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Department of Accounting

Valuation Accuracy and Cross-border Accounting Comparability: The Impact of Mandatory Adoption of International Financial Reporting Standards

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Abstract

We test for evidence of improvements in the degree of cross-border accounting comparability associated with mandatory IFRS adoption in the European Union (EU) by analyzing changes in the accuracy of value estimates derived from a price-to-book multiple model. Using the warranted multiple method proposed by Bhojraj and Lee (2002), we demonstrate how greater accounting comparability leads to more accurate value estimates when peer firms are selected using accounting realizations. Empirical tests using firms from 15 EU countries confirm this effect: average absolute valuation errors are up to 13 percent lower in the post-IFRS adoption period. Similar conclusions emerge using difference-in-differences that control for potential confounding effects associated with IFRS adoption. Collectively, our findings provide support for claims that widespread adoption of IFRS led to a material improvement in the consistency with which accounting outcomes reflect economic events.