CHAPTER 5

CONCLUSION AND RECOMMENDATION

The objective of this study is to investigate the impact of accounting information on mandated accounting change from the cost to equity method in the equity investment regulated by the Security Exchange of Thailand. Thai accounting practices adoped the change by using two mainly different methods. One is the retroactive method, and the other is the cumulative effect method. The ***information content*** of the accounting change is tested to see whether the change produces significant impact on the investors reaction. Some additional theoretical factors involved in such impact are included in the study. This chapter includes interpretation of the results of the study, directions for future research, and recommendation.

5.1 Interpretation

The empirical studies are devided into two parts. First, are the tests for ***information content*** of such accounting changes : overall methods, retroactive method, and cumulative effect method. One-way ANOVA and single-factor regression model with a dummy variable are applied. The Cumulative Abnormal Returns (CARs) on the securities are measured to be the dependent variable. Ordinary Least Square (OLS) is then appied in estimating the coefficients of the securities to calculate the CARs. The parameters retained from the OLS are adjusted for the inconsistent beta estimates by using the technique of Scholes and Williams (1977). The one-way ANOVA and the regression results indicate that only ***the cumulative effect method*** of accounting change has ***information content.***

As mentioned in the test criteria, if the information content test is confirmed, the second test would then be conducted. The tests of theories are conducted by using the cross-sectionally multiple regression model. In Part 2 of the study, additional explanatory variables based on the literature review of the theories are derived, including : debt/equity ratio, total assets (firm size), systematic risk of the securities (betas), accounting change effects (cumulative effect and income effect), and industry types. These variables are used to analyze the research questions. To select the best-fitted regression model, the ***stepwise regression method*** is applied. The result indicates that ***none*** of the additional explanatory variables but the industry type are involved. In conclusion, the cumulative effect method of mandated accounting change from the cost to equity method in equity investment has information content and the sole factor affecting the investors' decision making is the ***industry type.***

5.2 Directions for Future Research

There are some limitations in the study; for example, the small sample size employed. Due to the small firms adopting the mandated accounting change, the researcher cannot use the more powerful research methodology. In addition, the scope of this study is limited by confidential data. The unavailability of the data on management compensation plans induces the researcher not to be able to expand the theoretical test via compensational contracting process. Another problem is that during the data collection period, systematic database of securities in the Security Exchange of Thailand is not available to provide some statistic or secondary data for the analyses. The primary data is programmed to process the secondary data by the researcher, for example, the debt/equity ratios, the α, β estimations and so on. It is time-consuming with regard to both data collection and processing given the limited study time.

However, this study leaves room for future research. The first direction is to study the impact of the mandated accounting change on the practitioners, including managers, accountants, and auditors. The resulting event of the accounting change can then be analyzed in terms of an accounting choice for the practitioners who can choose whichever methods of adjustment during the regulated period. The second is to study to see whether some additional environmental factors apart from those of the former theories exist, for example: the firm's locations, multi-national association, auditing firms' influence and, if possible, human behavioral factors.

5.3 Recommendation

The results of this study suggest that the ambiguous regulation of mandated accounting change in equity investment announced by the Security Exchange of Thailand affects the market reaction. On the other hand, the regulation allows more than one accounting method in practices which may limit harmonization of financial disclosure. The information users who mostly are the investors may make investment decisions by using different accounting numbers as one of their decision making criteria. On the other hand, the regulation provides a loophole for the management, the information providers, to have the opportunity in making an accounting choice that increases their self-interest. The inconsistency of the stock price changes implicit in the cumulative abnormal returns indicates different uses of different accounting information in response to the same regulation. This evidence can be a ***warning sign*** for the authorized regulators to be aware of the effects of ambigious announcement of the regulations.

Although this study has some limitations, it can provide an evidence of the empirical study of the accounting information content tests of the mandatory accounting changes. In fact, to date, little market-based accounting research has been conducted among Thai accounting researchers. This study should provide an avenue for further similar accounting research in the future.