



**IFRS AND THE EVOLUTION OF VALUE RELEVANCE:
EVIDENCE FROM AN AFRICAN DEVELOPING COUNTRY**

Journal:	<i>Journal of Financial Reporting and Accounting</i>
Manuscript ID	JFRA-07-2022-0252.R3
Manuscript Type:	Research Paper
Keywords:	Corporate Reporting, Financial reporting, Value relevance, Accounting

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2 **IFRS AND THE EVOLUTION OF VALUE RELEVANCE: EVIDENCE FROM AN**
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4 **AFRICAN DEVELOPING COUNTRY**

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7 **ABSTRACT**
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10 **Purpose-** This study aims to assess the evolution of the value relevance of book value, earnings
11 and its components in Mauritius, an African developing country, focusing on value relevance
12 changes after IFRS adoption and subsequent local reforms.
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16 **Design/methodology/approach-** The study relies on a dataset of 567 firm-year observations
17 (2001-2018) and the Ohlson (1995) valuation model to investigate value relevance after (i) IFRS
18 adoption, (ii) the implementation of institutional reforms, and (iii) enforcement reforms.
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22 **Findings-** First, we find support for a rise in the combined value relevance of earnings and book
23 value, albeit that book value significantly contributes to changes over time. The findings highlight
24 the combined importance of IFRS adoption with institutional and enforcement reforms to improve
25 value relevance. Second, we do not find evidence of a shift in value relevance between earnings
26 and book value. Third, the cash flow model reveals a higher level of significance relative to the
27 earnings model.
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33 **Originality-** We extend the value relevance literature in the context of African developing
34 countries. Our study's findings underpin the need for a reinforcing of relevant institutional and
35 enforcement frameworks to ensure the benefits of IFRS adoption materialise. It also offers a
36 contribution of how developing countries' experience IFRS post-adoption while adding to the
37 dearth of studies analysing IFRS enforcement practices.
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42 **Keywords:** Value relevance; Africa; International Financial Reporting Standards;
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44 **Developing country.**
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1. INTRODUCTION

The implementation of International Financial Reporting Standards (IFRS) in developing countries is typically predicated on the basis of improving accountability, transparency and enabling a fair assessment of a firm's value while generating economic benefits for the adopting nations (Chua and Taylor, 2008). However, research evidence supporting these claims is limited and somewhat contradictory (Imhanzenobe, 2022), especially in the case of African countries (Boolaky et al., 2020).

One research stream considers whether IFRS adoption delivers on their purported benefits in terms of foreign direct investment, value relevance, firm value and stock market development (Agyei-Boapeh et al., 2020; Klibi and Kossentini 2014). However, the contributory effect of IFRS adoption particularly over time following institutional reforms, in relation to book value and earnings relevance or trade-off thereof (Collins et al., 1997; Srivastava and Muharam, 2021) remains uncertain. Such results do fuel critical debates on the relevance of global accounting standards for African countries (Khlif et al., 2020), including value relevance i.e. the extent to which financial statement information affects share prices (Francis and Schipper, 1999). We therefore ask: *How has the value relevance of accounting information evolved in an IFRS-adopting African developing country, particularly when considering subsequent institutional environment and enforcement reforms?*

To address this research question, we focus on Mauritius, an ex-French and ex-British colony: one of the first African countries to mandate IFRS adoption (Boolaky et al., 2020). Mauritius then implemented recommendations, especially from the World Bank and International Monetary Fund, on the adoption of a corporate governance code, the establishment of the Financial Reporting Council (FRC) and the implementation of a financial statements review process by the FRC. We

1
2 contend that these developments represented a marked change in institutional settings and
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4 structures post IFRS adoption, hence the need to investigate their role in sustaining or improving
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6 value relevance.
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9 The motivation of this study stems from the fact that the IFRS 'journey' in Africa seems to be an
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11 idiosyncratic one relative to the rest of the world (Kuraone et al., 2020). The worldwide
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13 omnipresence of IFRS with 166 jurisdictions embracing IFRS (Agyei-Boapeah et al., 2020) is
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15 intriguingly not reflected in Africa, where only 18 out of 55 countries have fully adopted IFRS in
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17 (Boolaky et al., 2020) alongside a slower pace of adoption compared to elsewhere (Stainbank,
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19 2014). Despite current African based value relevance studies, we argue that IFRS research remains
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21 limited (Dayyala et al., 2020; Sellami and Borgi, 2020), focusing on larger jurisdictions e.g., South
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23 Africa, Nigeria (Tawiah and Boolaky 2019). Additionally, in contrast to existing African value
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25 relevance literature, which either evaluates value relevance pre/post IFRS (Badu and Appiah,
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27 2018; Outa et al., 2017) or compares value relevance between countries (Agyei-Boapeah et al.,
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29 2020; Anandarajan and Hassan 2010; El-Diftar and Elkalla, 2019), this study explores the
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31 reinforcing of relevant institutional and enforcement frameworks post-IFRS adoption on value
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33 relevance. The study is also motivated by standards setters' recent focus on disaggregation coupled
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35 with scant evidence on the value relevance of cash flow information in developing countries;
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37 particularly where the institutional environment tends to be dynamic over time (Kumari and
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39 Mishra, 2020).
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47 Consequently, our study assesses the value relevance of book value, earnings and its components
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49 for all listed Mauritian public interest entities from 2001 to 2018 using the Ohlson (1995) valuation
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51 framework. We observe that the combined value-relevance of earnings and book value has
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53 significantly increased over the period post-IFRS adoption contrary to some studies conducted in
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55 Africa such as Badu and Appiah, (2018) and El-Diftar and Elkalla, (2019). Further analysis
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1 provides evidence that the improvement in value relevance arises from a combination of IFRS
2 adoption and institutional strengthening and enforcement. Our study therefore underpins the need
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7 for relevant institutional and enforcement approaches to materialise the benefits of IFRS adoption
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9 (Qu and Zhang, 2015; Silva et al., 2021). Furthermore, the decomposition model revealed a rise in
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11 the value relevance of book value while that of earnings remain unchanged. We attribute this
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13 finding partly to the adoption of IFRS, since it more focused on the balance sheet (Tsalavoutas et
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15 al., 2012). Lastly, we find that cash flow is more informative than earnings.
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19 Our study contributes to the value relevance literature in several ways. Our paper firstly adds to
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21 the international debate (Imhanzenobe, 2022) on IFRS implementation by highlighting the need
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23 for adequate institutional and enforcement reforms. Secondly, the study considers the experiences
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25 of a country that has adopted these standards over long(er) periods of time, Mauritius being one of
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27 the first African IFRS adopters (Tawiah, 2019) and internationally (Camfferman and Zeff, 2015).
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29 Understanding earlier instances of adoption (before 2005) is of interest since it occurred before
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31 IFRS gained global legitimacy (Alon and Dwyer, 2014). Third, authors such as Tsalavoutas et al.,
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33 (2012, p.263) argued that *“Focusing on a single country allows us to control for institutional,
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35 socio-economic and political factors ... that are difficult to control for in an international
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37 comparative study”*, leading to a call for single-country IFRS studies. Our study also contributes
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39 to the *“shortage of studies analysing IFRS enforcement practices in individual countries and, in
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41 turn, the impact these practices may have on the accounting quality”* (Silva et al., 2021, p.345) via
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43 a value relevance perspective.
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49 Our study has implications for countries which either recently embarked on the IFRS journey or
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51 are contemplating its adoption, or which have already adopted IFRS but have yet to observe
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53 benefits (Badu and Appiah, 2018; El-Diftar and Elkalla, 2019). For example, although some
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55 African countries, such as Zimbabwe and Uganda, have fully adopted IFRS more than two decades
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ago, these jurisdictions remain characterised by weak legal enforcement and regulatory systems, alongside political and macroeconomic instability (Kurauone, et al. 2020). Beyond the initial ‘halo’ and legitimising effects of IFRS adoption (Boolaky et al, 2020), there is a clear need to nurture the emergence of value relevance over time through appropriate reforms. The remaining paper is organised as follows. Section 2 provides a brief overview of the Mauritian setting. Section 3 reviews prior literature and develops the hypotheses. While section 4 portrays the research design, section 5 analyses the regression results. Finally, Section 6 discusses the findings and concludes.

2. BACKGROUND

The Mauritian setting

Formerly dependent on sugar exports and quite geographically isolated, Mauritius boasts one of Africa's highest gross domestic product (GDP) per capita (Mahadeo and Soobaroyen, 2016). Its performance has been attributed to political stability coupled with the enactment of policies that have promoted growth such as the creation of an Export Processing Zone (EPZ), investment in education, economic- and trade-led diplomacy (Boolaky, 2012).

The Mauritian accounting environment

In Africa, studies have shown that colonial influence and culture have largely influenced accounting practices (Stainbank 2014), including for ex-British colonies such as Mauritius (Botzem et al., 2017). Furthermore, economic-led and institutional perspectives mainly underpin IFRS adoption in Africa (Tawiah and Boolaky, 2019). While economic theory posits that implementing IFRS arises from a country’s economic growth, institutional theory posits that countries adopt IFRS as a result of isomorphic pressures from external institutions (Alon and

1
2 Dwyer, 2014). Both perspectives do relate to the Mauritian context, given that its accounting
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4 system has largely been framed by a) economic development, b) external influences from
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6 European trading partners and c) recommendations from international bodies such as the World
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8 Bank (Boolaky, 2010).
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13 Boolaky (2012) identified three stages of accounting development in Mauritius, namely the
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15 evolutionary, revolutionary and transcendental phase. Of particular note has been an increased
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17 emphasis on manufacturing, industrialisation and export-oriented strategies in the 1970s leading
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19 to reforms in company legislation and mandating the preparation of financial reports. Furthermore,
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21 the Stock Exchange of Mauritius (SEM) was established in 1989 alongside the Mauritius
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23 Accounting and Auditing Standards Committee (MAASC), with a view to develop and issue
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25 national standards (Mauritius Accounting and Auditing Standards). These standards initially relied
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27 on a blend of UK and International Accounting Standards (IAS), until IAS gradually became the
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29 guiding principles over the next decade.
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37 The last stage arose from the decision to adopt IFRS on a wholesale basis and to make it mandatory
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39 for Public Interest Entities (PIEs) in 2001. Mauritius adopted all IFRS, International Public Sector
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41 Accounting Standards (IPSAS), and International Standards on Auditing (ISA) without
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43 amendment (Report on the Observance of Standards and Codes (ROSC), 2011). The beginning of
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45 the IFRS transition phase however lacked the proper accounting and auditing enforcement
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47 mechanisms (ROSC, 2003). Consequently, all relevant laws were amended, such as the Companies
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49 Act 2001, the Insurance Act 2005, the Banking Act 2004 and the Financial Services Act 2007.
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51 Furthermore, the SEM listing rules were developed and a National Committee on Corporate
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53 Governance set up to align board practices to international ones (Padachi et al., 2016). The 2003
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1 Code of Corporate Governance issued (Mahadeo and Soobaroyen, 2016), was later revised to
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3 consider emerging practices after the global financial crisis and the collapse of a major
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5 conglomerate in 2015. 2004 was another milestone when the MAASC was replaced by the
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7 Financial Reporting Council (FRC) and the Mauritius Institute of Professional Accountants
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9 (MIPA) under the Financial Reporting Act (FRA) (2004). The FRC also implemented a process
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11 of reviewing financial statements and audit quality from 2008 respectively through the Financial
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13 Reporting Monitoring Panel and the Audit Practice Review Panel (ROSC, 2011). Both panels are
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15 involved in monitoring PIE financial statements, to ensure compliance with financial reporting
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17 standards and encourage high quality reporting (FRC Annual report, 2017).
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23 Overall, these developments reflect a significant consolidation of institutional and enforcement
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25 settings on accounting, audit and financial reporting; an aspect which has been less present in
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27 Africa (Sellami and Borgi, 2020). While several African countries continue to suffer from weak
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29 institutional and enforcement mechanisms (Agyei-Boapeah et al., 2020; El-Diftar and Elkalla,
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31 2019), Mauritius seems to have achieved some of the highest IFRS compliance scores and rankings
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33 on institutional quality and rule of law (IMF, 2005) in the region (Tawiah and Boolaky 2019).
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35 What is less clear is whether these reforms influence value relevance over time.
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43 **3. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

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46 Value relevance studies stem the seminal research by Ball and Brown (1968). Most of the US
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48 literature has reported a decline in the value relevance of accounting numbers over time (Amir and
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50 Lev, 1996; Lev, 2018), albeit exceptions exist (Collins et al., 1997; Francis and Schipper, 1999).
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52 The loss in relevance was mainly attributed to the sectorial shift toward a high technology tertiary
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54 economy and the disregard of intangible assets (Amir and Lev, 1996). The accounting framework
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1 has remained stagnant and hence unable to accommodate the modern business environment from
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4 the one that existed when such standards were initially implemented (Lev, 2018).
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7 Yet the IFRS agenda is progressing with the expectation of enhancing financial reporting and value
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9 relevance (Tsalavoutas et al., 2012). Many studies examining pre- and post- IFRS adoption
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11 (Isaboke and Chen, 2019; Okafor et al., 2017; Srivastava and Muharam, 2021) have documented
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13 an increase in value relevance. The case of developing countries has been a predominant one due
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15 to the perceived low quality of financial reporting and where reforms of accounting standards were
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17 seen as a key plank towards improving the quality of accounting information (Qu and Zhang,
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19 2015). However, the value relevance of IFRS-based accounting information may remain low or
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21 unchanged if concomitant regulation and/or other enforcement mechanisms do not exist
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23 (Hellstrom, 2006; Silva et al., 2021).
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30 Africa tends to underperform in terms of adherence to the rule of law (Agyei-Boapeah et al., 2020)
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32 suggesting countries may be less committed to IFRS enforcement. Demonstrably, recent studies
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34 conducted in Africa (Agyei-Boapeah et al., 2020; Badu and Appiah, 2018; El-Diftar and Elkalla
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36 2019; Outa et al., 2017) revealed mixed findings concerning the value relevance post IFRS
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38 implementation. El-Diftar and Elkalla (2019) found a negative impact of IFRS adoption on value
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40 relevance as a result of weak legal enforcement and investor protection in the African region. Badu
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42 and Appiah (2018) also noted a decline in the value relevance of both earnings and book value
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44 over time in Ghana notwithstanding the introduction of IFRS. In contrast, Okafor et al. (2017)
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46 investigated the case of Nigerian firms and found that IFRS adoption has an incremental effect on
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48 the value relevance of book value, earnings per share, and cash flows from operations. Similarly,
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50 Outa et al., (2017) and Agyei-Boapeah et al., (2020) highlighted the positive impact of IFRS. In a
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1 sample of MENA countries, Anandarajan and Hassan (2010) observed that firms that have adopted
2 IFRS had higher value relevance.
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6 Hence, these results question the evidence on the consequences of IFRS adoption in Africa.
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8 Consequently, we focus on the case Mauritius to add to this ongoing debate for the following
9 reasons: 1) Mauritius is one of the earliest IFRS adopters in Africa, hence allowing for an
10 observation of the evolution of IFRS over a relatively long period 2) IFRS adoption in Mauritius
11 was followed by the implementation of relevant institutional and enforcement frameworks, which
12 have not necessarily been the case in other parts in Africa. In line with the economic and
13 institutional theory perspectives, we therefore hypothesise that:
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24 *H1: The combined value-relevance of earnings and book value of Mauritian PIEs has increased*
25 *following the:*
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29 *(a) Mandatory adoption of IFRS in 2001,*
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32 *(b) Implementation of institutional reforms (Financial Reporting Act, 2004 and Corporate*
33 *Governance Code, 2003), and*
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37 *(c) Monitoring of financial statements by the FRC (enforcement reforms).*
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43 Collins et al., (1997) argued that book value has become a more important value relevant
44 dimension compared to earnings. They attributed the shift in value relevance from earnings to
45 book value to three key reasons: a rise in the reporting of special and extraordinary items, a rise in
46 the number of loss-making firms and the upsurge of small firms. The authors stated that the value-
47 relevance of earnings and book values move inversely to one another; the same factors causing the
48 usefulness of earnings to drop would be the reason behind an increase in the value relevance of
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2 book values and vice versa. Studies conducted in both developed and developing countries
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4 (Tsalavoutas et al., 2012, Elbakry et al., 2017; Isaboke and Chen, 2019; Srivastava and Muharam,
5
6 2021) have documented shifts between the value relevance of book value of equity and net income
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8 following IFRS adoption.
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11 On one hand, the study of Tsalavoutas et al., (2012) documented a shift in the value relevance
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13 from earnings to book value post IFRS implementation. The authors argued that while curtailment
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15 of creative accounting practices relating to balance sheet numbers combined with a focus of IFRS
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17 on more timely recognition of assets and liabilities and greater use of fair values increased the
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19 value relevance of book value, the restrictions of practices that permitted income smoothing
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21 increased volatility; thereby reducing the value relevance of net income. On the other hand,
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23 Elbakry et al., (2017) found a decline in book value relevance, replaced by the increasing
24
25 prominence of earnings in both Germany and the UK after switching to IFRS. Srivastava and
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27 Muharam (2021) reached a similar conclusion in the Indian context and concluded that market
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29 participants in emerging economies tended to exhibit a preference towards earnings rather than
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31 book value (Almujamed and Alfraih, 2019). This pattern is also observed in the African context
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33 whereby investors may be fixated about profitability and tend to ignore equity information (Outa
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35 et al., 2017; Sixpence and Adeye, 2019). According to Srivastava and Muharam (2021),
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37 fluctuations in the level of importance of earnings and book value per share can be attributed to
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39 their diverse roles in informing investors on a firm's specific performance. Subsequently, a trade-
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41 off relationship can be said to exist when the value relevance of earnings rises while book value
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43 drops and vice versa. However, it is not clear to what extent this trade-off persists over time. In
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45 this light, the following hypothesis is put forward:
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54 *H2: A significant trade-off exists between value relevance of earnings and book value in Mauritius.*
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2 There is also debate in the accounting literature about whether cash flow provides more value
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4 relevant information over other accounting measures (Akbar et al., 2011). On the one hand,
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6 accruals-based earnings are considered superior to cash flows given the timing and matching
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8 problems of the latter (Dechow, 1994). On the other hand, cash flow presents useful and reliable
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10 information regarding solvency, liquidity and creditworthiness (Tahat and Alhadab, 2017) since
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12 they are less susceptible to managerial discretion (Akbar et al., 2011).
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16 According to Clacher et al., (2013), moving towards IFRS might cause uncertainties in the early
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18 years of adoption since investors could take some time to adapt to the new regime. Consequently,
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20 cash flow information might be more value relevant since they are known to be a stable source of
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22 information during times of uncertainty. Conversely, for a sample of Egyptian firms, El-Sayed
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24 Ebaid (2012) found that the value relevance of net income was the highest while operating cash
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26 flows had the lowest value relevance. The author concluded that investors are naïve and hence
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28 tend to disregard the cash flow and accrual components of earnings. This is consistent with the
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30 claim that investors in Africa may be fixated on earnings (Outa et al., 2017).
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35 Akbar et al., (2011) as well as El-Difta and Elkala (2019) noted that the value relevance of earnings
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37 over cash flows is conditional upon the financial reporting framework and other institutional
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39 elements. Additionally, many African based studies focused only on earnings and book value
40
41 (Outa et al., 2017; Badu and Appiah 2018) but not on cash flow information. Hence, whether
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43 partitioning earnings into cash flow and accruals components is value relevant remains an
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45 empirical question. Consistent with Clacher et al., (2013), our third hypothesis is thus:
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50 *H3: The value relevance of cash flow is significantly superior to that of earnings in Mauritius.*
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4. RESEARCH DESIGN

The Ohlson (1995) model is relied upon following other value relevance studies (Collins et al., 1997; Badu and Appiah, 2018).

The Ohlson (1995) price model is as follows:

$$SP_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 BV_{it} + e_{it} \quad (\text{Model 1})$$

Where:

SP_{it} : Firm i's stock price three months after the end of year t.

EPS_{it} : Reported earnings per share for firm i at the end of period t.

$BVPS_{it}$: Book value per share for firm i at the end of period t.

e_{it} : Error term capturing other value relevant information.

We also estimate Model 2 by adding a year dummy variable to examine whether the financial statements review process by the FRC (effective from 2008) strengthened the value relevance of earnings and book value:

$$SP_{it} = b_0 + b_1 E_{it} + b_2 BV_{it} + b_3 YD_{it} + e_{it} \quad (\text{Model 2})$$

Where:

YD_{it} = a dummy variable equals 1 if year > 2007 and 0 otherwise. If the FRC's financial statements review process has enhanced value relevance, we expect b_3 to be positive. A difference-in-differences test is also conducted to test the robustness of our results.

Over the course of its transcendental phase, Mauritius also underwent significant institutional (Financial Reporting Act and Corporate Governance Code) and enforcement (monitoring of financial statements) reforms. To gain insights on how these reforms affected the value relevance

of book value and earnings, the period was split into three time frames; 2001- 2003 (early years of IFRS adoption), 2004-2007 (following institutional reforms), and 2008-2018 (the enforcement period).

Thereafter, consistent with Srivastava and Muharam (2021), the combined explanatory power of earnings and book values will be decomposed into: the incremental explanatory power of earnings (Inc. E); the incremental explanatory power of book values (Inc. BV); and the explanatory power common to both earnings and book values (R^2_{BOTH}).

$$SP_{it} = c_0 + c_1 BV_{it} + e_{it} \quad (\text{Model 3})$$

$$SP_{it} = d_0 + d_1 BV_{it} + e_{it} \quad (\text{Model 4})$$

Significant changes in adjusted R^2 determine any improvement in the value-relevance of accounting information following reforms in the accounting and reporting framework (Qu and Zhang, 2015). R^2_{BOTH} , Inc. E and Inc. BV will be regressed on a time trend variable as follows:

$$Y_t = \delta_0 + \delta_1 \text{Time}_t + e_t$$

Where

Time = 18 years of the sample from 2001–2018 (Time= 0, 1, 2... 18); Y_t represents yearly values for R^2_{BOTH} , Inc. E and Inc. BV. A significant positive (negative) coefficient would indicate a reliable increase (decrease) in value relevance

Similarly to previous studies (Mirza et al., 2019), this paper controls for firm-specific variables; firm size to control for the size effect, leverage to control for the firms' risk profile and the book-to-market ratio (BM) to control for growth opportunities. The full control model is specified through the following equation:

$$SP_{it} = f_0 + f_1 E_{it} + f_2 BV_{it} + f_3 \text{SIZE}_{it} + f_4 \text{LEV}_{it} + f_5 \text{GROW}_{it} + e_{it} \quad (\text{Model 5})$$

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2 Where:

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5 SIZE_{it}: Natural log of total assets at year t and firm i,
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8 LEV_{it}: Ratio of debt to total assets at year t and firm i,
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11 GROW_{it}: Ratio of book to market value at year t and firm i,
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14 As indicated earlier, very few studies use cash flow to interpret market value changes (Tahat and
15 Alhadab, 2017; Kumari and Mishra, 2020) while disaggregated earnings appear to be more
16 relevant than aggregated earnings. To probe this claim, we follow Akbar et al., (2011) and
17 disaggregate earnings into cash flows and accruals:
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$$23 \quad SP_{it} = g_0 + g_1CF_{it} + g_2ACC_{it} + g_3BV_{it} + e_{it} \quad (\text{Model 6})$$

$$24 \quad SP_{it} = h_0 + h_1CF_{it} + h_2ACC_{it} + h_3BV_{it} + h_4SIZE_{it} + h_5LEV_{it} + h_6GROW_{it} + e_{it} \quad (\text{Model 7})$$

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29 Where:

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32 CF_{it}: Cash flow per share for firm i at the end of period t.
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35 ACC_{it}: Accruals per share for firm i at the end of period t.
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39 The data have been extracted and/or estimated from Datastream and the SEM Factbooks. The
40 dataset was compiled by starting with firms listed in 2001 that survived until 2018, adding firms
41 annually as they become available and survived. The year 2001 has been chosen because, after this
42 date, the Mauritian accounting system entered a new phase of development in the transcendental
43 phase. The distribution of the sample per year is provided in Appendix A.
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5. FINDINGS

5.1 Descriptive statistics and correlations

Table I presents the descriptive statistics of the dependent and independent variables. The average share price on the SEM is 42.76 MUR (1.244 USD) (1 USD = 34.37 MUR, SEM, 2019) ranging from MUR 4.33 (USD 0.126) as its lowest price and MUR 119 (USD 3.462) as its highest price. The 10% most extreme values were winsorised to account for extreme outliers (Onali et al, 2017).

INSERT TABLE I HERE

Pearson's correlation coefficients and Variance Inflation Factors (VIF) have been used to test for multicollinearity (Mirza et al., 2019). From Table II, prices are significantly and positively related to earnings, book value and cash flow with coefficients of 0.69, 0.64 and 0.50 respectively as opposed to accruals with a significant but negative correlation. The correlation between independent variables is not high, indicating that multi-collinearity is not likely to be a problem. Variance inflation factors (VIFs) for all variables were also less than 10 (Mirza et al., 2019), again indicative of a lack of multi-collinearity.

INSERT TABLE II HERE

5.2 Evolution in the value relevance of earnings and book value over time

To investigate the yearly evolution (and trade-off) of E and BV, time trend regressions were run and graphed. Figure 1 shows an increasing trend in the combined value relevance of earnings and book value as well as book value value relevance, but a decreased tendency in earnings relevance.

Overall, the combined value relevance over the 18-year period (R^2_{BOTH} line) follows a rising trend. R^2_{BOTH} increased drastically from 2004 to 2005 to stabilise in the following years, declining around 2011 and from 2016.

1 An interesting finding from Figure 1 is the low value relevance in the initial years of IFRS
2 adoption. The move towards IFRS may have caused initial uncertainties around accounting
3 numbers with investors still adjusting to the new accounting framework (Clacher et al., 2013).
4 Ramlall (2017) observed an upward trend in investors' confidence from mid-2002, which is
5 reflected by rising values R^2_{BOTH} values following this period. We also noted a significant peak
6 around the period of institutional reforms (2004/2005) and argue that value relevance appears to
7 have mainly increased due to these reforms (Hellstrom, 2006; Qu and Zhang, 2015). The 2003
8 Code of Corporate Governance is also believed to have improved the governance of listed
9 companies (ROSC, 2011) as well as generating a stable environment (Padachi et al., 2016). More
10 substantively, the FRC's establishment in 2005 has contributed to a market-led assessment of
11 financial reporting in Mauritius and enabled a positive outlook on the quality of financial reporting
12 (ROSC, 2011). Coupled with legal reforms (Banking Act 2004; Securities Act 2005; Insurance
13 Act 2005) ensuring that users can access reliable financial information (Boolaky, 2010), we
14 contend that such changes ensured that IFRS adoption can be translated in material uplifts in value
15 relevance (Silva et al., 2021).

16 It would have been reasonable to expect a fall in the value relevance during the 2007-08 financial
17 crisis (Tahat and Alhadab, 2017). Interestingly, the combined value relevance in Mauritius was
18 not affected during that period. In fact, R^2_{BOTH} continued to rise in 2008. We attribute this rise to
19 the onset of monitoring the financial statements of PIEs conducted by the FRC (ROSC, 2011)
20 which might have raised investors' confidence in the financial statements.

21 Figure 1 also illustrates a drop in the value relevance in 2011, when Mauritius was hit by an
22 economic crisis (Fakun and Dinally, 2019). In that year, the Mauritius Business Confidence
23 Indicator was at its lowest at -18.3 % point (CEIC data). In 2016, a lower value of R_2 is observed,
24 potentially due to the aftermath of the BAI/Bramer Bank scandal, which shook investors'

1 confidence. The government has continued to deal with the aftermath of the collapse (Victor, 2017)
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3 hence the continued declining pattern until 2018.
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7 **INSERT FIGURE 1 HERE**
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10 The regression was then run for the whole sample with (Model 1) and without (Model 2) a year
11 dummy variable. Both models from Table III shows that both earnings and book value are strongly
12 associated with share prices as portrayed by their significant positive coefficients over the tested
13 period. The year dummy coefficient is positive and significant in table III (13.59) implying that
14 the enforcement reforms brought by the FRC reviews from 2008 impacted positively on the share
15 price. The results of the difference-in-differences test in Table IV corroborates our results given
16 the positive and significant diff-in-diff coefficient (0.62).
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27 **INSERT TABLE III HERE**
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33 The period was then split into various time frames to examine how the value relevance of earnings
34 and book value change with regards to laws/reforms. The results are shown in table V. Only
35 earnings are positively significant to share prices in the first timeframe. The coefficient of BV is
36 negative albeit insignificant. Thus, in the early years of IFRS implementation only earnings were
37 associated to share prices. Following institutional reforms which ensued in the years 2004 to 2007,
38 both earnings and book value became significantly associated with share prices, although the
39 coefficient of BV was negative. In the years 2008 to 2018, both accounting numbers became
40 positively associated with share prices. In effect, share prices were rising by MUR 4.81 (0.140
41 USD) and MUR 0.29 (0.008 USD) for every MUR 1 increase in earnings per share and MUR 1
42 increase in book value per share respectively. Adjusted R² significantly rose from 0.11 in the first
43 timeframe to 0.67 in the last time frame implying that the combined value relevance rose with the
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1 period-wise institutional and enforcement reforms. This provides evidence that the improvement
2 in the value relevance of accounting numbers cannot be not solely attributed to IFRS adoption but
3 rather to a combination of IFRS adoption coupled with institutional and enforcement mechanisms.
4 Overall, our results coincide with what has been expected in H1 i.e. value relevance has improved
5 after the mandatory IFRS adoption, along with the institutional reforms through the setting up of
6 the FRC as well as the monitoring of financial reports by the regulator.
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15 16 **INSERT TABLE V HERE** 17

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19 To confirm the significance in value relevance, R^2_{BOTH} , Inc E and Inc BV are regressed on a time
20 trend variable (Collins et al.1997). Results reported in Table VI show a positive and significant
21 time coefficient for R^2_{BOTH} . Although Inc E shows a slightly decreasing tendency over time, the
22 fall is insignificant, thereby eliminating any evidence of a trade-off. H2 is therefore not supported.
23 On the other hand, the incremental explanatory power of book value (Inc BV) has increased over
24 time, and this increase is statistically significant. These findings are comparable to Qu and Zhang
25 (2015).
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36 **INSERT TABLE VI HERE** 37

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41 Overall, it is concluded that the combined value relevance of book value and earnings has increased
42 in the post-mandatory IFRS reporting era. The rise is mainly attributed to the value relevance of
43 book values, while no change in the incremental value relevance of earnings is observed (Sami,
44 2015). Such a finding differs from some studies conducted in Africa such as Badu and Appiah,
45 (2018) and El-Diftar and Elkalla, (2019) whereby declines in value relevance were observed
46 following IFRS adoption, suggesting that Mauritius' relatively longer path in its accounting
47 development process coupled with an earlier and higher compliance level with international
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standards (Boolaky, 2012; Tawiah and Boolaky, 2019) has been beneficial. Although IFRS compliance in Africa has been improving (Tawiah and Boolaky, 2019), not all countries are achieving rising value relevance for their accounting information. In particular, many experience a number of obstacles during their transition process to IFRS, namely a lack of proper regulatory system, lack of training and qualified human resources, as well as insufficient time for the switchover (Boolaky, 2010). In addition, high rates of corruption and IFRS enforcement are still a major issue in the continent (Sellami and Borgi, 2020). In this regard, Mauritius fared better.

Further analysis of the different times frames as a result of institutional and regulatory changes as well as the diff-in-diff test conducted following the financial reporting monitoring provided evidence that the improvement in value relevance is not solely attributed to IFRS adoption but rather a combination of IFRS coupled with enforcement and improvement in the country's institutional environment (Hellstrom, 2006; Qu and Zhang, 2015; Silva et al., 2021); a less present aspect in African settings (Agyei-Boapeah et al., 2020; El-Diftar and Elkalla, 2019; Sellami and Borgi, 2020).

For example, Boolaky (2012) highlighted a conducive regulatory system and sufficient human resources (i.e. 30 accountants for every listed company; the FRC requires 100 hours of mandatory annual training for every practising accountant) in Mauritius. Hence, instead of merely adopting IFRS, Mauritius appears to have sought to strengthen its reporting framework through various institutional and enforcement mechanisms described above. Indeed, the positive impact of IFRS adoption is more pronounced in African countries with a greater commitment to the rule of law (Agyei-Boapeah et al., 2020), stronger legal enforcement mechanisms (El-Diftar and Elkalla, 2019; Kurauone et al., 2020), and active professional accountancy organisations (PAO) (Tawiah and Boolaky, 2019). The results demonstrate that compliance with accounting standards is

1 important albeit not enough and corroborates Silva et al., (2021) who highlighted the importance
2 of enforcement mechanism in the effectiveness of IFRS.
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7 Furthermore, the presence of a trade-off between book value and earnings is non-existent,
8 opposing earlier findings (Collins et al., 1997; Badu and Appiah, 2018). Although, the literature
9 has pointed out that investors in emerging markets including Africa (Outa et al., 2017) tend to be
10 fixated on earnings information, our results show that investors appear to place more importance
11 on book value information following reforms (Qu and Zhang, 2015). The finding can be attributed
12 to the adoption of IFRS; notably by restricting discretionary accounting practices in balance sheet
13 numbers together with a more timely recognition of assets and liabilities and greater use of fair
14 values IFRS enhances the value relevance of book value (Tsalavoutas et al., 2012).
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28 *5.3 Value relevance of earnings, book value and cash flow*

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31 According to the Hausman test, the Fixed Effect (FE) model is more appropriate for all models in
32 Table VII. The White test, the Breusch Pagan tests as well as the Modified Wald Test for
33 Groupwise Heteroskedasticity (for Fixed Effect model) have revealed the presence of
34 heteroscedasticity. The robust version of the FE model has been run to cater for heteroskedasticity.
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36 In all models, the regression results indicate that all independent variables are significant
37 determinants of share prices. The significant and positive earnings and book value coefficients in
38 Table VII demonstrate that Mauritian investors rely on these two variables before undertaking any
39 investment decisions (Mungly et al., 2016). For every MUR 1 increase in EPS and BV, SP is rising
40 by MUR 1.60 (0.047 USD) and MUR 0.23 (0.007 USD) (Model 1) and MUR 1.06 (0.031 USD)
41 and MUR 0.25 (0.007 USD) (Model 5) respectively. Mungly et al., (2016) attributed the
42 significance of earnings to the adoption of corporate governance which positively impacted on the
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1 investors' mind-set, thereby bringing some confidence about the nature of the reported
2 information.
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10 Likewise, the regression results of the cash flow model (model 6 and 7) portrayed that all variables
11 are significantly positive with share prices at 5% and 10% level supporting the view that cash flow
12 information, in addition to earnings, is useful in assessing share value (Akbar et al., 2011). The R²
13 in the CF model is slightly higher than the R² of the BV and E model (with and without control
14 variable). In addition, while SP rises by MUR 1.60 (0.047 USD) and MUR 1.06 (0.031 USD) for
15 every MUR 1 rise in EPS (Models 1 and 5 respectively), SP rises by (more) MUR 1.70 (0.049
16 USD) and MUR 1.12 (0.033 USD) for every MUR 1 rise in CF (Models 6 and 7). The results
17 appear to confirm the primacy of disaggregated earnings over aggregated earnings in developing
18 countries (Kumari and Mishra, 2020). H3 is thus supported.
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31 The control variable LEV has a positive but non-significant link with SP whereas SIZE is only
32 positively significant with SP in Model 5. Unexpectedly, the GROW variable negatively and
33 significantly affects SP. The result may be in line with contracting theory which suggests that firms
34 with high growth opportunities are associated with high information asymmetry (Fosu et al., 2016)
35 and managers of these high growth firms are more difficult to monitor (Baber et al. 1996). These
36 might be why SEM investors attach a negative link to growth opportunities.
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46 Overall, it can be observed that accounting information as reflected in the income statement,
47 balance sheet and cash flow statement is value-relevant to SEM. The findings are consistent with
48 prior value relevance studies in other developing countries (Qu and Zhang, 2015; Isaboke and
49 Chen, 2019).
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5.4 Robustness checks

Following Barslund et al., (2007), we carry out robustness tests by verifying all possible combinations of control variables. This was done using the command ‘checkrob’ in STATA (Lu and White, 2014). Specifically, the variables in Table VIII are segregated into two groups; the core variables and the secondary variables. Our main focus being the value relevance of accounting information, E, BV (E model), CF, ACC, BV (CF model) are considered as core variables and are regressed on all possible linear combinations of the secondary variables (SIZE, LEV, GROW).

Table VIII portrays the summary statistics and proves that the core variables are robust; their signs do not change in any combination with the secondary variables (Lu and White, 2014). CF and ACC are always significant at the 5% level while E and BV have sizeable shares of significant variables. As for the secondary variables, they have the same sign in all regressions, except for leverage in the earnings model. Leverage is also the only secondary variable which is not significant in both models.

INSERT TABLE VIII HERE

6. CONCLUSION

The rise of IFRS has been described as ‘inexorable and irreversible’ by Chua and Taylor (2008), and yet a majority of African countries have not been substantively progressing with the adoption route. For some countries, their level of implementation has been treated with scepticism (Tawiah, 2019; Boolaky et al., 2020) and hence, there is merit in considering country cases where IFRS was adopted at a rather early stage. With various countries either embracing or contemplating the adoption of IFRS (Dayyala et al., 2020) coupled with diverging outcomes on value relevance following changes in accounting standards (Imhanzenobe, 2022), evaluating its consequences has become imperative. In this respect, this study assesses the evolution of the value relevance of book

1 value, earnings and its components (cash flow and accruals) in the case of an early IFRS adopting
2 African developing country, Mauritius.
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7 Our results revealed that the combined value-relevance of earnings and book value has
8 significantly increased post IFRS adoption. The improvement in value relevance is not solely
9 attributed to IFRS adoption but rather to a combination of IFRS coupled with subsequent
10 enforcements and improvements in the country's institutional environment (Qu and Zhang, 2015;
11 Silva et al., 2021). The rise in the value relevance is mainly attributed to the value relevance of
12 book value, while there has hardly been any change in the value relevance of earnings. Such a
13 finding might partly be due to the adoption of IFRS, the latter being more focused on the balance
14 sheet (Tsalavoutas et al., 2012). Lastly, we find that cash flow is more informative than earnings.
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26 The consequences of IFRS adoption has been questioned in Africa whereby the cost is likely to
27 surpass the benefits (Boolaky, 2012; Tawiah and Boolaky, 2019). Despite the somewhat higher
28 conversion cost to IFRS in Mauritius (Boolaky, 2010), this study implies that an early and
29 consistent implementation of IFRS together with the appropriate accounting reforms and
30 enforcement has been beneficial. Our results hence support the statement that an economy is more
31 likely to benefit from IFRS when its implementation is backed by a legal framework, competent
32 professionals as well as proper enforcement (Stainbank, 2014; Sellami and Borgi, 2020).
33 Although, African countries are encouraged to adopt IFRS (Klibi and Kossentini 2014), an
34 important implication of the study is the need for a reinforcing of relevant institutional and
35 regulatory frameworks alongside IFRS adoption to ensure that the benefits of IFRS materialise. In
36 other words, African countries should not only focus solely on IFRS adoption but must equally
37 strengthen their legal, institutional and enforcement mechanisms concurrently. Our findings
38 complement Agyei-Boapeah et al., (2020)'s insights in assessing the convergence of developing
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1 countries with developed-country accounting standards and subsequently contribute to the IFRS
2 literature in Africa in favour of IFRS adoption.
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7 Our findings bring important implications for standard setters, especially when implementing
8 changes in their accounting reporting system. Our study also have implications for countries which
9 either recently embarked on the IFRS journey or are contemplating its adoption, or which have
10 already adopted IFRS but have yet to observe benefits (Badu and Appiah, 2018; El-Diftar and
11 Elkalla, 2019). Institutional reforms do appear to play an important role from investors'
12 perspective (Tsalavoutas et al., 2012). As we examine the incremental value relevance of
13 accounting numbers, we contend that regulators and policymakers need to consider that potential
14 investors are attracted in economies that demonstrate a commitment to engaging substantively with
15 appropriate institutional reforms and enforcement mechanisms.
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29 Notwithstanding, our study has caveats and suggestions for further research. We only used
30 Ohlson's (1995) model as a framework for evaluation. Further studies may use other value
31 relevance models such as the returns model. Furthermore, Africa is a highly diverse continent with
32 diverging accounting practices and development levels as well as variations in the level of
33 disclosure and compliance with IFRS (Tawiah and Boolaky, 2019). Thus, although Mauritius
34 appears to experience uplifts in value relevance post IFRS adoption, such an outcome may not be
35 easily replicated in other African countries. Future research should therefore consider other
36 African countries and the influence of their own local institutional reforms and attempts to
37 strengthen the enforcement of accounting and auditing practices.
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Appendix A

Sample distribution per year			
Year	No of firms	Year	No of firms
2001	28	2010	30
2002	29	2011	30
2003	29	2012	32
2004	29	2013	32
2005	30	2014	35
2006	30	2015	35
2007	30	2016	36
2008	30	2017	36
2009	30	2018	36

List of tables

Table I: Descriptive statistics

Variable	Observation	Mean	Std. Dev	Min	Max
SP	567	42.763	37.682	4.33	119
E	567	3.941	4.027	0.05	12.59
BV	567	55.227	54.981	4.981	177.369
CF	536	5.169	6.146	-0.439	18.281
ACC	536	-1.291	4.435	-10.448	5.534
SIZE	566	3.609	0.576	2.735	4.498
LEV	566	0.447	0.256	0.050	0.8312
GROW	567	1.372	0.721	0.423	2.618

Table II: Spearman Correlation among independent and dependent variables

	SP	E	BV	CF	ACC	SIZE	LEV	GROW
SP	1.000	0.655*	0.701*	0.465*	-0.117*	0.129*	0.218*	-0.356*
E	0.686*	1.000*	0.528*	0.530*	0.019	0.099*	0.294*	-0.279*
BV	0.643*	0.570*	1.000*	0.372*	-0.121*	0.427*	0.135*	0.282*
CF	0.502*	0.595*	0.354*	1.000*	-0.704*	0.143*	0.370*	-0.209*
ACC	-0.085*	-0.108	-0.055	-0.722*	1.000*	-0.089*	-0.213*	0.026
SIZE	0.114*	0.149*	0.363*	0.176*	-0.1070*	1.000*	0.514*	0.304*
LEV	0.236*	0.314*	0.054	0.432*	-0.201*	0.489*	1.000*	-0.196*
GROW	-0.338*	-0.195*	0.277*	-0.156*	-0.015	0.299*	-0.195*	1.000*

Pearson correlations are in the bottom-left cells and Spearman correlations are in the upper-right cells.

Table III: Regression results for the whole sample

Model 1: $SP_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 BV_{it} + e_{it}$				
	F value	p-value	R²	Adjusted R²
Model	301.91	0.0000	0.5170	0.5153
Parameter	Estimate	Standard error	t-value	p-value
Intercept	12.7282***	1.6213	7.71	0.000
E	4.4114***	0.3365	13.11	0.000
BV	0.2290***	0.0246	9.29	0.000
Model 2: $SP_{it} = b_0 + b_1 E_{it} + b_2 BV_{it} + b_3 YD_{it} + e_{it}$				
	F value	p-value	R²	Adjusted R²
Model	225.64	0.0000	0.5459	0.5435
Parameter	Estimate	Standard error	t-value	p-value
Intercept	4.8610**	2.0727	2.35	0.019
E	4.6085***	0.3282	14.04	0.000
BV	0.2004***	0.0244	8.21	0.000
YD	13.5860***	2.2700	5.99	0.000

Table IV: Difference-in-differences test results

Model	R²	0.11		
	Estimate	Standard error	t-value	p-value
Before				
Control	23.043			

Treated	23.504			
Diff (T-C)	0.461	0.225	2.04	0.041**
After				
Control	29.591			
Treated	30.672			
Diff (T-C)	1.080	0.190	5.69	0.000***
Diff-in-Diff	0.620	0.295	2.10	0.036**

Table V: Regression results over different time frames

Model 1: $SP_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 BV_{it} + e_{it}$				
Panel 1: Time frame 2001-2003				
	F value	p-value	R²	Adjusted R²
Model	6.38	0.0027	0.1332	0.1123
Parameter	Estimate	Standard error	t-value	p-value
Intercept	13.9877***	2.6633	5.25	0.000
E	2.6661**	0.8446	3.16	0.002
BV	-0.4778	0.0544	-0.88	0.382
Panel 2: Time frame 2004-2007				
	F value	p-value	R²	Adjusted R²
Model	28.17	0.0000	0.3269	0.3153
Parameter	Estimate	Standard error	t-value	p-value
Intercept	17.4585***	3.9975	4.37	0.000
E	7.3281***	1.2460	5.88	0.000

BV	-0.2310**	0.0995	-2.32	0.022
Panel 3: Time frame 2008-2018				
	F value	p-value	R²	Adjusted R²
Model	371.64	0.0000	0.6743	0.6725
Parameter	Estimate	Standard error	t-value	p-value
Intercept	11.9828***	1.8391	6.52	0.000
E	4.8078***	0.3269	14.71	0.000
BV	0.2913***	0.0242	6.52	0.000

Table V1: Time trend regression results

$Y_t = \delta_0 + \delta_1 Time_t + e_t$		
	Time_t	P > t
Adj. R²_{BOTH}	0.041	0.000***
Inc E	-0.001	0.911
Inc BV	0.009	0.065*

Table VII: Final regression results: Full sample

Model 1: $SP_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 BV_{it} + e_{it}$				
	F value	p-value	R²	Adjusted R²
Model	3.96	0.0283	0.4851	0.2276
Parameter	Estimate	Standard error	t-value	p-value
E	1.595*	0.8487	1.88	0.069
BV	0.227**	0.1006	2.26	0.030

Intercept	23.940**	6.7428	3.55	0.001
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$$\text{Model 5: } SP_{it} = f_0 + f_1E_{it} + f_2BV_{it} + f_3SIZE_{it} + f_4LEV_{it} + f_5GROW_{it} + e_{it}$$

	F value	p-value	R²	Adjusted R²
Model	15.39	0.0000	0.4774	0.5284

Parameter	Estimate	Standard error	t-value	p-value
E	1.056*	0.5711	1.85	0.073
BV	0.251**	0.0874	2.87	0.007
SIZE	28.243*	11.2512	2.51	0.017
LEV	1.063	18.2440	0.06	0.954
GROW	-21.093***	3.8880	-5.43	0.000
Intercept	-48.735	33.8820	-1.44	0.159

$$\text{Model 6: } SP_{it} = g_0 + g_1CF_{it} + g_2ACC_{it} + g_3BV_{it} + e_{it}$$

	F value	p-value	R²	Adjusted R²
Model	6.99	0.0008	0.5438	0.2756

Parameter	Estimate	Standard error	t-value	p-value
BV	0.271**	0.1063	2.55	0.015
CF	1.696**	0.7530	2.96	0.005
ACC	1.440**	0.4436	3.24	0.003
Intercept	22.174**	6.7017	3.31	0.002

$$\text{Model 7: } SP_{it} = h_0 + h_1CF_{it} + h_2ACC_{it} + h_3BV_{it} + h_4SIZE_{it} + h_5LEV_{it} + h_6GROW_{it} + e_{it}$$

	F value	p-value	R²	Adjusted R²
Model	14.22	0.0000	0.6161	0.5357

Parameter	Estimate	Standard error	t-value	p-value
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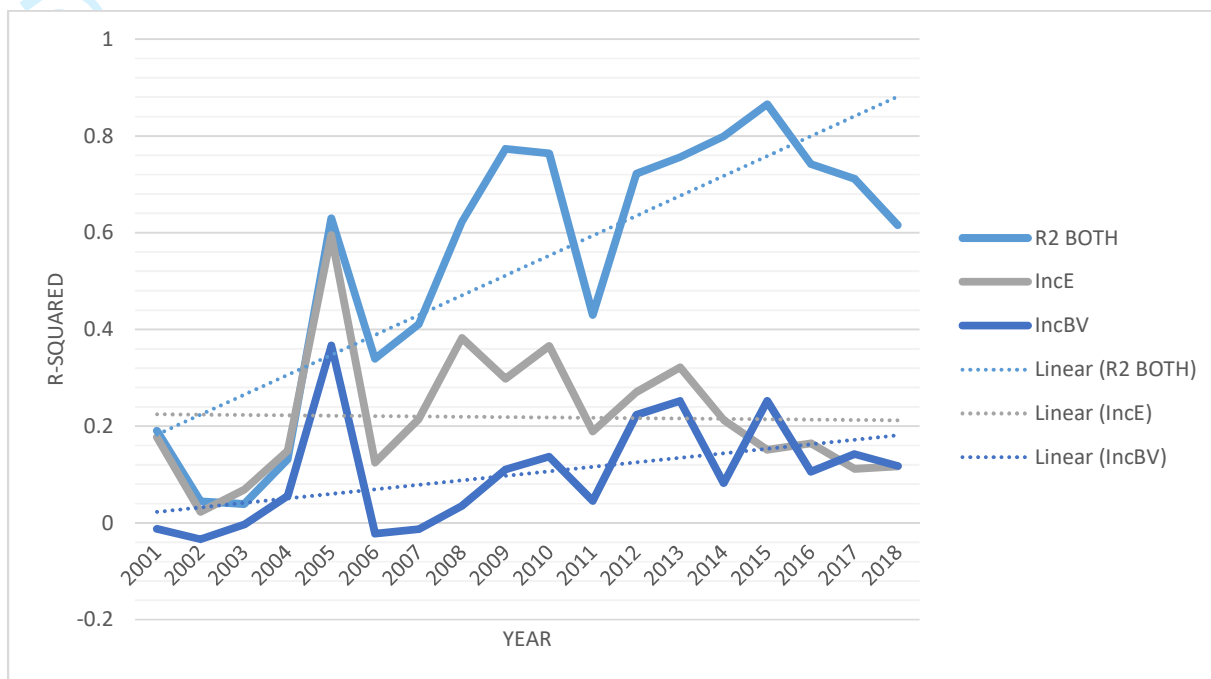
BV	0.331***	0.8614	3.84	0.000
CF	1.118**	0.4365	2.56	0.015
ACC	0.939**	0.3669	2.56	0.015
SIZE	15.883	10.0774	1.58	0.124
LEV	15.901	18.1452	0.88	0.387
GROW	-22.119***	3.7279	-5.93	0.000
Intercept	-13.842	30.4975	-0.45	0.653

Table VIII: Robustness check

	Variables	MAX	MIN	MEAN	AVGSTD	PERSIGNI	PERC+	PERC-	AVGT
Full sample Earnings model	E	1.93	0.74	1.33	0.73	.25	1	0	1.80
	BV	0.37	0.74	0.23	0.93	0.75	1	0	2.69
	SIZE	41.66	28.24	34.83	11.32	1	1	0	3.07
	LEV	16.04	-4.43	6.87	21.09	0	0.75	.25	0.43
	GROW	-21.08	-23.69	-22.37	3.96	1	0	1	5.65
Full sample Cash Flow model	CF	1.75	1.05	1.40	0.52	1	1	0	2.66
	ACC	1.58	0.80	1.20	0.42	1	1	0	2.79
	BV	0.40	0.16	0.29	0.10	0.75	1	0	3.25
	SIZE	29.03	15.88	23.13	11.84	0.75	1	0	1.93
	LEV	25.71	1.74	15.56	20.17	0	1	0	0.84
	GROW	-21.74	-23.25	-22.51	3.85	1	0	1	5.85

Note: *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

Figure 1 Yearly cross-sectional regressions



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