

# THE EFFECT OF THE IMPAIRMENT OF ASSETS ACCOUNTING ON THE INFORMATIVENESS OF EARNINGS: ABILITY TO PREDICT FUTURE CASH FLOWS, EARRINGS PERSISTENCE, ABILITY TO PREDICT FUTURE SALES

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## ABSTRACT

*Many research tested the value-relevance and value-reliability of earnings (Finger 1994; Kross & Kim 2005; Altamuro et al., 2005; Bandyopadhyay et al., 2010; Lee & Yoon 2012). But literature is divided into two perspectives, some support the fair value and others do not. This motivates the researcher to provide new evidence of the effect of the impairment accounting on the earnings informativness, with adding a new dimension for the earnings predictability from Jordan. The results of this research show that there is a difference between firms who adopt IAS36 and firms that do not adopt the standard. Thus, one of the rules of fair value accounting, and IAS36 is to provide information that has more value relevance and reliability to help users in their decision. Also, there is no trade-off between relevance and reliability in explaining the earning-share price relationship, and not the value relevance nor the reliability play any role in this association, which shows firms that adopt IAS36 and firms who do not adopt IAS36 have the same earning usefulness. This research and many others support the new era of the fair value based on the evidence collected from many countries and for many periods, but this new regulation is mixed regarding the application pressure.*

**Keywords:** Asset Impairment, Informativeness, Value Relevance, Value Reliability, IFRS.

## INTRODUCTION

As a result of the economic changes and international inflation it becomes necessary for to implement accounting treatments and rules to meet those economic changes especially after the financial crisis in 2008 and the collapse of many firms, that is because the company assets are a subject of significant changes due to the influence of external and internal factors (Kuzmina et al., 2012). The previous is one reason requiring attention for the new accounting treatment of the intangible assets and fixed assets, which is the impairment of assets (IAS No.36); this standard was issued by international accounting standard board (IASB) in 1998. Numerous literatures in many countries tested the accounting information after the adoption of impairment of assets accounting either in Anglo-American countries which relate to FASB or in other European-continental countries which relate to IASB (Barth et al. (2001), Riedle (2004), Altamuro et al. (2005), Kross & Kim (2005), Barth (2006), Oei et al. (2008), Bandyopadhyay et al. (2010), Sahut & Boulerne (2010), Andric et al. (2011), Lee & Yoon (2012), Husmann & Schmidt (2012) ), the idea here is that the regulatory bodies arguing that the accounting information should reflect the underlying economics of the firm assets and liabilities, thus , the fair value accounting is the solution. They argued that the historical cost approach suffers from many problems that will lead to weakness and insufficiency in the accounting information, Chamber 1966 (as cited in Deegan & Unerman 2011) argued that the historical cost information suffers from problems of irrelevance in times of rising prices.

Deegan & Unerman (2011) discussed that the historical cost tends to overstate profits in times of rising prices, and then adding the historical cost distorts the operation results and leads to distort 'return on assets' ratio.

This discussion reveals that the relevance and reliability of the accounting information are an important basics of fair value, so that although the problems of the historical cost accounting approach it still a motivation to investigate the fair value approach, the impairment of assets is one topic of the fair value accounting which achieves the information relevance and reliability. In this issue Deegan & Unerman (2011) indicate that for information to be relevant it should have both predictive value and feedback value, and they defined the reliability of information in consistent with IASB Framework that the information free from material bias and error can be dependent upon by users to represent faithfully the underlying items it claims to represent. As a result of this perspective many researchers tested the value-relevance and value-reliability of earnings (Finger, 1994; Kross & Kim, 2005; Altamuro et al., 2005; Bandyopadhyay et al., 2010; Lee & Yoon, 2012). But in this regard the literature is divided into two perspectives, some support the fair value and others do not, which motivates the researcher to admit new evidence of the effect of the impairment accounting on the earnings informativeness, with adding a new dimension for the earnings predictability from Jordan which has not been discussed as mentioned in this research, and it is one of the countries that regulate the international accounting standards (IAS), for a very important period which is from 2008-2011 to represent the period after the crisis.

## LITERATURE REVIEW

Many questions had been asked by many researchers around new treatment of the impairment of assets. for example, Lee & Yoon (2012) asked about the ability of earnings to predict future operating cash flows and earning persistence after the enactment of SFAS No.142 (goodwill and other intangible assets), and they found evidence supports their hypotheses that the adoption if SFAS No. 142 improves the informativeness of earnings in terms of predicting future operating cash flows and earnings persistence. Meanwhile, the impairment of assets is applied to the fixed assets and to the intangible assets, so how the companies measure the value of their long-lived assets (PPE and intangibles) whether they use impairment testing and how this information is disclosed in their financial statements?

Kasztelnik, (2012) analyzed the financial statements of Latvian companies for the period 2010 and 2011, and they found that the accounting measurement and valuation of long-lived assets and there financial performance remains the subject for considerable debate among scholars and professionals. The sample of chosen companies are making their attempts to implement IAS36, and they found a large variation in terminology and presentation in the company's financial statements and increase the need for interpretation and the need for further research aimed to develop approaches for the accounting measurement of long-lived assets as well as to research the impact of individual elements of long-lived assets recoverable amount calculation on generating cash flows in the context of the strategic management of the company , and they told that measurement and valuation of long-lived assets is directly related to corporate governance.

After a contemplative review of the previous literatures, the researcher found a number of studies which try to bridge the gaps related to earnings whether before the new impairment of assets standard or after. One of the important literatures is the work of Lorek & Willinger (1996) of one-step-ahead cash flow prediction from a sample of 62 firms had complete quarterly cash flow time series during the period from 1989-1991, by developing new multivariate, time series prediction model that employs the values of earnings , short term accruals and cash flows as independent variables in this model, and they are an

extension of the previous works that adopt the univariate autoregressive-integrated-moving-average and the multivariate cross-sectional models, the results show that the cash flows prediction is enhanced by the consideration of earnings and accrual accounting data, and that for large and successful firms. Some researchers examined the relationship between the earnings and stock price, from the perspective that the stock price equals the present value of the expected future benefits or cash flows to its equity holders, thus finding a strong relationship indicates a value relevance of earnings. Kormendi & Lipe (1987) argued about the magnitude of the relation between stock returns and earnings depends on the persistence of earnings (earnings innovation as mentioned by Miller & Rock 1985), so this research added to the literatures by examining whether the magnitude of the relation between stock price and earnings is positively correlated with the expected future earning (referred to earnings persistence) using a univariate time-series model, which means more value reliability of earnings will lead to more strong association between stock prices and earnings, whereas the previous studies examined the sign relation. The results of the hypothesis tested support a positive relation with some evidence suggesting that the relation is approximately one-for-one, as implied by the classical valuation model, and they found no evidence the stock returns are sensitive to the earnings innovation. But Lev & Zarowin (1999) go beyond that and test the usefulness of the financial information which included as the usefulness of earnings, cash flows and equity book value in comparison to the information in the marketplace, for 20 years from 1976-1996 included 1300 firms, their finding is consistent with Kormendi & Lipe (1987) in regard that a declining in the usefulness of financial information for the chosen period, and the researchers linked this weakening association between stock prices and financial information to loss of informativeness of financial data, which indicates based on this results that the loss of value-relevance and value-reliability of financial information will lead to a decline in the usefulness of this information. On the other hand by choosing data from 1972-2001 Kim & Kross (2005) found that the relationship between earnings and stock prices has been decreased over time for a sample of 100266 observations, an increasing relationship over time between earnings and one-year-ahead operating cash flows, thus, refutes Kormendi and Lipe's finding and suggests a trade-off between relevance and reliability; their results also suggest an increasing relationship over time between the earnings and one-year-ahead operating cash flow in industries become increasingly conservative, and this relationship unchanged over time for industries had either stable or decreasing accounting conservatism over the sample period. After that Bandyopadhyay et al. (2010) in their investigation of 97332 observations of the trade-off between relevance and reliability of earnings found that the increasing level of accounting conservatism during the 1973-2005 period in firms fall within FASB regime has led to an increase in relevance and a decrease in reliability, and the usefulness of earnings for explaining stock prices over book values is positively related to reliability, but not to relevance, so the adoption of an increasing number of conservative accounting standards has a possible adverse impact on earnings usefulness through a negative effect on reliability. So, their results conflict Lev and Zarowin by indicating a trade-off between cash flows predictability (relevance) and earnings persistence (reliability), which results in a decline in the earnings usefulness, and from the perspective that the adoption of impairment of assets standard will lead to more accounting conservatism this will negatively affect the reliability of earnings and positively affect the value-relevance of earnings based on the research findings. But based on the staff accounting bulletin (SAB) No.101 which issued by the U.S. security and exchange commission (SEC) shows an increasing orientation for accelerated revenue recognition which contravenes the conservatism principle, so this U.S. issue provides more comprehensive refining for the fair value accounting by providing accounting information it has a value-relevance information about the future performance, the evidence admitted by Altamure et al. (2005) by

investigating the effect of the accelerated revenue recognition on the earnings informativeness and earning management, in addition, their findings conclude that there is an association between earnings and the next period cash flows for SAB 101 firms and this association declines in the post adoption period. Although the same results for the unexpected earnings and announcement period return, and in regard to the management discretion, the researchers indicate when developing and implementing revenue recognition standards, standard setters must consider the trade-offs between discretion in reporting revenues prior to the completion of earnings process, and the informativeness of unearned revenues. Others go through the fundamental analysis, for example, Abarbanell & Busher (1997) by investigating of how the fundamental signals enter the decisions of market participants through examining the relation between the fundamental signals and future earnings, the fundamental signals as to research are inventory, account receivable, capital expenditures, gross margin, S@A expenses, effective tax rate, earning quality, audit qualification, and labor force, so those variables show some disaggregation of the earning components to test the predictive ability for the future earnings, the results suggest that the analysts forecasts failed to impound all the information about the future earnings contained in the this fact. This indicates that no strong and obvious evidence admitted about full role of financial analysts in the earning persistence. That is what Schultze (2005) discovered on the information content of the impairment accounting for goodwill from the perspective of external and internal financial analysis, his/her results show that the characters of impairment of goodwill will remain unclear and the data will mostly be unavailable for the external financial analysis. On the other hand, Petruska (2011) suggests whether there is a tendency of analysts to issue cash flow per share forecasts, as a result of the change in regulatory environment based on the estimates of net cash flows from operation, at the same time they are forecasting earnings per share, his sample data indicate an inverse relation between the analyst's inputs and earnings forecast errors appear to be driven by firms with more accurate cash flows forecasts. Although Barth et al (2001) disaggregated the accruals into its major components (change in account receivables, change in account payable, change in inventory, depreciation, amortization, and the other accruals) and investigated the role of those components in predicting future cash flows, from the perspective that the dimensions of aggregate current earning which are accruals components and cash flows have more predictive ability for future cash flows than the aggregate earnings, the sample chosen for the period 1987-1996 resulted in 10164 observation and statically tests conducted for the collected data (i.e., spearman, Pearson, and regression models). The evidence supports the researcher's prediction to indicate that each accruals component is significant with the relation to the future cash flows, and the explanatory power of disaggregated current earnings exceed the aggregated earnings up to six lags, which means that disaggregating the current earnings into its cash flows and the components of accruals will enhance the earnings' predictive ability. A working paper published in June 2002 support the perspective that the goodwill impairment led to more volatility in the reported earnings instead of having a consistent charge to earnings each year, these results will lead to weak predictability of earnings based on Khodadadi et al. in (1994) Finger tested the value relevance of earnings through its ability to predict future operation cash flows and future earnings through long-horizon forecasts (eight years ahead), the researcher used a sample of 50 firms for the period 1935-1987, and the finding of his research shows that the earnings are a significant predictor of earnings for most of the sample firms, and the random walk models outperform the estimated earnings models for one year forecasting but not for four years or eight years. As for cash flows earnings, they were found as a significant predictor, alone and with cash flows, of the future operation cash flows. But out of his sample the results show that adding earnings rarely improves the cash flows forecasts, and the cash flows are better than earning in the short-term forecasting of the future

cash flows, which indicate from the previous study that the earnings can predict the future earnings and cash flows. Random walk indicates uncorrelated changes over years (Lev, 1983), thus volatility of earnings, weak ability of predicting future cash flows and earnings theoretically, Khodadadi et al. (2012) studied the earnings, cash from operation and accruals volatility and the earnings predictability in Tehran stock exchange (TSE) of a sample that includes 2054 firm-years for the period from 2002-2007 and find a negative association between earnings, operation cash flows and accruals and the earning predictability. Other perspective admitted by Eccher (1998) asked if the capitalized software development costs have a value relevance and whether this cost associated with the future returns, and he studied the impact of this cost capitalization on earnings and analysts' forecasts through the regression model Eccher found. The model shows that while capitalizing software development costs captures value-relevance information, the earnings and forecasts effects will lead some managers and analysts to oppose this practice to prefer expenses software development costs. Nevertheless, what is the roll of the country-specific factors in the value relevance of the accounting data? Ali & Hwang (2000) answered by testing the relationship between measures of the value relevance of financial accounting data and country-specific factors for a sample of 16 non-US countries ( US firms used as a control )from manufacturing firms for the period 1986-1995, and by using spearman correlation and regression models for the collected data they found that the value relevance of the financial reports is lower for countries where the financial systems are bank oriented rather than market oriented, and where the privet sector is not involved in the standard-setting process, and where the accounting practices following the continental model as opposed to British-American model, where tax rules have a greater influence on the financial information , and where the spending on auditing services is relatively low.

Financial accounting standard board (FASB) indicate that the primary objective of the financial reporting is to provide information for investor, creditors , and others to help them to take the best choices for their decisions, and to achieve that the accounting information should characterized of some characteristics ( i.e., relevance , reliability), this will protect the investor and make the capital market more accessible through the adoption of IFRS (IFRS, the conceptual framework), Hope et al. (2006) supports this perspective by testing the institutional factors affect countries decision to voluntary adopt IFRS for a sample that included 38 countries, their results show that the demand for IFRS might be lower for countries that have stronger local disclosure requirements, thus the investor protection will be improved after the adoption, and this adoption makes the capital markets more accessible to foreign investors. Based on the previous discussion, the accounting for the impairment of assets will lead to more informativeness of accounting information , but that didn't what Riedl (2004) evident when he examined the effect of accounting for the impairment of assets on the characteristics of write-offs reported prior versus subsequent to the issuance of SFAS No.121 , his sample period was from 1992-1998 which results in 1316 firms to construct 455 write-off observations and 2299 non-write-off observations , the results of Riedl research reveal that the write-offs reported after the adoption of SFAS No.121 (impairment of long-lived assets, US GAAP) have a lower association with the economic factors, and this suggests that the reporting of write-offs under SFAS No.121 has decreased in quality relative to before the standards . In addition, he suggests a high association of the write-off reported with "*big bath*" reporting behavior to add by this evidence other criticism of the standards. Although Doyle et al (2003) find high predictive value of expenses (i.e., asset impairment charges) by investigating the pro forma earnings (this measure omits the nonrecurring expenses, non-cash expenses and other miscellaneous charges), so a large exclusion of expenses suffer relatively lower future cash flows and lower stock returns over the next three years. Barth (2006) asked why the question if, not how the today's financial statements should include estimates of the

future? He reports that including estimates of the future is not new, but their use is increasing because the standard setters believe asset and liability measures that reflect the current economic conditions and up-to-date expectations of the future will result in more useful information for making decisions, and this is the objective of the financial reporting. The previous is how the financial statements should contain estimates of the future, and that is why the researchers test the financial information predictability. An investigation in Australia by Oei et al. (2008) reveals that accruals components are less persistence than cash flows for future earnings, and the least reliable accruals components have the greatest persistence because the change of non-current operating assets have increased relevance compared to those in USA. but Khansalar (2012) aimed at the reliability of accruals in predicting cash flows, in three categories, trading accruals, non-trading accruals and financial accruals, for the period from 1991-2008. Their results show that financial accruals have a higher significant coefficient in predicting future cash flows in compared to other components of accruals, the researchers result support Oei et al. (2008) by suggesting that less reliable accruals introduce costs in the form of lower cash flow prediction.

### Earnings ability to predict future sales

Sales consider as an essential amount of the financial statements, and as noted by Humaydat the revenue sales is an example, that bearing the heart of accounting for effects resulted from this revenue recognition on many other numbers as net income (Humaydat, 2009), and Sales budget consider as the basic point of the other budgets (Abu Nassar, 2008). It is one component of earnings and may be the main component in the manufacturing firms. A number of studies were conducted to illustrate the role of earnings components in predicting future cash flows and/or earnings such as, (Khansalar, 2012; Khodadadi et al., 2012; Oei et al., 2008; Doyle et al., 2003; Bart et al., 2001). Barth et al. (2001) argued about disaggregating accruals into major components significantly enhances the ability of predicting future cash flows, his model first assumption tells us as following:

$$\text{Earnings } t = \pi \text{ St} \quad \text{and} \quad \text{St} = \text{St-1} + \epsilon$$

This indicates that the earnings equals a constant proportion of sales (S), and sales follows a random walk, as Barth, the next period cash flows ( $\text{CF}_{t+1}$ ) equals cash flows from sales adjusted for uncollected amounts ( $\Delta \text{AR}$ ) minus outflows from purchases, adjusted for unpaid amounts ( $\Delta \text{AP}$ ), but the random walk of earnings refer to the volatility in sales numbers, and as Barth any shocks may affect this number, although IFRS/IAS support that the assets amounts should reflect the underlying economics of these assets by the impairment test, thus the real ability of these assets to provide net cash flows in the future economy of these assets, taking into consideration internal and external factors. The quick changes and inflation in the economic conditions and crisis in 2008 support the need for fair value accounting to avoid those shocks, so that the adoption of IAS 36 play an important role in the operation process of property, plant and equipment and those assets are the one of the main factors for sales, thus, may affect the future sales of firms through impairment disclosures. This provides that if IAS 36 adoption provide value relevance information, then the current earnings tell us about the future cash sales, and if IAS 36 adoption provide reliable information, then accrual sales will be persistent and earnings will be persistent, thus the previous are the hypothesize in this issue. So, in this research the researcher investigates the value relevance and reliability of earnings through other dimension which is the ability of earnings to predict future sales.

## POPULATION AND STUDY SAMPLE

The financial crisis sparked great clamor and challenges around the world after its burst in 2008, especially in the financial sector (i.e., banks and other financial companies), some criticisms scrambled beside the accounting, its rules and techniques. Based on the great effects which had been talked about such as bankruptcies and the mergers decisions and collapses of many banks around the world (i.e., leman brothers bank, fannie mae, and Freddie Mac) (Wikipedia, 2012). This enhanced the fair value approach as a procedure that will lead to accounting information reflecting the underlying economy. The previous motivates the researcher to provide evidence from the financial sector for the period from 2008-2011 to study the effect of the accounting for impairment of assets on the earnings informativeness, especially the mergers decisions in this sector which may result to more intangibles in Table 1.

<b>Table 1</b>		
<b>SAMPLE SELECTION</b>		
	<b>Firm</b>	<b>Firm-year</b>
Available observations over the period 2008-2011.	85	740
Observations do not match the sample requirements.	20	80
Observations adopt IAS36 but did not record impairment losses.	158	632
Observation adopt IAS36 and record impairment losses	7	28

The manufacturing sector characterized by a huge investment in the long-lived assets especially the fixed assets, which may lead to important effects on the earnings through depreciations, amortizations, and applying the impairment of assets accounting, which motivates the researcher to choose the manufacturing sector beside the financial sector, this include (740) firm-year observation from (185) firms listed in Amman Stock Exchange for the period 2008-2011.

The sample of the study includes the financial and manufacturing firms in Amman stock exchange for the period 2008-2011, which achieve the following conditions:

1. End of the fiscal year is 31/December.
2. Listed in Amman stock exchange and the required data are available, for the period of the study.

### Study Sample

In order to test the hypothesis properly chi-square goodness of fit test will be used to test the data distribution in the selected sample. descriptive statistics will be conducted to test the sample data characteristics for both groups, pre-adoption and post-adoption of IAS No.36, and panel data multi-linear regression model using the ordinary least square (OLS) method will be estimated to investigate the effect of the impairment of assets accounting on the informativeness of earnings, through its three dimensions, and using the ordinary least square (OLS) method as model to estimate the coefficients the model coefficients will be estimated; this method is chosen because it takes the minimization problem of sum square errors, so it try to find sum square errors minimum as possible as, which results to the best estimates of coefficients versus other methods (i.e., the maximum likelihood method). Hypothesis will be tested at level of significance 10%, 5%, and 1%. Pearson correlation is suitable statically test for examine the association between current earnings (pre- and post-adoption of IAS 36) and future cash flows, earnings, and sales, and to investigate about any autocorrelation problems.

## MODELS OF STUDY

For the chosen sample, the researcher regressed one-year-ahead cash flows on current earnings, considering some chosen control variables as following:

$$\begin{aligned} \text{FOCF}_{it+1} = & B_0 + B_1 \text{POST} + B_2 \text{ER}_{it} + B_3 \text{POST} * \text{ER}_{it} + B_4 \Delta \text{GDP}_{it} \\ & + B_5 \Delta \text{INDROA}_{it} + B_6 \text{SIZE}_{it} + B_7 \text{GROWTH}_{it} + B_8 \text{SIZE}_{it} * \text{ER}_{it} \\ & + B_9 \text{GROWTH}_{it} * \text{ER}_{it} + B_{10} \text{LOSSES} + \epsilon_{it}. \end{aligned}$$

For the chosen sample, the researcher regressed one-year-ahead earnings on current earnings, considering some chosen control variables as following:

$$\begin{aligned} \text{FER}_{it+1} = & B_0 + B_1 \text{POST} + B_2 \text{ER}_{it} + B_3 \text{POST} * \text{ER}_{it} + B_4 \Delta \text{GDP}_{it} \\ & + B_5 \Delta \text{INDROA}_{it} + B_6 \text{SIZE}_{it} + B_7 \text{GROWTH}_{it} + B_8 \text{SIZE}_{it} * \text{ER}_{it} \\ & + B_9 \text{GROWTH}_{it} * \text{ER}_{it} + B_{10} \text{LOSSES} + \epsilon_{it}. \end{aligned}$$

For the chosen sample, the researcher regressed one-year-ahead sales on current earnings, considering some chosen control variables as following:

$$\begin{aligned} \text{FCS}_{it+1} = & B_0 + B_1 \text{POST} + B_2 \text{ER}_{it} + B_3 \text{POST} * \text{ER}_{it} + B_4 \Delta \text{GDP}_{it} \\ & + B_5 \Delta \text{INDROA}_{it} + B_6 \text{SIZE}_{it} + B_7 \text{GROWTH}_{it} + B_8 \text{SIZE}_{it} * \text{ER}_{it} \\ & + B_9 \text{GROWTH}_{it} * \text{ER}_{it} + B_{10} \text{LOSSES} + \epsilon_{it}. \end{aligned}$$

$$\begin{aligned} \text{FAS}_{it+1} = & B_0 + B_1 \text{POST} + B_2 \text{ER}_{it} + B_3 \text{POST} * \text{ER}_{it} + B_4 \Delta \text{GDP}_{it} \\ & + B_5 \Delta \text{INDROA}_{it} + B_6 \text{SIZE}_{it} + B_7 \text{GROWTH}_{it} + B_8 \text{SIZE}_{it} * \text{ER}_{it} \\ & + B_9 \text{GROWTH}_{it} * \text{ER}_{it} + B_{10} \text{LOSSES} + \epsilon_{it}. \end{aligned}$$

Bandyopadhyay et al. (2010) used the relationship between earnings and stock prices as a proxy of earnings usefulness, so the following two-tailed regression model for test the trade-off between relevance and reliability of earnings in explaining the association between earnings and stock prices, as following:

$$\begin{aligned} \text{EU}_{Ij} = & B_0 + B_1 \text{FOCF}_{Ij} + B_2 \text{FER}_{Ij} + B_3 \text{FCS}_{Ij} + B_4 \text{FAS}_{Ij} + B_5 \Delta \text{GDP}_{Ij} + B_6 \Delta \text{INDROA}_{Ij} \\ & + B_7 \text{SIZE}_{Ij} + B_8 \text{GROWTH}_{Ij} + B_9 \text{SIZE}_{Ij} * \text{ER}_{Ij} \\ & + B_{10} \text{GROWTH}_{Ij} * \text{ER}_{Ij} + B_{11} \text{LOSSES}_{Ij} + \epsilon_{Ij}. \end{aligned}$$

## RESULTS AND DISCUSSION

The results of testing the differentiate between the pre- and post-adoption firms of IAS 36 shown in Tables 2-5, Thus the first model in this paper investigates the ability of earnings to predict future operation cash flows for the two groups and the regression results for the two groups models as provided in Table 2 indicate that after controlling the experiment using some control variables (size, growth, GDP, INDROA, LOSSESS) as noted by Lee and Yoon (2012), Riedl (2004) there is statistical significance of earnings in predicting future operation cash flows for the two groups (pre- and post-adoption of IAS36) (at significance level = .01, .05, .10) but this effect is positive for the post adoption firms which mean that adopting IAS36 will increase the ability of earnings to predict future operation cash flows (earnings relevance), and this is the opposite for the pre-adoption firms which show a negative effect which lead to that non-adoption of IAS36 decrease the ability



of earnings to predict future operation cash flows, and this result support the hypothesis. The model in panel (B) seem more fit for the data ( $R^2 = 0.884$ ,  $F = 59.270$ ) than panel (A) ( $R^2 = 0.227$ ,  $F = 2.983$ ) as shown in the Table 2 but it still acceptable for the two models.

Table 2 FUTURE OPERATION CASH FLOW MODEL FOR THE TWO GROUPS (FIRMS AFFECTED BY IAS36 VS. FIRMS UNAFFECTED BY IAS36)						
	Firms affected by IAS36. Panel A			Firms not affected by IAS36. Panel B		
	Beta	T –test	Sig.	Beta	T –test	Sig.
Intercept	-56.49	-2.183	0.034	-0.440	-0.904	0.37
Post						
Earnings				<b>-4.550</b>	-3.798	0.00
Post*earnings	<b>325.125</b>	3.444	0.001			
$\Delta$ GDP	-38.058	-0.886	0.380	2.206	1.501	0.139
$\Delta$ INDROA	0.372	0.559	0.552	-0.006	-0.717	0.476
Size	3.545	2.658	0.011	0.019	0.671	0.505
Growth	4.983	0.444	0.659	-0.149	-7.683	0.00
Size*earnings	-19.631	-3.520	0.001	0.232	2.909	0.005
Growth*earnings	-5.002	-0.445	0.658	0.146	7.603	0.00
Losses	13.761	1.982	0.054	-0.182	-2.098	0.041
Adj $R^2$	0.227			0.884		
F test	2.983, sig = 0.009			59.270, sig = 0.000		

In the second model the researcher investigates the ability of earnings to predict future earnings for the two groups independently, the results shown in Table 3 indicate that there is positive statistical significance of earnings of predicting future earnings for the post adoption firms (sig. = 0.001) this positive effect shows that adopting IAS36 increases the value reliability of earnings other than non-adopting , but there is no statistically significance of earnings in predicting future earnings for pre-adoption firms (sig. 0.489), this is to support the second hypothesis in this paper in that firms that adopt IAS36 defer from firms that don't adopt IAS36 in the ability of earnings to predict future earnings ( earning reliability). The two models are suitable for the data collected, thus ( $F = 2.981$ ,  $17.891$ ) for post and pre-adoption respectively, but in panel (B) the model as whole can explain 69% of the changes in the dependent variable, although that the current earnings (independent variable) have no significance statistically, so this may indicate that a multi-collinearity problem may be found especially that Pearson correlation shows high correlation between some variables in the model.

Table 3 FUTURE EARNINGS MODEL FOR THE TWO GROUP (FIRMS AFFECTED BY IAS36 VS. FIRMS UNAFFECTED BY IAS36)						
	Firms affected by IAS36			Firms not affected by IAS36		
	Beta	T –test	Sig.	Beta	T –test	Sig.
Intercept	-55.655	-2.148	0.037	-0.365	-1.344	0.185
Post						
Earnings				<b>0.465</b>	0.698	0.489
Post*earnings	<b>320.695</b>	3.393	0.001			
$\Delta$ GDP	-39.207	0.912	0.367	1.208	2.698	0.009
$\Delta$ INDROA	0.384	0.619	0.539	-0.012	-2.717	0.009
Size	3.503	2.624	0.012	0.011	0.686	0.495
Growth	5.407	0.482	0.632	0.022	2.026	0.048
Size*earnings	-19.400	-3.475	0.001	-0.006	-0.140	0.889
Growth*earnings	-5.439	-0.483	0.631	-0.021	-1.990	0.052

Losses	13.681	1.968	0.055	-0.057	-1.17	0.247
ADJ R <sup>2</sup>	0.227			0.689		
F test	2.981, sig = 0.009			17.891, sig = 0.000		

Table 4 provides evidence about the ability of earnings to predict future cash sales for the two groups of firms and using multi-regression model to analyze the pooled data. The results indicate that there is strong appositive significance statistically of earnings in predicting future cash sales for firms who adopted IAS36, this means that adopting the impairment of assets standard increases the ability of earnings to predict future cash sales (earnings relevance), and contrary to this result the pre-adoption firms results show strong negative significance of earnings, thus non-adopting IAS36 will decrease the ability of earnings to predict future cash sales. These outcomes support the third hypothesis in this paper. The two models seem to fit the data and can explain 0.229, 0.925 from the changes in the dependent variable, respectively.

<b>Table 4</b>						
<b>FUTURE CASH SALES MODEL FOR THE TWO GROUPS (FIRMS AFFECTED BY IAS36 VS. FIRMS UNAFFECTED BY IAS36)</b>						
	Firms affected by IAS36			Firms not affected by IAS36		
	Beta	T -test	Sig.	Beta	T -test	Sig.
Intercept	-53.333	-2.07	0.044	1.256	0688	0.495
Post						
Earnings				-9.89	-2.204	0.032
Post*earnings	305.650	3.255	0.002			
Δ GDP	-39.564	0.926	0.0395	1.571	0.522	0.604
ΔINDROA	0.402	0.652	0.518	0.001	0.037	0.971
Size	3.414	2.574	0.013	-0.03	-0.365	0.717
Growth	5.871	0.527	0.601	-1.02	14.159	0.000
Size*earnings	-18.668	-3.36	0.002	0.360	1.205	0.234
Growth*earnings	-5.906	-0.528	0.600	1.025	14.219	0.000
Losses	12.913	1.870	0.068	-0.97	-2.991	0.004
ADJ R <sup>2</sup>	0.229			0.925		
F test	3.009, sig = 0.008			95.420, sig = 0.000.		

Table 5 indicates that there is positive significance statistically of the current earnings in regard to the future accrual sales (sig. = 0.001) for firms that adopt IAS36 (at significance levels = 0.01, 0.05, 0.10), this show that the ability of earnings in predicting future accrual sales increase after adopting IAS36, in the other hand the pre-adopting firms model reveals that there is no significance of earnings in predicting future accrual sales (sig. = 0.889) and the model seem not fit the data (R<sup>2</sup> = .015 and F test sig. = .368), and this is support my hypothesis.

<b>Table 5</b>						
<b>FUTURE ACCRUAL SALES MODEL FOR THE TWO GROUPS (FIRMS AFFECTED BY IAS36 VS. FIRMS UNAFFECTED BY IAS36)</b>						
	Firms affected by IAS36			Firms not affected by IAS36		
	Beta	T -test	Sig.	Beta	T -test	Sig.
Intercept	-55.376	-2.140	0.038	0.032	0.278	0.782
Post						
Earnings				<b>0.036</b>	0.127	0.889
Post*earnings	<b>322.900</b>	3.241	0.001			
Δ GDP	-38.534	-0.897	0.374	0.494	2.608	0.012
ΔINDROA	0.375	0.605	0.548	-0.005	-2.769	0.008
Size	3.483	2.612	0.012	-0.004	-0.563	0.576

Growth	5.154	0.460	0.648	-0.002	-0.45	0.654
Size*earnings	-19.531	-3.503	0.001	-0.003	-0.162	0.872
Growth*earnings	-5.108	-0.461	0.647	0.002	0.501	0.619
Losses	13.699	1.973	0.055	-0.20	-0.965	0.339
ADJ R <sup>2</sup>	0.229			0.015		
F test	3.00, sig = 0.009.			1.116, sig = 0.368.		

In regard to the earning usefulness, another regression model was estimated for the two groups, Table 6 provide results about the effect of earning informativeness (relevance and reliability) on the earning usefulness, which is measured by the association between share price and earnings, and the price to earnings ratio was used as a proxy of the earning usefulness. The results indicate that none of the two regression estimate is fit for the data ( $F = 1.516, 1.006$ ) for group A and B respectively, and the explaining ability for the two models is very small ( $R^2 = 0.078, 0.001$  for group A and B respectively); although the post adoption group outperform in the explaining power of the earning-share price association on the contrary of the pre-adoption group which approximately has no ability to explain the changes in the earnings usefulness.

It is obvious from the results to say that earnings in formativeness (value relevance of earnings or value reliability or both) don't play a role in explaining any change in the earning-share price association, so that this model does not support the research hypothesis number (4).

<b>Table 6</b>						
<b>EARNING USEFULNESS MODEL FOR THE TWO GROUPS (FIRMS AFFECTED BY IAS36 VS. FIRMS UNAFFECTED BY IAS36)</b>						
	Firms affected by IAS36			Firms not affected by IAS36		
	Beta	T –test	Sig.	Beta	T –test	Sig.
Intercept	27.495	.344	.733	-44.451	-.187	.853
FOCF	-5.033	-.226	.822	-95.648	-1.407	.165
FCS	6.053	.953	.346	7.694	.537	.594
FAS	14.017	.173	.864	-164.472	-.550	.585
INDROA	-1.718	-1.366	.179	-1.075	-.591	.557
SIZE	-1.289	-.311	.757	4.545	.328	.744
GROWTH	21.007	.644	.523			
LOSSES	-53.318	-2.623	.012	-57.817	-1.436	.157
FER	-52.256	-1.216	.231	-194.168	-1.878	.066
ADJ R <sup>2</sup>	0.078			0.001		
F test	1.516, sig = 0.181			1.006, sig = 0.438.		

## CONCLUSION

The accounting information is one of the most important sources of information for many, which requires providing more informative and useful accounting information for those users, that the accounting standards are trying to find. This research and many others support the new era of the fair value based on the evidence collected from many countries and for many periods, but this new regulation mixed in regard to the application pressure, but the researcher provides evidence from the Jordanian stock exchange for the period (2008-2011) that firms adopting IAS36 provide more value relevance and reliability of the accounting earnings compared to non-adopting IAS36 firms.

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