

IFRS Adoption and Agency Costs

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Abstract

This study examines the effect of IFRS adoption on agency costs between managers and shareholders. In particular, we compare the market value of corporate cash holdings before and after the mandatory adoption of IFRS in Korea. The empirical results show that the market value of cash holdings is significantly lower in the post-IFRS period, implying that Korean firms experience more severe agency problems after the adoption of IFRS. Our results are consistent with the argument that accounting quality hinges not only on the quality of accounting standards, but also on the legal and political system and financial reporting incentives.

Keywords: Agency Costs, Corporate Cash Holdings, K-IFRS, Market Value of Cash.

1. Introduction

With the globalization of commercial business enterprise physical sports and the internationalization of capital markets, the requirement for uniform popular bookkeeping benchmarks has evolved to provide comparable budgetary records to worldwide financial specialists. So as to guarantee the global consistency of bookkeeping pointers and to beautify the believability of bookkeeping records, South Korea completely embraced International Financial Reporting Standards (IFRS) with a Big-Bang approach in 2011. Every single open employer and predominant budgetary establishments in Korea have been required to apply Korean International Financial Reporting Standards (any further, K-IFRS) which is probably genuinely indistinguishable from IFRS, excluding a few greater publicity necessities.

The transfer speaks to one of the most vast bookkeeping administrative modifications in Korea on the grounds that there are big contrasts

among K-IFRS and the past nearby Korean GAAP (from this issue ahead, K-GAAP). For instance, K-IFRS is a rule based totally bookkeeping significant at the identical time as K-GAAP is a everyday precept based totally favored.

Furthermore, K-IFRS grows the volume of reasonable well really worth bookkeeping, builds the measure of divulgence, and utilizations combined fiscal summaries as critical budget evaluations. In this manner, the appropriation of K-IFRS is relied upon to influence the cost of bookkeeping information and the extent of statistics asymmetry of firms. This research analyzes how the reception of K-IFRS has stimulated the place of job hassle among administrators and traders. In precise, this examination inspects the effect of K-IFRS choice to be had estimation of corporation money possessions.

Money represents a vital section of complete resources in plenty of agencies. From a organization factor of view, it is ideal to preserve a

selected diploma of coins to assist normal advent sports and to preserve a strategic distance from abrupt outer financing pressures for trendy task openings. Be that as it is able to, in light of its liquidity, cash can be correctly occupied by way of directors for their personal blessings. The estimation of cash, sooner or later, is impacted with the resource of corporation clashes most of the board and customers. In that ability, overabundance coins possessions talk to a promising threat to analyze the ramifications of place of business hypothesis (Dittmar and Mahrt-Smith, 2007; Masulis, Wang, and Xie, 2009; Louis, Sun, and Urcan, 2012; Huang and Zhang, 2012; Sun, Yung, and Rahman, 2012). On the off risk that directors wastefully use money, the maintaining of overabundance cash will negatively have an effect on the company simply really worth. As such, a dollar of enterprise abundance money property may not advantage a dollar to outdoor investors, when you don't forget that chiefs can also spend it on the quest for non-public advantages, as an instance, perquisite utilization, realm constructing, over the pinnacle remuneration, and financing and supporting unbeneficial undertakings or divisions. Predictable with this rivalry, Dittmar and Mahrt-Smith (2007) record that an additional dollar of overabundance coins possessions is a great deal less big to investors at inadequately administered businesses.

The appropriation of K-IFRS might also emphatically or contrarily impact cash associated revealing great and statistics asymmetry. Advocates of K-IFRS selection contend that K-IFRS is a globally great association of immoderate-caliber cash related saying guidelines and that the reception of K-IFRS improves the price of bookkeeping statistics. This view accentuates that K-IFRS, a rule primarily based absolutely bookkeeping standard, limits administrative watchfulness diagnosed with bookkeeping decisions, and higher mirrors

corporations' monetary reputation and execution through the usage of low-priced worth estimation. Then again, pundits counter that the inborn adaptability on a fundamental degree based totally definitely norms can also deliver extra incredible chances to directors to participate in earnings the executives. Also, constraining administrative attentiveness diagnosed with bookkeeping choices ought to restriction an association's capability to document bookkeeping estimations that higher replicate companies' cash related recognition and execution (Barth, Landsman, and Lang, 2008). In addition, economic revealing best is resolved no longer simply through the dispositions of the bookkeeping popular in essence but furthermore with the resource of outside components, for example, facts of favored, authorization devices, and lawful and institutional conditions. In this way, the reception of K-IFRS doesn't certainly bring about the improvement of monetary announcing satisfactory.

Earlier examinations offer combined real results at the impact of IFRS appropriation on bookkeeping outstanding. While each us of a has numerous institutional situations, a useful very last effects of IFRS preference might be watched uniquely in countries where the valid and institutional state of affairs is sufficient with the aim that the IFRS may be definitely felony with the aid of the number one intention (Ball, Robin, and Wu, 2003). In this manner, it's far an observational inquiry how the appropriation of requirements based totally K-IFRS impacts data asymmetry and place of job fees in Korea wherein the lawful root is the not unusual regulation framework. On the off hazard that the appropriation of K-IFRS lessens statistics asymmetry and commercial enterprise company prices, at that factor we are hoping to watch higher marketplace estimation of company coins possessions inside the put up K-IFRS length. On the opposite hand, if the choice of necessities based absolutely K-IFRS would not offset well

with the commonplace regulation primarily based lawful state of affairs and alongside the ones strains expands administrative center charges, the market estimation of coins possessions might reduce after the appropriation of K-IFRS.

We make use of the method thru Faulkender and Wang (2006) to break down the dedication of 1 greater greenback of surprising coins to employer esteem. In light of an instance of three,409 company/12 months perceptions over the duration from 2008 to 2013, we find that the marketplace estimation of organization cash belongings inside the put up K-IFRS duration is fundamentally faded. This recommends, regardless of the controllers' goal, Korean companies face greater awesome organisation prices after the appropriation of K-IFRS.

By discovering the surely well worth impacts around the presentation of required IFRS saying in Korea, this examination provides to the writing on the economic effects of IFRS appropriation. While a whole lot of in advance research analyzes the impact of IFRS appropriation on in desired firm well worth, we provide a right away connection among the choice of new bookkeeping norms and the estimation of a huge aid of the corporation: coins property. The experimental results that the reception of K-IFRS negatively affects the estimation of organisation cash possessions need to be of vast enthusiasm to method creators and controllers in distinct countries, which includes people who've no longer yet received IFRS and have comparative institutional conditions.

This paper continues as follows. Segment 2 surveys the relevant writing and builds up our concept. Area 3 provides inquire approximately strategies and depicts the example and information. Segment four presentations our relapse outcomes and assessments our theory. Segment five eventually finally ends up the paper.

2. Literature Review and Hypothesis Development

A. Market Value of Cash Holdings

Money possessions communicate to a big piece of the company simply well worth. A coins cradle empowers corporations to again regular obligations and to make speculations with out coming near out of doors capital markets (Keynes, 1936; Smith, 1997). In any case, preserving overabundance coins might also likewise have terrible in reality well worth ramifications due to its liquidity. Jensen (1986) contends that free earning adversely impact the effectiveness of challenge choices. Money, the maximum fluid aid, is in reality defenseless to workplace clashes amongst directors and customers for the motive that chiefs can advantage admittance to cash possessions with little examination and exercising an substantial watchfulness over the utilization of money assets. Myers and Rajan (1998) contend that increasingly fluid property may be converted into private advantages at decrease fees than one-of-a-type sources. The unfastened income speculation predicts that abundance cash offers self-intrigued directors the chance to redirect corporation assets into private blessings and take part in realm constructing and bad internet gift properly worth (NPV) ventures. Harford (1999) facts that businesses with abundance money are certain to try acquisitions and that acquisitions made with the useful resource of those businesses are trailed by using irregular decreases in going for walks execution.

Predictable with the company speculation, in advance examinations show that economic experts rebate the estimation of overabundance money property when administrators are likely going to utilize the ones fluid resources wastefully. At the quit of the day, one dollar of company overabundance coins assets may not be well really worth one dollar to financial specialists if quite

possibly chiefs will abuse or redirect it for his or her private benefits. For instance, Pinkowitz, Stulz, and Williamson (2006) display that the market estimation of overabundance cash property in nations with solid financial professional safety is \$zero.Ninety one at the equal time as it's miles really worth honestly \$0.33 in countries with poor speculator guarantee. Dittmar and Mahrt-Smith (2007) smash down the connection most of the office trouble and the marketplace estimation of overabundance money possessions on the company degree. They file that the groups with horrible enterprise management have lower show off estimation of cash and that those agencies scatter cash hastily in manners that basically decrease running execution. In an research of double class businesses, Masulis et al. (2009) locate that the marketplace estimation of overabundance cash property diminishes monotonically because the distinction among insider casting a ballot and earnings rights broadens. By and huge, in advance examinations recommend that the market estimation of company cash possessions is inspired by way of organization fees seemed with the aid of the business enterprise.

B. K-IFRS Adoption

Earlier writing on IFRS choice has targeted on commonly three viewpoints: impact of IFRS reception on (1) profits the board, (2) esteem significance of bookkeeping information, and (3) productiveness of capital marketplace.

To start with, pretty a piece of earlier research explores the modifications in earnings the executives encompassing the reception of IFRS. For example, Barth et al. (2008) report that organizations deliberately utilizing International Accounting Standards (IAS), a forerunner of IFRS, from 21 nations display an awful lot much less earnings the board than do coordinated example firms making use of network bookkeeping gauges. Ahmed, Neel, and Wang (2013) contend that the

discoveries of Barth et al. (2008) might also replicate a self-willpower impact due to the fact the agencies that specialize in truthful announcing had motivating pressure Bookkeeping measures of agencies that observe close by gauges. Conversely, Capkun, Jeny, Jeanjean, and Weiss (2008) display that profits compromise modifications of groups compulsorily receiving IFRS within the improvement three hundred and sixty five days are esteem important, but no longer the ones of ebook estimation of rate. These consequences advocate that bookkeeping records of companies obligatorily receiving IFRS is not as profoundly esteemed as that of intentional adopters in the capital marketplace. What's greater, the creators contend that the development impacts evaluation throughout worldwide places relying upon their valid foundations. Utilizing an example of Korean organizations, Yoo, Moon, and Choi (2013) find out that running pay announced under K-IFRS is much less worth important than running income different beneath K-GAAP. The outcome is predictable with the concern that K-IFRS simply determines the bottom details to be exhibited on the pay clarification and lets in firms to have a huge carefulness over the readiness of budget summaries. Moreover, Choi (2013) reveals no difference in the relative worth pertinence of K-GAAP and IFRS figures of ebook estimation of price and normal reimbursement.

In conclusion, a development of research inspects the financial outcomes of IFRS reception. For example, Karamanou and Nishiotis (2005) discover high quality unusual returns at the statement of intentional IAS appropriation and a monetarily massive due to the truth that quite some time within the past run lower within the price of capital. Daske, Hail, Leuz, and Verdi (2008) smash down the influences of obligatory IFRS appropriation on promote it liquidity and charge of capital in 26 international places. They find blended proof that marketplace liquidity is stepped

forward whilst the price of capital increments within the yr even as IFRS pronouncing receives compulsory. Utilizing an example of EU companies in the course of the 1995 to 2006 period, Li (2010) reveals that the IFRS order basically decreases the charge of cost for compulsory adopters. She likewise reveals that this decrease is available simply in worldwide locations with solid lawful requirement. Cheon and Jung (2009) study monetary trade responses to eight events associated with K-IFRS reception. They find out that monetary professionals respond emphatically to uplifting information (i.E., occasions that enhance the opportunity of K-IFRS appropriation) and adversely to awful facts (i.E., activities that conceivably delay the choice). What's extra, the studies reports that monetary professional responses to uplifting facts are bad for agencies with higher property problem to affordable well worth estimation. The final results is dependable with the fear that the selection of K-IFRS (and in this way less costly properly well worth estimation) can reduce price of bookkeeping statistics without the framework to determine cheap certainly really worth, for instance, properly-determined valuation fashions and government.

A. Hypothesis Development

K-IFRS expects to present fantastic bookkeeping records and extra exposures comparative with K-GAAP, which therefore lessens facts asymmetry and organization expenses. Nonetheless, in advance examinations report mixed effects at the effect of IFRS appropriation on bookkeeping first-rate and capital marketplace talent. Soderstrom and Sun (2007) contend that the effect of IFRS appropriation on the straightforwardness of bookkeeping data is affected by different factors, for instance, the lawful framework, the authorization device, and the capital market improvement of the kingdom that embraces IFRS. Line up examines discover steady effects with Soderstrom and Sun (2007's) rivalry. For instance,

Cai, Rahman, and Courtenay (2008) file that the reception of IFRS debilitates bookkeeping great within the countries with feeble implementation units. Byard, Li, and Yu (2011) find out that investigators' determine errors and estimate scattering decline handiest for compulsory IFRS adopters domiciled in countries with stable authorization structures. Li (2010) shows that the charge of price increments in worldwide locations with feeble valid authorization after the choice of IFRS.

The appropriation of IFRS, which specializes in a universally perceived exquisite bookkeeping favored, as such does not virtually prompt high-quality capital marketplace impacts (Ball et al., 2003). Just worldwide locations with solid legitimate and institutional situations that inspire suitable implementation of IFRS can respect benefits of guiding precept based totally bookkeeping norms. Considering the unique organisation way of life spoke to by using the close chaebol framework and frail lawful and institutional conditions (Hope, Kang, and Yoo, 2008), it remains an observational inquiry whether or not or now not the appropriation of K-IFRS increments or diminishes the statistics asymmetry and organization costs of Korean corporations.

On the off risk that the selection of K-IFRS lessens information asymmetry and organisation fees as its proposed goal, at that element the marketplace estimation of cash possessions could increment after Korea embraces K-IFRS. On the alternative hand, if the guideline based totally definitely K-IFRS is inconsistent with valid and institutional conditions in Korea and along those traces expands the place of work fees, at that thing the marketplace estimation of money possessions might lessen within the put up K-IFRS period. In view of this change, we shape the accompanying idea:

Theory: The market estimation of corporation

coins assets changes after groups obtain K-IFRS.

3. Research Model and Sample Selection

A. Research Model

To observe the effect of K-IFRS reception to be had estimation of agency cash possessions, we extend on the system created via the use of Faulkender and Wang (2006), who explore whether an adjustment in actual coins belongings turns on an adjustment in organization well worth. We growth their version by means of offering a twofold sham variable of K-IFRS selection as follows:

$$\begin{aligned}
 r_t - R_t = & \beta_0 + \beta_1 \text{Casht} + \beta_2 \text{IFRSt} + \\
 & \beta_3 \text{Casht} * \text{IFRSt} + \beta_4 \text{EBITt} \\
 & + \beta_5 \text{Capitalt} + \beta_6 \text{RNDt} + \beta_7 \text{Interestt} + \\
 & \beta_8 \text{Dividendt} \\
 & + \beta_9 \text{Casht-1} + \beta_{10} \text{Leveraget} + \beta_{11} \text{Industryt} + \epsilon_t
 \end{aligned}
 \tag{1}$$

wherein $r_t - R_t$ = overabundance go back

Casht = trade in real coins possessions from 12 months t-1 to t scaled through show off estimation of rate at yr t-1

IFRSt = sham variable that takes the estimation of 1 in the years after obligatory K-IFRS appropriation and zero anyhow

EBITt = change in EBIT from 12 months t-1 to t scaled by using promote it estimation of fee at twelve months t-1

Capitalt = change in internet assets from yr t-1 to t scaled through market it estimation of charge at 12 months t-1

RNDt = exchange in R&D consumptions from 12 months t-1 to t scaled through show off estimation of cost at 12 months t-1

Interestt = trade in top class costs from year t-1 to t scaled by means of showcase estimation of charge

at yr t-1

Dividendt = trade in all out income from year t-1 to t scaled with the useful resource of display off estimation of rate at 12 months t-1

Casht-1 = cash assets at three hundred and sixty five days t-1 scaled through promote it estimation of charge at 12 months t-1

Leveraget = have an effect on at 12 months t-1

Our needy variable, the adjustment in agency really worth, is predicted with the resource of abundance inventory go back. On the right-hand aspect of the situation, Casht is an association's sudden alternate in real coins belongings from yr t-1 to t, accepting that the everyday diploma of money towards the end of 365 days t is same to the estimation of cash in the direction of the end of 12 months t-1. Since the unexpected change in real cash possessions is scaled by way of the sooner yr's reasonable nicely really worth of charge, the coefficient on the unexpected exchange in actual cash belongings (β_1) measures the dollar trade in investor esteem coming about because of a one-dollar exchange in corporate money assets. IFRSt is a parallel sham variable that takes the estimation of one inside the years after required K-IFRS choice and 0 anyhow.

To take a look at how the K-IFRS desire influences the market estimation of corporate cash assets, we cooperate a K-IFRS appropriation sham variable with the unforeseen exchange in actual cash possessions scaled by means of the usage of the sooner yr's pretty anticipated well worth of charge. On the off danger that the reception of K-IFRS diminishes records asymmetry and agency expenses and turns on powerful utilization of cash, at that factor we anticipate the coefficient of the conversation time period (β_3) to be basically quality. On the other hand, if the K-IFRS reception could no longer offset well with lawful conditions in Korea and on this manner compounds enterprise

fees, at that component we are hoping to observe a bad coefficient on the connection term.

Following Faulkender and Wang (2006), we manipulate for firm-specific capabilities that is probably related to the 2 returns and coins belongings. In unique, we don't forget change for EBIT from 12 months t-1 to t, alternate in internet assets from yr t-1 to t, trade in R&D uses from one year t-1 to t, alternate in top price costs from 365 days t-1 to t, exchange in absolute income from 12 months t-1 to t, coins belongings at 12 months t-1, and effect at year t-1. Likewise, we control for enterprise steady influences in our relapse.

B. Sample Selection

We start with all agencies recorded at the Korea Stock Exchange (KSE) and the Korea Securities Dealers Automated Quotation (KOSDAQ) for the length from 2008 to 2013. The instance time body carries of pre-IFRS period (2008~2010) and submit-IFRS duration (2011~2013). Money related facts are assembled from the KIS esteem database. We pick the last instance the use of adhering to putting aside rules. To begin with, we reject firms inside the money associated administrations organizations (commercial corporation banking, assignment financier, and protection). Second, we erase non-December 12 months-forestall companies for homogeneity. At final, after perceptions with lacking data are expelled, the process left the last instance of 3,409 agency-12 months perceptions.

4. Empirical Results

This segment presents observational outcomes at the effect of K-IFRS to be had estimation of coins possessions. We adjust Faulkender and Wang's (2006) model in Equation (1) via presenting a paired sham variable of K-IFRS reception. On the off chance that the reception of K-IFRS lessens office prices and turns on efficient usage of coins, at that point we are hoping to have a look at a

extremely good coefficient (β_3) of the cooperation term. On the alternative hand, on the off hazard that the K-IFRS appropriation compounds workplace charges, at that point we're hoping to look at a bad β_3 .

Section (1) of Table indicates the relapse outcomes for Equations (1) even as the needy variable is the each 12 months abundance return, that's characterized due to the fact the stock cross back over the year time body brief the benchmark portfolio go back. The exquisite β_1 recommends that economic specialists location a superb incentive on employer money property. β_3 is essentially poor, demonstrating that the marketplace estimation of unexpected cash assets is essentially decrease within the placed up K-IFRS duration.

5. Conclusion

This exam appears on the effect of obligatory K-IFRS appropriation on workplace fees. In specific, we studies the adjustment in the market estimation of company money assets encompassing the choice of K-IFRS. In view of an instance of three,409 firm/year perceptions over the period from 2008 to 2013, we discover that the market estimation of corporate cash assets inside the publish K-IFRS period is largely faded. This recommends the office issue is exacerbated in Korea after the reception of K-IFRS.

We make huge commitments to the writing. Firs, as a ways as we may want to in all likelihood understand, this investigation is the first to straightforwardly look into the effect of bookkeeping measures available estimation of corporate cash property. While earlier studies reviews that the market estimation of cash property is emphatically related with bookkeeping satisfactory underneath a given saying machine (Sun et al., 2012; Louis et al., 2012), our results show that the bookkeeping widespread fundamentally has an exchange and great impact to

be had estimation of money. Second, this exam provides to the writing on the financial results of IFRS reception by way of exploring the well worth affects around the appropriation of required IFRS in Korea. While quite a chunk of in advance research looks at the effect of IFRS choice on usually company worth, we give a right away connection among the utilization of latest bookkeeping measures and the most fluid useful resource: cash possessions. Our results should be of full-size enthusiasm to approach producers in distinctive international locations, inclusive of people who have no longer but received IFRS and feature comparable lawful situations.

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Table: The impact of K-IFRS adoption on the value of cash using return regressions

	(1) Excess Return	(2) Relative Return	(3) Raw Return
<i>Intercept</i>	-0.02947 (-0.6)	-0.02532 (-0.57)	0.06527 (1.11)
Cash _t	0.33504 (4.65) ^{***}	0.26424 (4.06) ^{***}	0.46752 (5.41) ^{***}
IFRS _t	0.06880 (5.20) ^{***}	0.07358 (6.15) ^{***}	-0.02441 (-1.54)
Cash _t *IFRS _t	-0.10742 (-1.75)[*]	-0.05447 (-0.98)	-0.17311 (-2.35)^{**}
EBIT _t	0.0516 (4.47) ^{***}	0.04175 (4.00) ^{***}	0.05978 (4.31) ^{***}
Capital _t	0.26608 (13.11) ^{***}	0.22169 (12.08) ^{***}	0.31586 (12.97) ^{***}
RND _t	-0.68142 (-0.93)	-0.83186 (-1.25)	-0.79545 (-0.90)
Interest _t	0.14362 (0.61)	0.12352 (0.58)	0.31376 (1.11)
Dividend _t	7.72796	6.81514	12.37785

	(10.80)***	(10.53)**	(14.42)**
Cash _{t-1}	0.19750 (5.09)***	0.17379 (4.95)***	0.43459 (9.34)***
Leveraget	-0.06068 (-1.63)	-0.12652 (-3.76)***	-0.12692 (-2.85)***
Industry fixed effects	Yes	Yes	Yes
n	3,409		
F value	34.85***	32.90***	46.84***
Adj. R ²	0.1517	0.1442	0.1949

The sample consists of 3,409 firm-years over the sample period 2008–2013. Significance levels at the 10%, 5%, and 1%, two-tailed, are indicated by *, **, and *** respectively.