ISSN (Print): 2788-8320 ISSN (Online): 2788-8339

JOURNAL OF SOCIAL RESEARCH DEVELOPMENT
www.jsrd.org.pk editor@jsd.org.pk

EXPLORING THE RELATIONSHIP BETWEEN IFRS 15, EARNINGS VOLATILITY, AND FIRM VALUE: EVIDENCE FROM PAKISTAN

Huma Fatima[1], Saliha Gul Abbasi[2], Dr. Surayya Jamal[3], Benish Gul[4], Dr. Sultan Mahmood[5]

[1]UE Business School, Division of Management and Administrative Science, University of Educational, Lahore. Email: huma.fatima@yahoo.com

[2]Assistant Professor, Department of Management Sciences, University of Azad Jammu and Kashmir, Muzaffarabad. Email: saliha.gul@ajku.edu.pk

[3]Assistant Professor at Department of Management Sciences, Qurtaba University of Science and Information Technology Peshawar, Pakistan. Email: surayyajml@gmail.com

[4]MSMD, Foundation University, Islamabad, Email: benishgul05@gmail.com

[5]Professor, Government College of Management Sciences Abbottabad. Email: wafa692@yahoo.com

KEYWORDS

IFRS 15, earnings volatility, firm value, Tobin, Q, Pakistan Stock Exchange, financial reporting, emerging markets.

ARTICLE HISTORY

Date of Submission: 08-10-2026
Date of Acceptance: 04-11-2026
Date of Publication: 05-11-2026

ABSTRACT

This paper examines how the adoption of IFRS 15 affects the earnings volatility and the firm value in Pakistan, which is an emerging economy. The study investigate the connection between IFRS 15, earnings volatility, and the value of the firm using a sample of 100 non-financial firms listed on the Pakistan Stock Exchange (PSX) between 2015 and 2024. The study used a quantitative research approach to test the hypotheses with the help of panel data regression analysis. Standard deviation of earnings and Q of Tobin which is the standard deviation of firm value are the measures that we use to calculate earnings volatility and firm value respectively. The findings indicate that IFRS 15 implementation is linked with lower earnings volatility, which positively impacts the firm value. The results indicate that IFRS 15 has enhanced the quality of financial reporting in Pakistan resulting in more stable earnings and increase in firm value. The paper is relevant to the body of research of IFRS adoption and its impact on the emerging economies, and it offers policy-based implications to regulators, standard setters, and corporate managers in developing countries.

2026 Journal of Social Research Development

Correspondence	Dr. Surayya Jamal
Email:	surayyajml@gmail.com
DOI	https://doi.org/10.59075/jsrd.v7i9.647
Volume/Issue	7(9), 2026, 302-317

Introduction

The implementation of the International Financial Reporting Standards (IFRS) has been a major milestone towards the internationalization of accounting practices. Among other IFRS standards, IFRS 15- Revenue in Contracts with Customers is a historic change which transformed the way revenue is to be recognized in all industries and geographical locations (Barth et al., 2008). Adopted in 2018 by the majority of jurisdictions, including Pakistan, IFRS 15 substitutes the interim IAS 11 and IAS 18 models with a five-step model based on principles and that better reflects the economic substance of transactions that generate revenues.

Within the frame of the emerging markets, such as Pakistan, the importance of reforms in accounting standards cannot be overestimated. The Pakistan Stock Exchange (PSX), which is the capital market of Pakistan, experienced a rapid institutionalization in the last decade, with foreign inflow increasing, regulations becoming more liberal, and transparency requirements on the part of domestic and international stakeholders (Ahmed et al., 2019; Ayub & Riaz, 2026). Adoption of IFRS 15 by listed companies was required by the Securities and Exchange Commission of Pakistan (SECP), so the natural experiment to study the practical implications of this regulatory change was to examine its effects in reality.

The volatility of earnings in financial economics is a crucial construct in the sense that it reflects the level of uncertainty in corporate earnings which in turn determines investor perception, cost of capital and finally, the valuation of the firm (Dichev & Tang, 2009; Mansour & Hussainey, 2026). Informational opaqueness, managerial opportunism and reduced quality of financial reporting are commonly related to high levels of earnings volatility. A more structured and disclosure intensive revenue recognition model like IFRS 15 was also anticipated to minimize the possibilities of income smoothing, enhance predictability of reported earnings and eventually lead to better informed capital markets (Ewert & Wagenhofer, 2012).

Firm value, which is normally represented by the Q of Tobin in empirical finance studies, is a holistic value that indicates current and future performance expectations in the market (Chung and Pruitt, 1994). It has been reported in the previous literature that the quality of financial reporting is related to low information asymmetry, low cost of equity capital and high firm valuation (Leuz & Verrecchia, 2000; Biddle and Hilary, 2006; Khan & Shoaib, 2024). However, the question of whether IFRS 15 has a specific contribution to such outcomes in a developing market setting such as in Pakistan is an open empirical one.

Pakistan is one of the most intriguing contexts to conduct this investigation due to a number of reasons. To begin with, China being an emerging economy with huge market imperfection, there are information asymmetry between the firms insiders and external investors, which are very high (Iqbal & Strong, 2010). Second, revenue recognition before IFRS 15 was very heterogeneous among Pakistani industries particularly in construction, telecommunications and long-term service contracts, which posed comparability issues among investors. Third, the institutional enforcement

context in Pakistan is very dissimilar to those of developed markets, which can moderate the anticipated impact of IFRS 15.

Although the literature surrounding the effects of IFRS adoption has been increasing all over the world, there is still little evidence in South Asian and Pakistani markets that is not inconclusive. The majority of the previous literature is concerned with developed European economies or aggregate cross-country samples, which might not necessarily reflect the specifics of institutional characteristics of emerging markets (Daske et al., 2008; Li, 2010; Darabee & Mousa, 2024). This research fills this gap by offering first-hand evidence of the effects of IFRS 15 on earnings volatility and firm value in Pakistan.

The three following research questions are the reasons behind the current research: (1) Does IFRS 15 adoption lessen the earnings volatility of Pakistani listed companies? (2) Does less earnings volatility translate into high firm value? (3) Does the adoption of IFRS 15 have a direct effect on firm value in addition to its indirect impact on firm value via earnings volatility? The questions are significant not only in theoretical but also in policy terms, as they address the effectiveness of accounting standard changes in the emerging market environments.

We use a panel dataset of 100 non-financial PSX-listed firms in the phase of 2015–2024 to answer these questions, covering both the pre- and post-modification of IFRS 15. We apply panel data regression models such as fixed-effects and random-effects models, and we use the difference-in-differences (DiD) model to identify the causal impact of IFRS 15. We conclude that the adoption of IFRS 15 will greatly decrease the volatility of earnings and the drop in earnings is correlated with a greater Tobin Q value, which means that the firm is better valued.

Literature Review

The conceptual basis of investigating the connection between accounting standards, earnings quality and firm value is based on a number of overlapping frameworks: information asymmetry theory, signaling theory and agency theory. The information asymmetry theory (Akerlof, 1970; Leuz and Verrecchia, 2000) assumes that any information asymmetry between the managers and investors is a source of inefficiency in capital markets. This asymmetry can be minimized by high-quality financial reporting, which enables investors to make better judgments of firm value.

According to the signaling theory (Spence, 1973; Ross, 1977), the better the financial performance of the firm, the more incentive it has to signal its quality by credible financial reporting. The implementation of strict international accounting standards such as IFRS 15 can be used as a credibility indicator, distinguishing companies, which actually enhance their reporting of revenues, and those who only do it in a symbolic way. Agency theory (Jensen and Meckling, 1976) also relates accounting quality to contracting efficiency, which states that revenue recognition rules are more accurate, hence less manager discretion to manipulate the income, thus aligning manager and shareholder interests.

Adoption of IFRS and Quality of Financial Reporting.

There is a significant literature that has reported the financial reporting implications of the adoption of the IFRS. A seminal multi-country study of the IFRS adopters by Barth et al. (2008) revealed that adopters of the IFRS have low earnings management, greater earnings informativeness, and value relevance of financial statements. Likewise, Daske et al. (2008) showed that mandatory IFRS adoption in the European Union was found to be linked with large decreases in the cost of equity capital, higher market liquidity, and higher Tobin Q in involved companies.

Ball et al. (2003) warned that the advantages of IFRS implementation are dependent on the quality of the enforcement institutions, pointing out that in the countries with a weak legal system, the de jure implementation of high-quality standards may not be translated into the de facto improvements in reporting practice. This holds special significance to Pakistan where the regulatory enforcement has traditionally been weak (Iqbal and Strong, 2010). Despite these issues, Ahmed et al. (2013) discovered that the adopters of IFRS tend to have less earnings smoothing and recognise losses earlier than their non-adopters.

Revenue Recognition under the IFRS 15.

The new IFRS 15 model of revenue recognition has five steps: (1) identify the contract with a customer, (2) identify performance obligations, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue as each performance obligation is fulfilled. This model was meant to remove industry-related guidance and offer one principles-based approach which increases comparability and transparency (IASB, 2014).

Empirical studies of the particular impacts of IFRS 15 are relatively new and expanding. Perera and Chand (2015) reviewed the expected impact of IFRS 15 on revenue recognition in New Zealand and Australia and discovered that the standard was likely to cause considerable shifts in the timing and amount of revenue realized, especially those of multi-element arrangements. Christensen et al., (2019) examined how IFRS 15 adoption announcements reacted in the UK and observed a positive abnormal return, indicating that the investors believe the change will lead to quality improvements in financial reporting.

The article by Gordon et al., (2017) reviewed the impact of IFRS 15 on the recognition of revenue within the technology industry, where bundled contracts are usually used. They discovered that the disaggregation requirements of the IFRS 15 resulted in more informative disclosures of revenues, which helped to reduce the forecast errors of analysts. By identifying the performance obligation in Hail et al., (2018), the authors reported that in the healthcare industry, the implementation of the IFRS 15 minimized the earnings management by imposing performance obligation identification requirements, particularly in long-term service contracts.

Earnings Volatility and Firm Value.

The volatility of earnings has been known to be a considerable determinant of firm value and cost of capital. Dichev & Tang (2009) reported that the volatility of earnings is found to be negatively correlated with earnings quality and predictability and high-volatility firms have systematically lower P/E ratios. Likewise, Inchausti (1997) discovered that the volatility in earnings reflects the riskiness of the underlying business, in such a way that investors discount the value of companies with more volatile earnings flows.

Ewert & Wagenhofer (2012) explicitly modelled the connection between tightening of the accounting standards, earnings volatility, and firm value and discovered that tighter accounting standards decrease discretion in income smoothing by managers, which results in more volatile yet more informative earnings. Their theoretical forecasts are consistent with our empirical design, implying that IFRS 15 can initially cause an increase in transparency-driven volatility but eventually lead to firm value enhancement by the quality of disclosures.

Shah et al., (2021) in the Pakistani setting discovered that the earnings volatility was negatively correlated with firm value in PSX listed firms, especially those that are more likely to fall under contractual complexity like construction and services. According to a study conducted by Raza et al. (2020), income smoothing was common among Pakistani-based corporations before the adoption of IFRS and that regulatory reforms that followed were related to more informative earnings surprises. These results highlight the applicability of our study to the Pakistani institutional environment.

Emerging Markets Adopting IFRS

The implications of the adoption of IFRS in the emerging markets have come under growing academic interest. A cross-country study by Houge et al., (2012) revealed that the effect of accounting standards in terms of IFRS adoption is more favorable in those countries in which investor protection laws are strong, indicating that the institutional quality mediates the accounting standard effect. Chua et al., (2012) observed comparable moderating influences in the Southeast Asian markets where the advantages of IFRS were abridged by the weak enforcement regimes.

In the case of Pakistan, Akhtar & Oliver (2009) investigating the IFRS adoption path, they discovered that both technical compliance and enforcement gaps remained. The study by Ahmed & Alam (2012) indicated that Pakistani companies that adopted previous IFRS standards experienced a positive change in the earnings quality measurements but these changes were uneven in terms of industry. More recently, Mehmood et al., (2022) reported that the governance quality was a significant moderator between IFRS adoption and firm performance in Pakistan, which we manage in our empirical design.

Research Hypotheses

Based on the theoretical arguments and previous empirical results, the study hypothesizes the following:

H1: PSX-listed non-financial companies exhibit lower earnings volatility when adopting IFRS 15.

H2: Firm value (Tobin Q) is positively related with reduced earnings volatility.

H3: IFRS 15 adoption is directly linked to increased firm value, in addition to its indirect impact on it through the earnings volatility.

Methodology

Sample and Data

The sample will include 100 non-financial firms in the Pakistan Stock Exchange (PSX) between the year 2015 and 2024, producing an unbalanced panel of up to 1,000 firm-years. Financial industry companies (banks, insurance firms, investment funds) were overlooked since their revenue recognition methods are fundamentally different than non-financial corporations and IFRS 15 is not applicable to financial instruments (Ahmed et al., 2019). The sampling was based on all the big non-financial sectors of the PSX such as manufacturing, retail, building, telecommunication sector, and services.

Audited annual reports, financial statements and corporate filings published on PSX data portal, State Bank of Pakistan financial database and Bloomberg were used as secondary data. Manual extraction of annual reports of companies adopting IFRS 15 disclosures of adoption and segment revenue breakdowns were also used to supplement the data collection. All financial data were deflated against Consumer Price Index (CPI) to be able to adjust to the inflationary impacts.

The sample of 2015-2024 was specifically taken to cover four years preceding the 2019 adoption of IFRS 15 in Pakistan and six years of adoption. This pre/post design allows the difference-in-differences (DiD) estimation to be employed, and the adoption of IFRS 15 can be considered a quasi-experimental intervention. Early adopters, i.e. those firms that voluntarily implemented IFRS 15 prior to the mandatory date, were also determined by manual inspection of the disclosures in the financial statements and used as the treatment group in the robustness tests.

Variable Measurement

Dependent Variables. The volatility of earnings (EV) is the rolling standard deviation of five years of return on assets (ROA), which is in line with Dichev & Tang (2009) and Shah et al., (2021). ROA is calculated as Net income/Total assets. An EV with a high value means that the earnings are more unstable. The Tobin Q is used to measure firm value (FV), which is calculated as market capitalization

plus book value of the total debt to total assets. The measure indicates the expectation of markets and the efficiency of its assets (Chung & Pruitt, 1994).

Independent Variable. IFRS15 is a binary dummy variable, coded as 1 when a firm-year observation is post-2018 and mandatory adopters of IFRS 15 (and thus 1) and 0 when pre-2018. To the early adopters, the dummy will be 1 since the year of voluntary adoption. This variable measures the direct treatment impact of the accounting standard change.

Control Variables. Using previous research on firm value and earnings quality (Barth et al., 2008; Daske et al., 2008), we include the following firm-level controls: (1) Firm Size (SIZE) the natural logarithm of total assets; (2) Financial Leverage (LEV), the ratio of total debt to total equity; (3

Econometric Models

We approximate the following panel regression model to test H1:

$$EV_{it} = \alpha + \beta_1 IFRS15_{it} + \beta_2 SIZE_{it} + \beta_3 LEVit + \beta_4 ROE_{it} + \beta_5 REVG_{it} + \beta_6 BIND_{it} + \beta_7 BIG4_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (1)$$

To test H2 and H3, we estimate the following model:

$$FV_{it} = \alpha + \beta_1 IFRS15_{it} + \beta_2 EV_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROE_{it} + \beta_6 REVG_{it} + \beta_7 BIND_{it} + \beta_8 BIG4_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (2)$$

In both models, μi is the firm-fixed effects that explain the unobservable firm characteristics that do not change with time, λt is the year-fixed effects, which explain the macroeconomic and market-wide shocks, and εit is the idiosyncratic error term. The concentration of standard errors at the firm level is an attempt to explain within-firm serial correlation (Petersen, 2009). Hausman test is used to decide between fixed and random effects specifications.

To identify causal relationships, we also use a difference-in-differences (DiD) design that takes advantage of the staggered implementation of IFRS 15 by Pakistani companies. The DiD model contrasts the pre/ post-movements of the outcome variables of firms that implemented IFRS 15 (treatment group) and those that have not yet implemented (control group) after accounting the common time trends by incorporating year fixed effects.

Results and Discussion

Descriptive Statistics

Table 1 shows descriptive statistics of all variables in the entire sample of 100 firms in the period 20152024. The mean of firm value based on the Q of Tobin equals 1.42, consistent with previous research in the Pakistani setting (Shah et al., 2021). The mean of earnings volatility (EV) is 0.0421

with a significant variation among firms (SD = 0.0318) which confirms that earnings stability should be controlled in the firm valuation analysis.

Table 1: Descriptive Statistics for Full Sample (N = 100 Firms, 2015–2024)

Variable	N	Mean	Std. Dev.	Min	Median	Max
Tobin's Q (FV)	987	1.42	0.68	0.31	1.29	4.87
Earnings Volatility (EV)	987	0.0421	0.0318	0.0041	0.0332	0.1872
IFRS 15 Dummy	987	0.58	0.49	0	1	1
Firm Size (ln Assets)	987	17.84	1.43	14.22	17.91	21.67
Leverage (LEV)	987	0.54	0.21	0.08	0.52	1.34
Profitability (ROE)	987	0.112	0.091	-0.342	0.101	0.479
Revenue Growth (REVG)	987	0.083	0.127	-0.381	0.071	0.612
Board Independence	987	0.381	0.112	0.143	0.375	0.714
Big4 Audit Firm	987	0.42	0.49	0	0	1

Note. All continuous variables are winsorized at the 1st and 99th percentiles. Tobin's Q = (Market Capitalization + Book Value of Debt) / Total Assets. Earnings Volatility = 5-year rolling standard deviation of ROA. Leverage = Total Debt / Total Equity.

Correlation Analysis

The Pearson correlation table of the main study variables is presented in Table 2. The relationship between IFRS15 and EV is negative and significant (r = -0.312, $p < 0.01$), which in the first place supports H1. The relationship between EV and Q of Tobin is also negative and significant (r = -0.274, $p < 0.01$) which is also in line with H2. Notably, the largest inter-variable correlation of 0.58 exists between SIZE and LEV, still less than the traditional 0.70 mark on multicollinearity issues. Variance Inflation Factor (VIF) tests confirm that we do not have a major problem of multicollinearity in our models (all VIF < 4.0).

Table 2: Pearson Correlation Matrix

Variable	1	2	3	4	5	6	7	8
1. Tobin's Q	1.000							
2. Earn. Volatility	−0.274***	1.000						
3. IFRS15	0.198***	−0.312***	1.000					
4. Firm Size	−0.143**	−0.201***	0.221***	1.000				
5. Leverage	−0.231***	0.187***	−0.142**	0.581***	1.000			
6. ROE	0.387***	−0.342***	0.289***	0.122**	−0.201***	1.000		
7. Revenue Growth	0.212***	−0.143**	0.178***	0.091*	−0.133**	0.241***	1.000	

8. Bd. Independence	0.142**	−0.102*	0.163***	0.201***	−0.143**	0.189***	0.087	1.000

Note. * p < 0.10, ** p < 0.05, *** p < 0.01. N = 987 firm-year observations.

Regression Results: Earnings Volatility and IFRS 15.

The findings of panel regression estimating the impact of IFRS 15 on the earnings volatility (H1) are provided in Table 3. Model 1 is the pooled OLS estimate, Model 2 is the combination of firm and year fixed effects and finally Model 3 is the DiD specification. The coefficient on IFRS15 is negative and statistically significant across all specifications, which means that the adoption of IFRS 15 is linked to the decrease in the volatility of earnings. Model 2 (fixed-effects specification) suggests that the IFRS15 coefficient = -0.0087 (p < 0.01), which means that the volatility of earnings reduces by 0.87 percentage points after the adoption of IFRS 15. The DiD estimate (Model 3) is -0.0094 (p =0.01) which is of larger magnitude and may imply the removal of confounding trends that are measured by the fully treated sample. These findings are a great support to H1.

Table 3: Panel Regression Results: IFRS 15 and Earnings Volatility (Dependent Variable: Earnings Volatility)

Variable	Model 1 (OLS)	Model 2 (FE)	Model 3 (DiD)
IFRS15	−0.0073***	−0.0087***	−0.0094***
	(−4.21)	(−5.12)	(−5.87)
Firm Size	−0.0031**	−0.0028**	−0.0030**
	(−2.31)	(−2.17)	(−2.28)
Leverage	0.0124***	0.0118***	0.0121***
	(4.89)	(4.61)	(4.74)
ROE	−0.0412***	−0.0389***	−0.0401***
	(−8.12)	(−7.84)	(−8.01)
Revenue Growth	−0.0087***	−0.0091***	−0.0089***
	(−3.21)	(−3.42)	(−3.31)
Board Independence	−0.0041**	−0.0038*	−0.0040**
	(−2.18)	(−1.89)	(−2.09)
Big4 Audit	−0.0029**	−0.0027**	−0.0028**
	(−2.04)	(−1.97)	(−2.01)
Firm FE	No	Yes	Yes
Year FE	No	Yes	Yes
DiD Specification	No	No	Yes
Observations	987	987	987
R^2	0.241	0.389	0.412
Adj. R^2	0.235	0.374	0.396

Note. t-statistics in parentheses, clustered by firm. * p < 0.10, ** p < 0.05, *** p < 0.01. FE = Fixed Effects; DiD = Difference-in-Differences.

Regression Findings: Earnings Volatility, IFRS 15 and Firm Value.

The outcomes of the models which study the impacts of earnings volatility and IFRS 15 adoption on the value of a firm (Tobin Q) are reported in table 4, testing H2 and H3. Model 1 uses earnings volatility as the only predictor (with controls), Model 2 incorporates the IFRS15 dummy, and Model 3 displays the complete DiD specification. Earnings volatility, as well as the IFRS 15 is a significant predictor of firm value in all specifications.

The EV coefficient is always negative and significant (Model 2: β = -4.21, p < 0.01), which supports H2 that the greater the earnings volatility the lower the firm value. This result has economic implications: an increase in the standard deviation of earnings volatility (0.0318) implies a fall in the Tobin Q of about 0.134 units, which is equal to a 9.4 percent decrease in the sample mean Tobin Q. The significance and positive value of the IFRS15 coefficient (Model 2: 0.214, p < 0.01) confirm H3 that IFRS 15 adoption directly increases firm value, not only in the indirect channel, but also in the direct channel, through earnings volatility.

Table 4: Panel Regression Results: Firm Value (Dependent Variable: Tobin's Q)

Variable	Model 1	Model 2	Model 3 (DiD)
Earnings Volatility (EV)	−4.187***	−4.213***	−4.398***
	(−6.34)	(−6.51)	(−6.78)
IFRS15	—	0.214***	0.231***
	—	(4.12)	(4.58)
Firm Size	−0.087***	−0.091***	−0.089***
	(−3.21)	(−3.39)	(−3.28)
Leverage	−0.312***	−0.298***	−0.304***
	(−5.41)	(−5.19)	(−5.31)
ROE	2.134***	2.089***	2.112***
	(11.87)	(11.54)	(11.71)
Revenue Growth	0.478***	0.461***	0.469***
	(4.92)	(4.78)	(4.85)
Board Independence	0.421***	0.398***	0.409***
	(3.87)	(3.71)	(3.79)
Big4 Audit	0.189***	0.174***	0.181***
	(3.12)	(2.94)	(3.03)
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	987	987	987
R^2	0.431	0.458	0.472

Note. t-statistics in parentheses, clustered by firm. * p < 0.10, ** p < 0.05, *** p < 0.01. Tobin's Q = (Market Cap + Book Debt) / Total Assets.

Mediation Analysis: Earnings Volatility as Mediator

In order to test the hypothesis of earnings volatility mediating the impact of IFRS 15 on firm value formally, we use the four-step mediation procedure proposed by Baron and Kenny (1986) with the additions of Sobel (1982) test and bootstrapped indirect effects proposed by Preacher and Hayes (2008). The mediation analysis results are summarized in Table 5. The findings affirm the importance of the IFRS15/FV relationship being largely mediated by earnings volatility. The direct impact of IFRS15 on the Q of Tobin is noteworthy in the light of its inclusion of earnings volatility (indirect effect = 0.037, 95% CI [0.021, 0.056]) and the fact that its direct impact on the Q of Tobin is also significant (= 0.214, p < 0.01). Combined, the earnings volatility mediates around 14.7% of the overall impact of IFRS 15 on firm value.

Table 5: Mediation Analysis: IFRS 15 → Earnings Volatility → Firm Value

Path	Coefficient	Std. Error	t-stat	95% CI	Significance
Total Effect (IFRS15 → FV)	0.251	0.048	5.23	[0.157, 0.345]	p < 0.001
Direct Effect (IFRS15 → EV)	−0.0087	0.0017	−5.12	[−0.012, −0.005]	p < 0.001
EV → FV (controlled)	−4.213	0.648	−6.51	[−5.483, −2.943]	p < 0.001
Indirect Effect (via EV)	0.037	0.009	—	[0.021, 0.056]	p < 0.001
Direct Effect (IFRS15 → FV)	0.214	0.052	4.12	[0.112, 0.316]	p < 0.001
Mediation Ratio	14.7%	—	—	—	Partial Mediation

Note. Bootstrapped indirect effects based on 5,000 bootstrap samples. 95% CI = 95% confidence interval. Firm and year fixed effects included in all models.

Sector-Level Analysis

In order to investigate the different effects of IFRS 15 by sector, Table 6 reports sector estimates of the IFRS 15 coefficient of earnings volatility and firm value regressions. The findings indicate that there is considerable heterogeneity. The construction and engineering industry demonstrates the highest drop in earnings volatility (IFRS 15 β = -0.0142, p < 0.01) in the wake of the adoption of IFRS 15, which was probably the industry with the most complex revenue recognition structures in the form of long-term contracts and multiple performance obligations.

Table 6: Sector-Level Effects of IFRS 15 on Earnings Volatility and Firm Value

Sector	N (Firms)	IFRS15 → EV (β)	p-value	IFRS15 → FV (β)	p-value
Construction & Engineering	14	−0.0142	0.000	0.312	0.000
Textiles & Manufacturing	23	−0.0091	0.000	0.198	0.001
Telecommunication	8	−0.0118	0.000	0.271	0.000
Retail & Consumer Goods	18	−0.0074	0.002	0.154	0.008
Chemical & Pharmaceutical	16	−0.0083	0.001	0.187	0.002
Information Technology	11	−0.0107	0.000	0.243	0.000
Food & Beverages	10	−0.0062	0.012	0.131	0.021
Total Sample	100	−0.0087	0.000	0.214	0.000

Note. β coefficients from separate sector-level panel regressions with firm and year fixed effects. Firm-clustered standard errors. EV = Earnings Volatility; FV = Firm Value (Tobin's Q).

Discussion of Results

The results of this research have been mostly in tandem with the theoretical forecasts based on the information asymmetry theory, signaling theory and the accounting-based perspective of the firm. The fact that IFRS 15 adoption is strongly negatively associated with earnings volatility lends credence to the thesis that the disclosure-intensive revenue recognition framework, which is structured, provides managers with less latitude to manipulate earnings and smooth income (Ball et al., 2003; Barth et al., 2008). IFRS 15 limits the ability to recognize revenue selectively and at inopportune times in the past that had inflated earnings artificially or in a volatile fashion due to mandatory detailed disclosure of the performance obligations, variable consideration and the accounting of contract modification.

The fact that IFRS 15 adoption is positively correlated with firm value, even after the impact on earnings volatility is netted out, indicates that IFRS 15 has informational value, beyond its stabilizing impact on earnings. This observation is in line with Daske et al. (2008) who reported that adoption of IFRS lowers the cost of equity capital by decreasing information asymmetry and consequently, raising equilibrium firm values. The better disclosures they need under IFRS 15, in particular the categorization of the revenue and the reconciliation of the contract balances, seem to give investors more information on the nature and timing of cash flows and allow them to better predict future performance.

This heterogeneity at the sector level (Table 6) is informative in theory. Industries that have more complicated contracting systems, including building, telecommunication, and IT, feature more significant IFRS 15 effects, which aligns with the argument that the effect of the standard is most

significant where revenue recognition was most complex and discretionary in the past (Gordon et al., 2017). On the other hand, industries that have less complex revenue streams, such as food and beverages, retail, exhibit less but still significant increases, indicating that IFRS 15 generates value even in environments when the existing revenue recognition was fairly uncomplicated.

Robustness Checks

To ensure that our primary findings are reliable, we carry out a number of robustness analyses. First, we substitute the Q measure of firm value used by the Tobin with the market-to-book ratio (MTB) as an alternative measure of value. The coefficient of IFRS15 is positive (= 0.187, p < 0.01) which is in line with the primary findings. Second, we use a different measure of earnings volatility, which is the absolute value of discretionary accruals estimated by the modified Jones (1991) model, and we discover that IFRS 15 is also related to a huge decrease in the alternative measure.

Third, in order to overcome the possible selection bias during the adoption timing under IFRS 15, we use propensity score matching (PSM) to create a matched control sample of those who adopted early. Our DiD matched estimates are qualitatively consistent with our key results, which argues against self-selection. Fourth, we check pre-trend violations through event study design and do not find evidence of the difference in pre-adoption pre-trend in earnings volatility or firm value between treatment and control firms, which supports the assumption of parallel trends underlying our DiD identification strategy.

Fifth, we model big and small firms (separately), and Big Four auditors versus non-Big Four auditors (separately). The impact of IFRS 15 is always substantial in these subgroups, but higher in the case of Big Four-audited companies, which aligns with the argument that the quality of the auditors moderates the efficient adoption of the IFRS 15 (DeAngelo, 1981; Becker et al., 1998).

Conclusions and Policy Implications

This paper investigates the effect of the IFRS 15 implementation on the earnings and the firm value volatility on a large panel of 100 non-financial PSX-listed companies during the 2015-2024. The empirical data systematically confirm all three hypotheses: (1) IFRS 15 adoption can dramatically decrease the volatility of earnings; (2) lesser volatility of earnings can be correlated with greater firm value; and (3) IFRS 15 directly can increase the firm value, rather than through its indirect channel, through the presence of earnings stability. The mediation analysis indicates that there is a partial mediation via earnings volatility that explains about 14.7% of the overall IFRS 15 impact on the Q of Tobin.

These results have significant repercussions on various stakeholders. To regulators and standard setters, the findings confirm the SECP move to require Pakistani listed companies to adopt IFRS 15 has been successful because the standard has fulfilled the aim of enhancing the quality of reporting and investor confidence. It also suggests that the findings should be used to enhance additional

regulatory measures to ensure that compliance with the IFRS is enhanced, especially in small firms and non-Big Four clients where the quality of implementation might be low.

To corporate managers, the results highlight the significance of IFRS 15 compliance not just as a regulatory requirement but as a strategic tool of disclosure. Companies which invest in quality IFRS 15 implementation, such as effective performance obligation identification, contract modification accounting and disaggregated revenue disclosures, seem to enjoy a quantifiable firm value payoff. To investors and financial analysts, the findings indicate that the post-IFRS 15 earnings are more predictable and information-rich, enhancing the accuracy of fundamental valuation models.

This research has a number of limitations that will inspire future research. First, we are only considering non-financial PSX-listed companies and the results might not apply to financial industry companies or to unlisted smaller companies. Second, though we use DiD methodology to make causal inference approximations, because accounting standards adoption is non-experimental, we cannot completely remove residual confounding. Third, we do not analyze the dissimilar impacts of particular IFRS 15 disclosures, like contract asset and contract liability disclosures, on investor decision-making, which is an intriguing possibility of future archival research. Future research can also delve into comparative studies between Pakistan and other south Asian economies (India, Bangladesh, Sri Lanka) to determine the extent to which institutional factors moderate the IFRS 15 effect in various emerging market settings.

References

Ahmed, A. S., Neel, M., & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. Contemporary Accounting Research, 30(4), 1344–1372. https://doi.org/10.1111/j.1911-3846.2012.01193.x

Ahmed, K., & Alam, M. (2012). IFRS adoption in Pakistan: A critical perspective. Journal of Applied Business Research, 28(3), 371–386.

Ahmed, K., Chalmers, K., & Khlif, H. (2019). A meta-analysis of IFRS adoption effects. International Journal of Accounting, 48(2), 173–217.

Akhtar, S., & Oliver, B. (2009). Determinants of capital structure for Japanese multinational and domestic corporations. International Review of Finance, 9(1–2), 1–26.

Akerlof, G. A. (1970). The market for 'lemons': Quality uncertainty and the market mechanism. The Quarterly Journal of Economics, 84(3), 488–500.

Ball, R., Robin, A., & Wu, J. S. (2003). Incentives versus standards: Properties of accounting income in four East Asian countries. Journal of Accounting and Economics, 36(1–3), 235–270.

Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research. Journal of Personality and Social Psychology, 51(6), 1173–1182.

Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International accounting standards and accounting quality. Journal of Accounting Research, 46(3), 467–498.

Becker, C. L., DeFond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. Contemporary Accounting Research, 15(1), 1–24.

Biddle, G. C., & Hilary, G. (2006). Accounting quality and firm-level capital investment. The Accounting Review, 81(5), 963–982.

Christensen, H. B., Hail, L., & Leuz, C. (2019). Capital-market effects of securities regulation: Prior conditions, implementation, and enforcement. The Review of Financial Studies, 29(11), 2885–2924.

Chua, Y. L., Cheong, C. S., & Gould, G. (2012). The impact of mandatory IFRS adoption on accounting quality: Evidence from Australia. Journal of International Accounting Research, 11(1), 119–146.

Chung, K. H., & Pruitt, S. W. (1994). A simple approximation of Tobin's Q. Financial Management, 23(3), 70–74.

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS reporting around the world: Early evidence on the economic consequences. Journal of Accounting Research, 46(5), 1085–1142.

DeAngelo, L. E. (1981). Auditor size and audit quality. Journal of Accounting and Economics, 3(3), 183–199.

Dichev, I. D., & Tang, V. W. (2009). Earnings volatility and earnings predictability. Journal of Accounting and Economics, 47(1–2), 160–181.

Ewert, R., & Wagenhofer, A. (2012). Accounting standards, earnings management, and earnings quality. Journal of Business Finance & Accounting, 39(1–2), 1–22.

Gordon, E. A., Henry, E., Jorgensen, B. N., & Linthicum, C. L. (2017). Flexibility in cash-flow classification under IFRS: Determinants and consequences. Review of Accounting Studies, 22(2), 839–872.

Hail, L., Leuz, C., & Wysocki, P. (2018). Global accounting convergence and the potential adoption of IFRS by the US: An analysis of economic and policy factors. Accounting Horizons, 24(3), 567–588.

Houqe, M. N., van Zijl, T., Dunstan, K., & Karim, A. W. (2012). The effect of IFRS adoption and investor protection on earnings quality around the world. The International Journal of Accounting, 47(3), 333–355.

IASB. (2014). IFRS 15 revenue from contracts with customers. International Accounting Standards Board.

Inchausti, B. G. (1997). The influence of company characteristics and accounting regulation on information disclosed by Spanish firms. European Accounting Review, 6(1), 45–68.

Iqbal, A., & Strong, N. (2010). The effect of corporate governance on earnings management around UK rights issues. International Journal of Managerial Finance, 6(3), 168–189.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360.

Jones, J. J. (1991). Earnings management during import relief investigations. Journal of Accounting Research, 29(2), 193–228.

Leuz, C., & Verrecchia, R. E. (2000). The economic consequences of increased disclosure. Journal of Accounting Research, 38(Suppl.), 91–124.

Li, S. (2010). Does mandatory adoption of international financial reporting standards in the European Union reduce the cost of equity capital? The Accounting Review, 85(2), 607–636.

Mehmood, T., Akhtar, S., & Zaman, K. (2022). Corporate governance and firm performance in Pakistan: A panel data approach. Pakistan Journal of Commerce and Social Sciences, 16(2), 341–362.

Perera, D., & Chand, P. (2015). Issues in the adoption of international financial reporting standards (IFRS) for small and medium-sized enterprises (SMEs). Advances in Accounting, 31(1), 165–178.

Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. The Review of Financial Studies, 22(1), 435–480.

Preacher, K. J., & Hayes, A. F. (2008). Asymptotic and resampling strategies for assessing and comparing indirect effects in multiple mediator models. Behavior Research Methods, 40(3), 879–891.

Raza, S. A., Ahmed, R., & Bhutta, N. T. (2020). Impact of income smoothing on firm performance: Evidence from Pakistan. International Journal of Financial Studies, 8(3), Article 45. https://doi.org/10.3390/ijfs8030045

Ross, S. A. (1977). The determination of financial structure: The incentive-signalling approach. The Bell Journal of Economics, 8(1), 23–40.

Shah, S., Khan, M., & Ali, R. (2021). Earnings volatility and firm value: Evidence from Pakistan Stock Exchange. Journal of Financial Reporting and Accounting, 19(3), 421–441.

Sobel, M. E. (1982). Asymptotic confidence intervals for indirect effects in structural equation models. Sociological Methodology, 13, 290–312.

Spence, M. (1973). Job market signaling. The Quarterly Journal of Economics, 87(3), 355–374.

Mansour, K., & Hussainey, K. (2026). Does earnings volatility mediate the relationship between IFRS 15 and firm value? Evidence from emerging markets. Journal of Applied Accounting Research, 1-31.

Khan, S., & Shoaib, A. (2024). Firm value adjustment speed through financial friction in the presence of earnings management and productivity growth: evidence from emerging economies. Humanities and Social Sciences Communications, 11(1), 613.

Darabee, T., & Mousa, A. (2024). The impact of implementing IFRS 15 on earnings quality-evidence from Palestinian-listed corporations. Open Journal of Accounting, 14(1), 1-14.

Ayub, M., & Riaz, I. (2026). Organizational Capital and Firm Value in Emerging Markets: A Dynamic Panel Analysis of N-11 Economies. Journal of Innovative Research in Management Sciences, 7(2), 1-30.