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**THE RELATIONSHIPS BETWEEN EARNINGS PER SHARE  
(EPS), BOOK VALUE PER SHARE (BVPS) AND STOCK  
PRICES UNDER BOTH PRE- AND POST-FRS  
REPORTING REGIMES IN MALAYSIA**

**By**

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## **ABSTRACT**

The project paper is to examine the relationships between earnings per share (EPS) and book value per share (BVPS) and stock market prices under both pre- and post-FRS reporting regimes. Value relevance to both EPS and BVPS were separately tested under both financial reporting mechanisms by the price-earnings model. This study finds that positive relationships between value relevance of earnings and both EPS and BVPS, however, is in declining when adopting newly mandated FRS system by Malaysian companies. Coefficient of BVPS is positively increasing over two reporting periods, whereas vice versa for EPS attributable to equity investors are more desirable to measure balance sheet than income statement items.

In addition, distinct of value relevance of earnings appears in companies operate in different operation structures or business models because of their business activities deficiencies. Relationships between value relevance of earnings and EPS and BVPS are declining over three consecutive years since FRS reporting regime is adopted, from 2006-2008.

The coefficient between EPS and stock market prices is consistently dropping over these three reporting periods, and inversely, coefficient between BVPS and value relevance of earnings is inclining. Thus, this present study concluded that FRS reporting regime is increasingly important in the determination for BVPS (representing balance sheet items) than EPS (representing income statement items) for the investment decision.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1      Background of the Study**

In year 2006, there was a new milestone of the Malaysian companies to comply with the new Financial Reporting Standards (“FRS”) to achieve uniformity in accounting standards. Malaysia deferred to impose this new FRS to 1 January 2006, whereas countries such as Singapore, Hong Kong, United States of America (“US”), Australia and other countries of European Union (“EU”) stepped to International Financial Reporting Standards (“IFRS”) platform on 1 January 2005, a year ahead. This made Malaysian companies to gain ‘proven’ positive results that they could evaluate the market response, capital markets and companies’ financial performance which arose from other countries’ moves.

The accounting practitioners are encouraging to the FRS reporting regime. FRS would foster to greater volatility of results of the financial statements reporting. These include the key accounting estimation and judgemental because of the misgiving in real market environment and the justification in risks or rewards ownership of assets. By presenting sensitivity analysis in the financial statements, these could heighten the accountability of financial statements and their information. Moreover, using greater specialist skills impel the companies could engage not only accountants and auditors, but other advisers such as bankers, analysts, valuers and solicitors. So, this could contribute to companies by utilising more informative for decision making in enlarging the shareholders value. Thus, the increase the transparency in the capital market and

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