore, the quality of auditing standards and the experience and efficiency of auditors also play an essential role in maintaining the quality of accounting information (Bartov et al., 2000) and minimizing agency problems, information risk, and information asymmetry (Leuz, 2003).

Also, the composition of a sufficient number of independent board members is an essential principle of having an effective corporate governance system (Bhagat and Bolton, 2011). To have reasonable assurance about the achievement of this objective, the existence of independent members and the separation between the chairman and CEO position is a mandatory requirement of having effective corporate governance (Daghsni et al., 2016). Thereby, the primary objective of any company is maximizing shareholder value, through maintaining sustainable profitability that leads to enhance the firm's value. Achieving this objective requires these companies to reduce the levels of cost of capital by having high-quality accounting information. The existence of high-quality accounting information is necessary to enhance the communication between companies and stakeholders and reduce information asymmetry and the impediments of the agency problem, through adopting IFRS, and compliance with basic corporate governance principles.

Many prior studies document the significant impact of corporate governance quality on minimizing agency problems, information asymmetry, and increasing the quality of accounting information. Thus, adopting high quality and commonly adopted accounting standards such as IFRS plays a vital role in improving the quality of accounting information. Ball, Kothari, and Robin (2000) show that the existence of corporate governance; monitors management behaviors and limits their attitude toward earnings management and manipulation. They also indicate that the existence of IAS besides effective corporate

governance improves the quality of disclosure and transparency of information. Leuz (2003) follows Ball, Kothari, and Robin (2000) and indicates that the existing accounting standards are a vital requirement to reduce information asymmetry. Leuz et al. (2003) support the previous results and add that good corporate governance provides support and protection of investors' interest by keeping them informed of the company's financial status on a timely base. Aksu and Espahbodi (2016) employ transparency and disclosure index to investigate a corporate governance quality; they indicate that IFRS adoption adds value to transparency and disclosure. Demirkan et al. (2012) assume that multiple segments of firms have more agency problems than single-segment firms. However, they indicate that the multiple segment firms tend to have higher accounting information quality than single segment firms; hence the cost of capital in multiple segment firms is lower than that in single-segment firms.

The quality of external auditors also discussed as an indicator of good corporate governance. Francis and Wang (2008) show that more quality of accounting information leads to more protection of shareholders' interest, but only in firms that use big four auditors.

The characteristics of the board of directors have used as an indicator of effective corporate governance. Abdullah *et al.* (2018) show a significant association between board characteristics and accounting information quality during the IFRS adoption period. Limpaphayom and Manmettakul (2002) find that managerial ownership interest leads to more informativeness of reported information. In contrast, Gabrielsen et al. (2002) find that the increase in managerial ownership interest leads to lower quality of accounting information due to the increase in discretionary accrual indicator. Daghsni et al. (2016) find the large board is more efficient in monitoring earnings management activities, the CEO duality is necessary for mitigating earnings management. In the same line, Krismiaji and Raharja (2018) use a percentage of managerial ownership as an indicator of corporate governance quality; they find the increase in managerial ownership reduces the quality of accounting information; hence increase in the cost of equity capital. Shin and Kim (2018) find a high quality of accounting information in the firms that have independent board members. Al Daoud (2018) find a similar result of the increase in the quality of accounting information through mitigation of earnings management in firms with more independent members and separate position of CEO and chairman.

Our study investigates the role of corporate governance quality on the quality of accounting information. In the same line of other previous studies, we use management or insider ownership interest, the separation role of CEO and board chairman, types of the audit firm, and agency problem measures as indicators of corporate governance quality. This study investigates these measures to show the effect of corporate governance quality on accounting information quality and the cost of capital within the IFRS mandatory adoption period. Based on the above argument, the fourth hypothesis will be:

H4: In the IFRS mandatory adoption period, corporate governance quality affects accounting information quality and cost of capital.

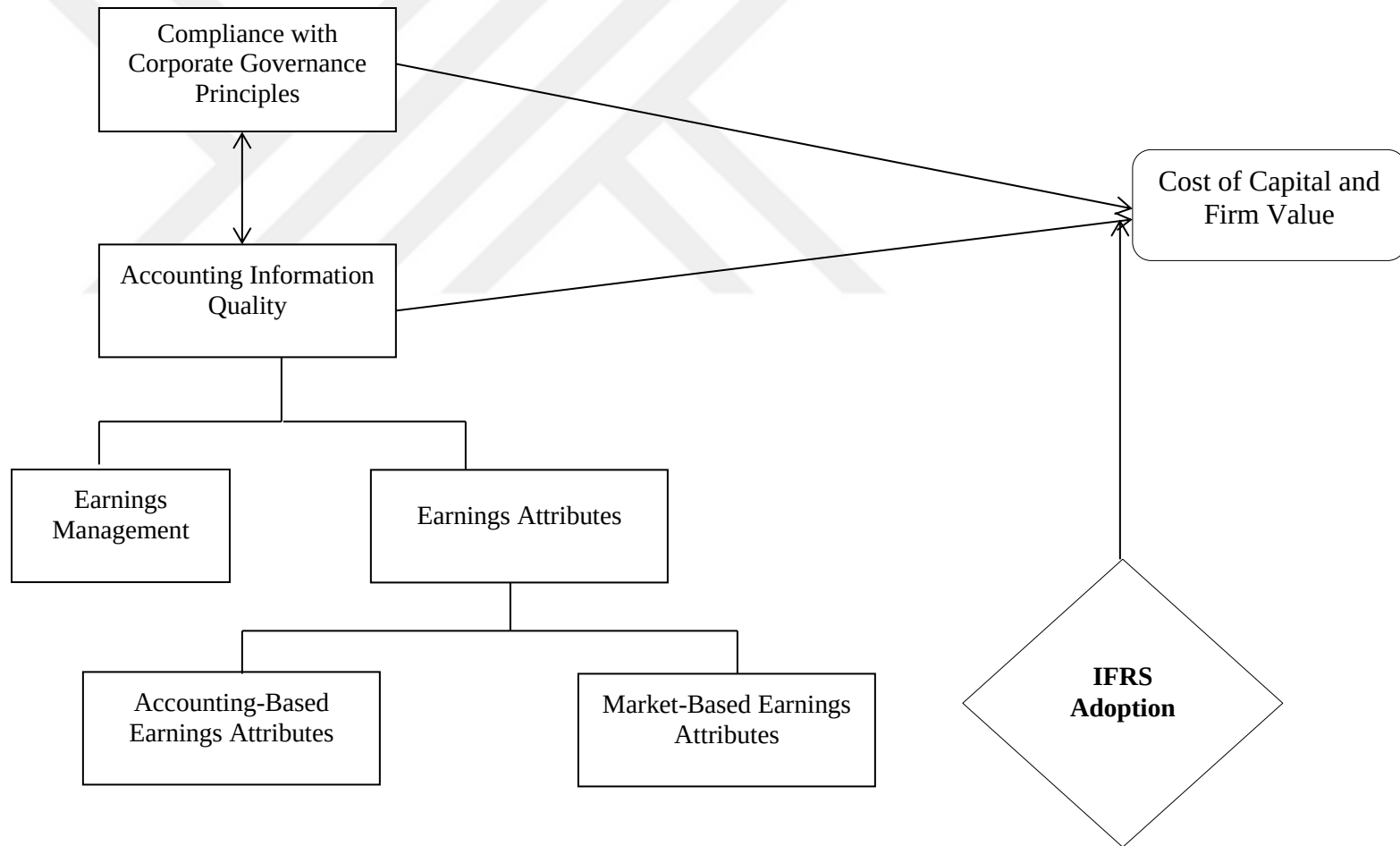


Figure 3.1. The Exhibition of Theoretical Framework

4. RESEARCH METHODOLOGY

4.1. Introduction

This chapter provides a description and explanation of the research methodologies that are necessary to test our developed hypothesis. This methodology builds on a robust theoretical framework, which contains two related domains. The first domain of prior studies examine the effect of IFRS adoption on the quality of financial accounting information; the second domain of previous studies examine the relationship between quality of financial accounting information and cost of capital and related firms' value measures. Our research methodology purported to make integration and a combination of these two research streams and construct a new research model. Besides, this study contains an analysis of the relationship between corporate governance quality, accounting information quality, and cost of capital during the IFRS adoption period. The statistical analyses depend on multiple regression analyses with related measures and parameters. Moreover, this chapter contains detailed information about the used sample and data sources.

This chapter has the following sections: sections 4.2 and 4.3 explain the research approach and strategy, respectively. Section 4.4 presents the used statistical methods and techniques that are necessary for empirical analyses. Section 4.5 shows the types of data sources and sample selection procedures. Section 4.6 explains the study's variables that are necessary to construct the study's models. Section 4.7 presents the empirical models of this study.

4.2. Research Approach

In the research of social sciences research deductive and inductive, we find that there are two methods of scientific inference, and those methods are using to find methods to explain and clarify specific phenomena or problems by checking the relationship of a group of variables with each other. Sekaran and Bougie (2016) refer that the deduction reasoning means starting

from the general to the specific, i.e., studying the general theory and applying it in a specific field, especially testing an existing hypothesis or theory. On the other hand, there is another approach called inductive reasoning that works oppositely, from private to public, by studying a specific phenomenon and then reaching a general conclusion about this phenomenon.

The deductive approach is distinguishing from other research approaches with several advantages: First, the employment of control variables in the statistical model to ensure that the deviation in the independent variable explains any deviation in the dependent variable. Second, this approach relies on quantitative measures by collecting data from the required samples and testing the relationship between the variables adequately to meet the research objectives. (Saunders, Lewis, and Thornhill, 2009). The study's purpose is to investigate the relationship between quality of financial accounting information and both cost of capital and firm value through the adoption of IFRS in the mandatory base; therefore, the deductive approach is a suitable approach to follow to achieve our study objectives.

4.3. Research Strategy

We follow the experimental field research in our research. According to Sekaran and Bougie (2016), research-based on field experiments involves research in a natural environment, with work continuing as usual without the inference of research or creating a contrived environment. However, researchers provide the necessary treatment to one or more members of the sample. Thus, researchers set up control variables in this type of research. But it contains two validity problems: external validity, which denotes the degree of generalizability of the concluded results to other situations and observations. On the other hand, internal validity is the confidence degree that results from the causal relation between dependent and independent variables. In general, field experiment-based studies suffer from external validity with low internal validity (Sekaran and Bougie, 2016).

To deal with validity problems in the experimental research, a broad assessment and analysis of literature that interacts with the effect of IFRS on the accounting quality, and the impact of

the quality of accounting information on the cost of capital and firm value. Consequently, our study is a quantitative experimental study, is designed to examine a relationship between many variables using different statistical techniques, by making use of both market data and accounting numbers. Moreover, this study depends on both cross-sectional, time series as well as panel data to examine the association and correlation between the variables mentioned earlier.

4.4. Statistics Applied in the Empirical Analysis

4.4.1. Use of Panel Data

This study depends on the panel data regression model. Relying on panel data indicates the study of cross-sectional elements of the study over different periods (Gujarati and Porter, 2017). It also called longitudinal data for (n) different entities observed at a different time of (t). This type of data takes account of tracking both entity and period (Stock and Watson, 2015). Therefore, it presents a mix of both time-series and cross-sectional data (Gujarati and Porter, 2017).

Econometric studies classify panel data into two categories. First, if each cross-sectional unit has the same number of time-series observations, this is called balanced panel data. The others, if the number of observations differs among panel units or members, such a panel is called an unbalanced panel (Gujarati and Porter, 2017). Stock and Watson (2015) define balanced and unbalanced data according to whether some observations are missing or not. They define a balanced data as a set of data with all related observations for each entity and period. Whereas, unbalanced panel data contains some missing data for at the levels of both entity and period.

As mentioned in Baltagi (2005), the use of panel data can control the heterogeneity that may cause a risk of obtaining biased results. This type of data is more informative compared with pure time-series and cross-sectional data. Panel data display more variability in the study

variables, more degree of freedom, efficiency, and less collinearity among the employed variables in a particular study (Wooldridge 2016; Baltagi 2005). Depending on panel data is better in examining the dynamic of change (Baltagi 2005; Gujarati and Porter 2009). The better to explore the dynamic of adjustments in panel data adds value to this study to investigate the change in several accounting quality indicators and proxies during the sample period. Panel data can efficiently determine the undetectable factors that may affect a specific investigation. Furthermore, panel data can test the complicated models more efficiently than pure time-series and cross-section data sets (Baltagi 2005; Gujarati and Porter 2017).

4.4.2. Analysis and Investigation Methods:

4.4.2.1. Univariate analysis

Before starting the analysis to test any research hypothesis, it is necessary to understand the collected data; to do so, we use descriptive statistics. Descriptive statistics enable us to describe and compare variables numerically. These statistical tests provide a guide to statistical options by reducing the types of data used. These statistical tests include two aspects. First, the measures of the central tendency, which includes the arithmetic mean, median, and mode. Second, dispersion measures, which describe the amount of dispersion around the mean or the distance from the mean, and include measures of variance, standard deviation, percentile and quartile (Saunders et al., 2009).

The univariate analysis also involves the Difference in Difference (DID) analysis. The primary role of this statistical technique is to estimate the effect of the specific intrusion (which is the mandatory adoption of IFRS) by comparing the change in outcome over time between a sample unit that is applied the system, and that is not (Lechner, 2011). Our study based on panel data between two testing periods. Therefore, it makes use of basic descriptive statistics and DID. Employing DID statistical techniques is necessary to compare the employed measures of accounting quality, cost of capital, firm value, and other related control variables before and after IFRS mandatory adoption.

4.4.2.2. Bivariate analysis

The bivariate analysis contains an examination of the relationships between two variables. This type of study, also called simple regression analysis, is used to examine the effect of a single independent variable on the dependent variable (Newbold, Carlson, and Thorne, 2013). This type of analysis includes the conduction of Spearman and Pearson correlation analysis in the form of the correlation matrix. Moreover, these correlation analyses incorporate a degree of correlation coefficient that empowers us to measure the strength and the direction of the linear relationship between two factors. This coefficient, as a rule, represented by the letter r , can take any value between -1 and 1 (Saunders et al., 2009).

The essential contrast between Pearson and Spearman relationships is the nature of the relationship between dependent and independent variables. Pearson correlation analyzes the linear relationship between two factors, whereas the Spearman correlation examines variables that change together at different rates (Saunders et al., 2009). The correlation matrix gives an extra benefit in examining the multi-collinearity issue Gujarati and Porter (2017) indicate that multicollinearity exists if the coefficient correlation between two variables exceeds 80%.

4.4.2.3. Multivariate analysis

Correlation between variables is not enough to estimate the values of dependent variables and testing the hypotheses. Therefore, regression analysis provides the necessary results that are required to test the hypothesis and achieve the study's objective. Regression analysis scrutinizes the relationship between the dependent variable and independent variables under the existence of known and identifiable variables (Newbold et al., 2013).

In this research study, the multiple regression analysis is the primary tool to test the hypotheses in the three research dimensions. On the other hand, this study derives many of our test variables from other regression models, called autoregressive processes. Brooks (2008) shows this model is one where the current value of a particular dependent variable (y) depends

on only the amount of variable that took in previous periods in addition to the error term (Gujarati and Porter, 2017).

In testing hypotheses, this study depends on an independent sample t-test. This test involves the process of distributing or allocating numerical sample data to two different groups, by relying on descriptive variables to assess the possibility of their difference. And if there is a possibility of a difference between these two groups by chance alone is low, which is indicated by the high value of t (generally over 2.00) with a probability (significant level) less than 0.05. (Saunders et al., 2009). In our study, due to dividing our firm-year observations into two groups before and after IFRS obligatory implementation periods, a t-test is the appropriate measure to be one base of hypothesis testing. In a specific situation, we also depend on a one-way analysis of variance ANOVA with F-ratio. This test tends to assess the difference between three and more groups based on a descriptive variable. These differences are measured by relying on the F ratio, which shows the possibility of any discrepancy between these groups, which occurs only by chance with a level of statistical significance less than 0.05 (Saunders et al., 2009).

4.4.2.3.1. Use of Ordinary Least Squares (OLS)

This study depends on the Ordinary Least Squares (OLS) method with its related estimates to test the developed hypotheses. This strategy has some appealing factual properties that have made it one of the most basic and open methods for regression analysis. (Gujarati and Porter 2017). The OLS estimators select the regression coefficients, so the evaluated regression line has to be as near as conceivable to the observed data; the sum of squared error (SSE) gages this closeness (Stock and Watson 2015). The essential aim of OLS is to select the appropriate measures that lower the whole of squared errors and vital to assess the intercept and slope coefficients (Stock and Watson 2015; Wooldridge 2016). This study uses OLS with its related parameters such as t -statistics and F -statistics to investigate the statistical significance of the estimated coefficients in the developed models.

4.5. Sample and Data

The study sample includes active Palestinian listed firms in Palestine Exchange PEX. By the end of the year 2016, PEX contains 48 listed firms arranged in five sectors: Banks, Industry, Insurance, Investment, and Service sectors. Appendix-3 represents the names of all listed firms in the Palestine Exchange. The study data includes two types of data: First, cross-sectional data, which consists of the value of one or more variables for several sample units, i.e., firms at the same time. Second, time-series data, which means observing the value of one or more variables over a period (Gujarati and Porter, 2017). However, a combination of these two types of data called panel data.

Our sample period starts from the year 2003 to 2016, as the latest year data are available from the database. PCMA recommended applying IFRS from the year 2003 to 2007 among Palestinian listed firms in PEX. However, the mandatory adoption of IFRS has started since 2007. Therefore, we define the years 2003-2007 as the IFRS pre-adoption period and 2008-2016 as IFRS mandatory adoption period. Table 4.1 shows the sample selection procedures.

Table 4.1. Sample selection process

Total Listed Corporation in PSE on December 31, 2016	48 Corporation
Less: Listed corporations after IFRS mandatory adoption	21 Corporation
Sample Firms	27 Corporation
Sample Periods	14 Year
Number of Observations	378 Observation

By 2016 PEX contains 48 listed firms, we select 27 firms to be our study sample, and the sample selection depends on the existence of listed firms in both comparable periods before and after the IFRS mandatory adoption periods. Therefore, we exclude 21 firms from the study sample due to the listing in PEX after IFRS mandatory adoption, the inclusion of these firms will prevent us from comparing our study variables between the two testing periods. After meeting this condition, the final sample consists of 27 firms with 14 years for each selected firm's total 378 firm-year observations. Table 4.2 shows 162 observations in the IAS/IFRS pre-adoption period and 216 observations in the IAS/IFRS adoption period, which means an

unbalanced panel due to the number of observations differs among panel members. Table 4.3 shows the industry classification of the sample. The sample selection process concentrates in manufacturing industries, about 33%, investment and service 14.8% each, banking and financial service about 26%, and insurance 11%.

Table 4.2. Study's observations by period

Period	Frequency	Percent (%)
After IFRS Mandatory Adoption	216	57.1
Before IFRS Mandatory Adoption	162	42.9
Total	378	100.0

Table 4.3. Sample distribution by industry

Industry	Sample Firms	Observations	Percent (%)
Banks	7	98	25.9
Industry	9	126	33.3
Insurance	3	42	11.1
Investment	4	56	14.8
Services	4	56	14.8
Total	27	378	100

The used data to measure the study variables are secondary data. We depend primarily on the firms' annual reports as a base of data collection. It contains a published financial statement with related disclosures and other non-financial information that is necessary to test and apply the study models and detailed statistical analysis. The published annual reports of all listed firms are available on the PEX web site. However, all of these data extend from 2009 to 2016, and we need data from the previous period; to solve this problem, we contacted the PEX headquarter and asked to obtain the required data. They sent all the required data immediately. We use the collected data to calculate the quality of financial accounting information measures and other related variables. These data include total assets, total liabilities, total equity, current assets, current liabilities, cash, receivables, property, plant and equipment, number of outstanding ordinary shares, net revenue, net income, depreciation, interest, operating cash flow, stock prices and earnings per share. On the other hand, we also collected non-financial

information, including audit firm type, corporate governance information, and additional related information. We also obtained the trading data of sampled firms such as shares price, price-earnings ratio, and index value directly from the PEX website.

4.6. Variables Definition and Measurement

4.6.1. Primary Variable Definition and Measurement

4.6.1.1. Measures of accounting quality

Accounting quality is a multi-dimensional concept which contains many measures of that concept. This concept primarily measured in various studies such as Francis et al. (2004) and Barth et al. (2008). The following proxies are used in this study to measure the quality of accounting information:

- Earning Management Proxy
 - Absolute-Discretionary Accruals
- Earnings Attributes Proxies
 - Accounting-Based Earnings Attributes
 - Accrual Quality
 - Persistence of Earnings
 - Earnings Predictability
 - Smoothness
 - Market-Based Earnings Attributes
 - Value Relevance
 - Timeliness and Conservatism

4.6.1.1.1. Earning management proxies

4.6.1.1.1.1. Discretionary accruals

Traditionally and in many research papers, discretionary accruals, also called the cross-sectional Jones model, is estimated to be a measure of earnings management and the overall accounting information quality. Following Chen et al. (2010), Sun et al. (2011), Iatridis (2010), and Liu and Sun (2015), the residuals of the following regression model are the discretionary accruals:

$$\frac{TAC_{it}}{TA_{t-1}} = \alpha_0 \left(\frac{1}{TA_{t-1}} \right) + \alpha_1 \frac{\Delta R_{it}}{TA_{t-1}} + \alpha_2 \frac{PPE_{it}}{TA_{t-1}} + \alpha_3 ROA_{it} + \varepsilon_{it} \quad (4.1)$$

Where for firm i year t , TAC_{it} is total accruals scaled by total assets, which equals the difference between net income and operating cash flow. A_{t-1} is total assets in year $t-1$, ΔR_{it} is the change in revenue in year t scaled by total assets, PPE_{it} is the plant or fixed assets in year t scaled by lagged total assets, and ROA_{it} is the return on total assets. After estimating parameters in equation (4.1), we calculate the absolute residual values to find discretionary accruals (DAC). A lower amount of discretionary accruals means fewer attitudes toward earnings management and higher quality of earnings.

4.6.1.1.2. Earnings attributes proxies

4.6.1.1.2.1. Accounting- Based earning attributes

1. Accrual Quality

This measure based on Dechow and Dichev's (2002) model, which makes a linkage between current accruals and previous, current, and future operating cash flow (Francis et al., 2004).

Accrual quality (AccQual) is the standard deviation of the residual from the following regression model:

$$TCA_{it} = \alpha_0 + \alpha_1 CFO_{it-1} + \alpha_2 CFO_{it} + \alpha_3 CFO_{it+1} + \varepsilon_{it} \quad (4.1)$$

Where TCA_{it} is the total current accruals scaled by lagged total assets for firm i year t , the following formula has used to calculate TCA_{it} :

$$TCA_{it} = (\Delta CA_{it} - \Delta CL_{it} - \Delta Cash + \Delta STD) / Assets_{t+1}$$

Where ΔCA_{it} is the change in current assets for firm i year t ; ΔCL_{it} is the change in current liability for firm i year t ; $\Delta Cash$ is the change in cash for firm i year t ; ΔSTD is the change in short-term debts in current liabilities for firm i year t ; $Assets_{t-1}$ is the total assets for firm i year $t-1$. $CFO_{t,t-1,t+1}$ is operating cash flow scaled by lagged total assets for firm i in years t , $t-1$, and $t+1$. Accrual quality (AccQual) $= \sigma(\varepsilon_{it})$ is the standard deviation of the firm's i residuals. We computed it over rolling five-year windows on an annual cross-sectional basis.

2. Earning Persistence

Following Francis et al. (2004) and Eliwa, Haslam, and Abraham (2016), this measure refers to the sustainability of earnings. It represents the slope of the coefficient from the following autoregressive model:

$$E_{it} = \mu_{0i} + \mu_{1i} E_{it-1} + v_{it} \quad (4.2)$$

Where E_{it} is earnings per share for firm i year t ; E_{it-1} is earnings per share for firm i year $t-1$. For each firm-year, we have estimated the equation (4.3) over rolling five years window. A

firm with a higher value of $\mu_{1,i}$ is related to higher persistence and hence higher quality of earnings. To confirm this variable to our order, we use the negative $\mu_{1,i}$, so $PERS = -\mu_{1,i}$.

3. Earnings Predictability

Predictability is the square root of the estimated error variance in Equation (4.3).

$$PRED = \sqrt{\sigma^2(v_{it})} \quad (4.3)$$

The higher (lower) PRED indicates a lower (higher) of predictability; hence, lower (higher) earnings quality (Eliwa et al., 2016).

4. Earnings Smoothness

It is a standard deviation of net income over the standard deviation of operating cash flows. Similar to previous earning attributes measures; we computed the standard deviation of net income and operating cash flows over five-year windows as a following:

$$SMOOTH = \frac{\sigma NI_{it}}{\sigma CFO_{it}} \quad (4.4)$$

Where σNI_{it} is the standard deviation of net income, σCFO_{it} is the standard deviation of operating cash flows. We compute these two indicators over rolling five-year windows on an annual cross-sectional basis. Lagged total assets scale the net income and cash flows from operating. A more considerable (smaller) value of SMOTH indicates lower (higher) earnings smoothing.

4.6.1.1.2.2. Market- Based earning attributes

1. Value Relevance

Value relevance proxy is measured using the price model. The measure refers to the explanatory power of the following regression model:

$$P_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 BVS_{it} + \varepsilon_{it} \quad (4.5)$$

Where P_{it} is the ordinary shares' market price for firm i year t ; E_{it} is earnings per share for firm i year t ; BVS_{it} is book value per share for firm i year t (Barth et al., 2008). We estimate the above equation for each firm over rolling five-year windows. Similar to the previous measures, we take the negative value of R^2 from Equation (4.6).

$$VR = - R^2$$

The larger (smaller) value of VR implies less (high) value relevance, hence high (less) earnings quality.

2. Conservatism and Timeliness

The measure of timeliness and conservatism are deriving from the following regression model:

$$EARN_{it} = \beta_0 + \beta_1 RET_{it} + \beta_2 NEG_{it} + \beta_3 RET_{it} \bullet NEG_{it} + \varepsilon_{it} \quad (4.6)$$

Where $EARN_{it}$ is net income scaled by total assets for firm i year t ; RET_{it} is a return on invested capital for firm i year t ; NEG_{it} is a dummy variable, which equals one if RET less

than 0 and otherwise 0. We estimate Equation (4.7) over a rolling five-year window (Francis et al., 2004).

$$\text{Time} = -R^2$$

$$\text{CONSER} = -(\beta_{1i} + \beta_{3i}) / \beta_{1i}$$

As stated above, our measures of earning attributes derived from other autoregressive models using rolling five-year windows. We calculate all of these measures using SPSS and Microsoft Excel. As a general rule for both accounting and market-based earnings attributes, the increase in these measures demonstrates low accounting information quality; the decline in these measures demonstrates high accounting information quality.

4.6.1.2. Cost of capital and firm value measurement

The primary objective of measuring the cost of capital is to investigate the investor pricing decisions of poor accounting information quality. We use the Earning-price ratio measure of the cost of equity capital. Besides, we depend on Tobin's Q as a measure of the firm value. The developed models use these measures as a dependent variable to test the second and third hypotheses in the statistical models 9 and 10.

1. Earning-Price Ratios (EPInd)

The origin of this ratio is the price-multiple, also called the price-earnings ratio (P/E), which represents the investor's ability to pay to obtain one dollar of profits. (Gibson, 2013). A higher P/E implies a lower cost of capital (Francis et al., 2005). Most of the prior literature shows the P/E ratio as an inverse indicator, which means the earning-price ratio (E/P). Many academic works of literature use the earning-price ratio as a proxy of the cost of capital. Furthermore, the calculation of E/P is necessary to match firms with industry growth and risk factors (Eliwa et al., 2016).

Following (Francis et al. 2005; Gray et al. 2009); Eliwa, Haslam, and Abraham 2016), EPInd is calculated in three steps as a follow:

- Compute the median of earnings- price for firms with positive income in year t.
- Compute firm i's EP ratio in year t.
- Then, determine EPInd as a difference between the earnings- price ratio of the firm and the median value of the EP ratio of the industry sector of the firm that has a place within that year.

2. Firm Valuation Measure (Tobin's Q)

Several prior studies use Tobin's Q as a proxy of firm value. Daske et al. (2008) employ this measure for the firm's equity valuation, and they measure it as the market-to-book ratio of the total assets. They describe Tobin's Q as a market valuation premium measure; it is a ratio of market value to the replacement value of the firm's assets. This indicator measures the market value of the company in the long run by assessing the economic returns resulting from the optimal use of the company's assets. To obtain a positive indicator for this measure, we must obtain a value higher than one, which indicates efficiency in using the company's assets (Gaio and Raposo, 2011). Due to data availability and the difficulty in estimating the market value of debts and replacement cost, we adopt the following formula:

$$(BVA_{it} + MVE_{it} - BVE_{it}) / BVA_{it}$$

Where BVA_{it} is the book value of total assets of firm i year t; MVE_{it} is the market value of the outstanding ordinary shares.

4.6.1.3. IFRS adoption (ADOP):

It is the IFRS mandatory adoption variable (Chen et al. 2010; Ahmed et al. 2013; Hwang, Hur, and Kang 2018). ADOP is a dummy variable that equals one for observations in the IFRS

mandatory adoption period (i.e., 2008-2016), and zero for observation in the pre-mandatory adoption period of IFRS (i.e., 2003-2007).

4.6.1.4. Corporate governance quality measures

1. Code of Corporate Governance (GOVCOD)

This variable represents the adoption and application of the code of corporate governance in Palestine. It can be expressed as a dummy variable that equals one for observations in the code of corporate governance adoption period (i.e., 2010-2016), and zero otherwise or for observations before the adoption and application of the code of corporate governance.

2. Multi-Segment (MultiSeg)

Demirkan et al. (2012) expected that multi-branch companies suffer from the agency problem more than single-branch companies. In this study, this variable is measured by a dummy variable, which takes a value of one of the firms having more than one branch and otherwise zero. Single-branch firms have a value of zero, while multiple-branch firms have a value of one.

3. The Insiders Ownership Interest (CLOSE)

The previous studies used this variable as a control variable such as Chen et al. (2010), Gaio and Raposo (2011), and Brochet et al. (2013). This study uses the (CLOSE) variable as a primary measure of corporate governance quality, which indicates the percentage of a firm's ordinary shares that are closely held by the insiders. We define the insiders as management members with their relatives.

4. Leadership (Lead)

One of the primary principles of corporate governance is to have separate roles of board chair and CEO (CEO Duality). The measurement of this variable is a dummy variable that equals one if the board chairman and CEO is a different person and zero otherwise.

4.6.2. Control Variables Definition and Measurement

The existence of control variables is necessary to enhance the understanding of the study models. This section explains all the related control variables with the reasons behind their usage in the study's constructed models. There are two functions of these variables, first, to describe the levels of variation in the dependent variable. Second, to reduce the amount of bias when applying the standard multiple regression analysis. (Wooldridge, 2016).

1. Firm Size (SZ)

Most of the previous research studies select the firm's size as a control variable in investigating the IFRS effect on accounting quality, cost of capital, and firm valuation. However, the size variable is measured using different methods. Li and Yang (2016), and Zhang and Wilson (2018) use the natural logarithm of the market value of equity as a measure of firm size. On the other hand, other studies as Dakhlaoui et al. (2017), Almaharmeh and Masa'deh (2018), and Xing and Yan (2019) use the natural logarithm of firm's total assets as a proxy of firm's size. However, many studies take a natural logarithm of sales as a measure of a firm's size, such as Chen et al. (2010) and Sun et al. (2011). Due to most of the accounting qualities measures are determined using earnings components, this study builds on the assumption that net sales revenue exhibits the most reliable firm's size. Therefore, we use the natural logarithm of a firm's net sales in year t as a measure of the firm's size.

2. Growth (G)

Following Lin, Riccardi, and Wang (2012), Houque et al. (2016), and Almaharmeh and Masa'deh (2018), the growth variable is measured using the percentage change in revenue between two periods. Other studies use the log of one plus the firm's growth in book value of equity as a measure of growth such as Francis et al. (2004), Gray et al. (2009), and Eliwa, Haslam, and Abraham (2016). However, the change in revenue related to earning and profit. Thus, to be consistent with other earning related variables, the difference in net sales revenue as a measure of growth is relevant to be a control variable of this study's models.

3. Total Assets Turnover (ATO)

Total assets turnover measures the activity or the degree of efficient use of assets and its ability to generate sales (Gibson, 2013). Total assets turnover is computed by dividing net sales by average total assets. By definition, this indicator is closely related to earning because the use up of assets called expense, and this expense is necessary to create revenue according to matching principle in accounting (Kieso et al., 2014). Therefore, many studies use this variable as a control variable in their statistical models such as Ahmed et al. (2013), Li and Yang (2016), Zhang and Wilson (2018), Houque et al. (2016). Due to the importance of turnover and its relation with sales and earnings components, this study employs total assets turnover as a control variable.

4. Leverage (D/A)

The concept 'Leverage' means the use of debt in financing function (Gibson, 2013). The degree of financial leverage of the firm could influence the attitude toward reporting of earnings and affect earnings quality. Firms with a high degree of financial leverage have the attitude to manage earnings toward a target (Chen et al., 2010). Many prior studies use debt to equity ratio as a control variable such as Li and Yang (2016), Da Silva and Nardi (2017), and Zhang and Wilson 2018). On the other hand, some studies use a debt ratio (total liabilities to total assets) as a measure of leverage such as Dakhlaoui et al. (2017), Almaharmeh and Masa'deh (2018), and Xing and Yan (2019). This study incorporates leverage as a total

liability to total assets (Debt Ratio) to control for debts' effect in accounting quality with its relation with IFRS adoption.

5. Change in Liabilities ($\Delta LIAB$) and Change in Equity (ΔEQ)

These indicators also related to leverage and firms' capital structure decisions. The increase in liabilities, a decrease in equity financing leads to more leverage and more risk, especially default risk. Therefore, the capital structure decision and the financing attitude influence the choice of management in earnings reporting and earning quality. Many studies use these variables as control variables like Sun et al. (2011), and Liu and Sun (2015).

6. Operating Cash Flows (CFO)

The operating cash flow is cash that results from the firm's central and core operations; it includes the cash effect of transactions that create revenue and expense or the determination of net income (Weygandt et al. 2014). Cash flow from operating activities represents a reconciliation to convert net income to net cash flow or from accrual to cash base accounting (Gibson, 2013). Consistent with studies Houque et al. (2016), and Da Silva and Nardi (2017), this study determines operating cash flow lagged by total assets as a control variable.

7. Audit Firm (B4)

This control variable is measured using dummy variable, equals one if the audit firm from one of the big four auditors (Ernest and Young, KPMG, Deloitte Touche Tohmatsu, and Pricewaterhouse Coopers) and zero otherwise. Big four audit firms, due to their size and expertise, are more likely to provide high-quality auditing and other attestation services. Thus, firms that use big four auditors are assumed to report higher quality accounting information than those depend on non-big four audit firms. Barth et al. (2008) and Chen et al. (2010) use this measure as a control variable in their model. Furthermore, we use this variable as a primary measure of corporate governance quality.

8. Price to Book Ratio (PB)

It is a ratio to evaluate a company's market value relative to its book value. The market value is the current shares price; the book value per share is the company's net assets or equity per share. This ratio presents an expectation of a high return on equity (Gibson, 2013). The primary motive to use this ratio is its closeness to firm valuation, and the objective of many firms is to enhance its return on equity by increasing the P/B ratio. In prior studies such as Xing and Yan (2019) use this ratio as a control variable of the relationship between accounting information quality and systematic risk.

4.7. Empirical Models for Hypotheses Testing

The test of the constructed hypotheses and the answer to the developed questions depend on the empirical models, which contain three aspects. First, the IFRS mandatory adoption impact on the quality of accounting; second, the effect of accounting quality on the cost of capital and firm value during IFRS mandatory adoption period; third, the corporate governance effects on the accounting information quality and cost of capital during the compulsory adoption of IFRS. To test the developed hypotheses, we employ univariate, bivariate, and multivariate analyses. This study employs univariate analysis to enhance the understanding of the general trend of data set and to create clear and efficient descriptive statistics. It also uses the bivariate analysis via Spearman and Pearson correlation using a correlation matrix to understand the correlation between the study's main variables and control variables. This study tests the developed hypotheses based on the multivariate regression analysis with related OLS statistical parameters. We undertake these analyses using IBM SPSS Statistics 20.

4.7.1. First Empirical Model

Accounting Information Quality under the IFRS Mandatory Adoption

To test the study's first hypothesis (H_1) that states: the adoption of IFRS significantly affects accounting information quality. Based on the definition of earning attributes, we construct a multiple regression model expressed in Equation (4.8) to investigate the relationship between IFRS mandatory adoption and earnings attribute measures. We estimate this model for each earning attribute:

$$\begin{aligned}
 &AQProxy_{it}^k \in \left\{ AbsDAAC, AccQual, PERS, PRED, SMOTH, \right. \\
 &\quad \left. ValRel, TimeLin, CONSER \right\} \\
 &AQProxy_{it}^k = \beta_0 + \beta_1 ADOP_{it} + \beta_2 SZ_{it} + \beta_3 G_{it} + \beta_4 \Delta EQ_{it} + \beta_5 \Delta LIAB_{it} \\
 &\quad + \beta_6 ATO_{it} + \beta_7 CFO_{it} + \beta_8 B4_{it} + \varepsilon_{it}
 \end{aligned} \tag{4.7}$$

Where $AQProxy_{it}^k$ is the proxy of accounting quality measures, the equations (4.1) through (4.7) represent the measurement of these proxies. $ADOP_{it}$ is a dummy variable for firm i year t has one value for observations in IFRS mandatory adoption period (2008-2016), and zero otherwise. SZ_{it} is the firm size variable, which is the natural logarithm of total assets for firm i year t . G_{it} is the annual change in sales value for firm i year t , ΔEQ_{it} is the change in total equity for firm i year t , $\Delta LIAB_{it}$ is the change in total liabilities for firm i year t , ATO_{it} is the total assets turnover for firm i year t , CFO_{it} is the cash flow from operating activities for firm i year t , and $B4_{it}$ is a dummy variable has one value if the sample firm in year t uses one of the big four audit firms, and zero otherwise.

The primary interest in this model is $ADOP_{it}$, a significant negative coefficient on $ADOP_{it}$ designates that firms have lower earning attributes proxies in the IFRS mandatory adoption period, which indicates higher accounting information quality.

To test the robustness of the regression model (8), we retest the value relevance, predictability, and persistence proxies using the different methods; by examining it two times independently before and after the mandatory adoption of IFRS.

4.7.2. Second Empirical Model

Effect of Accounting Quality on Cost of Capital and Firm Valuation in the IFRS Mandatory Adoption Period.

This model illustrates the effect of the quality of financial accounting information on the cost of capital and firm valuation in the IFRS mandatory adoption period. This model answers the following question: To what extent the quality of accounting information does affect the cost of equity capital and the firm's value under the mandatory adoption of IFRS among Palestinian listed firms. Moreover, the developed model in this section tests our study's second and third hypothesis (H₂ and H₃). The following multiple regression models check the following: First, the relationship between quality of accounting information and cost of equity; Second, the impact of accounting information quality on the cost of equity capital during the mandatory adoption of IFRS.

$$EPInd_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQPr oxy_{it}^k + \beta_3 AQPr oxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 LEV_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_9 PB_{it} + \varepsilon_{it} \quad (4.8)$$

Where: $EPInd$ is the industry adjusted earning price ratio EP , for firm i year t ; PB_{it} is the market value of ordinary shares to the book value per share for firm i year t .

On the other hand, we retest the regression equation (4.9) as a robustness test by employing a beta indicator as a different proxy of the cost of equity capital. Beta is the result of regressing

the percentage change in the firm's share price and the percentage change in the overall share market (in our case Al-Quds Index) over 5-year rolling data.

Regarding firm value, the following regression model is used to investigate the effect of the quality of financial accounting information on a firm's value under the adoption of IFRS.

$$Q_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 LEV_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_9 PB_{it} + \varepsilon_{it} \quad (4.9)$$

Where Q is a firm's Tobin's Q, in the Equations (4.9), the expected relationship between the cost of equity capital measures (EPInd) and the quality of accounting information AQProxy (the eight accounting and market-based earnings attributes) is positive. The higher the level of these proxies, which means the low quality of accounting information and, thus, the higher cost of equity capital. However, the adoption of IFRS presents an opportunity to reduce the level of earning management activities, consistent with the vision of a comprehensive set of high-quality principal based accounting standards, hindering such practices (Da Silva and Nardi 2017). Therefore, in Equations (4.9), coefficient β_2 is expected to be positive. It implies a positive relationship between accounting quality proxies and the cost of equity capital.

On the other hand, β_3 in these equations, which is our primary interest here is an interaction variable (AQProxy*ADOP) between each proxy of accounting information quality and IFRS adoption variable (ADOP). We expect β_3 to be negative, showing that the level of accounting information quality proxies is lower in the IFRS mandatory adoption period as an indicator of a higher quality of accounting information. In this sense, we expect that β_2 would be higher than $\beta_2 + \beta_3$, revealing that the full mandatory adoption of IFRS impacting the cost of equity capital negatively. Statistically speaking, the interaction in our models indicating by how much the slope coefficient of the IFRS mandatory adoption period differs from that of in pre-adoption period (Gujarati and Porter, 2017).

Regarding Equation (4.10), it represents the expected relationship between Tobin's Q as a measure of a firm's value and quality of accounting information under the IFRS mandatory adoption period. We expect a negative correlation between the firm value measure and the quality of accounting information. Due to the higher level of accounting quality proxies (low accounting information quality), the lower the firm value because of the higher cost of equity capital, as indicated above in Equations (4.9). However, the mandatory adoption of IFRS enhances the quality of accounting information quality by reducing the accounting quality proxies, which will lead to higher firm value during the IFRS mandatory adoption period. Therefore, in Equation (4.10), β_2 is expected to be negative. In contrast, β_3 , which is an interaction variable between accounting quality proxies and IFRS mandatory adoption, is expected to be positive—revealing; that the level of accounting quality proxies is higher with the IFRS mandatory adoption period. Implying, it is likely that β_2 will be lower than $\beta_2 + \beta_3$, showing that the mandatory adoption of IFRS period has a positive effect on the firm value.

To test the robustness of the regression equation (4.10), we use the market value of ordinary shares as a proxy of the firm value. It represents the closing market value on December 31, for firm i year t . The data for market value can be extracted directly from the (PEX) web site.

4.7.3. Third Empirical Model

IFRS Adoption and Corporate Governance Quality

This section investigates the effect of corporate governance quality on the accounting information quality and cost of equity capital under the adoption of IFRS. We develop the following two regression models to test the above-explained association as a testing of the fourth hypothesis (H_4):

$$\begin{aligned}
DAC_{it} = & \beta_0 + \beta_1 ADOP_{it} + \beta_2 GOVCOD_{it} + \beta_3 ADOP_{it} * GOVCOD_{it} + \beta_4 LED_{it} + \beta_5 ADOP_{it} * LED_{it} \\
& + \beta_6 MSEG_{it} + \beta_7 ADOP_{it} * MSEG_{it} + \beta_8 CLOSE_{it} + \beta_9 ADOP_{it} * CLOSE_{it} + \beta_{10} B4_{it} + \\
& \beta_{11} ADOP_{it} * B4_{it} + \beta_{12} SZ_{it} + \beta_{13} ATO_{it} + \beta_{14} CFO_{it}
\end{aligned} \quad (4.11)$$

$$\begin{aligned}
P_{it} = & \beta_0 + \beta_1 ADOP_{it} + \beta_2 GOVCOD_{it} + \beta_3 ADOP_{it} * GOVCOD_{it} + \beta_4 LED_{it} + \beta_5 ADOP_{it} * LED_{it} \\
& + \beta_6 MSEG_{it} + \beta_7 ADOP_{it} * MSEG_{it} + \beta_8 CLOSE_{it} + \beta_9 ADOP_{it} * CLOSE_{it} + \beta_{10} B4_{it} + \\
& \beta_{11} ADOP_{it} * B4_{it} + \beta_{12} SZ_{it} + \beta_{13} ATO_{it} + \beta_{14} CFO_{it}
\end{aligned} \quad (4.12)$$

Where GOVCOD_{it} is variable for the adoption of code of corporate governance, it's a dummy variable equals one for the observations after applying this code (2010-2016) and otherwise 0. LED_{it} is a leadership variable; it is a dummy variable equals one for a firm has chairman and CEO in different positions and 0 otherwise. MSEG_{it} is multiple segment firms; it is a dummy variable equals one if the firm has more than one segment in year t and otherwise 0; CLOSE_{it} is the percentage of insider (firms' management and their relatives) share in a firm.

Equation (4.11) investigates a relationship between corporate governance quality and discretionary accrual as an indicator of the quality of accounting information under the mandatory adoption of IFRS. On the other hand, Equation (4.12) investigates the effect of similar factors on the firm value, using the market value of ordinary shares. In the previous analysis, we have used a different measure of accounting information quality. In this analysis, we select just the discretionary accruals to be the dependent variable in equation (4.11).

Our primary interest in this section is the use of interaction variables in equation (4.11) and (4.12); GOVCOD_{it}*ADOP_{it} represents a differential effect of discretionary accrual and ordinary shares price after the adoption of code of corporate governance and the mandatory adoption of IFRS. MultiSeg_{it}*ADOP_{it} represents a differential effect of discretionary accrual and ordinary shares price in multiple segment firms in the IFRS mandatory adoption period. Lead_{it}*ADOP_{it} represents a differential effect of discretionary accrual, and ordinary shares price in firms have a chairman and CEO in different positions in the mandatory IFRS adoption period. CLOSE_{it}*ADOP_{it} represents a different effect of discretionary accrual and ordinary

shares price after the adoption period for a level of insider ownership interest. $B4_{it} * ADOP_{it}$ represents a different effect of discretionary accrual and ordinary shares price after the IFRS mandatory adoption period for firms that are audited by big four. To test the robustness of the regression model (4.11), we use the predictability measure as a different measure of accounting information quality.



5. EMPIRICAL RESULTS

This section provides answers to the research questions and shreds of evidence to test the research hypotheses. It contains three research dimensions. The first dimension investigates and tests the first hypothesis, which focuses on examining the effect of the mandatory application of IFRS on the quality of accounting information. The second dimension tests the second and third hypotheses by measuring the impact of accounting information quality on the cost of capital and firm value in light of IFRS mandatory adoption. The third dimension tests the fourth hypothesis by examining the effect of corporate governance quality on accounting information quality and the firm value under the adoption of IFRS.

5.1. Testing the First Hypothesis

The operational definition of the accounting information quality concept based on earnings management and earnings attributes measures. This section includes the necessary statistical analysis to test the first hypothesis, which states: **The adoption of IFRS significantly affects financial accounting information quality.**

5.1.1. Empirical Results Related to Earning Management Measures

5.1.1.1. Descriptive statistics

Table 5.1 provides a summary of the descriptive statistics of the earnings management measure and the related control variable. Our test variables are IFRS mandatory adoption (ADOP) and the absolute discretionary accruals (DAC). Control Variables are firm's size (SZ), sales growth (G), change in equity (Δ EQ), change in liabilities (Δ LIAB), financial leverage (D/A), total assets turnover (ATO), operating cash flow (CFO), and type of audit firm (B4). The mean value of our test variables is positive; (ADOP) shows 0.62 of firm-year observation in the IFRS mandatory adoption period. The mean values of DAC are 0.071.

Table 5.1. Descriptive statistics for all firm-year observations

Variable	N	Mean	Std. Dev.	Lower Percentile (P25)	Median	Upper Percentile (P75)
ADOP	351	0.62	0.487	0.00	1.00	1.00
DAC	349	0.0717	0.0902	0.01	0.04	0.10
SZ	368	7.6313	0.78881	7.0144	7.5718	8.2664
G	341	0.6641	4.84871	-0.0155	0.1148	0.3125
Δ EQ	341	0.0887	0.31052	0.000	0.000	0.0192
Δ LIAB	341	0.2916	1.25293	-0.0530	0.0984	0.2882
D/A	348	0.4146	0.27024	0.1931	0.3368	0.6628
ATO	341	0.3616	0.43915	0.0489	0.221	0.543
CFO	341	0.0614	0.21065	-0.0053	0.0405	0.1020
B4	348	0.6810	0.46675	0.000	1.00	1.00

Regarding control variables, the mean value of SZ 7.63; G for all sample firms is 0.66; Δ EQ and Δ LIAB are 0.29 and 0.41, respectively. Moreover, the mean value of D/A is 0.41; ATO and CFO are 0.36 and 0.06, respectively; big four auditors 0.68 of our sample firms.

Table 5.2 exhibits descriptive statistics for earnings management measures after and before IFRS mandatory adoption. Besides, the last two columns represent the t-test and Wilcoxon-Mann-Whitney test, which is necessary for examining the differences in mean and median between test and control variables of the two testing periods. The mean and median of DAC are 0.095 and 0.045, respectively, in IFRS pre-mandatory adoption period and 0.064 and 0.04, respectively, for IFRS mandatory adoption period. In this measure, the results of both t-test and Wilcoxon-Mann-Whitney values show a significant and material difference within the two testing periods. It implies less engagement in earning management in IFRS mandatory adoption period.

Table 5.2. Descriptive statistics for earnings management measures

Variables	Pre-adoption Period			Adoption Period			t-test	Wilcoxon Test
	Mean	Median	St. Dev	Mean	Median	St. Dev		
DAC	0.0958	0.0450	0.1159	0.0640	0.0400	0.0657	3.126***	2.25**
SZ	7.559	7.492	0.74016	7.732	7.659	0.81904	-2.57**	-2.63***
G	1.562	0.119	9.59263	0.238	0.082	1.30460	2.141**	3.23***
Δ EQ	0.169	0.000	0.47719	0.038	0.000	0.15869	3.997**	5.52***
Δ LIAB	0.3743	0.1194	1.62009	0.2026	0.0754	1.08054	1.731	1.82*
D/A	0.392	0.299	0.267	0.42	0.348	0.271	0.0571	1.43
ATO	0.3390	0.2206	0.41962	0.3605	0.2206	0.40316	-0.57	-0.43
CFO	0.0662	0.0608	0.12632	0.0470	0.0318	0.10102	1.19	1.17*
B4	0.530	1.000	0.50216	0.777	1.000	.41671	-5.12**	-4.95***

***, **, and * denote significance at 1%, 5% and 10% level

However, Regarding control variables, the result shows that both SZ and B4 after the adoption period are higher than those before the IFRS mandatory adoption period. At the same time, t-test and Wilcoxon-Mann-Whitney statistical measures propose a substantial difference in these variables between the two testing periods. On the other hand, G and Δ EQ after the adoption of IFRS mandatorily are lower than those in IFRS pre-adoption period. Implying firms with big four auditors audit large size, lower growth, less equity issuing during the IFRS adoption period. Other control variables do not have significant differences between the two testing periods.

5.1.1.2. Bivariate analysis

Table 5.3 represents a matrix of the correlation between ADOP and both test variables and control variables. The above diagonal represents Pearson's correlations; the below diagonal represents Spearman correlations. This analysis concentrates on the relationship between earnings management metric (absolute discretionary accruals) and ADOP. DAC shows a

significant and negative correlation with ADOP, which means lower discretionary accruals and higher quality of earnings during the mandatory adoption of IFRS. In Pearson correlation, DAC correlates positively and significantly with G, ΔEQ , and ATO, negatively correlated with B4. In Spearman correlation, DAC shows a significant and positive correlation with SZ, G, and ATO. The correlation matrix in Table 5.4 also infers that there is no variable has a correlation coefficient over 80%. Therefore, this result suggests no multi-collinearity.

Table 5.3. Pearson and Spearman correlation coefficient

	ADOP	DAC	SZ	G	ΔEQ	$\Delta LIAB$	ATO	CFO	B4	D/A
ADOP	1.000	-0.17***	0.137***	-0.116**	-0.212***	-0.094*	-0.003	-0.090	0.266***	0.064
		0.002	0.010	0.033	.000	0.084	0.954	0.097	0.000	0.235
DAC	-0.125***	1.00	0.027	0.225***	0.114**	0.040	0.174***	0.214***	-0.095*	-0.032
		0.024	0.615	0.000	0.044	0.477	0.002	0.000	0.090	0.573
SZ	0.141***	0.119***	1.000	0.013**	0.049	-0.067	-0.314***	0.026	0.262***	0.545***
		0.008	0.028	0.806	0.362	0.216	0.000	0.628	0.000	0.000
G	-0.175***	0.107*	0.125**	1.000	0.445***	0.008	0.010	0.116**	0.048	-0.044
		0.001	0.058	0.021	0.000	0.888	0.853	0.032	0.381	0.417
ΔEQ	-0.301***	0.019	0.216***	0.194***	1.000	-0.002	-0.042	0.010	0.020	-0.014
		0.000	0.736	0.000	0.000	0.970	0.437	0.850	0.720	0.802
$\Delta LIAB$	-0.098	0.082	0.109**	0.266***	0.149***	1.000	0.099	0.061	-0.089	-0.006
		0.069	0.148	0.043	0.000	0.006	0.69	0.259	0.101	0.917
ATO	0.023	0.131**	-0.391**	0.050	-0.258**	-0.006	1.000	0.495***	-0.201***	-0.25***
		0.668	0.020	0.000	0.360	0.000	0.914	.000	0.000	0.000
CFO	-0.090*	0.062	0.048	-0.015	-0.080	-0.035	0.297***	1.000	0.020	-0.052
		0.096	0.275	0.376	0.783	0.143	0.521	0.000	0.716	0.334
B4	0.266***	-0.087	0.246***	-0.024	0.051	-0.038	-0.106*	-0.011	1.000	-0.131**
		0.000	0.121	0.000	0.655	0.347	0.482	0.051	0.845	0.014
D/A	0.077	0.059	0.567***	0.083	0.131**	0.154***	-0.353***	0.013	-0.148***	1.000
		0.152	0.295	0.000	0.124	0.016	0.004	0.000	0.814	0.006

***, **, and * denote significance at 1%, 5% and 10% level

5.1.1.3. Multiple regression analysis

5.1.1.3.1. The effect of IFRS adoption on the discretionary accruals

Table 5.4 introduces the regression analysis of the absolute discretionary accruals and ADOP, with related control variables. DAC has a coefficient -0.172 and t-value -3.12. This result provides proof of previous results in the previous analysis of the decline in DAC upon the application of IFRS mandatorily. Suggesting; decline in earnings management and

manipulation activities due to the adoption of IFRS. Regarding control variables, G, ATO, and CFO variables have a significant positive relationship with DAC. However, other control variables have an insignificant relationship with that variable.

Table 5.4. Regression results on the effect of IFRS adoption on discretionary accruals

$DAC_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 SZ_{it} + \beta_3 G_{it} + \beta_4 \Delta EQ_{it} + \beta_5 \Delta LIAB_{it} + \beta_6 ATO_{it} + \beta_7 CFO_{it} + \beta_8 B4_{it} + \varepsilon_{it}$				
Variables	Coefficients	Standard Error	t-stat	Sig.
ADOP	-0.17***	-0.15	-3.12***	0.002
SZ	0.081	1.389	0.081	0.166
G	0.202***	3.343	0.202***	0.001
ATO	0.131*	1.927	0.131*	0.055
D/A	-0.042	-0.601	-0.042	0.548
B4	-0.060	-1.02	-0.060	0.306
ΔEQ	-0.007	-0.11	-0.007	0.906
$\Delta LIAB$	0.006	0.106	0.006	0.916
CFO	0.114*	1.783	0.114*	0.076
R^2	0.13			
Durbin-Watson (DW)	1.640			

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

In summary, this part investigates the effect of IFRS mandatory adoption on earning management activities. A negative and significant sign of the DAC variable in the above regression result means a decline in intentional earning management and manipulation upon the adoption of IFRS in a mandatory base among Palestinian listed firms.

5.1.2. Empirical Results Related to the Earnings Attributes Measures

This section provides a more precise picture of the effect of IFRS mandatory adoption on the quality of accounting information using; first accounting-based earning attributes, including

accrual quality, earnings predictability, earnings persistence, and earnings smoothness. Second, the market based earning attributes, which include value relevance, timeliness, and conservatism.

5.1.2.1. Descriptive statistics

Table 5.5 provides descriptive statistics of the eight earnings attributes for all firm-year observations. Accrual Quality (AccQual) has a mean value 0.09 and Earnings Persistence (PERS), which captures the extent to which an earnings management stays in the regular sequence (Francis et al. 2004) or normal range has a mean value 0.053. Earnings Predictability (PRED) has a mean value of 0.057. Earnings Smoothness (SMOTH), which investigates the variability of income relative to the variability of operating cash flow, has a mean value of 0.87. Regarding market-based earnings attributes, Value Relevance (VR), which is the negative of R2, has a mean value -0.28; Timeliness (Time) and Conservatism (CONSER) have a mean value -0.74 and -0.89 respectively. As stated earlier, Earnings attributes are derived from firm-specific regression and based on cross-sectional regression.

Table 5.5. Descriptive statistics of earnings attributes

Variable	N	Mean	Std. Dev.	Lower Percentile (P25)	Median	Upper Percentile (P75)
AccQual	377	0.0870	0.1151	0.00	0.048	0.114
PERS	377	0.0536	0.7637	-0.097	0.00	0.38
PRED	377	0.0562	0.3468	0.00014	0.002	0.013
SMOTH	377	0.8734	2.7702	0.0315	0.316	0.7552
VR	378	-0.2783	0.3214	-0.5073	-0.138	0.000
Time	377	-0.7387	0.4022	-0.9977	-0.977	-0.6742
CONSER	296	-0.8944	1.1603	-1.000	-1.000	-0.9703

Table 5.6 shows descriptive statistics of all earning attributes as a measure of accounting quality within the two testing periods. This table also contains the t-test and Wilcoxon-Mann-Whitney test as measures of mean and median differences between the two testing periods. As stated earlier, these indicators of accounting information quality have a general rule; the

increase in these indicators means lower accounting information quality; the decrease in these indicators means high quality of accounting information.

Table 5.6. Descriptive statistics for earnings attributes before and after IFRS mandatory adoption

Variables	Pre-adoption Period			Adoption Period			t-test	Wilcoxon Test
	Mean	Median	St. Dev.	Mean	Median	St. Dev.		
AccQual	0.0683	0.0767	0.1185	0.1092	0.0756	0.1131	-3.236***	-6.040***
PERS	0.1843	0.3486	0.4427	-0.021	0.0796	0.938	2.769**	2.120**
PRED	0.1352	0.088	0.5709	0.0135	0.0043	0.0329	3.128***	2.959***
SMOTH	1.034	0.5904	3.096	0.8779	0.3776	2.708	0.498	4.705***
VR	-0.2402	-0.3158	0.3414	-0.3368	-0.2286	0.3072	2.745***	5.687***
Time	-0.5832	-0.9916	0.4810	-0.9248	-0.9891	0.1510	9.705***	4.039***
CONSER	-0.7866	-1.00	1.5536	-0.9350	-1.00	0.9734	0.981	1.125

***, **, and * denote significance at 1%, 5% and 10% level

Mean and median values of AccQual in IFRS pre-mandatory adoption period 0.068 and 0.076, respectively; during the application of IFRS in the mandatory base, these values become 0.109 and 0.075, respectively. According to t-test and Wilcoxon-Mann-Whitney, and due to the increase in the standard deviation of the regression residual, we have a significant increase in the accrual quality measure in the period of applying the IFRS mandatorily. This result leads to a lower accrual quality after applying IFRS in the mandatory base. Both PERS and PRED within the period of adopting IFRS in the mandatory base are lower than that before. Suggesting, the persistence and predictability of earnings are higher during the mandatory adoption of IFRS. It also indicates the high quality of accounting information. The descriptive statistics of smoothness (SMOTH) measure shows the mean and median for IFRS pre-mandatory adoption period are 1.034 and 0.8779, respectively; after the IFRS mandatory adoption period is 0.877 and 0.3776, respectively. However, according to the t-test, the difference in the mean value of this measure is not significant.

In respect of the descriptive statistics on the market-based earnings attributes, Table 5.10 also indicates the mean and median values of VR in IFRS pre-mandatory adoption period -0.2402 and -0.3158, respectively; during the IFRS mandatory adoption period, the results show mean and median values -0.336 and -0.228, respectively. Furthermore, both the t-test and Wilcoxon-Mann-Whitney test show a significant mean and median difference at a significant level below 1% between the two testing periods. The declining trend in this measure means more value relevance in accounting information when a firm applying IFRS mandatorily. Time results provide a significant decline in IFRS mandatory adoption period. The mean and median differences of this indicator are significant at level 1%, according to both the t-test and Wilcoxon-Mann-Whitney test. However, the improvement in Time measures means the improvement in timeliness of earnings recognition. On the other hand, Conservatism (CONSER) has no significant difference.

5.1.2.2. Bivariate analysis

Appendix 4 exhibits Pearson and Spearman correlation between ADOP and both accounting and market-based earnings attributes. The above diagonal represents Pearson's correlations; the below diagonal represents Spearman correlations. The correlation between accounting-based earnings attributes and IFRS adoption shows that the AccQual indicator increases in IFRS mandatory adoption period with a significant and positive correlation at a 1% significant level. Both Pearson and Spearman correlations, showing that firms have lower accrual quality in the IFRS mandatory adoption period. Regarding earnings Persistence and Predictability with IFRS mandatory adoption, both Pearson and Spearman correlation shows a significant positive correlation between these two earnings attributes and ADOP. PERS negatively and significantly related to ADOP at a significant level below 5% in both Pearson and Spearman correlations. Earnings Predictability also negatively and significantly related to ADOP at a significant level below 1% in both Pearson and Spearman correlations. These results imply that the enhancement of earnings persistence and predictability after imposing IFRS in the mandatory base. The last accounting-based earnings attribute is SMOTH. This attribute significantly and positively correlated with ADOP in Spearman correlation at a significant level below 1%.

Regarding market-based earnings attributes, both VR and Time significantly and negatively related to IFRS mandatory adoption at a 1% significant level in Pearson and Spearman correlations. Indicating, the accounting information in IFRS mandatory adoption period more value relevance and timely than pre-mandatory adoption period. However, the CONSER shows an insignificant correlation with ADOP. As a result, most of the accounting and market-based earnings attributes show the improving indicator in IFRS mandatory adoption period.

Regarding control variables, there is a significant and positive correlation between SZ and SMOTH at 1%, VR at 1%, and Time at 5%; significant and negative relation with CONSER at 1% in Spearman correlation. However, in the Pearson correlation, there is a significant positive association between SZ and VR. G variable significantly and negatively correlated with AccQual, PRED, SMOTH, and CONSER; significantly and positively related to Time. ΔEQ significantly and negatively correlated with SMOTH at 1% level and VR at 5% in Spearman correlation. However, in the Pearson correlation, ΔEQ significantly and positively correlated with PRED. $\Delta LIAB$ shows a significant negative correlation, Spearman correlation two-tailed below 1% with SMOTH; significant positive association with at level 5% with Time. $\Delta LIAB$ also shows a significant and positive correlation with AccQual at 5% significant level.

Regarding ATO, Spearman correlation shows a significant positive correlation with PRED at 1% level and SMOTH at 1%, significant negative relation with AccQual and PERS at a 5% level. In examining CFO, Spearman correlation indicates a significant positive correlation at a 5% level with PRED. In examining B4, Spearman correlation presents a significant positive correlation with PRED; Pearson correlation shows a significant negative correlation with AccQual. Finally, Spearman's correlation shows that D/A has a significant positive correlation with AccQual and Time, a significant negative correlation with SMOTH and CONSR. Pearson correlation shows a positive between D/A and AccQual, a significant negative association with SMOTH.

According to the correlation matrix in the Appendix 4, the correlation between all the used variables is below 80%, implying the least multicollinearity problem.

5.1.2.3. Difference-in-Difference test

Table 5.7 provides univariate results by showing differences in the various types of earning attributes in the two testing periods. Consistent with the previous analysis, we have a significant decline in PERS, PRED, VR, and Time in the IFRS mandatory adoption period, with a high value of t and F and a significant level lower than 5%. It means upgrading the quality of financial information within IFRS mandatory adoption period.

Table 5.7. Univariate results of IFRS adoption on earning attributes measures

Indicator	Prediction	Min		Max		Mean		Mean Diff.	t-test	F-test
		Pre-	Post-	Pre-	Post-	Pre-	Post-			
AccQual	?	0.00	0.00	0.53	0.47	0.058	0.1036	0.04465	2.365***	16.372***
PERS	?	-1.23	-1.16	1.30	1.23	0.162	0.0449	-0.11773	-2.279**	4.774**
PRED	?	0.00	0.00	0.24	0.18	0.022	0.0122	-0.0099	-2.235***	7.028***
SMOTH	?	0.02	0.03	4.65	4.23	0.519	0.8848	0.365	1.741	2.006
VR	?	-0.99	-0.97	0.00	0.00	-0.253	-0.319	-0.6571	-1.867*	3.486*
Time	?	-0.99	-0.99	-0.75	-0.58	-0.569	-0.931	-0.36189	-10.03***	100.6***
CONSER	?	-1.41	-2.02	0.01	0.27	-0.950	-0.894	0.05536	1.359	1.187

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

On the contrary, AccQual increases after adopting the IFRS in the mandatory base as an indicator of low accrual quality in that period. However, SMOTH and CONSER do not show a significant difference before and after the IFRS mandatory adoption periods.

5.1.2.4. Multiple regression analysis

The primary interest of this section is examining the relationship between accounting information quality that is measured using accounting and market-based earnings attributes and IFRS mandatory adoption with related other control variables as in Equation (8). We estimate this Equation for each earnings attribute individually. This analysis is necessary to test the first study hypothesis (H1), which interested to measure the mandatory adoption of IFRS effect on accounting information quality. The primary interest in this model is the

coefficient of ADOP, which defines the incremental change in the dependent variable (earnings attributes) measures after applying IFRS mandatorily. A significant negative coefficient on ADOP (β_1) means that firms have a lower proxy of earnings attributes in the IFRS mandatory adoption period, which indicates a higher quality of accounting information.

Table 5.8, exhibits OLS multiple regression outputs of the effect of IFRS adoption on the accounting-based earning attributes measures. This table reports the result of estimating this effect to determine to what extent the adoption of IFRS affects the earning quality using accounting-based earnings attributes. These attributes are adding individually to the model as a dependent variable. Based on this analytical model, we expect the coefficient ADOP to be negative $\beta_1 < 0$. Indicating, firms have less accounting quality proxy in IFRS mandatory adoption period as an indicator of higher accounting information quality in that period. Consistent with our expectations, most of the β_1 coefficients have a negative sign as an indicator of improving accounting quality after the mandatory adoption of IFRS. These results also show the most considerable effect for PRED ($\beta_1 = -0.165$ with t-value -3.12); the next measure is PERS, which have ($\beta_1 = -0.130$ with t-value -2.387). These indicators show a significant negative trend of accounting information quality attribute in the IFRS adoption period, implying a higher quality of accounting information in the IFRS mandatory adoption period than in the pre- mandatory adoption period. On the contrary, AccQual shows an opposite direction with a significant and positive trend ($\beta_1 = 0.212$ with t-value 3.709), indicating lower accrual quality in IFRS mandatory adoption period. The results imply that in IFRS mandatory adoption period, the attitude toward earnings management is a decline (due to lower proxy for persistence and predictability), the reporting earnings are more persistent and have a higher predictive value.

Table 5.8. Regression results on the IFRS Impact on the accounting-based attributes

AQ Proxies	AccQual			PERS			PRED			SMOTH		
	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	0.21***	3.71	0.00	-0.13**	-2.387	0.018	-0.16***	-3.128	0.002	-0.050	-0.853	0.394
SZ	0.01	0.150	0.881	0.104*	1.759	0.079	-0.073	-1.326	0.186	-0.14**	-2.319	0.021
G	-0.024	-0.39	0.690	0.101*	1.656	0.099	-0.23***	-3.966	0.000	-0.046	-0.757	0.450
ΔEQ	0.026	0.425	0.671	-0.064	-1.035	0.302	0.39***	6.698	0.000	-0.034	-0.544	0.587
ΔLIAB	0.13**	2.420	0.016	0.037	0.685	0.494	0.007	0.140	0.889	0.022	0.402	0.688
ATO	-0.127*	-1.90	0.058	0.006	0.090	0.928	-0.079	-1.233	0.219	-0.098	-1.427	0.155
CFO	0.011	0.175	0.861	-0.040	-0.614	0.539	0.126**	2.087	0.038	0.013	0.196	0.845
B4	-0.19***	-3.47	0.001	-0.067	-1.136	0.257	0.020	0.357	0.722	0.069	1.172	0.242
D/A	0.296	4.428	0.000	-0.116	-1.64	0.101	-0.039	-0.585	0.559	-0.124	-1.764	0.079
R^2	0.10			0.038			0.156			0.028		
Durbin-Watson (DW)	0.584			1.631			0.829			1.350		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

Table 5.9 presents OLS multiple regression results of the effect of IFRS adoption on the market-based earning attributes measures. This table reports the result of estimating this effect to determine to what extent the adoption of IFRS affects the earning quality using the market-based earnings attributes. As expected, the coefficient estimate of IFRS adoption (ADOP) is negative $\beta_1 < 0$. Indicating, firms have less accounting quality proxy during the IFRS mandatory adoption period; as an indicator of higher accounting information quality in that period. Consistent with our expectations, most of the β_1 coefficients have a negative sign as an indicator of improving accounting quality after the mandatory adoption of IFRS. The largest effect is for Time, which has a mean estimate of ADOP ($\beta_1 = -0.461$ with t-value -9.705). Then, VR ($\beta_1 = -0.145$ with t-value -2.74). However, there is no significant association between IFRS adoption and conservatism. This result implies that after the mandatory adoption of IFRS, the reporting earnings are more value relevant and timeliness.

Table 5.9. Regression results on the IFRS impact on the market-based attributes

	VR			Time			CONSER		
	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	-0.145***	-2.74	0.006	-0.461***	-9.705	0.000	-0.071	-1.144	0.254
SZ	0.124**	2.101	0.036	0.086	1.594	0.112	-0.091	-1.427	0.155
G	-0.060	-0.98	0.326	-0.050	-0.889	0.375	-0.076	-1.113	0.266
ΔEQ	-0.032	-0.52	0.603	0.032	0.560	0.576	0.083	1.214	0.226
$\Delta LIAB$	0.004	0.069	0.945	0.031	0.620	0.536	-0.047	-0.789	0.431
ATO	0.045	0.660	0.510	0.043	0.694	0.488	-0.012	-0.173	0.863
CFO	0.008	0.126	0.900	0.073	1.240	0.216	-0.067	-1.073	0.284
B4	-0.014	-0.23	0.818	0.017	0.325	0.745	0.095	1.473	0.142
D/A	-0.058	-0.828	0.409	-0.061	-0.948	0.344	0.061	0.795	0.427
R^2	0.033			0.213			0.027		
Durbin-Watson (DW)	1.337			1.276			1.860		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

Regarding control variables, SZ significantly and positively related to PERS at a significant level of 10% and VR at a significant level 5%, a significant negative relationship with SMOTH at a significant level 5%. Indicating, larger firms have a lower persistence and value

relevance of earnings due to the positive coefficient of these variables. However, larger firms have fewer attitudes toward earnings smoothing. G variable significantly and positively related to PERS, a significant negative relationship with earnings PRED. Suggesting, firms with higher growth percentage tend to have higher earning management activities and lower earnings persistence, but have higher earnings predictability. ΔEQ significantly and positively related to earnings PRED; $\Delta LIAB$ significantly and positively related to AccQual. In terms of ATO, the results suggest a significant negative relationship at a 5% level with AccQual. Suggesting, firms that have a higher asset turnover have higher accrual quality.

CFO, as a control variable, has a significant positive relationship with PRED. Moreover, the results show a significant negative relationship between B4 and AccQual. Furthermore, accrual quality will be higher in firms that hire a big four audit firm in auditing and other attestation services. However, in examining other variables, we do not find significant relationships between other control variables and earning attributes.

According to the above empirical analysis, we can accept the first hypothesis; the mandatory adoption of IFRS among Palestinian listed firms significantly affects the quality of financial accounting information. However, the degree of the effect differs from one accounting information quality measure to another.

5.1.2.5. Robustness test for the first hypothesis H1

This research stream includes a robustness test for the H1 testing result by determining in different statistical methods the value relevance, persistence, and predictability of earnings. As a method, the determination of these measures is different from the previous analysis. These measures are computed here two times before and after IFRS mandatory adoption period. While in the previous analysis, they computed by estimating their regression models over rolling five-year windows. Furthermore, in the previous analysis, the dummy variable for IFRS mandatory adoption is employed to examine the incremental value of accounting quality measures after the mandatory adoption of IFRS.

• Reexamining the Value Relevance

Equation (6) represents Ohlson's (1995) price model, which regressing the ordinary shares market value with book value and earnings per share. This regression model is repeated two times; before and after the mandatory adoption of IFRS. The explanatory power (R^2) with related measures is determined and compared between the two testing periods. Table 5.10 exhibits this result.

• Reexamining Persistence and Predictability

Regarding the persistence and predictability of accounting information, we re-examine both of these proxies two times independently, before and after the IFRS mandatory adoption period. The persistence of accounting information is the coefficient value of the lag earnings per share (ϕ_1 , ϕ_2) in the regression equation (3). Panel B of Table 5.10 shows the value of the lag earnings per share coefficient, which represents the persistence measure of accounting information. In IFRS pre- mandatory adoption period, it has a value of 0.196; after the IFRS mandatory adoption period, it increases to 0.886. Results here document the importance of IFRS in improving the persistence of accounting information.

Table 5.10. Robustness test for H_1

Panel A: Value relevance of earnings in pre-and-post- mandatory adoption of IFRS		
Variables	Pre-IFRS Mandatory Adoption Period Model	Post-IFRS Mandatory Adoption Period Model
Intercept	1.556*** (5.50)	0.961*** (9.16)
Earnings Per Share	0.462*** (5.45)	0.761*** (17.39)
Book Value Per Share	0.086 (1.01)	0.085* (1.95)
Adj. R^2	0.25	0.65
F-statistic	22.82***	222.67***
Panel B: Persistence and predictability of earnings in pre-and-post- mandatory adoption of IFRS		
Persistence (Coefficient of lag Earnings Per Share)	0.196** (2.05)	0.886*** (27.94)
Predictability	0.38	0.112

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively, values between parenthesis are t-statistics.

As shown the Table 5.10, Panel A shows the adjusted R^2 in the two comparable periods. In IFRS pre-mandatory adoption period, adjusted R^2 is 0.25, suggesting the earnings per share and book value per share explain 0.25 of the variation in the shares prices. While, during the IFRS mandatory adoption period, adjusted R^2 increases to 0.65, which means the explanatory power of earnings per share and book value per share in explaining the variation in shares price increases. As a result, the mandatory adoption of IFRS enhances the value relevance of accounting information.

The predictability of accounting information is the standard deviation of the estimated error that results from the regression Equation (3)—finding the predictability value based on applying the Formula (4) two times, using the accounting information before and after the mandatory adoption period. Due to this measure is a residual from the regression equation, the increase in this value means a decline in the predictability of accounting information; the decrease in this value means an increase in the predictive value of accounting information. Panel B of Table 5.10 presents the standard deviation of the estimated standard error is 0.38 before applying the IFRS in the mandatory base. However, after introducing IFRS as a mandatory requirement, the standard deviation of the standard error declines to 0.112 as an indication of the decisive role of IFRS in improving the predictive value of the accounting information.

As expected, these results are consistent with the main results of this research stream by providing evidence of the IFRS role and impact in enhancing the quality of accounting information. It also supports the first hypothesis of the significant effect of IFRS mandatory adoption on the quality of accounting information.

5.2. Testing the Second and Third Hypotheses

This section contains a measurement of the effect of accounting information quality on the cost of equity capital and the firm's value during the IFRS mandatory adoption period. This section is using to test the second and third hypotheses, which state: **H2: accounting information quality affects the cost of equity capital after the adoption of IFRS. H3: accounting information quality affects a firm's value after the adoption of IFRS.**

The primary interest in this stream of research is the interaction between IFRS adoption variable (ADOP) and earning attributes (both accounting and market-based earnings attributes). To provide an answer to the question of how much the cost of capital and firm value in IFRS mandatory adoption period differ from IFRS pre-adoption period at a given level of financial accounting information quality. To measure the cost of capital and firm value, we follow several prior kinds of research in this field. Following Francis et al. (2005) and Eliwa, Haslam, and Abraham (2016), we use the Earnings Price ratio, so-called Industry-Adjusted EP ratio, as a measure of the cost of capital. In measuring firm value, Tobin's Q is used, which was used by Gaio and Raposo (2011).

5.2.1. Descriptive Statistics

Table 5.11 reports descriptive statistics regarding the cost of equity measure, Industry Earnings Price Ratio (EPInd), and firm value measure (Q) with related control variable Price to Book Ratio (P/B). The mean value of EPInd is 0.052 and 0.029, respectively. The mean and median of Tobin's Q is 1.016 and 0.977, respectively. P/B ratio has a mean value of 1.23 and a median 0.968.

Table 5.11. Descriptive statistics of the cost of equity and firm value measures

Variable	Mean	Std. Dev.	Lower Percentile	Median	Upper Percentile
EPInd	0.0524	0.06820	0.0064	0.029	0.0713
Tobin's Q	1.0165	0.47021	0.8265	0.9775	1.1125
PB	1.2303	1.55663	0.7022	0.9685	1.415

Table 5.12 shows the descriptive statistics of the cost of equity capital and firm value measures EPInd, and Tobin's Q. The results show a substantial increase in the cost of equity capital proxies with a high value of t and F. Consistent with this result, Tobin's Q decline at a significant level of 10%.

Table 5.12. Descriptive statistics of firm valuation measures in the two testing periods

	Pre-adoption Period			Adoption Period			t-test	Wilcoxon Test
Variables	Mean	Median	St Dev	Mean	Median	St. Dev		
EPInd	0.0438	0.055	0.084	0.0648	0.037	0.063	-2.716***	-6.048***
Tobin's Q	1.0894	0.98	0.285	0.9864	0.979	0.24	1.702*	0.672
P/B	1.5886	0.95	0.51	1.0369	0.94	0.42	3.060***	2.113**

***, **, and * denote significance at 1%, 5% and 10% levels

5.2.2. Bivariate Analysis

Appendix 6 exhibits Pearson and Spearman's correlations between the testing variable in this research dimension. This table presents Pearson correlation coefficients in the above diagonal side and Spearman correlation coefficients in the below diagonal side.

Regarding the correlation between the primary variables, there is a positive and significant correlation between the cost of equity capital measures EPInd and the IFRS mandatory adoption (ADOP). On the other hand, a firm value, which is measured by Tobin' Q, has a significant and negative correlation with ADOP. However, this correlation is significant by the Pearson correlation only at a significant level below 10%. These associations document initial signs of the increase in the cost of equity capital and a decline in firm value after the introduction of IFRS as a compulsory requirement.

Regarding the correlation between accounting information quality measures and the cost of capital measures, the results indicate a significant positive correlation between all the accounting-based earnings attributes (Discretionary Accruals, Accrual Quality, Persistence, Predictability, and Smoothness) and (EPInd). These results document the increase in

accounting-based earnings attributes (as an indicator of low earnings quality) leads to a higher cost of equity capital. Moreover, the results of the CONSER (which is an element of market-based earnings attributes) show a significant positive correlation with the cost of capital indicators. However, VR and Time show a significant negative correlation with the cost of equity capital measures. As a result, the accounting-based earnings attributes and conservatism measures are consistent with our expectations of the raising in the cost of equity capital due to poor quality of earnings. In contrast, other market-based earnings attributes, particularly value relevance and timeliness, disagree with our expectations.

Concerning the correlation between accounting quality measures and firm value indicator Tobin's Q, this measure of firm value has a significant negative association with the most earnings attributes, particularly, AccQual, VR, and CONSER.

On the other hand, Tobin's Q has a significant and positive correlation with PRED and Time. However, there is no correlation with other remaining accounting information quality measures. As shown above, each accounting information quality attribute has its relation with firm value, but most of these measures document a negative association with Tobin's Q.

Regarding control variables, SZ has a significant negative correlation with the cost of equity measures and a significant negative correlation with firm value. Implying, the larger firms have a lower cost of equity capital and have a higher firm value. Furthermore, we have a significant negative correlation between the G variable and the cost of capital measures. D/A has a significant positive association with the cost of equity measures and firm value indicator. CFO has a significant positive correlation with Tobin's Q. PB ratio has a significant negative correlation with EPInd and a significant positive correlation with Tobin's Q. In short, the above correlations show the larger firms, with a higher level of operating cash flows and growth rate, with lower leverage ratio could have a lower cost of equity capital and higher firm value.

To examine the role of IFRS mandatory adoption in the relationship between accounting information quality proxies and cost of equity capital and firm value measures, we insert an interaction variable between ADOP and each accounting quality in the multiple regression analysis as an independent variable.

5.2.3. Univariate Results/ Difference-in-Difference Test

Table 5.13 reports the univariate results of IFRS mandatory adoption and cost of equity measure, firm value measures, and other related control variables. This table investigates whether these measures of the cost of capital and firm value are different after the mandatory adoption of IFRS. It shows a significant increase in costs of equity measure EPInd with high t and F values at a significant level of 1%. On the other hand, Tobin's Q declines in the IFRS mandatory adoption period at a significant level of 10%. Regarding the control variable, the PB ratio also decreases in the IFRS mandatory adoption period at a significant level of 1%.

Table 5.13. Univariate results of IFRS adoption on the firm valuation measures

Indicator	Prediction	Minimum		Maximum		Mean		Mean Diff.	t-test	F-test
		Pre-	Post-	Pre-	Post-	Pre-	Post-			
EPInd		0.00	0.00	0.38	0.37	0.044	0.0648	0.021	2.716***	7.38***
Q		0.36	0.36	1.65	1.65	1.089	0.9864	-0.103	-1.702*	2.897*
PB		0.07	0.12	2.21	2.12	1.5886	1.0369	-0.552	-3.060***	9.36***

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

Table 5.13 concludes the increase in the cost of capital and a decrease in firm value after the adoption of IFRS mandatorily. The change in accounting information quality could cause this result after the mandatory adoption of IFRS. The question is to what extent the change in the quality of financial accounting information affects the cost of equity and firms' value under the mandatory adoption of IFRS. To provide an answer to this question, we construct a new regression model contains an interaction variable between IFRS adoption and each financial accounting information quality and their effect on the cost of equity capital and firm value. These interaction variables indicate by how much the slope coefficient of post-IFRS (Second Period) differs from that in the pre-IFRS mandatory adoption period (First Period). In other words, by how much cost of capital and firm value in the IFRS adoption period differs from the pre-adoption period at a given level of accounting information quality.

5.2.4. Multiple Regression Analysis

5.2.4.1. Testing the second hypotheses

The second hypothesis, H2, is interested in the impact of accounting information quality on the cost of capital during the IFRS mandatory adoption. To test this hypothesis, we develop the regression Equation (9). In this model, the dependent variable represents the cost of equity capital, which is measured using the EPInd. This model provides two key shreds of evidence: First, the effect of accounting information quality on the cost of capital. Second the role of mandatory adoption of IFRS in explaining the relationship between accounting information quality and cost of equity capital. Therefore, the primary interest of this model is the coefficient on IFRS mandatory adoption β_1 , the coefficient on the accounting information quality β_2 , and the interaction variable between IFRS mandatory adoption variable and accounting information quality β_3 . All of the regression results shown in Table 5.14.

β_1 presents the marginal change in (EPInd) after the adoption of IFRS as a mandatory base among Palestinian listed firms in 2007 relative to before IFRS mandatory adoption period. Consistent with the previous analysis, Table 5.14 shows that the β_1 is statistically significant and has a positive sign at the most levels of accounting information quality. In regression models, where the accounting information quality is measured using DAC, AccQual, SMOTH, and Time, the coefficient on IFRS mandatory adoption β_1 has a significant positive sign. Suggesting, increasing the cost of capital in the period of the IFRS mandatory adoption.

Moreover, β_2 represents the coefficient on the accounting information quality, this variable. This coefficient exhibits the effect of accounting information quality on the cost of equity capital. A positive coefficient on β_2 is confirming with our expectations, which state the increase in earnings attributes proxies as an indicator of poor earnings quality leads to information risk, which finally reflects an increase in the cost of equity capital. This result may provide critical evidence that equity investors price the information risk and consider it in making the investment decisions. As expected, most of the accounting information quality proxies (accrual quality, persistence, smoothness, and discretionary accruals) as on β_2 coefficients have a positive sign. However, earnings attributes do not have the same directions; Value Relevance and Timeliness show the opposite direction from other earnings

attributes. They were suggesting, higher cost of capital for observations with a better outcome of value relevance and timeliness of accounting information.

Different from our expectations, the negative relationship between the markets based earning attributes (both value relevance and timeliness) and EPInd. However, Conservatism proxy is similar to an accounting-based earning attribute, which has a positive association with EPInd. Turning first to Accrual Quality, the result shows a mean estimate of 0.398 with t value 4.104. This finding suggests that firms with the worst accrual quality experience a higher cost of equity capital. The next most substantial effect is the DAC, where the mean estimate of 0.387 with t value 3.445. The third highest cost of equity effect is SMOTH, where the mean estimate of 0.655 and t value 2.513. However, the effect of PRED has a positive but not statistically significant. In investigating market-based attributes, turning first to the Time, the result shows a mean estimate of -0.409 with t value -6.145. VR has a mean estimate -0.245 with t value -2.269. However, similar to accounting-based earnings attributes, we have positive β_2 for CONSER with a mean estimate of 0.541 and t value 3.055.

This model inspects the effect of IFRS application through the use of interaction variable β_3 between accounting information quality proxies and ADOP. β_3 reveals the effect of earnings attributes on the cost of capital during the IFRS mandatory adoption period (2008-2016). The interaction variable β_3 expected to be negative to exhibit a reduction in the effect of accounting quality proxies on the cost of equity capital. Due to the negative coefficient of β_3 , it must be higher than β_2 plus β_3 , indicating that the IFRS mandatory adoption period negatively affects the cost of equity capital (EPInd). In measuring the effect of accounting based earning attribute with interaction with ADOP on the cost of equity capital (EPInd). First, the interaction with DAC indicates a reduction effect on the cost of capital, since the sum of coefficients β_2 and β_3 ($0.387 - 0.291 = 0.096$) is lower than β_2 0.387. Turning to AccQual, there is also a reduction effect on the cost of equity capital, since the sum of coefficients β_2 and β_3 ($0.398 - 0.32 = 0.078$) is lower than β_2 0.398. In the same direction, PERS in the interaction with ADOP also has a reduction effect on the cost of equity capital, since the sum of coefficients β_2 and β_3 (0.046) is less than β_2 (0.290). In the same line of previous indicators, SMOTH has a sum of β_2 and β_3 (0.051), which is lower than β_2 (0.655). It also has a reduction effect on the cost of capital. However, the interaction variable with PRED is not significant.

Table 5.14. Regression results of the IFRS adoption effect on the cost of capital

$EPInd_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 D/A_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_9 PB_{it} + \varepsilon_{it}$															
	DAC			AccQual			PERS			PRED			SMOTH		
Indep Variables	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	0.174	1.731	0.085	0.220***	3.036	0.003	0.036	0.524	0.601	-0.058	-0.77	0.441	0.197***	3.043	0.003
AQProxy	0.387***	3.445	0.001	0.398***	4.104	0.000	0.290**	2.412	0.017	0.012	0.158	0.875	0.655**	2.513	0.013
AQProxy *ADOP	-0.291**	-2.28	0.024	-0.32***	-2.92	0.004	-0.24**	-2.07	0.017	0.009	0.124	0.901	-0.604**	-2.29	0.023
SZ	-0.42***	-5.11	0.000	-0.26***	-4.72	0.000	-0.41***	-5.02	0.00	-0.36***	-4.34	0.00	-0.28***	-3.95	0.000
G	0.047	0.780	0.436	0.014	0.245	0.806	-0.048	-0.82	0.414	0.026	0.433	0.665	0.034	0.601	0.548
D/A	0.021	0.260	0.795	0.028	0.324	0.747	0.039	0.475	0.635	0.024	0.286	0.775	0.086	1.225	0.222
ATO	-0.25***	-3.40	0.001	-0.24***	-3.37	0.001	-0.23***	-3.29	0.001	-0.24***	-3.38	0.001	-0.22***	-3.15	0.002
CFO	0.036	0.545	0.586	0.026	0.403	0.687	0.049	0.783	0.435	0.021	0.319	0.750	0.027	0.425	0.671
PB	-0.22***	-3.35	0.001	-0.24***	-3.80	0.000	-0.26***	-4.09	0.00	-0.25***	-3.75	0.000	-0.147**	-2.52	0.012
R²	0.29			0.22			0.24			0.215			0.214		
Durbin-Watson (DW)	1.35			1.48			1.40			1.54			1.36		

Table 5.14. (Continuing) Regression results of the IFRS adoption effect on the cost of capital

Indep. Variables	VR			Time			CONSER		
	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	0.144	1.455	0.147	0.630***	2.649	0.009	-0.254	-1.279	0.202
AQProxy	-0.245**	-2.269	0.024	-0.409***	-6.145	0.000	0.541***	3.055	0.003
AQProxy *ADOP	0.247**	2.014	0.045	0.725***	2.944	0.004	-0.273	-1.064	0.289
SZ	-0.395***	-4.707	0.000	-0.309***	-4.620	0.000	-0.27***	-3.225	0.001
G	0.047	0.792	0.761	0.015	0.274	0.784	0.067	1.218	0.224
D/A	0.025	0.305	0.761	0.038	0.566	0.572	0.005	0.066	0.948
ATO	-0.228***	-3.267	0.00	-0.245***	-3.574	0.000	-0.17***	-2.657	0.008
CFO	-0.003	-0.046	0.964	0.005	0.076	0.940	0.120	1.999	0.047
PB	-0.231***	-3.648	0.000	-0.075	-1.340	0.181	-0.317***	-5.088	0.000
R²	0.224			0.23			0.32		
Durbin-Watson (DW)	1.462			1.51			1.66		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

In the investigation of the market based earning attributes with interaction with ADOP, we find the opposite direction due to a positive coefficient of interaction variable β_3 . The implication here is the interaction between VR and Time and ADOP. Showing an increase in the effect of value relevance and timeliness on the cost of capital, since the sum of coefficients β_2 and β_3 ($-0.245+0.247=0.002$) is higher than β_2 (-0.245) for value relevance. Similarly, the timeliness, which has a sum of coefficients β_2 and β_3 (0.316), is higher than β_2 (-0.409). However, CONSER has a similar direction of accounting-based attributes, but it is not significant.

Regarding control variables, in conformity with the previous analysis, SZ suggests a significant negative impact on the EPInd in all results presenting in Table 5.14 with a p-value below 1%. This result documents the larger firms have a lower cost of capital than smaller firms. ATO has a significant negative sign in the most regression results presenting in Table 5.19. It indicates that the increase in assets turnover as an indicator of the efficient use of assets leads to a lower cost of capital. PB ratio as a measure of growth opportunities of the firm, the increase in this ratio is a positive indicator for listed firms. The regression results, as shown in Table 5.14, record significant adverse effects on the cost of capital (EPInd) with a p-value below 1%. It implies that firms with high growth opportunities have a lower cost of

equity capital. However, other control variables show insignificant signs. Consistent with the results and analysis above, the second hypothesis H2 that interests with the relationship between accounting information quality and cost of equity capital during the period of IFRS mandatory adoption. Accordingly, we can accept this hypothesis and reject the null one. However, the degree and strength of the effect are different from one measure to another.

5.2.4.2. Robustness test for the second hypotheses

To check robustness for the second hypothesis, H2, we repeat the same regression models are using beta as a measure of systematic risk. We calculated Beta by regressing the percentage change in the firm's stock price versus the percentage change in the overall stock market (Al-Quds Index). We develop the regression model:

$$beta_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 D/A_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_{10} PB_{it} + \varepsilon_{it} \quad (13)$$

Table 5.15 provides the output of regression analysis concerning the robustness test of the second hypothesis. In general, the results are similar to the main regression results in Table 5.14. Regarding IFRS mandatory adoption coefficient, it has a significant and positive sign. It is Suggesting, increasing in beta after introducing IFRS as a mandatory condition for all Palestinian listed firms. In turning to the accounting information quality measures, consistent with the main regression results for this hypothesis, β_2 has a significant positive sign.

Table 5.15. Robustness test for H₂

$beta_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 D/A_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_{10} PB_{it} + \varepsilon$															
	AbsDACC			AccQual			PERS			PRED			SMOTH		
Independent Variables	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	0.570***	5.697	0.00	0.790***	15.06	0.00	0.514***	8.230	0.00	0.736***	15.53	0.00	0.706***	15.12	0.00
AQProxy	0.101	0.900	0.369	0.360***	4.613	0.00	0.150*	1.913	0.057	0.122**	2.472	0.014	0.547***	2.965	0.003
AQProxy *ADOP	-0.181	-1.436	0.153	-0.39***	-4.29	0.00	-0.21***	-2.69	0.007	-0.16***	-3.055	0.002	-0.46**	-2.453	0.015
SZ	0.020	0.256	0.798	-0.60	-0.80	0.42	-0.04	-0.53	0.595	-0.065	-0.871	0.385	-0.03	-0.347	0.729
G	0.006	0.103	0.918	-0.013	-0.23	0.82	-0.03	-0.54	0.588	-0.021	-0.368	0.713	-0.006	-0.102	0.919
D/A	0.103	1.378	0.170	0.155**	2.053	0.04	0.051	1.201	0.231	0.052	1.240	0.216	0.084	1.997	0.047
ATO	0.093	1.354	0.177	0.068	1.059	0.29	0.070	1.072	0.285	0.103	1.571	0.118	0.112*	1.721	0.087
CFO	-0.005	-0.081	0.936	-0.041	-0.66	0.50	-0.05	-0.85	0.395	-0.065	-1.043	0.298	-0.025	-0.413	0.680
PB	-0.061	-0.947	0.354	-0.019	-0.32	0.74	-0.07*	-1.81	0.071	-0.076	-1.785	0.075	-0.08*	-1.811	0.071
R ²	0.265			0.283			0.29			0.28			0.277		
Durbin-Watson (DW)	1.835			1.835			1.799			1.781			1.797		

Table 5.15. (Continuing) Robustness test for H₂.

Indep. Variables	VR			Time			CONSER		
	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	0.820***	14.863	0.000	0.945***	5.622	0.000	0.620***	2.883	0.004
AQProxy	-0.288***	-4.560	0.000	-0.400***	-8.239	0.000	0.026	0.132	0.895
AQProxy *ADOP	0.331***	4.394	0.000	0.489***	2.793	0.006	0.145	0.519	0.604
SZ	-0.065	-0.866	0.388	-0.050	-0.665	0.507	0.000	-0.003	0.998
G	-0.010	-0.168	0.872	-0.006	-0.114	0.910	-0.002	-0.030	0.976
D/A	0.125*	1.745	0.082	0.054	1.538	0.125	0.077	1.061	0.290
ATO	0.092	1.415	0.158	0.079	1.226	0.222	0.095	1.447	0.149
CFO	-0.035	-0.577	0.564	-0.046	-0.740	0.460	-0.011	-0.175	0.861
P/B	-0.007	-0.112	0.911	-0.013	-0.331	0.741	-0.062	-0.992	0.322
R²	0.284			0.275			0.291		
Durbin-Watson (DW)	1.832			1.807			1.784		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

Regarding accounting-based earning attributes, except for discretionary accruals, all the other accounting-based earning attributes have a positive β_2 . This result documents low and poor quality of accounting information causes an increase in risk indicator (Beta) and lead to leverage cost of equity capital. In contrast, the results show the opposite direction of the value relevance and timeliness as a market based earning attribute. Both of them have a significant and negative relationship with BETA, as an indicator of increasing the cost of equity capital, while the accounting quality exists. Regarding the interaction variable β_3 , it represents the effect of accounting information quality on BETA during the IFRS mandatory adoption period. Results indicate a reduction of BETA during the IFRS adoption period (2008-2016) because the sum of β_2 and β_3 is less than β_2 . Therefore, these results provide evidence that increasing accounting information quality in the IFRS mandatory adoption period plays a vital role in reducing the cost of equity capital. At the same time, since β_2 plus β_3 is higher than β_2 for both value relevance and timeliness, the cost of capital is increasing when the sample firms adopt IFRS in the mandatory base.

In studying the relationship with the cost of capital, we find the IFRS adoption in mandatory base leads to lower cost of capital due to accounting-based earning attributes; increase cost of capital due to market-based earnings attributes.

5.2.4.3. Testing the third hypotheses

Testing the hypothesis H3 exhibited in the Equation (10) is constructed. This model provides (i) the incremental change in firm value after imposing IFRS among Palestinian listed firms using the β_1 coefficient. (ii) The effect of accounting information quality on the value of a firm using the β_2 coefficient. (iii) The impact of accounting information quality on the firm value during the period of IFRS mandatory adoption using the β_3 coefficient.

Table 5.16 exhibits the results of multiple regression models as in Equation (10). As shown in Table 5.16, the coefficients of IFRS mandatory adoption β_1 are negative in the most results of the developed regression models. In regression models' results where accounting information quality is measuring by AccQual, PERS, SMOTH, VR), Time, and CONSER. β_1 has a significant and negative sign. This result records a decline in firm value after the introduction of IFRS as a mandatory requirement for all the listed Palestinian firms.

Concerning the coefficient of accounting information quality β_2 , this coefficient shows significant negative signs in the results of regression models where accounting information quality is operationalizing by DAC, AccQual, VR, Time, and CONSER. This result provides vital evidence that the increase in earnings attributes proxies (poor earnings quality) leads to a decline in firm value. This result is consistent with our expectations and the previous analysis; by referring to the observations with high earnings, quality has higher firm value. However, other proxies show an insignificant relationship with firm value.

The interest here is β_3 , which is an interaction variable between accounting-based earning attributes and ADOP. This interaction variable exhibit the effect of accounting based earning attributes on Tobin's Q during the period of mandatory adoption of IFRS. The only significant interaction variable is the interaction between DAC with ADOP. This variable indicates an increase in the effect of discretionary accrual on Tobin's Q, since the sum of coefficients β_2 and β_3 ($-0.075 + 0.120 = 0.045$) is higher than β_2 (-0.075). Therefore, these results regarding accounting-based earning attributes provide evidence that higher quality of the IFRS-based accounting information contributes to rising in the firm value.

In the market based earning attributes, β_2 for VR and Time are negatively and significantly related to Tobin's Q. This result is consistent with our expectation. Indicating that the higher proxy of the market based earning attributes (both VR and Time), i.e., lower accounting information quality leads to low firm value (Tobin's Q). We are indicating that there is a significant effect of these proxies on the Tobin's Q during the IFRS mandatory adoption period. As expected, this interaction variable β_3 for timeliness and conservatism is significant and positive. Implying, an improvement in the effect of the market based earning attributes (both Time and CONSER) and the firm value (Tobin's Q), because, for the timeliness, the sum of coefficients β_2 and β_3 ($-0.073+0.294=0.023$) is more than β_2 (-0.073). For conservatism, the sum of coefficients β_2 and β_3 ($-0.138+0.286=0.148$) is more than β_2 (-0.138). The implication is that the increase in accounting quality when the sample firms apply IFRS mandatorily, which contributed to the growth in the firm value. However, value relevance proxy here provides insignificant difference with firm value.

Regarding control variables, when AccQual, PERS, SMOTH, VR, Time, and CONSER measure the accounting quality, ATO has a positive trend toward Tobin's Q. This result suggests the observations with higher total assets turnover have higher firm value. In the results where DAC measures accounting quality, there is a positive relationship between CFO and Tobin's Q. In the results of CONSER as a measure of accounting information quality, there is a negative relationship between D/A and Tobin's Q. In the results from all regression models, there is a positive relationship between PB ratio and Tobin's Q.

According to the analysis above, we can accept the third hypothesis H3 of the accounting quality impact on the firm value throughout the IFRS mandatory adoption is accepted, and reject the null hypothesis. However, the degree of effect is different from one measure of accounting information quality to others.

Table 5.16. Regression results of the effect of IFRS adoption on the firm value.

$Q_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 D/A_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_9 PB_{it} + \varepsilon_{it}$															
	DAC			AccQual			PERS			PRED			SMOTH		
Indep. Variables	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	-0.040	-1.185	0.237	-0.158*	-1.93	0.055	-0.064**	-2.02	0.045	-0.046	-1.31	0.192	-0.082	-2.232	0.027
AQProxy	-0.075**	-2.088	0.038	-0.235**	-2.02	0.045	-0.029	-0.51	0.621	-0.038	-0.97	0.330	-0.001	-0.017	0.986
AQProxy *ADOP	0.120***	2.922	0.004	0.146	1.102	0.272	0.036	0.631	0.529	0.035	0.884	0.378	0.050	0.649	0.517
SZ	0.017	0.652	0.515	-0.031	-0.82	0.409	-0.007	-0.18	0.857	-0.002	-0.05	0.960	-0.023	-0.592	0.554
G	0.030	1.388	0.166	0.021	0.754	0.452	-0.006	-0.21	0.833	0.027	0.943	0.347	0.027	0.950	0.343
D/A	-0.006	-0.235	0.815	-0.009	-0.23	0.818	-0.042	-1.13	0.259	-0.048	-1.30	0.195	-0.054	-1.448	0.149
ATO	0.054	1.628	0.105	0.073**	2.286	0.023	0.071**	2.142	0.033	0.071**	2.126	0.035	0.064**	1.976	0.049
CFO	0.052**	2.294	0.023	-0.015	-0.47	0.636	-0.010	-0.31	0.759	-0.009	-0.28	0.778	-0.006	-0.179	0.858
PB	0.945***	42.322	0.000	0.904***	29.74	0.00	0.913***	29.62	0.00	0.911***	29.35	0.00	0.909***	29.957	0.00
R ²	0.832			0.828			0.818			0.888			0.882		
Durbin-Watson (DW)	1.83			1.713			1.706			1.69			1.701		

Table 5.16. (Continuing) Regression results of the effect of IFRS adoption on the firm value.

Indep Variables	VR			Time			CONSER		
	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	-0.057*	-1.837	0.067	-0.322***	-3.634	0.000	-0.308***	-2.972	0.003
AQProxy	-0.066*	-1.861	0.064	-0.073***	-2.713	0.007	-0.138**	-2.056	0.041
AQProxy *ADOP	0.003	0.067	0.946	0.294***	3.174	0.002	0.286**	2.394	0.017
SZ	-0.018	-0.469	0.639	-0.020	-0.546	0.585	0.006	0.161	0.872
G	0.024	0.843	0.400	0.029	1.060	0.290	0.027	0.950	0.343
D/A	-0.053	-1.45	0.149	-0.029	-0.844	0.400	-0.073*	-1.954	0.052
ATO	0.058*	1.754	0.081	0.062**	2.028	0.044	0.072**	2.167	0.031
CFO	-0.019	-0.622	0.535	-0.025	-0.857	0.392	-0.006	-0.179	0.858
PB	0.914***	29.86	0.000	0.962***	42.48	0.000	0.905***	29.423	0.000
R^2	0.821			0.839			0.82		
Durbin-Watson (DW)	1.713			1.768			1.68		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

5.2.4.4. Robustness Test for the third hypotheses

Testing the robustness of the third hypothesis H3 results based on repeating the same regression model but using a different measure of firm value. Instead of Tobin's Q, shares market price is using as the dependent variable. The following regression model is developing for robustness test:

$$P_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 D/A_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_9 P/B_{it} + \varepsilon_{it} \quad (14)$$

Where: P_{it} is the market value of the ordinary shares for firm i year t .

Table 5.17 exhibits the results of the robustness test. Regarding the coefficient of IFRS mandatory adoption β_1 , it has a significant negative coefficient where accounting information quality is measuring by AccQual and SMOTH—suggesting a decline in shares prices in the IFRS mandatory adoption period. Consistent with the main results of testing this hypothesis, there is a significant negative relationship between the quality of accounting information under DAC, Time, and CONSER and the shares prices. This result documents that poor earnings quality leads to a decline in shares prices.

Table 5.17. Robustness test for H₃

$P_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 AQProxy_{it}^k + \beta_3 AQProxy_{it}^k * ADOP_{it} + \beta_4 SZ_{it} + \beta_5 G_{it} + \beta_6 D/A_{it} + \beta_7 ATO_{it} + \beta_8 CFO_{it} + \beta_9 P/B_{it} + \varepsilon_{it}$															
	DAC			AccQual			PERS			PRED			SMOTH		
Independent Variables	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	-0.070	-1.037	0.301	-0.19***	-2.73	0.007	-0.083	-1.58	0.117	-0.05	-0.89	0.377	-0.13**	-2.15	0.03
AQProxy	-0.24**	-2.273	0.024	-0.060	-0.63	0.528	-0.183	-1.55	0.123	-0.03	-0.42	0.678	-0.081	-0.36	0.72
AQProxy *ADOP	0.506***	4.187	0.000	0.21**	-2.04	0.046	0.23	2.012	0.045	0.167	2.830	0.005	0.230	-1.01	0.13
SZ	0.285	5.058	0.000	0.36***	5.566	0.000	0.38***	6.111	0.000	0.41***	6.438	0.000	0.335**	5.433	0.00
G	-0.047	-1.133	0.258	-0.038	-0.80	0.428	0.019	0.397	0.692	-0.03	-0.69	0.494	-0.063	-1.42	0.15
D/A	-0.35***	-6.656	0.000	-0.31***	-4.78	0.000	-0.36***	-5.93	0.000	-0.37***	-6.33	0.000	-0.42***	-7.37	0.00
ATO	0.105**	2.224	0.027	0.131**	2.430	0.016	0.139	2.538	0.012	0.134**	2.492	0.013	0.096*	1.896	0.059
CFO	-0.015	-0.331	0.741	0.022	0.442	0.659	0.041	0.808	0.420	0.041	0.820	0.413	0.002	0.032	0.975
BM	0.75***	17.055	0.000	0.65***	13.08	0.000	0.655***	13.11	0.000	0.63***	12.64	0.000	0.772***	15.50	0.000
R²	0.656			0.503			0.499			0.521			0.568		
Durbin-Watson (DW)	1.632			1.495			1.527			1.609			1.422		

Table 5.17: (Continuing) Robustness test for H₃

Independent Variables	VR			Time			CONSER		
	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	-0.014	-0.179	0.858	-0.051	-0.059	0.953	-0.149	-0.952	0.342
AQProxy	-0.032	-0.494	0.622	-0.176***	-3.654	0.000	-0.203***	-3.512	0.001
AQProxy *ADOP	0.147**	2.291	0.023	0.082*	1.676	0.095	0.221***	3.752	0.000
SZ	0.098*	1.957	0.052	0.295***	4.938	0.000	0.215***	3.672	0.000
G	-0.045	-0.920	0.358	-0.030	-0.639	0.523	-0.051	-1.159	0.248
D/A	-0.371***	-5.944	0.000	-0.354***	-6.012	0.000	-0.358***	-6.300	0.000
ATO	0.126**	2.265	0.024	0.161	3.054	0.003	0.066	1.303	0.194
CFO	0.024	0.470	0.639	0.035	0.700	0.485	-0.007	-0.149	0.882
BM	0.588***	11.567	0.000	0.657	13.817	0.000	0.764***	16.441	0.000
R^2	0.484			0.520			0.578		
Durbin-Watson (DW)	1.503			1.550			1.554		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

Regarding β_3 , that exhibits the interaction variable between IFRS mandatory adoption and accounting information quality. Consistent with the previous analysis, the results indicate significant positive coefficients for regression models that have accounting information quality measured by Discretionary Accruals, Accrual Quality, Value Relevance, Timeliness, and Conservatism. These measures related regression models, the sum of β_2 and β_3 is higher than β_2 . This result implies the improvement of accounting information quality may lead to an increase in shares prices after the mandatory adoption of IFRS.

The primary result of this research dimension is the improvement in accounting information quality negatively related to the cost of equity capital. Implied, the quality of accounting information contributes to declining the cost of equity capital. The degree of the effect differs from accounting-based to market-based earning attributes. These results show a positive effect on firm value. Both accounting and market based earning attributes are negatively related to firm value. It implies that higher accounting quality can positively contribute to firm value.

Consequently, accounting quality reduces the cost of capital and enhances the firm's value. In other words, the equity investor prices the quality of accounting information. Therefore, the second and third hypotheses of our study are accepted.

5.3. Testing the Fourth Hypothesis

In this section, a measurement of corporate governance quality factors that may affect the quality of accounting information and the firm value during the period of mandatory IFRS adoption. This part provides the interaction of IFRS adoption and the corporate governance quality measures. It also determines the effect of this interaction on the quality of accounting information and the cost of capital. We design this section to test the study's fourth hypothesis (H4), which states in the IFRS mandatory adoption period, corporate governance quality affects accounting information quality and firm value.

Corporate governance quality is measured using several proxies, includes variables related to the application of the code of corporate governance after the year 2010, this variable titled Governance Code (GOVCOD). Percentage of shares that are held by insiders (CLOSE) such as; shares held by management and their relatives. Moreover, the type of audit firm (B4) is also one measure of corporate governance quality. In measuring the Agency problem, we are assuming firms that report to more than one segment will have a more significant agency problem than those reports to one segment (Demirkan et al., 2012). Also, in this stream of our study, we provide a different measure of corporate governance quality, by indicating whether the observations have a dual role of CEO and Chairman or not as a measure of the primary principle of corporate governance, this variable titled by (LED).

5.3.1. Descriptive Statistics

Table 5.18 reports summary statistics of all firm-year observations variables in this section. Regarding (GOVCOD), the mean value of this test variable is positive; the application of the code of corporate governance shows 0.50 of firm-year observations are after the application of this law. MSEG, the result shows: 0.54 of the study sample firm-year observations report to more than one segment. LED has a mean value 0.85, implying 0.85 of sample firm-year observation has a CEO and Chairman in a different position. CLOSE has a mean value of 0.004. B4 variable has a mean value of 0.67, demonstrating that big four auditors audit 0.67 of the study sample firms.

Table 5.18. Descriptive statistics of corporate governance quality measures

Variable	N	Mean	Std. Dev.	Lower Percentile	Median	Upper Percentile
GOVCOD	364	0.5	0.5	0.00	0.5	1.00
MSEG	364	0.54	0.54	0.00	1.00	1.00
LED	364	0.85	0.354	1.00	1.00	1.00
CLOSE	364	0.004	0.0185	0.00	0.00	0.13
B4	364	0.67	0.471	0.00	0.00	1.00

Table 5.19 shows the mean and median difference in variables before and after adopting the Palestinian code of corporate governance. There is a decline in the discretionary accruals as an indicator of accounting information after adopting corporate governance code, but the t-test and Wilcoxon-Mann-Whitney test document insignificant differences in this variable. Similarly, the used tests show an insignificant increase in the market value of the ordinary shares after adopting the code of corporate governance. Regarding control variables, both SZ significantly increased after adopting the code of corporate governance in Palestine. CFO significantly declines after adopting the code of corporate governance.

Table 5.19. Variables before and after applying the code of corporate governance

	Before GOVCOD			After GOVCOD			t-test	Wilcoxon Test
Study Variables	Mean	Median	St. Dev	Mean	Median	St. Dev		
DAC	0.07	0.05	0.007	0.06	0.04	0.004	1.508	0.204
Price (P)	1.88	1.10	1.58	1.92	1.20	1.60	-0.157	-0.913
SZ	7.53	7.5	0.73	7.77	7.7	0.83	-2.923***	-2.958***
CFO	0.062	0.056	0.123	0.04	0.097	0.031	1.77*	2.26**
ATO	0.33	0.22	0.38	0.37	0.24	0.41	-0.903	-0.945

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

Table 5.20 represents the descriptive statistics for variables which are arranging according to whether firms are single- or multiple- segment firms. The results of the Wilcoxon-Mann-Whitney test shows the mean and median value of DAC in multiple-segment firms lower than that in single-segment firms. This result suggests that the multiple-segment firms have a higher accrual quality than the single-segment firms, but this difference is insignificant. In turning to the firm value measure, P has mean and median values 1.5 and 0.90, respectively, in the single-segment firms and 1.47 and 1.38 in the multiple-segment firms. The results of both

the t-test and Wilcoxon-Mann-Whitney test show the signs mean and median difference between single and multiple-segment firms.

Table 5.20. Variables identified by single and multiple-segment firms.

	Single-Segment Firms			Multiple-Segment Firms			t-test	Wilcoxon Test
Study Variables	Mean	Median	St. Dev	Mean	Median	St. Dev		
DAC	0.07	0.05	0.078	0.06	0.05	0.09	0.684	0.220
P	1.5	0.90	1.65	1.47	1.38	1.47	3.830***	6.084***
SZ	7.246	7.146	0.749	8.002	7.886	0.650	-10.046***	9.027***
CFO	0.03	0.022	0.12	0.07	0.022	0.10	-3.209***	-3.786***
ATO	0.3885	0.2953	0.3916	0.3239	0.1610	0.4039	1.465	1.93*

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

Concerning the control variables in this research stream, this table shows SZ and CFO in the multiple-segment firms is higher than that in the single-segment firms. Both the t-test and Wilcoxon-Mann-Whitney test show the signs mean and median difference between single and multiple-segment firms.

Table 5.21 exhibits the mean, median, and standard deviation differences of the test and control variables in this research stream between the firms have a CEO and chairman in the same position and firms that have CEO and chairman in a different position. For the firms contain CEO and chairman in the same position, DAC has a mean and median value 0.05 and 0.04 respectively, and 0.073 and 0.05 respectively, for the firms with CEO and chairman position in a different position. T-test shows the signs mean and median difference in this variable. Regarding the ordinary shares market price, it shows a significant decline in the firms with CEO and chairman positions in a different position.

Table 5.21. Variables identified by the duality role of CEO and chairman

	CEO and Chairman are the same			CEO and Chairman are different			t-test	Wilcoxon Test
Study Variables	Mean	Median	St. Dev	Mean	Median	St.Dev		
DAC	0.05	0.04	0.045	0.073	0.05	0.087	-2.62**	-1.183
P	2.87	2.99	1.31	1.733	1.05	1.58	4.94***	5.125***
SZ	7.832	7.632	0.59988	7.626	7.663	0.8176	2.157**	1.617
CFO	0.061	0.051	0.082	0.05	0.04	0.114	1.018	1.085
ATO	0.642	0.4779	0.656	0.3010	0.1646	0.306	5.84***	3.622***

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

Regarding control variables, SZ and ATO have a significantly lower mean and median in the firms with CEO and chairman are different from those having CEO and chairman in the same position. However, other control variables show insignificant mean and median differences.

Table 5.22. Variables identified by audit firms

	Non-Big4			Big 4			t-test	Wilcoxon Test
Study Variables	Mean	Median	St. Dev	Mean	Median	St.Dev		
DAC	0.08	0.06	0.10	0.06	0.04	0.07	1.436*	1.194
P	1.63	1.04	1.44	2.01	1.21	1.46	1.95*	2.514**
SZ	7.3443	7.431	0.780	7.832	7.724	0.75603	-5.508***	4.985***
CFO	0.055	0.041	0.134	0.047	0.04	0.096	0.576	0.271
ATO	0.4921	0.3647	0.56	0.2857	0.205	0.26699	4.521***	2.083***

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

Table 5.22 shows this research stream's test and control variables according to whether big four audit firms are auditing the sample firm or not. Regarding DAC, the t-test result shows a significantly lower mean value of this proxy for the firms that are audited by big four than these audited by non-big four. The market value of the ordinary shares has a significant increase in mean and median differences between the firms that are audited by big four auditors and firms that are audited by non-big four auditors.

Control variables show the mean and median values of SZ for the firms that are audited by non-big four auditors 7.34 and 7.44, respectively. For the firms that are audited by big four, the mean and median values are 7.83 and 7.7, respectively. Implying, the larger firms have more attitude toward hiring big four auditors. Furthermore, ATO has a significantly lower mean and median value for the firms that are audited by the big four auditors.

The last table is Table 5.23, which summarizes corporate governance quality indicators before and after applying IFRS mandatorily. The leadership variable (LEd) has a significant mean difference between the two testing periods; the result shows a mean value in pre-mandatory adoption period 0.92 and during the mandatory adoption period 0.81. Suggesting, in the pre-mandatory adoption period, 0.92 of the sample firms have a CEO and chairman in a different position. In contrast, after the mandatory adoption of IFRS, this ratio declined to 0.81. The mean value of CLOSE after the mandatory adoption of IFRS increases from 0.00012 to 0.008. Finally, as stated earlier, the compliance of IFRS raises the attitude toward hiring big four audit firms.

Table 5.23. Descriptive statistics of corporate governance quality between IFRS pre- and post-application

Study Variables	Pre-Adoption		POST-Adoption		t-test	Wilcoxon Test
	Mean	St.Dev	Mean	St. Dev		
MultiSeg	0.5039	0.50196	0.5673	0.49664	1.128	1.128
LED	0.9213	0.27040	0.8077	0.39506	3.119***	2.826***
CLOSE	0.00012	0.00072	0.00841	0.023	-5.004***	7.105***
BIG 4	0.5039	0.50196	0.7692	0.4223	-5.188***	4.997***

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

5.3.2. Bivariate Analysis

Table 5.24 presents Pearson and Spearman's correlations between the used variables in this dimension. This table presents Pearson correlation coefficients in the above diagonal side and Spearman correlation coefficients in the below diagonal side. As shown in this matrix, there are many critical relationships between the used variables in this research stream.

Table 5.24. Correlation between corporate governance quality, accounting quality, firm value, and IFRS adoption measures

	ADOP	DAC	P	GOVCOD	LED	MSEG	CLOSE	Big 4	SZ	ATO	CFO
ADOP	1.000	-0.131**	-0.015	0.854***	-0.155***	0.062	0.211***	0.273***	0.138**	0.046	-0.018
		0.023	0.799	0.000	0.005	0.260	0.000	0.000	0.011	0.404	0.751
DAC	-0.074	1.000	0.117*	-0.081	0.096*	-0.038	-0.007	-0.083	0.053	0.083	-0.151**
	0.199		0.070	0.146	0.089	0.498	0.904	0.152	0.350	0.158	0.010
P	0.026	0.008	1.000	0.009	-0.255***	0.228***	0.073	0.111*	0.179***	0.097	0.242***
	0.673	0.902		0.876	0.000	0.000	0.229	0.065	0.003	0.107	0.000
GOVCOD	0.854***	0.011	0.055	1.000	-0.150***	0.060	0.189***	0.259***	0.154***	0.050	-0.098*
	0.000	0.839	0.362		0.005	0.258	0.000	0.000	0.004	0.367	0.077
LED	-0.155***	0.066	-0.309***	-0.150***	1.000	-0.157***	-0.028	0.043	-0.092	-0.308***	-0.045
	0.005	0.237	0.000	0.005		0.003	0.596	0.430	0.083	0.000	0.416
MSEG	0.062	-0.012	0.367***	0.060	-0.157***	1.000	-0.059	0.144***	0.476***	-0.081	0.175***
	0.260	0.826	0.000	0.258	0.003		0.265	0.008	0.000	0.145	0.001
CLOSE	0.387***	0.109**	0.220***	0.364***	-0.273***	0.076	1.000	-0.16***	-0.082	-0.017	-0.018
	0.000	0.049	0.000	0.000	0.000	0.153		0.005	0.122	0.761	0.746
Big 4	0.273***	-0.069	0.152**	0.259***	0.043	0.144***	-0.163***	1.000	0.289***	-0.243***	-0.032
	0.000	0.233	0.012	0.000	0.430	0.008	0.003		.000	0.000	0.565
SZ	0.145***	0.136**	0.365***	0.157***	-0.086	0.480***	0.117**	0.273***	1.000	-0.334***	0.046
	0.008	0.015	0.000	0.003	0.106	0.000	0.027	0.000		0.000	0.404
ATO	0.045	0.123**	0.112*	0.052	-0.200***	-0.107*	0.048	-0.115**	-0.384***	1.000	0.236***
	0.417	0.036	0.062	0.345	0.000	0.053	0.386	0.037	0.000		0.000
CFO	-0.055	-0.009	0.273***	-0.125**	-0.060	0.209***	-0.038	-0.015	0.057	0.285***	1.000
	0.316	0.882	0.000	0.024	0.278	0.000	0.492	0.787	0.307	0.000	

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

These variables are related to IFRS mandatory adoption (ADOP), accounting information quality measure DAC, the market value of the ordinary shares (P), and several metrics of corporate governance quality. The primary interest in this dimension is the corporate governance quality metrics. These metrics are GOVCOD, LED, CLOSE, MSEG, and B4. The relationship between ADOP and corporate governance metrics show a significant positive relationship with CLOSE. Suggesting; increase in the insiders' ownership interest in the mandatory adoption period of IFRS. Furthermore, ADOP has a significant negative correlation with LED. The attitude toward having a chairman and CEO in the same position increased when the sample firms adopted IFRS mandatorily.

Regarding the correlation between DAC and corporate governance quality measures, it has a significant positive correlation with CLOSE (based on Spearman correlation coefficient two-tailed with a p-value below 5%). On the other hand, DAC has a significant positive correlation with LED (Pearson correlation shows p-value below 10%). This result provides a crucial inference that the poor quality of corporate governance may lead to poor quality of accounting information due to the increase in attitude toward earnings management activities.

The correlation coefficient of P and corporate governance quality metrics shows a significant negative correlation with LED and significant positive correlation with MSEG, CLOSE, and B4. Suggesting; firms with CEO and chairman in different positions have a lower market value of the ordinary shares than firms with CEO and chairman in the same position. On the other hand, the multi-segment firms with a high percentage of insiders' ownership interest have a higher market value of ordinary shares.

In terms of the application of the code of corporate governance, the correlation results suggest a significant negative correlation with LED, a significant positive correlation with both CLOSE and B4. These results suggest that after the adoption of the code of corporate governance, firms with CEO and chairman in the same position and insiders' ownership interest have increased, as an indicator of the weak corporate governance structure. However, the attitude toward hiring big four auditors has increased in that period.

Regarding the control variable, SZ has a significant positive correlation with GOVCOD, MSEG, and CLOSE; it also has a significant negative correlation with LED. These results document that the larger firms with more than one operating segment have more attitude to comply with the code of corporate governance. However, these firms have a higher percentage of insiders' ownership interest than smaller firms. Furthermore, larger firms may also have CEO and chairman in the same position more than smaller firms. ATO has a significant negative correlation with LED and MSEG. Finally, CFO negatively and significantly affects GOVCOD; significantly and positively affect the MSEG.

5.3.3. Multiple Regression Analysis

The previous sections in this research stream provide information about the initial trends and relationships between IFRS mandatory adoption, corporate governance quality metrics, quality of accounting information, and firm value. The following section provides regression analysis using two models. The first regression model examines the effect of corporate governance quality on the quality of accounting information in light of IFRS mandatory adoption. The second regression model investigates the corporate governance quality impact on the firm value in light of IFRS mandatory adoption.

5.3.3.1. The results of testing the fourth hypotheses

The fourth hypothesis tends to examine the impact of corporate governance quality metrics on the quality of accounting information and firm value during the period of IFRS mandatory adoption. Table 5.25 presents the multiple regression results for Equation (11). The results indicate that the coefficient of the interaction between IFRS mandatory adoption and the adoption of the code of corporate governance is negative and statistically significant, with a p-value below 5%. This result suggests that the adoption of IFRS beside the code of corporate governance leads to a decline in earnings management that is operationalized using Discretionary Accruals and enhances the overall quality of accounting information. The

coefficient of LED is significantly and positively related to Discretionary Accruals, but the interaction between this variable and ADOP is negative and insignificant. In the same line, the coefficient of the interaction between MSEG and ADOP is negative and statistically significant. Implying, firms with multiple segments and adopting IFRS have a lower DAC. Regarding control variables, both SZ and ATO have a significant and positive relationship with DAC. Operating cash flows significantly and negatively related to DAC.

Panel B of Table 5.25 presents the results of the multiple regression analysis for Equation (12). The coefficient of LED is a negative and statistically significant relationship with the market value of the outstanding ordinary shares (with a p-value below 5%). This result suggests that firms with CEO and chairman in different position have a lower market value of the outstanding ordinary shares. β_5 , which represents the interaction between ADOP and LED, has a significant positive impact on the market value of the ordinary shares. Suggesting, in the period of the mandatory adoption of IFRS, firms having CEO and chairman in a different position have a higher firm value than those with CEO and chairman in the same position. MSEG shows a significant positive impact on the market value of the ordinary shares, suggesting firms with multiple segments have a higher market value than those with a single segment. β_7 , which represents the interaction between ADOP and MSEG, has a significant adverse effect on the market value of the ordinary shares.

This result documents the firms with more than one segment after the mandatory adoption of IFRS have a higher market value of the ordinary shares. CLOSE, in interaction with ADOP, has a significant and positive effect on the market value of the ordinary shares. The positive β_{11} coefficient of the interaction between ADOP and B4 means; in the IFRS mandatory adoption, firms that are audited by one of the big four auditors have a higher market value. Regarding control variables, SZ and CFO have a significant and positive relationship with the market value of the ordinary shares.

Table 5.25. Regression results of the corporate governance effect on the accounting quality during IFRS mandatory adoption period

$DAC_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 GOVCOD_{it} + \beta_3 ADOP_{it} * GOVCOD_{it} + \beta_4 LED_{it} + \beta_5 LED_{it} * ADOP_{it} + \beta_6 MSEG_{it} + \beta_7 MSEG * ADOP_{it} + \beta_8 CLOSE_{it} + \beta_9 CLOSE_{it} * ADOP_{it} + \beta_{10} B4_{it} + \beta_{11} B4_{it} * POST_{it} + \beta_{12} SZ_{it} + \beta_{13} ATO_{it} + \beta_{14} CFO_{it}$ $P_{it} = \beta_0 + \beta_1 ADOP_{it} + \beta_2 GOVCOD_{it} + \beta_3 ADOP_{it} * GOVCOD_{it} + \beta_4 LED_{it} + \beta_5 LED_{it} * ADOP_{it} + \beta_6 MSEG_{it} + \beta_7 MSEG * ADOP_{it} + \beta_8 CLOSE_{it} + \beta_9 CLOSE_{it} * ADOP_{it} + \beta_{10} B4_{it} + \beta_{11} B4_{it} * ADOP_{it} + \beta_{12} SZ_{it} + \beta_{13} ATO_{it} + \beta_{14} CFO_{it}$						
	Panel A			Panel B		
	Dependent Variable: DAC			Dependent Variable: P		
Indep. Variables	Coef.	t-stat.	Sig.	Coef.	t-stat.	Sig.
ADOP	0.583**	2.072	0.039	-0.404*	-1.719	0.087
GOVCOD	-0.110	-1.370	0.172	0.073	0.788	0.431
GOVCOD*ADOP	-0.405**	-2.035	0.043	0.025	0.266	0.790
Lead	0.303**	2.418	0.016	-0.443**	-2.892	0.004
Lead*ADOP	-0.249	-1.275	0.203	0.372*	1.680	0.094
MSEG	0.128	1.318	0.189	0.457***	4.120	0.000
MSEG*ADOP	-0.236**	-2.037	0.043	-0.500***	-3.955	0.000
CLOSE	-1.594	-0.599	0.550	-3.391	-1.652	0.10
CLOSE*ADOP	1.616	0.607	0.544	4.113*	1.728	0.085
B4	0.023	0.272	0.786	-0.004	-0.041	0.967
B4*ADOP	-0.031	-0.233	0.816	0.276**	2.007	0.046
SZ	0.186***	2.670	0.008	0.197**	2.345	0.020
ATO	0.276***	3.912	0.000	0.098	1.384	0.167
CFO	-0.230***	-3.726	0.000	0.180***	3.063	0.002
R²	0.13			0.21		
Durbin-Watson (DW)	1.656			1.462		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed).

5.3.3.2. Robustness test for fourth hypotheses

To check the robustness of the developed models in this dimension, we repeat the regression processes by employing a different proxy of accounting information quality. In this test, the predictability of accounting information (PRED) is used instead of DAC as the dependent variable.

Table 5.28 shows the results of the regression analysis for the robustness check for the fourth hypothesis seems close to the results of the primary regression. GOVCOD has a significant and negative effect on PRED. This result suggests that the adoption of a code of corporate governance leads to improvement in the predictive value of the accounting information. B_3 , which represents the interaction between ADOP and GOVCOD, has a significant and negative impact on the predictability of accounting information. This result supports the previous regression analysis results that there is an essential role of IFRS besides the adoption of the corporate governance code in improving the quality of accounting information.

Concerning the MSEG variable, it has a significant and positive effect on the predictability of accounting information. Implying, firms with multiple segments have a higher proxy of PRED as an indicator of the low accounting quality. However, β_7 , which represents the interaction between MSEG and ADOP, this coefficient has a significant adverse effect on PRED. This result suggests that, when the sample firms apply IFRS in the mandatory base, the accounting quality has improved in firms whose more than one segment. In respect of CLOSE, it adversely affect the PRED; whereas, the coefficient of the interaction between CLOSE and ADOP has a significant and positive effect on the PRED. It is suggesting, after the mandatory adoption of IFRS, the increase in the insiders' ownership interest leads to poor quality of accounting information.

Table 5.26. Robustness test for H₄

	Dependent Variable: PRED		
Indep Variables	Coef.	t-stat.	Sig.
ADOP	0.495	1.889	0.060
GOVCOD	-0.258***	-2.513	0.012
GOVCOD*ADOP	-0.507***	-2.693	0.007
Lead	-0.059	-0.484	0.629
Lead*ADOP	0.099	0.535	0.593
MSEG	0.507***	5.243	0.000
MSEG*ADOP	-0.449***	-3.963	0.000
CLOSE	-4.651*	-1.942	0.053
CLOSE*ADOP	4.644*	1.938	0.054
B4	-0.081	-0.935	0.351
B4*ADOP	-0.045	-0.356	0.722
SZ	0.105	-1.582	0.115
ATO	0.056	0.866	0.387
CFO	-0.111*	-1.924	0.055
R²	0.15		
Durbin-Watson (DW)	1.069		

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

This research stream combines the role of mandatory adoption of IFRS with corporate governance quality to provide insights about the importance of these two factors in improving the quality of accounting information, hence improving the firm value. The first result shows the adoption of corporate governance code beside IFRS mandatory adoption declines the earnings management and enhances firm value. Therefore, we accept the fourth hypothesis.

It is necessary to adopt and apply IFRS in a robust corporate governance environment to have more favorable results regarding the improvement in accounting information quality and firm value. As stated earlier in this research stream, the adoption of IFRS besides the existence of high quality of corporate governance code declines earnings management. It improves the predictive value of accounting information. However, other metrics of the quality of corporate governance, including leadership style and insiders' ownership interest, still negatively impacted the quality of corporate governance.



6. CONCLUSION AND IMPLICATIONS

6.1. Discussion of the Results

The primary motivation of this study is the presence of mixed and diverse results within the prior research studies that carried out so far. These studies used different methods and measures to examine the relationship between study variables. This study provides evidence that the introduction of IFRS among Palestinian listed firms is associated with accounting information quality, cost of capital, and firm value. Besides, the study provides a shred of evidence that during the mandatory adoption of IFRS, the quality of corporate governance affects earnings management activities, and the value of the firms.

As stated in the previous chapters, using commonly applied statistical models, this study builds on several prior research works such as Barth et al. (2008), Chen et al. (2010), Iatridis (2010), and Ahmed et al. (2013). They examined the effect of IFRS adoption on the quality of accounting information. On the other hand, Dechow and Divhev (2002), Francis et al. (2005), Gaio and Raposo (2011), and Eliwa et al. (2016) examined the effect of accounting information quality on the cost of capital and firm value. Regarding the corporate governance quality effect, Leuz et al. (2003), Francis and Wang (2008), and Demirkan et al. (2012), who study the association of IFRS application with accounting and corporate governance quality.

Depending on these studies and other more recent studies such as Houqe et al. (2016), Rodríguez García et al. (2017), Da Silva and Nardi (2017), Trimble (2018), Hwang, Hur, and Kang (2018), Kouki (2018), and Abdullah et al. (2018), this chapter provides a valuable discussion of the concluded empirical results in terms of three dimensions—first, the role of applying the IFRS mandatorily on the accounting quality; second, the effect of accounting quality on the cost of capital and firm value in light of IFRS mandatory adoption; third, an assessment of the corporate governance effect on the accounting quality and the cost of capital in light of IFRS mandatory adoption.

6.1.1. The Mandatorily Adoption of IFRS and Accounting Quality

This study has arranged the measures of accounting information quality into two categories: First, earning management measures, which include: absolute discretionary accruals. Second, earning attributes that contain an in-depth analysis of both accounting and market-based earnings attributes. As stated earlier in the study methodology and empirical results chapters and to have a uniform direction of the results, the increase (decrease) in the earnings attributes measures means the lower (higher) quality of accounting information. We apply this rule to all measures of accounting quality.

In measuring the effect of IFRS mandatory adoption on earning management activities, we use the absolute discretionary accruals using the cross-sectional Jones model (Jones, 1991) as a measurement of earnings management activities. The results indicate that the absolute discretionary accrual is significantly lower in the IFRS mandatory adoption period. This result implies lower earnings management activities under IFRS, particularly the planned earnings management activities, hence the high quality of accounting information. This finding is consisting of the results by Chen et al. (2010), Iatridis (2010), Houqe et al. (2016), and Almaharmeh and Masa'deh (2018). These studies find a decline in the absolute discretionary accrual after the introduction of IFRS in Europe and the UK. In the same area, Perafán Peña and Franco (2017) find an improvement in earning quality in the UK but only by large companies. Ismail et al. (2013) and Baig and Khan (2016) find a similar finding but in developing countries such as Malaysia and Pakistan. Other studies also applied a similar model in different countries and found a similar result of improving the financial accounting information quality such as Horton et al. (2013) and Da Silva and Nardi (2017). On the contrary, other studies such as Ahmed et al. (2013), Li and Yang (2016), and Yurisandi and Puspitasari (2017) find an increase in the absolute discretionary accruals after adopting IFRS as an indicator of the low quality of accounting information that under IFRS. However, Sun et al. (2011), Liu and Sun (2015), Bryce et al. (2015), Christensen et al. (2015), Black and Nakao (2017), and Trimble (2018) find no significant difference in the the discretionary accruals before and after IFRS adoption.

Regarding earnings attributes, our study makes use of eight earnings attributes to measure the quality of accounting information. Francis et al. (2004) classified these measures into two

categories: accounting-based earnings attribute which contain: accrual quality, earnings persistence, earnings predictability, and smoothness; and market-based earnings attribute which contains value relevance, timeliness, and smoothness.

Regarding the accrual quality measure, during the IFRS mandatory adoption periods, accrual quality is higher than that in the IFRS pre-adoption period. This result implies the increase in earnings management after the mandatory adoption of IFRS. However, this measure does not distinguish between discretionary (intentional) and non-discretionary (unintentional) accruals. In light of decreasing in discretionary accrual and increasing in accrual quality measure, this is an indication that the earnings management activities during the mandatory adoption period of IFRS are unintentional. The results that are reported by Chen et al. (2010) and Kabir and Laswad (2015) are inconsistent with the study's results; they provide evidence of the improvement of accounting quality after the adoption of IFRS among different European countries. However, studies such as Bryce et al. (2015) find stability in accrual quality measures between IFRS pre- and post-adoption period. Similarly, Trimble (2018) does not find a clear relationship between IFRS adoption and accrual quality.

On the other hand, both predictability and persistence measures are significantly lower in the IFRS mandatory adoption period than that in IFRS pre-adoption period. Implying, IFRS based accounting information is more persistent and have a more predictive and forecasting value of earnings and cash flows, hence higher quality of accounting information. This result is in line with the results of Ashbaugh and Pincus, (2001), Horton et al. (2013), and Houque, Easton, and van Zijl (2014) who used analysts' absolute forecasting errors and found a decline in this measure as an indicator of the improvement in the predictability power of the IFRS- based earnings. Similarly, using different statistical methods, Sun et al. (2011) find the application of IFRS leads to the improvement of earnings persistence. Our result is also inconsistent with Jin (2017), who find, lower earnings persistence after the introduction of IFRS. However, Atwood et al. (2011), Liu and Sun (2015), and Cutillas-Gomariz et al. (2016) suggest that there is no difference in earnings persistence and predictability before and after the adoption of IFRS.

Our findings regarding market-based earnings attributes show both value relevance and timeliness have a declining indicator in IFRS mandatory adoption period. They are implying

an improvement in the IFRS-based accounting quality. This result is in line with the result of Barth et al. (2008), they conclude a more value relevance of earnings after the adoption of IAS. Similarly, Iatridis (2010), Devalle et al., (2010), Kim and Shi (2012) Müller (2014), and Cutillas-Gomariz et al. (2016) conclude that earnings after the adoption of IFRS have become more value relevant and have more explanatory power of the variation in return and stock prices. Regarding emerging countries such as Malaysia, Indonesia, Brazil, and Turkey, the study's results regarding value relevance indicator support the results of Ismail et al. (2013), Chebaane and Othman (2014), and Yusrina, Mukhtaruddin, Fuadah, and Sulong, (2017). They find similar results in Malaysia, Indonesia, and many different emerging countries in Asia and Africa. Regarding Latin America, Black and Nakao (2017), Rodríguez García et al. (2017), and Da Silva and Nardi (2017) provide evidence of improvement in value relevance of earnings after the adoption of IFRS in Brazil and other Latin American countries. In the same line as our findings, Temiz and Güleç (2018) also find the same result using a sample from Turkey. However, Hwang et al. (2018), Kouki (2018), and Morais et al. (2018) show an inconsistent result, who find the adoption of IFRS did not improve the value relevance using a sample from different countries.

In studying the IFRS impact on the timeliness of earnings, Rodríguez García et al., (2017) provide evidence of the presence of IFRS effect on timeliness only among large companies in emerging markets. In the last market-based earnings attribute conservatism, the study shows no significant difference in conservatism between IFRS pre- and post- mandatory adoption period. This result is consistent with Black and Nakao (2017), who find companies with low economic incentives show no significant change in conservatism. In contrast with our results, Chan, Hsu, and Lee (2015) measure conservatism using a timely loss recognition and find an increase in timely loss recognition after the mandatory adoption of IFRS in Europe.

6.1.2. Impact of Accounting Quality on the Cost of Capital and Firms Value during the Mandatory Adoption of IFRS

This section provides evidence about the pricing of information risk; prior studies operationalized this type of risk using earnings management and earnings attributes measures. Thus, the low quality of accounting information implies an additional risk that could lead to an increase in the levels of cost of capital and reduce firm value. As stated earlier, the cost of capital is measured using adjusted earning price ratio using a similar model that was used by Francis et al. (2005) and Eliwa et al. (2016). Following Gaio and Raposo (2011), this study based on Tobin's Q as a measure of firm value.

Under the established guideline to understanding the trend of accounting information quality measures, which states the increase in earnings management and earnings attributes indicators mean the low quality of accounting information, the opposite is also correct. The results show a positive relationship between accounting-based earnings attributes and the cost of equity capital. It implies that the decline in accounting-based earnings attributes proxies (higher quality of accounting information), leads to lower information risk, and thus lower cost of equity capital. The indicators of the quality of accounting information using accrual quality, discretionary accruals, persistence, smoothness, and conservatism show a positive relationship with the cost of capital. However, market-based earnings attributes (value relevance and timeliness) have the opposite direction. This result disagrees with that reported by Francis et al. (2004). They find a significant positive relationship between earnings attributes, which are measured using different statistical models and the cost of capital. In this article, the effect of accounting-based earnings attributes is higher than market-based earning attributes. Besides, accrual quality is the dominant attribute in terms of the explanatory power of the variation in the cost of equity capital. Our study is different in two sides: First, the market-based earnings attributes have a negative association with the cost of equity capital. Second, we use absolute discretionary accrual as an additional attribute that was not used by Francis et al. (2004). In the same line, accrual quality in our study is a dominant attribute in explaining the variation in the cost of capital.

This result comes in conformity with Easley and Hara (2001), indicates that the correct choice of accounting standards plays an important role in obtaining high-quality accounting information, thus reaching a low level of the cost of capital, which in turn will help attract investments. This result confirms the findings of Leuz and Verrecchia (2005). They find that the quality of information enhances the predictability power of expected future cash flows, which is considered an essential factor in making wise and informed investment decisions.

Our result is also consistent with Francis et al. (2005), who use accrual quality attributes as a measure of accounting quality. They find a positive relationship between accrual quality and cost of equity capital, which is measured by adjusted earning price ratio—implying; that the target investor prices the information risk. Similarly, Lambert et al. (2007) provide evidence about the quality of accounting information, taking in the consideration the quality of disclosure in its effect on the overall accounting information quality; they find that the quality of accounting information tends to decline the cost of equity capital. In line with our study's results, Gray, Koh, and Tong (2009) use both accrual quality and discretionary accruals as a measure of accounting quality. They provide evidence of a positive relationship between accrual quality and the cost of capital. However, they do not find a significant association between discretionary accruals and the cost of capital.

Consistent with our results, Bhattacharya et al. (2012) also find a statistical and reliable relationship between both accrual quality and discretionary accruals and cost of capital. In compliance with our results, Eliwa et al. (2016) find a positive and significant association between these measures and the cost of equity capital. Moreover, in this study, the predictability proxy explains more variation in adjusted earning price ratio, followed by accrual quality, then persistence, and smoothness. The result of Eliwa et al. (2016) is in line with our study's results. However, in our results, accrual quality is dominant over other proxies in its ability to explain the variation in adjusted earnings price ratio.

Dakhlaoui et al. (2017) provide evidence that is inconsistent with our study's result. They find an insignificant effect of accrual quality on the cost of capital. Xing and Yan (2019) find the opposite direction of the effect of accrual quality on systematic risk. They suggest that firms with high accrual quality (i.e., low quality of accounting information) tend to have a more significant reduction in systematic risk after the following of SOX 2002.

Regarding the effect of IFRS adoption on the cost of capital and firm value, our results indicate a rise in the cost of capital and a reduction in firm value after the mandatory adoption of IFRS. However, in the observation that has a high accounting quality during the IFRS mandatory adoption, it shows a decline in the cost of capital and enhancing firm value. Notably, in the regression models that operationalize accounting information quality using accounting-based earnings attributes (accrual quality, persistence; predictability; smoothness; and discretionary accruals), the cost of capital is declining after the mandatory adoption of IFRS. However, other measures show the different directions of the relationship. This result provides different pieces of evidence depending on the nature of accounting quality measures in our model. More specifically, during the mandatory adoption of IFRS, the lower earnings management, the more persistence and predictability of earnings and cash flow, and lower smoothness of earnings result in a decline in the cost of equity capital.

In contrast with our results, Daske et al. (2013) provide evidence that there is no reduction in the cost of capital after the adoption of IFRS. However, Daske et al. (2008) find an increase in market liquidity, a decrease in the cost of capital, and an increase in Tobin's Q after the adoption of IFRS. Turki et al. (2017) find a negative relationship between IFRS adoption and the cost of capital as an indicator of lower information asymmetry. Similarly, Da Silva and Nardi (2017), using data from Brazil, find an increase in earning quality after the adoption of IFRS, which leads to a reduction in the cost of capital in the IFRS adoption period.

Regarding firm value, our study's results show improvement in firm value (which is measured by Tobin's Q) due to a decline in the cost of equity capital because of the quality of accounting information. The effect of accounting information quality on the firm value is different from one measure to another. Discretionary accruals, accrual quality, value relevance, timeliness, conservatism operationalize accounting information quality and have a negative relationship with firm value. After the mandatory adoption of IFRS, firms with high information quality that are measured using discretionary accruals, value relevance, timeliness, and conservatism lead to the high value of the firm. This result supports the findings of Gaio and Raposo (2011). They use accounting-based earnings attributes as measures of accounting quality and find an increase in Tobin's Q due to the quality of accounting information.

Our study is different from the above -discussed kinds of literature. These studies have undertaken in developed countries such as the US, the UK, and Australia. Hence, there is a lack of studies in less developed or emerging countries that can interpret the role of accounting quality in explaining the variation in the cost of capital and firm value. There is a lack of studies, which measure the effect of accounting quality on firm value. Most of the above studies take specific measures of accounting quality, while our study provides a comprehensive framework of many accounting and market-based measures of accounting quality. Finally, the above-discussed kinds of literature did not interact with the effect of the accounting information quality on the cost of capital during the IFRS adoption period.

6.1.3. Corporate Governance and Accounting Quality Impact on the Cost of Capital during the Mandatory Adoption of IFRS

Most of the prior studies indicate how the quality of accounting information positively related to corporate governance quality. These studies used different measures of accounting quality, such as discretionary accruals and accrual quality. However, there is a lack of research on the role of IFRS adoption in improving corporate governance quality. Therefore, our results in this dimension show different trends of corporate governance indicators after the mandatory adoption of IFRS.

During the IFRS adoption period, the adoption and implementation of the code of corporate governance reduce the level of earnings management by declining the discretionary accruals. Furthermore, Multiple-segment firms after the mandatory adoption period have lower earning management activities due to the decline in discretionary accruals.

Although the existence of the code of corporate governance, several limitations may negatively affect the quality of corporate governance and the quality of accounting information. Insiders' ordinary shares ownership interest increases, and many listed firms have a dual role of CEO and chairman. These trends lead to a positive correlation between discretionary accruals and both insiders' ownership interest and the leadership style. Implying, the increase in insider ownership interest and the existence of CEO and chairman in the same

position leads to high discretionary accrual, which means low accounting information quality and, at the same time, higher cost of capital and lower firm value. These results come in the same line and consistent with Abdullah *et al.* (2018), Gabrielsen *et al.* (2002), Krismiaji and Raharja (2018), and Al Daoud (2018). They find that the managerial ownership and the duality of chairman and CEO position increase the earnings management activities. On the contrary, Limpaphayom and Manmettakul (2002) show that managerial ownership raises accounting quality.

However, agency problem that is measured depending on whether a firm has single or multiple segments. Assuming multiple-segments firms have more information asymmetry and agency problem than single-segment firms. The results show, large and multiple-segment firms that adopt IFRS mandatorily have higher accounting quality and lower firm value than single-segment firms. One of the primary studies in this field, Ball, Kothari, and Robin (2000), who use a large sample from different countries, find corporate governance issues affect accounting conservatism, which facilitates monitoring of managers' behavior toward earning management. Also and consistent with our study's result, common law accounting standards (IAS) has a more transparent approach to disclosure and higher corporate governance quality.

Prior researches suggest that there is a significant association between corporate governance quality and quality of accounting information. Leuz (2003) finds that the economy with good governance, strong investor protection, and the large stock market has low earning management. Our result was also consistent with Jiang *et al.* (2008). They find a significant and negative relationship between discretionary accruals as a measure of accounting information quality and corporate governance score. These results are in line with the result of Aksu and Espahbodi (2016). They use transparency and disclosure scores as a measure of corporate governance quality and find an improving indicator of transparency and disclosure score during the voluntary IFRS adoption period. In our study, we use a measure of whether the chairman and CEO is the same person in the company or not to be one measure of corporate governance quality. We find firms with chairman and CEO are different as an indicator of a higher quality of corporate governance and adopt IFRS have a higher accounting information quality. Similarly, Abdullah *et al.* (2018) used data from Malaysia as an example of an emerging country and find a significant relationship between boards of directors'

characteristics and earning quality during the IFRS adoption period. Suggesting, the adoption of IFRS and corporate governance principles lead to a higher quality of accounting information.

Our results are also consistent with that reported by Shin and Kim (2018). They find the more independence of the board of directors and more foreign ownership corporate governance leads to a lower-earning gap, implying more accounting information quality. The earning quality is higher when corporate governance is effective.

Regarding agency problem and information asymmetry, we use whether firms report to single or multiple segments as a measure of the agency problem. Our results show that multiple-segment firms have a higher accounting quality and lower cost of capital than single-segment firms. This result is consistent with Demirkan et al. (2012). They provide evidence that the accounting quality for multiple-segments firms is higher than that in single-segment firms using absolute discretionary accruals as a measure of accounting information quality. Moreover, they find with the same level of accounting quality, the multiple-segments firms' cost of capital is lower than single-segment firms. Our results add an interaction between multiple-segments firms and IFRS mandatory adoption. Results show that during IFRS mandatory adoption, multiple segments of firms have higher accounting information quality and higher firm value than single-segment firms. Our results are inconsistent with Leuz (2003), who find both IAS and GAAP have the same ability to reduce information asymmetry.

Finally, to have a complete result about corporate governance quality, we use a big four audit firm variable as a measure of audit quality, which plays an essential role in corporate governance quality. Our results show an attitude toward big four auditors after the mandatory adoption of IFRS among Palestinian listed firms. Besides, our results show that firms that use a big four auditors have higher accounting information quality than those who use non-big four auditors. Moreover, firms that depend on big four during the IFRS mandatory adoption period have higher accounting quality and lower cost of capital. Our result is consistent with Francis and Wang (2008), who find the earnings quality is higher in firms that hire big four audit firms. Besides, Dakhlaoui et al. (2017) find the use of big four audit firms improves the quality of information and reduces the cost of capital.

Results regarding the percentage of insiders' ownership interest, we find an increase in this percentage after the adoption of IFRS with an insignificant effect on accounting information quality. However, in IFRS adoption period, firms with high insiders' ownership interest, have a lower firm value. Inconsistent with Chen et al. (2010), who find a lower percentage of insiders' ownership interest in the IFRS adoption period. Gaio and Raposo (2011) also find a negative association between insiders' ownership interest and the firm's value. However, our result consistent with Krismiaji and Raharja (2018), who find both management ownership rights and institutional ownership negatively affect the cost of capital.

6.2. Possible Limitations and Future Research

The primary motivation of this study is to make a combination between two streams of researches: First, studies investigate the impact of accounting quality on the cost of capital and firm value; second, studies investigate the impact of IFRS on accounting quality. The main goal of this research is to investigate the effect of accounting quality on the cost of capital and the firm value during the IFRS mandatory adoption period. However, similar to any other social science research works, this study has many limitations and shortcomings. These limitations are illustrating in different sides: the availability of data, Palestine's unique political and economic environment, nature of variables used, data collection methods, and the nature of IFRS adoption in Palestine.

The main limitation of the study is the relatively small observation period due to the time of mandatory adoption of IFRS among Palestinian listed firms. The sample period extends from the years 2003 to 2016, which separated into two comparable periods 2003-2007 as IFRS pre-mandatory adoption period; 2008-2016 as IFRS post-mandatory adoption period. As a result, we have only 14-year data from 27 listed firms. To have more reliable data analysis, we need at least 20-year, because most accounting quality measures and variables such as accrual quality measures rely on data from rolling ten-year windows. Using rolling data and lag variables requires obtaining a large number of observations.

On the other hand, the selected sample of the listed firms has a constraint of their listing time in PEX. Many firms have listed after the mandatory adoption of IFRS, we find about 21-firm are listed after the mandatory adoption period of IFRS. Therefore, we cannot take these firms in our sample due to a lack of comparability between pre- and post- IFRS mandatory adoption periods of these firms. The sample period from 2005-2008 contains several economic and political problems. In this period, an internal war occurred between Palestinian political parties, which negatively affected the overall Palestinian economy.

Moreover, this period has several declines and fluctuations due to the world financial crises. All of these events may bias the results and could lead to misinterpretation of the findings. These crises and problems have directly or indirectly influenced almost all of the listed firms in Palestine. However, these problems do not control in the analysis. Future researches could make use of this information and can take it into considerations in empirical analysis and results. Analysis with more data available about the reporting years, with a stable environment, could have more reliable results.

The limitations above could lead to another limitation; this study depends on data from one country; this country is different from all other countries in the world. Palestine is not an entirely independent country; its economic and political decisions wholly depend on Israel. These issues may limit the generalizability of the results to the only Palestinian market, and even it cannot apply to other countries. This limitation will open the door to new research works in different countries, especially in the Middle East area. Furthermore, we can apply these models in neighboring countries such as Jordan, Egypt, and other Middle East countries.

This study investigates the impact of the quality of accounting information on the cost of capital and firm value in light of IFRS adoption. Future research may take the effect of a specific standard or group of standards. For instant, the revenue recognition from a contract with customers (IFRS 15) and a newly updated standard for leases (IFRS 16), future research can examine the effect of this standard on accounting quality and other firm's value indicators.

Regarding the used variables in investigating the accounting information quality, the study contains more than one measure of accounting quality, and every measure has its characteristics, which could lead to different results. All of the used measures do not provide

the same results of the impact of IFRS on accounting quality, cost of capital, and firm value. Every measure has benefits, limitations, and drawbacks that need further investigations.

In this study, we relied on collecting information from secondary sources by collecting data manually by extracting the numbers necessary to calculate the study variables from companies' financial reports. Such methods of data collection take a long time, especially since there are some companies whose data are not available electronically over the Internet. Also, some reports do not contain the non-financial information needed to calculate some of the study variables, such as information related to measuring the variables related to corporate governance.

Finally, this study relied completely on the use of statistical models, which are mainly based on quantitative information, with no reliance on qualitative information sources. Therefore, it is better to mix both quantitative and qualitative information by doing interviews with the competent authorities and bodies in the field of applying and developing accounting standards in Palestine. And discuss the results and implications of the process of expanding the scope of application of these standards.

6.3. Study's Implications

This research work contains many implications, which can be summarized as follows:

1. Research related to the application of IFRS is widespread, and each of these research gives many benefits that enrich the debate on this topic. Thus, this research provides an important addition to these discussions, which relate to the role of applying these standards in raising the quality of accounting information. On the other hand, the application of these standards influencing the decisions related to the capital market by reducing information risks, which lead to a reduction in the cost of capital and an increase in the firm value. Therefore, these results can play a prominent role in directing legislators and regulators who responsible for the accounting profession in Palestine to pay attention to such standards as well as activating some of the standards

not applied effectively in Palestine, such as IFRS for SMEs especially, the largest part of the Palestinian economy represented by the SMEs.

2. This study provides evidence that even the existence of weak governance among some of the Palestinian listed firms, the accounting information quality is relatively improved after the mandatory adoption of IFRS.
3. Palestine is a new and emerging country and needs too much effort to have sustainable economic development. The central part of the macroeconomic of any country is an investment. As a result, it is necessary to attract investors in this country. Therefore, applying high-quality accounting standards and having a high quality of financial reporting will lead to a decline in the information risk and cost of capital and finally attract more investment opportunities.

6.4. Conclusion

Our thesis aims to investigate the effect of the IFRS mandatory implementation on the quality of accounting information. Furthermore, it has measured the effect of accounting information quality on the cost of capital and the firm's value during the IFRS mandatory adoption period. Due to the importance of corporate governance quality, the study has examined the association between corporate governance quality and accounting quality under the mandatory adoption of IFRS. In other words, this study provides an answer on the question of to what extent the implementation of IFRS can add value to the accounting information quality by reducing information risk, which could lead to reduce the cost of capital and raise the firm's value.

The study's hypotheses have tested based on hand-collected data for a sample of 27 listed firms in PEX between 2003 and 2016 and by using several measures of accounting quality. This study measures the accounting information quality measures in two comparable periods, before the mandatory adoption period of IFRS (pre-2007 or from 2003 to 2007); after the mandatory adoption period of IFRS (post-2007 or from 2008 to 2016). Based on these measures, several statistical models are developed and arranged in three research streams. The first research stream investigates the impact of IFRS mandatory adoption on accounting

quality. The second stream makes use of the interaction between IFRS and accounting quality measures to examine the effect of accounting information quality on the cost of capital and firm value during the IFRS mandatory adoption period. The last research stream of this study is the impact of corporate governance quality on accounting information quality and firm value during the mandatory adoption of IFRS. These streams aim to provide a complete picture of the importance of applying IFRS not only in enhancing the quality of accounting information and reducing the cost of capital but also in the improvement of the quality of corporate governance. These three streams also imply the role of IFRS on the quality of accounting information, information risk, information asymmetry, and agency problem.

The study's results have come in response to the main objective of IASB in achieving cohesive, consistent, homogenous, comprehensive, and worldwide accepted accounting standards. Today, over 160-country around the world have applied IFRS as a mandatory requirement to going public in these countries. Palestine, even of its size and its complicated political and economic conditions, still strives to apply IFRS thoroughly. Because of its benefits of high quality of accounting information, which may attract many investment opportunities that are necessary to maintain sustained economic development. This study extends the previous IFRS relate research streams by investigating to what extent the mandatory adoption of IFRS can add value by enhancing accounting quality, which is necessary to reduce information risk and cost of capital and thus, increase the firm value.

The first dimension of this research investigates the quality of accounting information before and after the mandatory adoption of IFRS in Palestine. We investigate the quality of accounting information using earning management activities, including absolute discretionary accruals. Furthermore, this study includes an investigation of accounting information quality using accounting-based earnings attributes including accrual quality, the persistence of earnings, predictability of earnings and smoothness, market-based earnings attributes including value relevance, timeliness, and conservatism. The results in this stream are mixed and do not walk in the same direction. Regarding earnings management indicators, the results show absolute discretionary accruals that investigate intentional earnings management show a positive effect on the quality of accounting information due to the adoption of IFRS.

On the other hand, most accounting and market based earning attributes show an improvement in earning quality in the IFRS mandatory adoption period as an indicator of high quality of accounting information in that period. Except for accrual quality, all of the accounting-based earning attributes proxies declined as an indicator of the improvement in accounting quality in the IFRS mandatory adoption period. Implying, in IFRS mandatory adoption period less earning management, the predictability and persistence of earnings have improved. Besides, regarding market-based earnings attributes, in IFRS mandatory adoption period, the accounting information is more value relevant and timely reported a negative result.

Regarding the effect of accounting information quality on the cost of capital and firm value during the IFRS mandatory adoption period, there are indicators that the investors price the information risk due to the negative relationship between quality of accounting information and the cost of equity capital. The poor quality of accounting information provides additional risk; the investors need compensation for holding it. To examine the effect of accounting information quality on the cost of capital, we use an interaction variable between IFRS adoption variable and accounting quality measures. The results show a positive relationship between accounting-based earnings attributes and the cost of equity capital. The higher proxies of absolute discretionary accruals, accrual quality, persistence, and predictability (an indicator of low accounting information quality), leads to a high cost of capital and low firm value. However, the market based earning attributes and cost of capital is negatively related. The primary conclusion from this research stream is that in the IFRS mandatory adoption period, the decline in the cost of capital results from low information risk due to the high quality of accounting information. However, market-based earnings attributes do not contribute to the decline of the cost of capital in the IFRS mandatory adoption period.

Regarding the firm's value effect, there is a positive relationship between both accounting and market-based earnings attributes and the firm's value. The lower level of discretionary accruals, accrual quality, persistence, value relevance, and timeliness proxies (as an indicator of high quality of accounting information) leads to a higher firm's value. Both accounting and market based earning attributes contribute to the improvement in the firm value.

The reliability of financial reporting is one of the central core principles of good corporate governance, and it's also necessary to mitigate the agency problem between management and

shareholder. Therefore, the third dimension of our research investigates the association between corporate governance quality and accounting information quality during the mandatory adoption of IFRS. During the mandatory adoption of IFRS, there is a decline in corporate governance quality due to an increase in insider ownership interest, and many listed firms have a dual role of CEO and board chairman. Moreover, there is a positive relationship between corporate governance quality indicators and earning quality proxies, implying weak corporate governance also associated with low accounting information quality. On the other hand, firms with big four auditors in IFRS mandatory adoption period have more accounting information quality and lower cost of capital.

However, even the development of IFRS in recent years provides positive consequences, several issues remain unsolved and need further investigation. Notably, there is no precise measure of accounting quality. Moreover, the flexibility and openness of IFRS as principle-based standards could create a problem of expanding the discretion available to the manager, which could lead to more earning management and low quality of accounting information. The results from this study may help standard setters to consider these issues in the future.



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APPENDIX

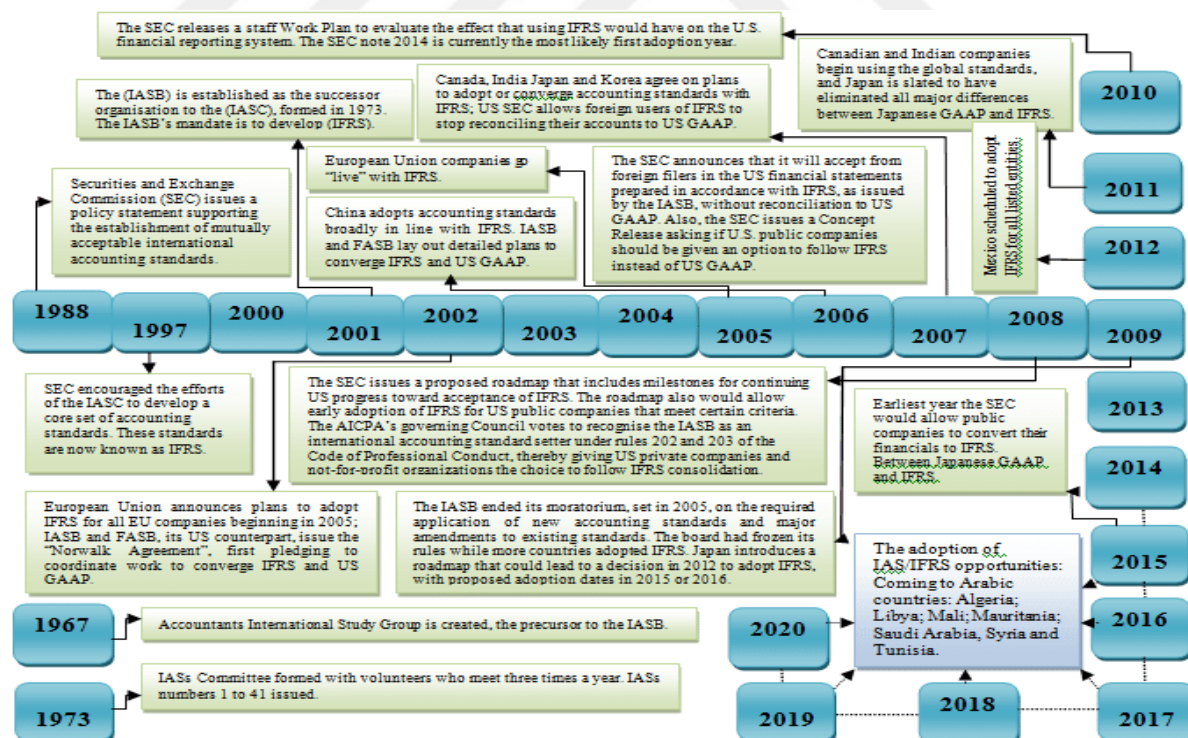
APPENDIX -1. The Issued Standards as of 2017

Standard Number	Description	Issuance Year
	The Conceptual Framework for Financial Reporting	2010
IFRS Standards		
IFRS 1	First-time Adoption of International Financial Reporting Standards	2003
IFRS 2	Share-based Payment	2004
IFRS 3	Business Combinations	2004
IFRS 4	Insurance Contracts (Superseded by IFRS 17)	2004
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004
IFRS 6	Exploration for and Evaluation of Mineral Resources	2006
IFRS 7	Financial Instruments: Disclosures	2005
IFRS 8	Operating Segments	2006
IFRS 9	Financial Instruments	2014
IFRS 10	Consolidated Financial Statements	2011
IFRS 11	Joint Arrangements	2011
IFRS 12	Disclosure of Interests in Other Entities	2011
IFRS 13	Fair Value Measurement	2011
IFRS 14	Regulatory Deferral Accounts	2014
IFRS 15	Revenue from Contracts with Customers	2014
IFRS 16	Leases	2016
IFRS 17	Insurance Contracts	2014
IAS Standards		
IAS 1	Presentation of Financial Statements	2003
IAS 2	Inventories	2003
IAS 7	Statement of Cash Flows	1992
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	2003
IAS 10	Events after the Reporting Period	2003
IAS 11	Construction Contracts (Superseded by IFRS 15)	1993
IAS 12	Income Taxes	1996
IAS 16	Property, Plant, and Equipment	2003
IAS 17	Leases (Superseded by IFRS 16)	2003
IAS 18	Revenue (Superseded by IFRS 15)	1993
IAS 19	Employee Benefits	2004
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	2008
IAS 21	The Effects of Changes in Foreign Exchange Rates	2003
IAS 23	Borrowing Costs	2007
IAS 24	Related Party Disclosures	2003

IAS 26	Accounting and Reporting by Retirement Benefit Plans	1987
IAS 27	Separate Financial Statements	2003
IAS 28	Investments in Associates and Joint Ventures	2011
IAS 29	Financial Reporting in Hyperinflationary Economies	2008
IAS 32	Financial Instruments: Presentation	2003
IAS 33	Earnings per Share	2003
IAS 34	Interim Financial Reporting	1998
IAS 36	Impairment of Assets	2004
IAS 37	Provisions, Contingent Liabilities, and Contingent Assets	1998
IAS 38	Intangible Assets	2004
IAS 39	Financial Instruments: Recognition and Measurement (Superseded by IFRS 9)	2003
IAS 40	Investment Property	2003
IAS 41	Agriculture	2008

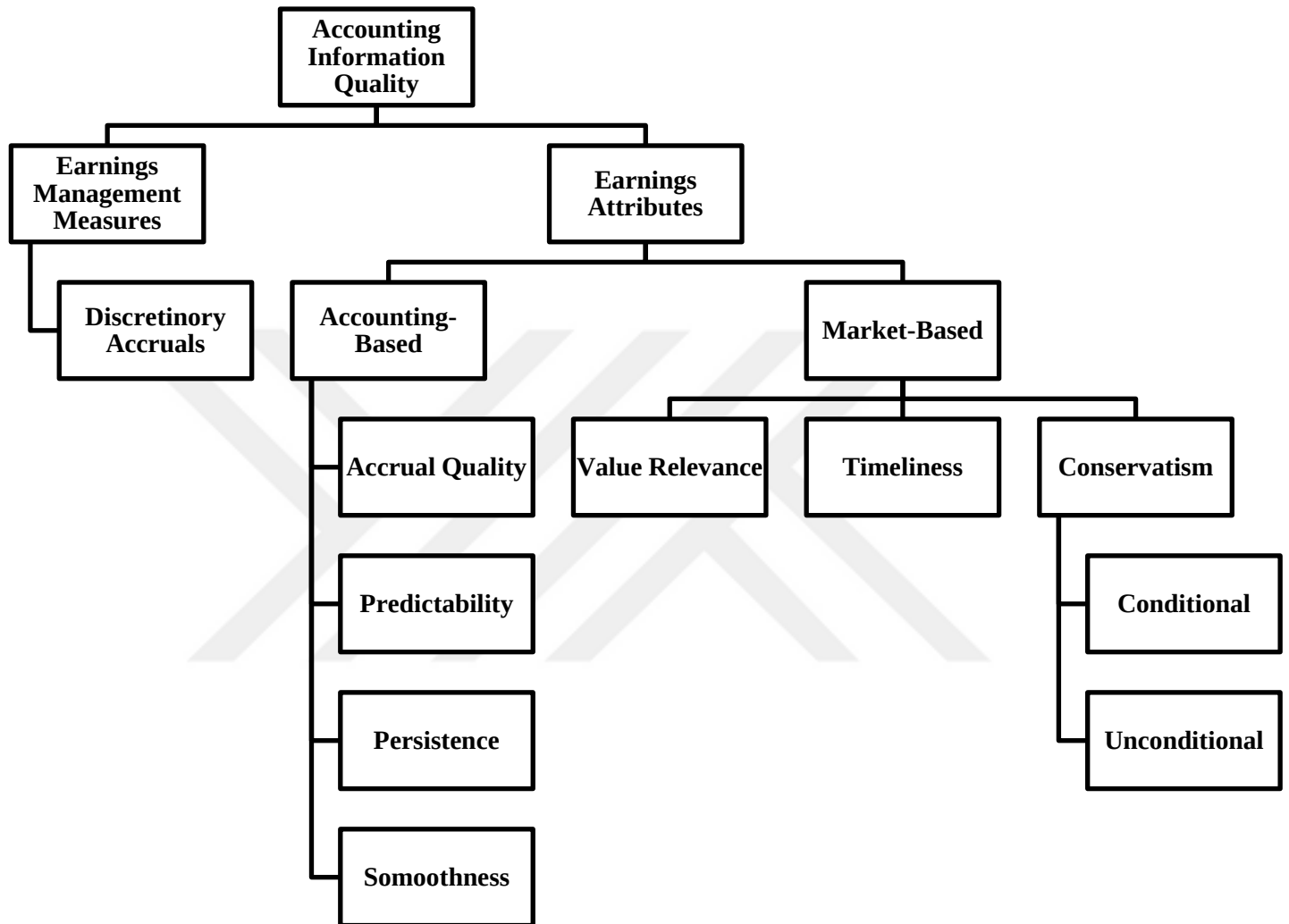
(Source: Pocket Guide to IFRS Standards: the global financial reporting language. IFRS Foundation 2017)

APPENDIX-2. The Timeline of IAS/IFRS adoption



Source: Masoud (2014)

Appendix 3- Accounting information quality hierarchy



Appendix-4. The Listed Firms in Palestine Exchange

#	Firm	Symbol	Industry
1	Al-Wataniah Towers	ABRAJ	Service
2	The Arab Hotels	AHC	Service
3	Arab Islamic Bank	AIB	Banks
4	Ahliea Insurance Group	AIG	Insurance
5	Arab Company For Paints Products	APC	Industry
6	Arab Palestinian Investment	APIC	Investment
7	Al-Aqariya Trading Investment	AQARIYA	Investment
8	Arab Investors	ARAB	Investment
9	Arab Real Estate Establishment	ARE	Service
10	Palestine Poultry	AZIZA	Industry
11	Beit Jala Pharmaceutical	BJP	Industry
12	Bank of Palestine	BOP	Banks
13	Birzeit Pharmaceuticals	BPC	Industry
14	Al Shark Electrode	ELECTRODE	Industry
15	Globalcom Telecommunications	GCOM	Service
16	Golden Wheat Mills	GMC	Industry
17	Global United Insurance	GUI	Insurance
18	Palestine Islamic Bank	ISBK	Banks
19	Jerusalem Cigarette	JCC	Industry
20	Jerusalem Pharmaceuticals	JPH	Industry
21	Jerusalem Real Estate Investment	JREI	Investment
22	Palestine Plastic Industries	LADAEN	Industry
23	Al Mashriq Insurance	MIC	Insurance
24	National Aluminum And Profile	NAPCO	Industry
25	The National Carton Industry	NCI	Industry
26	National Insurance	NIC	Insurance
27	Nablus Surgical Center	NSC	Service
28	Palestine Development and Investment	PADICO	Investment
29	Palaqar For Real Estate Development and Management	PALAQAR	Service
30	Palestine Telecommunications	PALTEL	Service
31	Palestine Electric	PEC	Service

32	Dar Al-Shifa Pharmaceuticals	PHARMACARE	Industry
33	Palestine Investment Bank	PIBC	Banks
34	Palestine Insurance	PICO	Insurance
35	Palestine Investment and Development	PID	Investment
36	Palestine Industrial Investment	PIIC	Investment
37	Palestine Real Estate Investment	PRICO	Investment
38	Palestine Securities Exchange	PSE	
39	Quds Bank	QUDS	Banks
40	The Ramallah Summer Resorts	RSR	Service
41	Sanad Construction Resources	SANAD	Investment
42	Al-Takaful Palestinian Insurance	TIC	Insurance
43	The National Bank	TNB	Banks
44	Trust International Insurance	TRUST	Insurance
45	Union Construction And Investment	UCI	Investment
46	The Vegetable Oil Industries	VOIC	Industry
47	Palestinian Company For Distribution and Logistics Services	WASSEL	Service
48	Wataniya Palestine Mobile Telecommunications	WATANIYA	Service

(Source: www.pex.ps)

Appendix-5. Pearson and Spearman correlation coefficient between earnings attributes and IFRS adoption

	ADOP	AccQual	PERS	PRED	SMOTH	VR	Time	CONSER	SZ	G	Δ EQ	ΔLIAB	ATO	CFO	B4	D/A
ADOP	1	0.171***	-0.127**	-0.165***	-0.027	-0.145***	-0.461***	-0.057	0.137**	-0.116**	-0.212***	-0.094*	-0.003	-0.090*	0.266***	0.064
AccQual	0.323***	1	-0.032	0.104**	0.102**	-0.187***	-0.392***	0.061	0.039	-0.043	-0.028	0.114**	-0.072	-0.069	-0.117**	0.245***
PERS	-0.113**	0.060	1	0.056	0.010	-0.082	-0.019	-0.015	0.063	0.079	0.012	0.048	-0.27	-0.016	-0.074	-0.014
PRED	-0.158***	0.472***	0.268***	1	0.022	0.011	-0.100*	0.081	-0.032	-0.025	0.309***	0.018	-0.010	0.077	-0.009	-0.057
SMOTH	-0.251***	0.385***	0.149***	0.736***	1	-0.255***	-0.179***	0.150**	-0.086	-0.048	-0.045	0.021	-0.058	-0.030	0.040	-0.138**
VR	-0.304***	0.434***	0.000	0.486***	0.524***	1	0.447***	0.104	0.135***	-0.087	-0.074	-0.007	0.015	0.012	0.038	0.029
Time	-0.216***	-0.557***	-0.139***	-0.541***	-0.634***	0.473***	1	-0.019	-0.039	0.022	0.103*	0.072	0.052	0.127**	-0.102*	-0.020
CONSER	0.066	0.094	0.004	-0.038	0.139**	-0.063	-0.058	1	-0.060	-0.030	0.042	-0.040	-0.030	-0.065	0.057	-0.019
SZ	0.141***	0.074	-0.010	-0.037	-0.226***	0.154***	0.106**	-0.235***	1	-0.013	0.049	-0.067	-0.314***	-0.026	0.262***	0.545***
G	-0.175***	-0.127	-0.054	-0.169***	-0.298***	-0.095*	0.201***	-0.187***	0.125**	1	0.445***	0.008	-0.010	0.116**	0.048	-0.044
Δ EQ	-0.301***	-0.085	0.033	-0.105*	-0.286***	-0.123**	0.080	-0.064**	0.216***	0.194***	1	-0.002	-0.042	0.010	0.020	-0.014
Δ LIAB	-0.098*	-0.072	-0.008	-0.07	-0.167***	-0.035	0.136**	-0.127**	0.109**	0.266	0.149***	1	0.099*	0.061	-0.089	-0.006
ATO	0.023	-0.139**	-0.127**	0.173***	0.220**	-0.049	-0.068	-0.025	-0.391***	0.050	-0.258	-0.006	1	0.495**	-0.201***	-0.29***
CFO	-0.090	-0.083	0.017	0.118**	0.049	0.075	0.070	-0.106*	0.048	-0.015	-0.080	-0.035	0.297***	1	0.020	-0.052
B4	0.266	-0.041	-0.076	-0.127**	0.064	0.064	0.000	0.042	0.246***	0.024	0.051	-0.038	-0.106*	-0.011	1	-0.131**
D/A	0.077	0.206***	-0.023	-0.013	-0.321***	0.049	0.106**	-0.15**	0.567***	0.083	0.131**	0.154***	-0.353	0.013	-0.148***	1
	0.152	0.000	0.672	0.812	0.000	0.358	0.048	0.010	0.000	0.124	0.016	0.004	0.000	0.814	0.006	

*, **, *** Significant at 0.10, 0.05, and 0.01 level, respectively (two-tailed)

Appendix 6. Correlation Coefficients of the accounting quality and cost of capital measures

	ADOP	EPInd	Q	DAC	AccQul	PERS	PRED	SMOTH	VR	Time	CONSR	SZ	G	D/A	ATO	CFO	PB
ADOP	1.000	0.149***	-0.10*	-0.131**	0.219***	-0.12**	-0.15***	0.078	-0.103*	-0.48***	0.066	0.138**	-0.112***	0.070	0.046	-0.018	-0.2***
EPInd	0.336***	1.000	0.090	0.023	0.000	0.030	0.008	0.158	0.063	0.000	0.277	0.011	0.044	0.200	0.404	0.751	0.002
Q			1.000	0.115**	0.234***	0.120**	0.97*	0.139**	-0.167***	-0.41***	0.335***	-0.20***	0.002	0.2**	-0.041	-0.067	-0.2***
DAC			0.21***	1.000	0.041	0.026	0.073	0.010	0.002	0.000	0.000	0.000	0.976	0.006	0.468	0.236	0.000
AccQual			0.001	0.074	1.000	-0.130**	-0.013	0.031	-0.092	-0.037	-0.028	0.044	0.008	0.16	0.008	0.17***	0.93***
PERS			-0.267	0.242	0.031	0.830	0.610	0.129	0.537	0.001	0.656	0.464	0.897	0.007	0.892	0.003	0.000
PRED			0.502	0.000	0.008***	-0.051	0.031	-0.089	-0.073	-0.004	-0.063	0.053	0.109*	-0.056	0.083	-0.15**	0.11**
SMOTH			-0.074	0.192***	0.970	1.000	0.063	0.114	0.196	0.945	0.332	0.350	0.063	0.338	0.158	0.01	0.044
VR			0.199	0.001	-0.13**	0.884	0.365	0.583	0.168***	-0.214***	0.072	0.073	-0.039	0.26***	-0.088	-0.088	-0.09
Time			0.341***	0.555***	0.030	0.210***	1.000	0.063	-0.29***	0.168***	0.072	0.073	-0.039	0.26***	-0.088	-0.088	-0.09
CONSR			0.000	0.000	-0.006	0.000	0.244	0.000	0.000	0.000	0.242	0.176	0.493	0.000	0.115	0.116	0.101
SZ			-0.076	0.181***	0.926	-0.019	0.096*	1.000	0.19***	0.043	-0.053	-0.08	0.002	-0.02	0.056	-0.040	-0.007
G			0.172	0.001	0.138**	0.739	0.074	0.001	0.429	0.324	0.101	0.979	0.709	0.315	0.469	0.247	0.899
D/A			-	0.534***	0.022	0.224***	0.481***	0.27***	1.000	0.169***	-0.240***	-0.25***	0.032	-0.088	-0.045	-0.015	-0.062
ATO			0.199***	0.000	-0.049	0.000	0.000	0.002	0.000	0.000	0.606	0.105	0.428	0.788	0.271	0.832	0.594
CFO			-	0.589***	0.420	0.032	0.408***	0.18***	0.74***	1.000	-0.174***	-0.17***	0.640***	-0.20***	-0.071	-0.11**	-0.025
PB			0.290***	0.000	-	0.568	0.000	0.000	0.000	0.001	0.001	0.000	0.000	0.207	0.039	0.659	0.209
ADOP			0.17***	0.000	0.005	-0.212***	-0.492***	-0.025	-0.05***	-0.544***	1.000	0.47***	-0.080	-0.15***	0.093*	-0.047	-0.034
EPInd			0.000	0.000	0.22***	0.000	0.639	0.000	0.000	0.000	0.191	0.004	0.099	0.403	0.544	0.040	0.506
Q			-0.23***	-0.595***	0.000	-0.100	-0.574**	-0.16***	-0.56***	-0.631***	0.533***	1.000	-0.053	-0.055	0.093	-0.042	-0.033
DAC			0.000	0.000	-	0.075	0.000	0.002	0.000	0.000	0.392	0.313	0.102	0.448	0.544	0.916	0.000
AccQual			0.109*	0.302***	0.081	-0.051	0.082	0.007	-0.030	0.118*	-0.004	-0.082	1.000	-0.26***	-0.144**	-0.060	-0.070
PERS			0.000	0.000	0.16***	0.433	0.181	0.911	0.622	0.055	0.943	0.184	0.000	0.017	0.322	0.27	0.017
PRED			0.145***	0.093*	0.009	0.136**	0.093*	-0.015	-0.067	-0.245***	-0.167***	0.080	-0.239***	1.000	-0.01**	0.53***	-0.3***
SMOTH			0.008	0.085	0.058	0.015	0.087	0.776	0.217	0.000	0.002	0.140	0.000	0.818	0.000	0.000	0.404
VR			-	-0.177***	0.339	0.122**	-0.109*	-0.093*	-0.12**	-0.254***	0.096*	0.19***	-0.214***	0.123**	1.000	-0.048	-0.047
Time			0.166***	0.002	0.20***	0.038	0.053	0.097	0.022	0.000	0.087	0.001	0.000	0.026	0.384	0.398	0.038
CONSR			0.003	0.128**	0.001	0.045	0.235***	-0.057	-0.020	-0.287***	-0.051	0.059	-0.109*	0.55***	0.064	1.000	-0.2***
SZ			0.086	0.021	-0.015	0.438	0.000	0.303	0.714	0.000	0.360	0.291	0.070	0.000	0.250	0.000	0.478
G			0.115	-0.008	0.800	0.123**	-0.114**	-0.12**	0.23***	0.242***	-0.037	0.068	-0.024	-0.38***	0.038	-0.4***	1.000
D/A			0.045	0.891	0.23***	0.036	0.043	0.033	0.000	0.507	0.223	0.691	0.000	0.488	0.000	0.000	0.24***
ATO			0.417	-0.024	0.000	-0.009	-0.070	0.023	0.097*	0.085	-0.109*	0.042	-0.135**	0.057	-0.049	0.004	0.28***
CFO			-0.055	0.676	0.046	0.882	0.211	0.684	0.086	0.130	0.051	0.458	0.025	0.307	0.374	0.944	0.000
PB			0.316	-0.119**	-0.203***	0.102*	-0.146***	-0.020	0.041	-0.054	-0.064	0.18***	-0.098	0.14***	0.065	0.086	0.048
			0.034	.000		0.073	0.008	0.712	0.453	0.324	0.238	0.001	0.119	0.009	0.258	0.126	0.403

***, **, and * denote significance at 1%, 5% and 10% level



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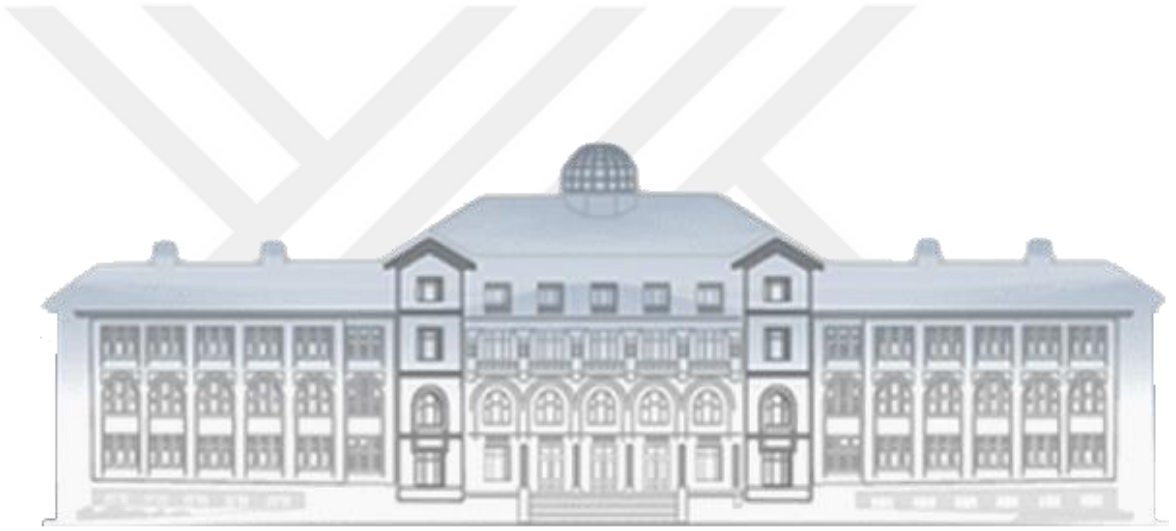
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Publications

- Darabee, T., Karapinar, A. (2019) "IFRS Application and Its Impact on the Accounting Information Quality: Palestine as a Case Study" *WSEAS TRANSACTIONS on BUSINESS and ECONOMICS* Vol 16 (2019) pp 514-524 (ISSN: 2224-2899)
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