

The Information Content of the Accounting Basis : An Empirical Study in Taiwan

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ABSTRACT

The purpose of this paper is mainly to examine and explain the information content based on the accrual basis and cash basis by using financial indices in Taiwan listed companies from 2005 to 2009. Besides, we further investigate the association within information relevance value of the changes in stock prices and financial ratios between electronic industry and traditional industry. The study suggested that (i) although both accrual basis and cash basis have the statistically significant explanation to the changes in stock prices; the former is more the relevance value than the latter. Namely, the relevance between accounting earnings and changes in stock prices is stronger; earnings under the accrual basis have higher quality of information content. (ii) Whether are financial ratios under the accrual or cash basis, they have a significantly positive correlation of earnings per share and return on assets to the changes in stock prices, respectively. However, the relationship of the return on equity and changes in stock prices has a significantly negative. The most explanatory power among ratios is the earnings per share. (iii) It is not obvious that the electronic industry has more relevance value in the information content than traditional industry has.

Keywords : Information content、Accrual basis、Cash basis、Relevance value

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