

*Abstract*

*An Empirical Investigation*

*of Voluntary Accounting Changes:*

*The Case of Thailand*

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This study empirically examined the association between accounting changes and stock prices of companies listed on the Stock Exchange of Thailand (SET) during 1990-1994 period. In addition, the study attempted to explain the motivation of firms making voluntary accounting changes. It empirically compared the risks of firms with voluntary accounting changes to the risks of firms without voluntary accounting changes during the pre- and post-announcement periods. Also, of firms with voluntary accounting changes, the risks during the pre-announcement period were compared to the risks during the post-announcement period. Furthermore the study statistically analyzed the information content of earnings announcements of the sample firms.

The market model and Patell's methodology were utilized to analyze the sample data. The result supports the existence of the information content of earnings announcements that effect stock prices. The findings is also consistent to the findings in the prior studies conducted using sample firms in Thailand and other countries. However, the empirical results indicate that voluntary accounting changes do not substantially effect investors' decisions. The stock prices of sample firms with voluntary accounting changes are not significantly different from those of firms without voluntary accounting changes. This findings is not consistent to those found in the previous studies conducted using sample firms in other countries. Three possible explanations include: (1) investors in the SET may neither understand nor be interested in the information content of voluntary accounting changes; (2) the voluntary accounting changes do not materially affect cash flows, hence, the investors do not significantly react to these changes; and (3) there may be confounding effect of the information content of earnings announcement of the sample firms.

Statistically significant difference between the pre-announcement period risks to the post-announcement period risks of firms with voluntary accounting changes is also reported. The risks of the voluntary accounting changes firms are found significantly different from those of the non-voluntary firms during the pre-announcement period, but, statistically indifferent during the post-announcement period. Income smoothing is offered as one of plausible explanation for this finding.