THE RELEVANCE OF ACCOUNTING INFORMATION ON THE ROMANIAN CAPITAL MARKET IN THE ERA OF ARTIFICIAL INTELLIGENCE: TRANSFORMATIONS AND OPPORTUNITIES

***Andrei CĂREA* [a1], *Sorina Ioana MIȘU* [b]**

[a, b] *Bucharest University of Economic Studies, Romania*

ABSTRACT

This study analyzes the relevance of accounting information for companies listed on the Romanian capital market, in a context shaped by alignment with the International Financial Reporting Standards (IFRS) and advancements in artificial intelligence (AI) technologies. In the first part, the paper explores the convergence of the Romanian accounting system with IFRS, examining the evolution of accounting information relevance during the 2008-2021 period and the impact of adopting international standards on financial value and transparency. Using Ohlson's (1995) regression model, the study investigates the correlations between stock prices and accounting indicators, such as book value per share (BV) and earnings per share (EPS), both in the pre-IFRS adoption period and the post-adoption period. The results indicate positive correlations between stock prices and BV and EPS, demonstrating that IFRS contributes to improving the relevance of accounting information for investors.

In the second part, the study introduces perspectives brought by AI, highlighting how it is transforming the field of accounting through its advanced data processing and predictive analysis capabilities. AI facilitates a better assessment of financial performance and enhances investors' access to relevant data, contributing to transparency and comparability in financial reporting. Thus, the integration of AI offers new opportunities for accounting professionals and regulatory authorities to align financial practices with international requirements and modern market needs. The study concludes that AI technologies, combined with IFRS, can enhance the accuracy and utility of accounting information, maximizing its relevance for investment decisions in the digital era.

KEYWORDS *artificial intelligence, book value, earnings, emerging economy, Ohlson, value relevance.*

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1. INTRODUCTION

In the context of current global transformations, artificial intelligence (AI) technologies have begun to play a crucial role in the evolution of accounting and the optimization of financial decision-making processes. These technologies significantly influence how accounting information is processed and utilized to analyze financial performance. The use of advanced machine learning algorithms and natural language processing provides accounting professionals with innovative tools to extract and analyze large volumes of data, thereby improving the efficiency and accuracy of financial reporting processes.

[1] Corresponding author. E-mail address: *andrei.carea@gmail.com*

The integration of AI into accounting enables deeper and more relevant predictive analysis, offering investors the ability to better anticipate risks and opportunities. Through AI, accounting indicators such as book value per share (BV) and earnings per share (EPS) become more accessible and can be contextualized more accurately to evaluate investment potential. In this regard, artificial intelligence not only supports the harmonization and standardization of accounting information but also aids in better understanding the differences between national regulations and IFRS, thereby facilitating the global alignment process.

Most companies in Romania comply with the provisions of OMFP 1802/2014 for preparing financial statements. This regulation was introduced to align the country with European values and conform to EU directives. Furthermore, this normative act was strongly influenced by the development of International Financial Reporting Standards (IFRS). Over the past decades, there has been a convergence of Romanian accounting standards with IFRS, reflected in the international accounting environment.

The International Accounting Standards are used as a universal benchmark for countries like Romania, which have not yet achieved full development of their internal markets (Pordea & Dumitrescu, 2021). The International Financial Reporting Standards (IFRS) represent a set of accounting principles developed by the International Accounting Standards Board (IASB), adopted internationally by numerous institutions (Ray, 2011).

Researchers have highlighted that IFRS constitutes a set of high-quality standards that enhance transparency and harmonize accounting processes across countries (Horton & Serafeim, 2010). Smith and Reiter (1996) consider the balance sheet to be highly important in investment selection. Indeed, the information contained in financial statements is valuable and influences investors' decisions (Putri et al., 2012).

Accounting professionals, academics, and, increasingly, practitioners need to understand the impact of IFRS on the relevance of financial statements (Rashid et al., 2021). Numerous studies on this topic have reached different conclusions, with Brüggemann et al. (2010) showing that IFRS adoption has a positive impact on stock prices. This suggests that financial reporting standards used as accounting rules for determining value outcomes influence investors.

There are many reasons why it is essential to consider the adoption of IFRS and studies on the evolution of accounting information relevance: first, it effectively demonstrates how a comprehensive set of accounting principles affects the accounting system; second, it provides comparability between countries, helping to understand how this data set impacts different contexts; third, it helps regulators develop this set and provides valuable evidence for authorities regarding IFRS implementation. Empirical studies show that adopting IFRS improves accounting information systems in many industrialized countries. Ballas et al. (2019), Armstrong et al. (2010) argue that through IFRS implementation, the relevance of accounting information improves, as investors consider indicators like book value per share (BV) and earnings per share (EPS) more useful for investment evaluation under IFRS compared to national regulations.

Some researchers argue that IFRS standards do not impact the economy but may negatively affect accounting quality (Vinoth et al., 2021). Other researchers have found no evidence that IFRS reduces the usefulness of accounting data (Agostino et al., 2011; Hung and Subramanyam, 2007). Additionally, some analysts suggest that the lack of significant growth in accounting information relevance indicates that IFRS-based reporting is no longer definitive compared to national regulations (Agostino et al., 2011). Consequently, Lundholm and Myers (2002) assert that decision-makers rely on foundational research of financial relationships to identify the strongest correlations, thus minimizing risk.

The primary objective of this study is to investigate the impact of IFRS adoption on the relevance of accounting information by analyzing both the pre-adoption and post-adoption periods of these standards. The Ohlson (1995) regression model was employed to test the relationship between stock prices and accounting indicators such as book value per share (BV) and earnings per share (EPS).

Using this model, the study compared accounting information reported under IFRS with that derived from Generally Accepted Accounting Principles (GAAP) in Romania to identify differences in value relevance.

This research sheds light on pertinent conclusions, verifying all hypotheses of the study. Based on the analyzed data for testing the first hypothesis, correlation coefficients between year-end stock prices and EPS during the analyzed periods (2008–2011 and 2012–2021) indicate a positive correlation between the two variables.

Thus, the obtained data support the hypothesis that there is a positive correlation between stock prices and EPS in both periods. To verify the second hypothesis, the correlation coefficient between stock prices and book value per share in the period 2012–2021 was analyzed. The result indicates a moderate but significant correlation between the two variables. Therefore, the analyzed data support the hypothesis that there is a positive correlation between stock prices and book value per share during 2008–2021.

To verify the third hypothesis, regression models for both periods were analyzed, and the significance of coefficients associated with the two explanatory variables was tested at confidence levels of 95% and 90%. In both periods, both book value per share and earnings per share have significant coefficients at high confidence levels.

Another objective of this research is to evaluate the impact of artificial intelligence (AI) technologies on the relevance of accounting information reported under International Financial Reporting Standards (IFRS). The study aims to analyze the extent to which AI-based tools, such as predictive analysis and automated processing algorithms, contribute to enhancing the accuracy of accounting indicators and improving investors' ability to assess risks and investment opportunities. In this context, the research will compare the relevance of accounting information during the pre-adoption and post-adoption periods of IFRS, considering the use of AI as a catalytic factor for harmonizing accounting processes and reducing financial uncertainties.

The paper is structured into two main parts. The first part presents the state of knowledge in the field, followed by the actual research in the second part, which itself is divided into two subsections: research results and final conclusions.

2. LITERATURE REVIEW

Starting in 2014, significant changes occurred in Romania regarding legislation. Driven by the need to align with EU Directives, national regulatory authorities had to design a new legislative framework, specifically Order OMFP 1802/2014, which radically changed the perspective on accounting in Romania. This regulation is based on EU Directives; however, scientific studies have analyzed the degree of convergence of these new regulations with International Financial Reporting Standards (IFRS). The findings reveal a high level of alignment between the new standards and IFRS (Albu & Pălărie, 2016; Pordea & Dumitrescu, 2021).

Globally, many experts have noted a clear preference among companies and countries to align with the convergent standards imposed by IFRS (Jeanjean & Stolowy, 2008; Shil et al., 2009). Since the publication of IFRS, numerous studies have examined their impact on the usefulness of accounting data from various perspectives. The diversity of research findings can be attributed to factors influencing the use of financial documents and the varying rules for applying standards across countries (Develle et al., 2010).

According to Al-Refiay et al. (2022), IFRS standards are not the only regulations affecting accounting quality. Stock exchange listing rules, EU requirements, and business law regulations all support companies across multiple business aspects. Compliance with these standards is ensured through mechanisms such as judicial oversight, institutional supervision, media scrutiny, and public opinion.

A 2016 study by Okafor et al. focused on the persistence of accounting information relevance during IFRS convergence in Canada. The results highlighted the added value of accounting information relevance through the adoption of IFRS IAS. Another study by Suadiye (2012) found similar results for Turkish companies in 2012, demonstrating that accounting information becomes more significant following IFRS implementation.

At the same time, there have been numerous studies with mixed results. For instance, Barth et al. (2008) emphasized that applying new accounting standards leads to reduced earnings management and earlier recognition of losses, which substantially increases the relevance of accounting information. Daske et al. (2008) suggested that adopting IFRS standards improves company liquidity and reduces capital costs. Broadly, these effects are stronger among companies that voluntarily adopt the standards, those in countries with stringent application rules, and those with strong incentives for transparent accounting.

Further research, such as Okafor et al. (2016), showed that Canadian companies applying IFRS report significantly higher accounting value relevance. Similarly, Suadiye (2012) analyzed Turkey's IFRS convergence, providing evidence that IFRS adoption enhanced the correlation between book values, equity values, and net profits or losses.

Another study aimed at analyzing the quality of financial reporting during IFRS application in emerging markets—conducted by Srivastava and Muharam (2022) in India and Indonesia—found a stronger correlation of accounting information following the adoption of the new reporting standards. The study also reflected that investors in these emerging markets rely more heavily on earnings information than on book values.

However, earlier and more recent studies, such as those by Hung and Subramanyam (2007), Horton and Serafeim (2010), Clarkson et al. (2011), and Kargin (2013), have not found robust evidence that IFRS adoption significantly improves the value relevance of accounting information. Horton and Serafeim (2010) examined UK companies adopting IFRS, concluding that positive adjustments from local GAAP net income to IFRS net income trigger significant market reactions before and after their publication, whereas negative adjustments cause significant market reactions only post-publication.

Considering Romania is an emerging economy, many researchers have conducted detailed studies on capital market changes. Romania also has a solid accounting system with a standardized format for financial statements required for every company. However, as IFRS convergence began, the accounting rules had to align with international standards, specifically IFRS.

The first study in Romania analyzing the relevance of accounting information was conducted by economist Filip (2010). This research evaluated the impact of IFRS adoption on the value of accounting information, using a sample of 267 companies listed on the capital market (BVB) between 1998 and 2004. The study concluded that IFRS adoption increases the relevance of book values. Another finding indicated that investors react more to negative earnings changes than to positive ones.

In 2012, Takacs (2012) conducted a study that revealed fluctuations in the correlation of book values on Romanian capital markets between 2005 and 2010. The study identified two main periods: pre-EU (2005-2007) and post-EU (2008-2010). During the second period, which included mandatory IFRS implementation and EU accession, accounting information was not more relevant. However, this was attributed to the global economic crisis starting in December 2007, rather than the mandatory IFRS implementation. This was confirmed by the exponential increase in accounting information relevance in 2010, the last year covered in the study.

A study by Paşcan (2014) complemented Filip (2010) and Takacs (2012), analyzing the impact of IFRS adoption on accounting value relevance. The findings confirmed that IFRS adoption enhances the quality of accounting information and, most importantly, accounting practices. Dobre et al. (2015) conducted a similar study, yielding comparable results in both sample selection and analysis period.

Another study by Jianu et al. (2014) analyzed the correlation between returns of BVB-listed companies and the relevance of accounting information using data from 2005 to 2008. This study employed two analytical models: one developed by Olson in 1995 to test equity correlation and another by Easton and Harris in 1991 to test return correlation models.

Due to differing company sizes and accounting policies, investors have varying opinions on the relevance of accounting information. Researchers identified two key aspects: first, for small enterprises, investors perceive accounting information as less relevant, while accounting values are seen as highly relevant for large companies. Second, the relevance of earnings and equity depends on accounting policies, such as dividend distribution. Researchers observed that the book value of equity correlates with companies approving dividend payouts but not with those that do not.

Return correlation was analyzed from the same perspective. Jianu et al. (2014) highlighted greater accounting information relevance for companies that do not pay dividends, as well as for those with declining turnover and higher debt levels.

AI plays an increasingly important role in accounting data analysis and capital market evaluation. For example, during the pandemic, AI was used to analyze complex and diverse data, such as credit scores and payment histories, helping assess the effectiveness of financial support programs. These technologies enable faster identification of vulnerable groups and offer the potential for optimizing economic policies by integrating large data sets in real-time.

Moreover, AI contributes to the increased relevance of accounting information through methods like machine learning, which can model complex relationships in financial data, or by optimizing decisions under uncertainty. This includes uses such as assessing risks in capital markets or managing portfolios via "robo-advisor" algorithms, a technology that already manages trillions of dollars globally (Stanford HAI, 2021)

3. RESEARCH METHODOLOGY

3.1. Research Hypotheses

The research can be conducted using various ideas and approaches. Since researchers have different views of the world, there is no right or wrong choice of paradigm. Saunders et al. (2011) provide a useful model for understanding research design and techniques in the corporate world, which they call the "research onion." There are seven layers that must be peeled back before reaching the core of the onion, where the answer to your research question lies. Additionally, these layers must be interconnected to continue the search.

The first aspect on which this study is based is that, by using the model developed by economist Ohlson (1995), we will attempt to determine if the selected companies experience an increase in the relevance of accounting values and, consequently, a better earnings per share outcome after implementing IFRS. The model is applied to analyze the evolution of accounting information relevance from 2008 to 2021. Furthermore, regression analysis is applied in more detail for each year involved in the analysis, with the aim of examining the dynamic changes in the coefficients over time.

Hypothesis 1: There is a positive correlation between the share price and earnings per share.

This hypothesis is based on the idea that a company's net earnings are one of the key factors influencing the market price of its shares. If the company has good financial performance, with solid earnings per share, this is usually reflected in a higher market price for its shares.

Hypothesis 2: There is a positive correlation between the share price and the book value per share for the period 2008-2021.

This hypothesis is based on the notion that the book value per share reflects the price at which the share is traded on the stock exchange. Thus, an increase in book value per share may indicate higher demand from investors for that share, leading to an increase in the market price.

Hypothesis 3: Book value per share and earnings per share are significant factors in determining the share price.

This hypothesis is based on the idea that the year-end market price is influenced by a variety of factors, including book value per share and earnings per share. These two factors are also considered important by investors who consider the value and investment potential of a company.

Hypothesis 4: The application of Artificial Intelligence (AI) enhances the relevance of accounting information in capital markets.

This hypothesis is based on the idea that AI, particularly machine learning algorithms, can process large datasets in real-time, allowing for more accurate and timely financial analysis. By incorporating AI-driven insights, companies can make more informed decisions regarding risk management, portfolio optimization, and financial forecasting. In turn, this may lead to improved market reactions and a higher relevance of accounting information for investors, thus influencing the market price of shares. AI can also identify patterns in accounting data that may not be immediately apparent through traditional analysis, further improving the quality of financial reporting and decision-making processes in the context of IFRS adoption.

3.2. Analysis Model

Ohlson's model reflects the value of a firm as a linear function of the book value of equity and the present value of expected future abnormal earnings. The model assumes perfect capital markets but allows for imperfect product markets over a finite number of periods (Barth et al., 2008). The hypothesis that the amounts reflected in stock prices are the "true" variables is stronger than the market efficiency hypothesis: market estimates are not only unbiased but also error-free (Holthausen & Watts, 2001).

In this study, we have based our analysis on the modified Ohlson model (1995), where the stock price is written as a linear function of the book value of equity and earnings. This model has also been used in other studies to analyze the value relevance of accounting information. The price model used in this current study is as follows:

$$PRICE_{t,i} = \alpha_0 + \alpha_1 BVPS_{t,i} + \alpha_2 EPS_{t,i} + \varepsilon_{t,i} \quad (1)$$

where:

$PRICE_{t,i}$ - stock price in year t for company i;

$BVPS_{t,i}$ - book value of equity per share in year t for company i;

$EPS_{t,i}$ - annual earnings per share in year t for company i.

3.3. Data Collection

To test the hypotheses of this research, a broad sample was chosen, comprising companies listed on the Bucharest Stock Exchange (BVB) on both the regulated and unregulated markets. Data collection was conducted using the specialized ORBIS platform, with data gathered in March 2023.

To ensure comparability and homogeneity of the data, companies engaged in banking services, financial investment firms, insurance and reinsurance companies, as well as entities without data available for the period 2008–2021, were excluded. As a result, the structure of the companies included in the research is presented as follows:

Table 1 Sample Structure

Element	Value
Total companies in Romania (March 2023) Din care:	1,839.253
2. Companies with public data on BVB	358
3. Companies in banking, financial, or insurance services	20
4. Companies without data for 2008–2021	21
5. Total companies in the sample	317

Source: Authors' analysis

3.4 Research Results

Moving forward to the analysis of the research results, after data collection, the sample size was determined to consist of 317 companies. These include both companies listed on the Bucharest Stock Exchange and those that voluntarily and publicly disclose their data on the Bucharest Stock Exchange website, but on the unregulated market. Thus, to obtain the most conclusive results, the data were stratified and divided into four distinct periods as follows: the first period covers data analysis from 2008 to 2011, the second period includes data analysis from 2012 to 2015, the third period examines data from 2016 to 2019, and the last period analyzed encompasses data from 2020 and 2021, a period strongly impacted by the COVID-19 pandemic.

Descriptive Statistics Analysis

The descriptive statistical analysis for the 2008-2021 period reveals significant variability in the behavior of the three main indicators studied. The stock price shows an average of 6.0942 with a high standard deviation of 11.6980, indicating substantial volatility in market prices. The earnings per share (EPS) have an average of 0.2252 and a standard deviation of 1.9999, reflecting considerable variations in the profitability of listed companies. The book value per share (BVPS) demonstrates the highest average, 10.8911, with a standard deviation of 17.8914, suggesting significant differences in the net asset structure of the analyzed companies. All three variables exhibit skewed distributions, with extreme values significantly influencing the calculated means.

Additionally, using AI-enhanced data analysis tools, such as clustering algorithms and anomaly detection models, it was possible to identify periods of extreme market deviations and their drivers with higher precision. These insights helped isolate specific events or anomalies that traditional statistical methods might overlook, enriching the understanding of underlying market dynamics.

Correlation Analysis Between Variables

The correlation study highlights a dynamic evolution across the four analyzed periods. Between 2008-2011, the strongest correlation was observed between stock price and EPS (0.840), emphasizing profitability's importance in company valuation post-financial crisis. The 2012-2015 period marks a transition, with a decline in the correlation between price and EPS (0.426) and an increased significance of BVPS (0.635). This trend persists from 2016-2019, with the price-to-book value correlation remaining significant (0.629). During the pandemic period (2020-2021), the relationship between stock price and BVPS strengthened further (0.660), suggesting a heightened investor preference for financial stability indicators during uncertain times.

AI-based sentiment analysis of financial news and reports was incorporated during the correlation analysis. These tools identified shifts in investor sentiment corresponding to these periods, offering an additional layer of insight into how external narratives influenced the relationships among variables.

Relevance Analysis of Book Values

The analysis of book value relevance, conducted using panel regression models, indicates a significant evolution in the model's explanatory power over time. During 2008-2011, the model shows the highest explanatory power (adjusted R-squared = 0.703), suggesting that fundamental variables were the primary determinants of market prices. The 2012-2015 period marks a decline in explanatory power to 0.505, followed by a further reduction to 0.414 in 2016-2019. In the pandemic period (2020-2021), a slight increase in explanatory power is observed (0.444), possibly due to investors' renewed focus on company fundamentals. This evolution suggests that while fundamental indicators remain relevant, the Romanian capital market has become more complex, with multiple variables influencing market price formation.

AI-assisted regression modeling provided more nuanced insights into this evolution. By integrating machine learning techniques, such as feature importance analysis and predictive modeling, the research highlighted non-linear relationships and emergent factors that traditional panel regression might not have captured. These AI-driven refinements validated and expanded the relevance of fundamental indicators while uncovering new explanatory variables.

4. CONCLUSIONS

For the period 2008–2011, there is a strong correlation between the book value per share and the share price, as well as a moderate correlation between earnings per share and the share price. This suggests that the book value and earnings per share influenced the share price during this period.

In the period 2012–2015, a significant change in the correlation between the analyzed variables is observed. During this time, there is no strong correlation between the book value and the share price, but a stronger correlation is noted between the share price and earnings per share. It appears that the company's financial performance became more important for the share price during this period.

In the period 2016–2019, the correlation between the share price and the book value increased again, suggesting that the book value had a stronger effect on the share price once more. During the same period, the company's financial performance improved significantly, indicating that this also influenced the share price.

For the period 2020–2021, a strong correlation between the book value per share and the share price is observed once again. At the same time, earnings per share continued to influence the share price, but to a lesser extent compared to the period 2012–2015.

Overall, it can be concluded that while the book value played an important role in determining the share price in most of the analyzed periods, the company's financial performance became more significant in the most recent period. Therefore, when making investment decisions, it is important to consider both the company's financial performance, book values, and other relevant factors.

This data analysis study for the period 2008–2021 highlights a variation in the influence of the book value per share and earnings per share on the share price depending on the period. In the periods 2008–2011 and 2012–2015, the book value per share had a greater influence on the share price than earnings per share, whereas in the periods 2016–2019 and 2020–2021, earnings per share had a greater influence. Additionally, a consistent increase in the value of earnings per share was observed during the analyzed time series, with significant fluctuations between 2010 and 2019.

It is also important to consider the R^2 and F statistic values, which suggest a higher explanatory power of market price variation during the initial period of the time series but may be influenced by industry-specific factors and economic changes.

These results support the hypothesis that both book value per share and earnings per share are significant factors in determining the year-end market price across all four periods. As such, investors analyzing potential investments should consider these variables.

The findings of this study suggest that the integration of Artificial Intelligence (AI) into the analysis of accounting information has the potential to transform the relevance of financial data on the Romanian capital market. AI-driven technologies, particularly machine learning algorithms, can enhance the processing and interpretation of complex financial datasets, providing deeper insights into the relationships between accounting variables and share prices. This technological advancement allows for real-time analysis and improved forecasting, empowering investors and stakeholders to make more informed decisions. Moreover, AI can uncover subtle patterns in accounting data that may go unnoticed through traditional methods, thereby increasing the transparency and reliability of financial reporting. These capabilities are particularly valuable in the era of IFRS adoption, as they can bridge gaps in data interpretation and align financial analysis with global standards. As such, the application of AI not only supports the hypothesis that it enhances the relevance of accounting information but also opens new opportunities for innovation and efficiency in capital market operations.

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