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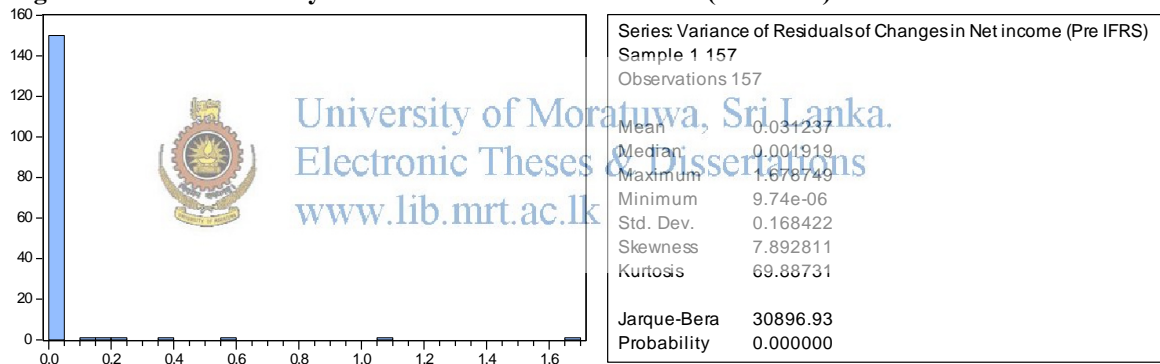
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## APPENDIX A – Test of Normality

**Table 1: Test of Normality for Variance of Residuals of  $\Delta$ NI (Pre IFRS)**

Empirical Distribution Test for Variance of Residuals of $\Delta$ NI (Pre IFRS)			
Hypothesis: Normal			
Sample: 1 157			
Included observations: 157			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.434	NA	0.000
Anderson-Darling (A2)	54.667	54.933	0.000

**Figure 1: Test of Normality for Variance of Residuals of  $\Delta$ NI (Pre IFRS)**

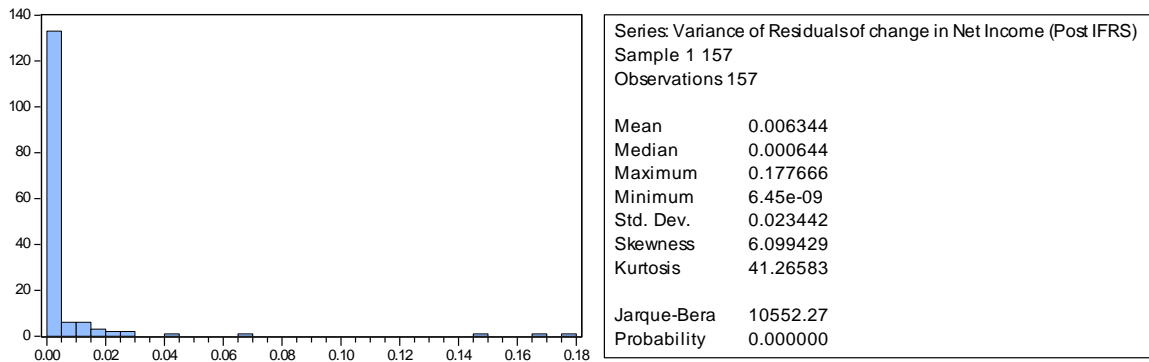


**Table 2: Test of Normality for Variance of Residuals of  $\Delta$ NI (Post IFRS)**

Empirical Distribution Test for Variance of Residuals of $\Delta$ NI (Post IFRS)			
Hypothesis: Normal			
Sample: 1 157			
Included observations: 157			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.393	NA	0.000
Anderson-Darling (A2)	41.528	41.730	0.000



**Figure 2: Test of Normality for Variance of Residuals of  $\Delta NI$  (Pre IFRS)**



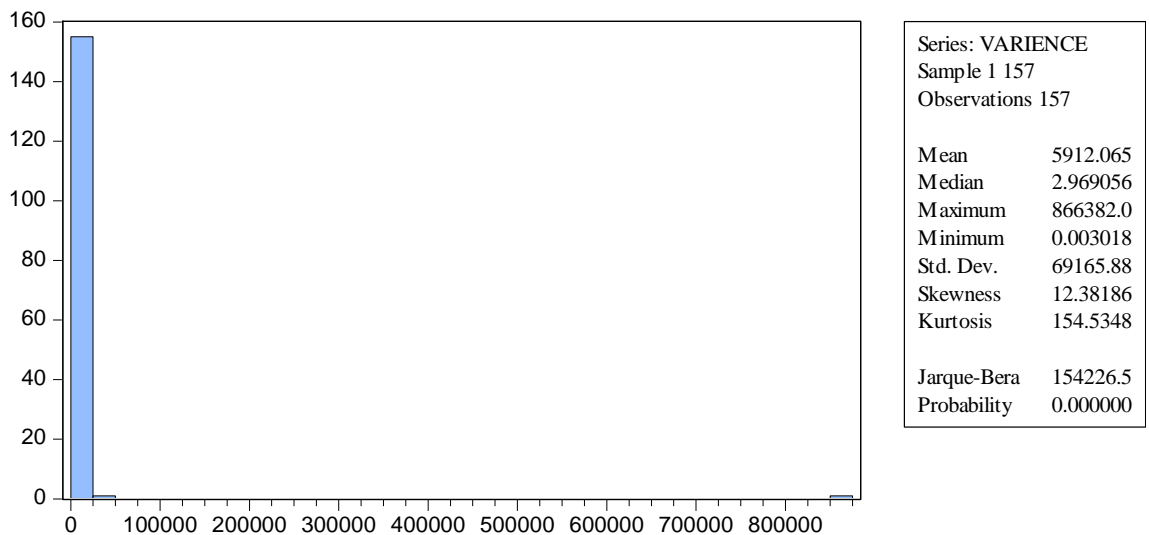
**Table 3: Test of Normality for Variance of  $\Delta NI^*/\Delta OCF^*$  (Pre IFRS)**

Empirical Distribution Test for Variance of $\Delta NI^*/\Delta OCF^*$ (Pre IFRS)			
Hypothesis: Normal			
Sample: 1 157			
Included observations: 157			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.493	NA	0.000
Anderson-Darling (A2)	62.955	63.262	0.000



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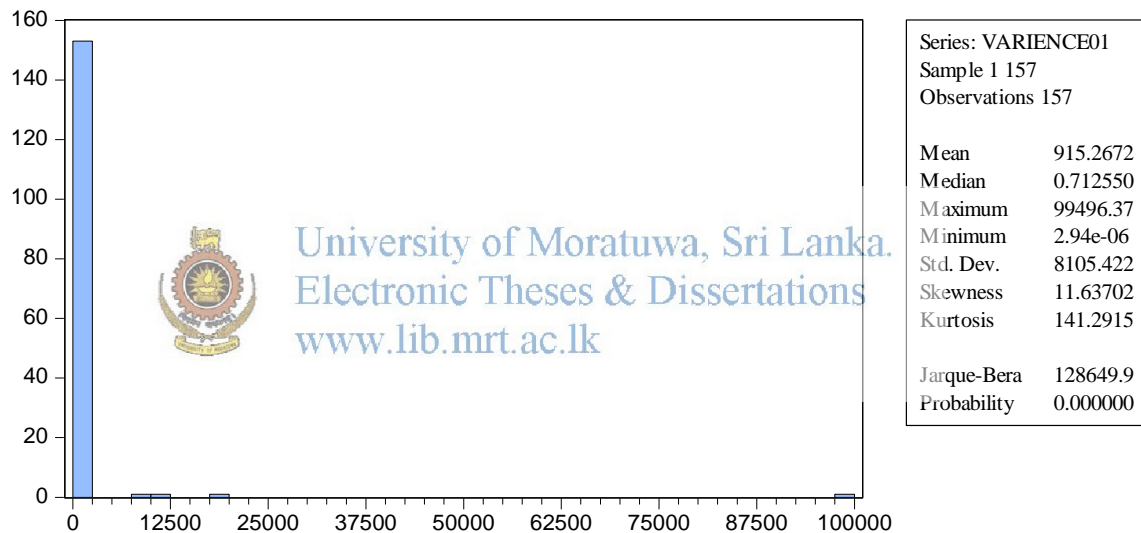
**Figure 3: Test of Normality for Variance of  $\Delta NI^*/\Delta OCF^*$  (Pre IFRS)**



**Table 3: Test of Normality for Variance of  $\Delta NI^*/\Delta OCF^*$  (Post IFRS)**

Empirical Distribution Test for VARIENCE01			
Hypothesis: Normal			
Sample: 1 157			
Included observations: 157			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.469	NA	0.000
Anderson-Darling (A2)	59.411	59.700	0.000

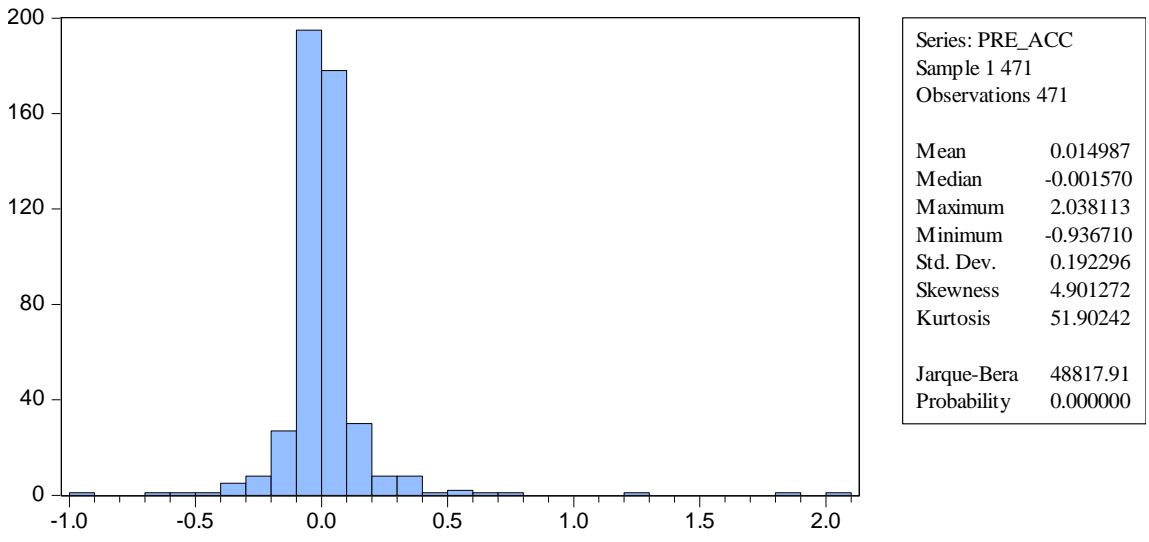
**Figure 3: Test of Normality for Variance of  $\Delta NI^*/\Delta OCF^*$  (Post IFRS)**



**Table 4: Test of Normality for ACC\* (Pre IFRS Accruals)**

Empirical Distribution Test for ACC* (Pre IFRS Accruals)			
Hypothesis: Normal			
Sample: 1 471			
Included observations: 471			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.220	NA	0.000
Anderson-Darling (A2)	50.174	50.254	0.000

**Figure 4: Test of Normality for ACC\* (Pre IFRS Accruals)**

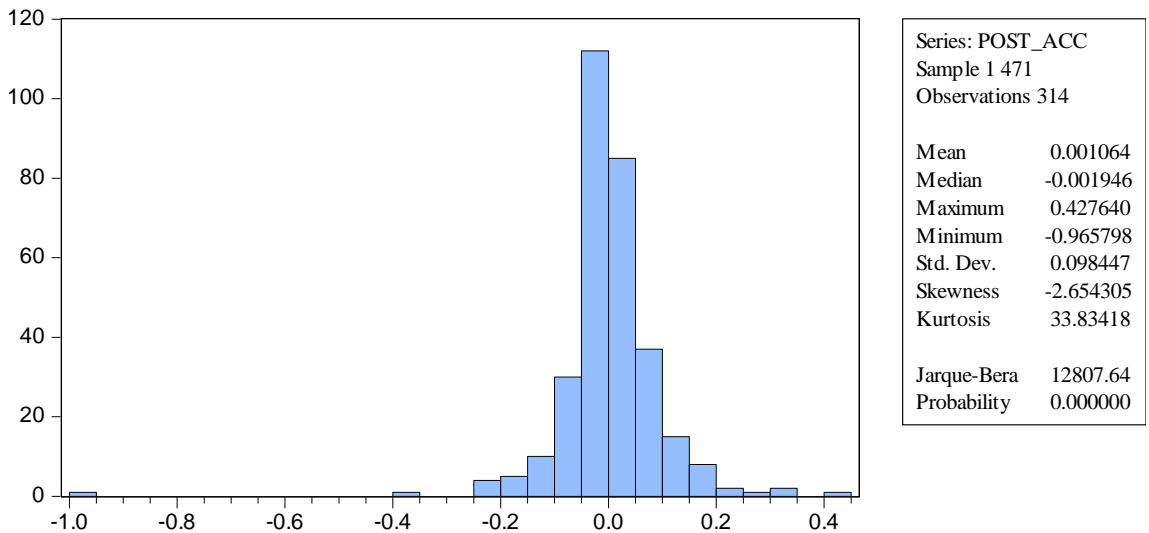


**Table 5: Test of Normality for ACC\* (Post IFRS Accruals)**

Empirical Distribution Test for ACC\* (Post IFRS Accruals)  
Hypothesis: Normal  
Sample : 1 314  
Included observations: 314

Method	Value	Adj. Value	Probability
Lilliefors (D)	0.141366	NA	0.0000
Anderson-Darling (A2)	13.12327	13.15491	0.0000

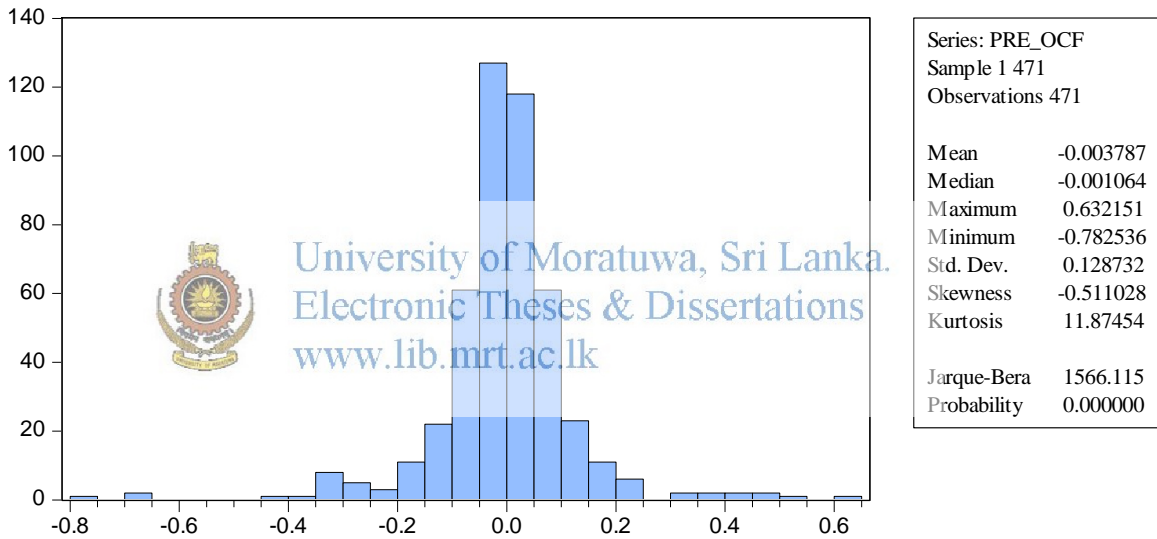
**Figure 5: Test of Normality for ACC\* (Post IFRS Accruals)**



**Table 6: Test of Normality for OCF\* (Pre IFRS Operating Cash Flows)**

Empirical Distribution Test for PRE_OCF			
Hypothesis: Normal			
Sample: 1 471			
Included observations: 471			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.129	NA	0.000
Anderson-Darling (A2)	16.825	16.852	0.000

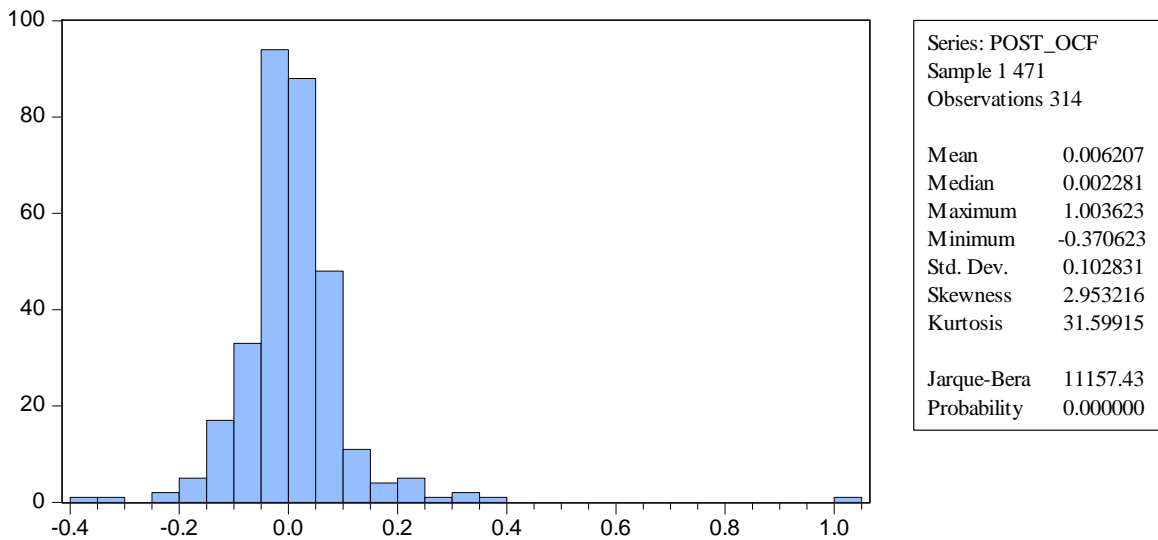
**Figure 6: Test of Normality for OCF\* (Pre IFRS Operating Cash Flows)**



**Table 6: Test of Normality for OCF\* (Pre IFRS Operating Cash Flows)**

Empirical Distribution Test for POST_OCF			
Hypothesis: Normal			
Sample (adjusted): 1 314			
Included observations: 314 after adjustments			
Method	Value	Adj. Value	Probability
Lilliefors (D)	0.116	NA	0.000
Anderson-Darling (A2)	11.372	11.399	0.000

**Figure 6: Test of Normality for OCF\* (Post IFRS Operating Cash Flows)**



$\Delta NI^*$  is the residuals from **Equation 1**:  $\Delta NI_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 OCF_{it} + \alpha_8 AUD_{it} + \alpha_9 CLOSE_{it} + \varepsilon_{it}$  where  $\Delta NI$  is the change in net income scaled by total assets at financial year-end.  $SIZE$  is the natural logarithm of the total assets at financial year-end.  $GROWTH$  is annual percentage change in sales.  $EISSUE$  is annual percentage change in book value of equity.  $LEV$  is total liabilities scale by book value of equity at financial year-end.  $DISSUE$  is annual percentage change in total liabilities.  $TURN$  is annual sales divided by end of year total assets.  $OCF$  is annual net cash flow from operating activities scaled by end of year total assets.  $AUD$  is an indicator variable set to one if the firm's auditor is PricewaterhouseCoopers, KPMG or Ernst & Young and zero otherwise.  $CLOSE$  is the percentage of closely held shares at the end of the year.

$\Delta OCF^*$  is the residuals from **Equation 2**:  $\Delta OCF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 OCF_{it} + \alpha_8 AUD_{it} + \alpha_9 CLOSE_{it} + \varepsilon_{it}$  where  $\Delta OCF$  is the change in operating cash flows available to ordinary shareholders at financial year end scaled by total assets at financial year end.

$OCF^*$  is the residual from **Equation 3**:  $OCF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 AUD_{it} + \alpha_8 CLOSE_{it} + \varepsilon_{it}$

$ACC^*$  is the residual from **Equation 4**:  $ACC_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 AUD_{it} + \alpha_8 CLOSE_{it} + \varepsilon_{it}$  where  $ACC$  is annual net income less annual net cash flow from operating activities.

## APPENDIX B – White Heteroskedasticity Test

**Table 1: Heteroskedasticity Test for Residuals of Price Regression (Pre IFRS)**

$MVPS^*_{it} = \beta_0 + \beta_1 BVEPS_{it} + \beta_2 NIPS_{it} + \varepsilon_{it}$				
Heteroskedasticity Test: White				
F-statistic	1.116	Prob. F(3,406)	0.342	
Obs*R-squared	3.355	Prob. Chi-Square(3)	0.340	
Scaled explained SS	45.603	Prob. Chi-Square(3)	0.000	
Test Equation:				
Dependent Variable: WGT_RESID^2				
Method: Least Squares				
Date: 03/20/15 Time: 00:12				
Sample: 1 471				
Included observations: 410				
White heteroskedasticity-consistent standard errors & covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
$NIPS\_WINSORIZED^2 * WGT^2$	3466.061	1273.349	2.722	0.006
$BVPS\_WINSORIZED^2 * WGT^2$	-46.987	34.713	-1.353	0.176
$WGT^2$	0.069	0.028	2.467	0.014
	230.399	121.921	1.889	0.059
R-squared	0.008	Mean dependent var	3366.195	
Adjusted R-squared	0.000	S.D. dependent var	17700.008	
S.E. of regression	17692.50	Akaike info criterion	22.409	
Sum squared resid	1.271	Schwarz criterion	22.448	
Log likelihood	-4589.922	Hannan-Quinn criter.	22.424	
F-statistic	1.116	Durbin-Watson stat	2.265	
Prob(F-statistic)	0.342			

$MVPS^*_{it} = \beta_0 + \beta_1 BVEPS_{it} + \beta_2 NIPS_{it} + \varepsilon_{it}$ , where  $MVPS^*$  is the residual of a regression where share price (PRICE) in rupees three months after financial year end is first regressed on industry indicator variables; BVEPS is book value of equity per share at financial year end. NIPS is net income per share at financial year end;



**Table 2: Heteroskedasticity Test for Residuals of Price Regression (Post IFRS)**

$MVPS^*_{it} = \beta_0 + \beta_1 BVEPS_{it} + \beta_2 NIPS_{it} + \varepsilon_{it}$				
Heteroskedasticity Test: White				
F-statistic	2.487	Prob. F(3,310)	0.060	
Obs*R-squared	7.380	Prob. Chi-Square(3)	0.060	
Scaled explained SS	69.184	Prob. Chi-Square(3)	0.000	
Test Equation:				
Dependent Variable: WGT_RESID^2				
Method: Least Squares				
Date: 03/20/15 Time: 20:50				
Sample: 1 314				
Included observations: 314				
White heteroskedasticity-consistent standard errors & covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1484.135	671.008	2.211	0.0277
NIPS_WINSORIZED^2*WGT^2	-17.229	8.817	-1.954	0.0516
BVPS_WINSORIZED^2*WGT^2	-1.639	1.071	-1.530	0.1269
WGT^2	9538.284	8704.746	1.095	0.2740
R-squared	0.023	Mean dependent var	1692.193	
Adjusted R-squared	0.014	S.D. dependent var	7409.373	
S.E. of regression	7357.118	Akaike info criterion	20.657	
Sum squared resid	1.680	Schwarz criterion	20.705	
Log likelihood	-8239.209	Hannan-Quinn criter.	20.676	
F-statistic	2.487	Durbin-Watson stat	2.118	
Prob(F-statistic)	0.060			

$MVPS^*_{it} = \beta_0 + \beta_1 BVEPS_{it} + \beta_2 NIPS_{it} + \varepsilon_{it}$ , where  $MVPS^*$  is the residual of a regression where share price (PRICE) in rupees three months after financial year end is first regressed on industry indicator variables; BVEPS is book value of equity per share at financial year end. NIPS is net income per share at financial year end;

**Table 3.4: Summary of Accounting Quality Metrics**

Accounting Quality Measures	Metrics	Indication of better accounting quality
1 Earning Smoothing		
1.1 Variance of residuals from the $\Delta NI$ model	$\Delta NI_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 OCF_{it} + \alpha_8 AUD_{it} + \alpha_9 CLOSE_{it} + \varepsilon_{it}$	Higher Variance
1.2 Variance of residuals from the $\Delta NI$ model scaled by the variance of residuals from the $\Delta OCF$ model	$\Delta OCF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 OCF_{it} + \alpha_8 AUD_{it} + \alpha_9 CLOSE_{it} + \varepsilon_{it}$	Higher Variance
1.3 Correlation between the residuals of the OCF and ACC models	$OCF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 OCF_{it} + \alpha_8 AUD_{it} + \alpha_9 CLOSE_{it} + \varepsilon_{it}$ $ACC_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 OCF_{it} + \alpha_8 AUD_{it} + \alpha_9 CLOSE_{it} + \varepsilon_{it}$	Less Negative Correlation
2 Managing towards earning targets		
2.1 Frequency of small positive net income (SPOS)	$IFRS (0,1)_{it} = \alpha_0 + \alpha_1 SPOS_{it} + \alpha_2 SIZE_{it} + \alpha_3 GROWTH_{it} + \alpha_4 EISSUE_{it} + \alpha_5 LEV_{it} + \alpha_6 DISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 OCF_{it} + \alpha_9 AUD_{it} + \alpha_{10} CLOSE_{it} + \varepsilon_{it}$	Lower frequency of SPOS
3 Timeliness of loss recognition		
3.1 Frequency of large negative net income (LNEG)	$IFRS (0,1)_{it} = \alpha_0 + \alpha_1 LENG_{it} + \alpha_2 SIZE_{it} + \alpha_3 GROWTH_{it} + \alpha_4 EISSUE_{it} + \alpha_5 LEV_{it} + \alpha_6 DISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 OCF_{it} + \alpha_9 AUD_{it} + \alpha_{10} CLOSE_{it} + \varepsilon_{it}$	Higher Frequency of LENG
4 Value relevance		
4.1 Share prices on book value of equity and earnings	$P^*_{it} = \alpha_0 + \alpha_1 BVEPS_{it} + \alpha_2 NIPS_{it} + \varepsilon_{it}$	Higher Adjusted R2
4.2 Share prices on book value of equity and earnings	$[NI/P]^* = \alpha_0 + \alpha_1 RETURN_{it} + \varepsilon_{it}$	Higher Adjusted R2

**Table 4.5: Correlation coefficients for the continuous variables (Spearman rank-order correlation)**

	$\Delta$ NI	$\Delta$ OCF	ACC	OCF	RETURN	NIPS/P	MVPS	BVPS	NIPS	LEV	GROWTH	EISSUE	DISSUE	TURN	SIZE	CL
$\Delta$ NI	1.000															
$\Delta$ OCF	0.042	1.000														
ACC	-0.023	-0.534	1.000													
OCF	0.057	0.552	-0.673	1.000												
RETURN	0.022	0.081	-0.061	0.054	1.000											
NIPS/P	0.025	0.012	0.107	0.222	0.139	1.000										
MVPS	-0.009	0.049	0.114	0.037	0.096	0.029	1.000									
BVPS	0.027	-0.032	0.137	-0.044	0.014	0.308	0.701	1.000								
NIPS	0.007	0.023	0.156	0.192	0.014	0.731	-0.533	-0.699	1.000							
LEV	0.004	0.004	-0.142	-0.006	0.020	0.128	-0.170	-0.099	-0.014	1.000						
GROWTH	0.013	0.112	0.058	0.019	0.077	0.042	-0.041	-0.065	-0.008	-0.006	1.000					
EISSUE	-0.068	-0.033	0.182	-0.139	0.038	0.326	0.106	0.141	0.311	0.022	0.230	1.000				
DISSUE	-0.061	-0.137	0.167	-0.200	-0.073	0.033	0.019	0.090	0.075	0.145	0.166	0.080	1.000			
TURN	-0.009	0.049	-0.103	0.208	0.037	0.253	0.092	0.079	0.240	0.495	0.011	0.121	-0.078	1.000		
SIZE	-0.006	0.014	-0.029	0.140	-0.079	0.254	0.058	0.150	0.245	0.260	0.057	0.169	0.179	0.061	1.000	
CLOSE	0.031	-0.026	-0.021	-0.012	0.032	-0.029	0.060	0.032	0.028	-0.116	0.002	0.002	0.003	-0.121	0.021	1

This table presents Spearman's rank correlations between the continuous variables for the 157 sample firms over the sample period. The total number of firm year observations is 785.  $\Delta$ NI is the change in net income scaled by total assets at financial year-end.  $\Delta$ OCF is change in annual net cash flow from operating activities scaled by total assets at financial year-end. ACC is annual net income less annual cash flow from operating activities, scaled by end of year total assets. OCF is annual net cash flow from operating activities scaled by end of year total assets. RETURN natural logarithm of the ratio of stock price three months after fiscal year end to stock price nine months before fiscal year end, adjusted for dividends. NIPS/P is net income per ordinary share at financial year-end, scaled by beginning of year share price. MVPS is share price in rupees three months after financial year-end. BVPS is book value of equity in rupees per ordinary share at financial year-end. NIPS is net income available to ordinary shareholders at financial year end per ordinary share. LEV is total liabilities divided by book value of equity at financial year-end. GROWTH is annual percentage change in sales. EISSUE is annual percentage change in book value of equity. DISSUE is annual percentage change in total liabilities. TURN is annual sales divided by end of year total assets. SIZE is Natural logarithm of book value of total assets at the end of the financial year. CLOSE is percentage of closely held voting shares at the year-end.