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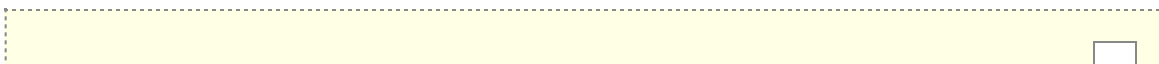
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The Value Relevance of IFRS Adoption in Indonesia Juniarti1*, **Ferbiana**
Helena1, **Karina** Novitasari1, and **Wenny**

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Tjandinata1 1

Program Studi Akuntansi, Fakultas Ekonomi, Universitas Kristen Petra
Jl. Siwalankerto 121-131, Surabaya 60236, INDONESIA *Corresponding
author;

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Email: yunie@petra.ac.id

ABSTRACT Pros and cons of the benefits of IFRS adoption have become an ongoing debate following the inconclusive results of prior studies. Whether IFRS increase value relevance of accounting information or not, especially in developing countries is an interesting and relevance research question. Indonesia as one of the developing countries that committed to adopting IFRS has an interest in obtaining empiric evidence on the value relevance of accounting information after nearly five years of IFRS implementation. This study aims to fill the need to enhance adopters' compliance with the standard. Ohlson Modified Model (1995) is used to test the value relevance of accounting information. Using longitudinal data of listed manufacturing companies in Indonesia Stock Exchange (IDX), this study confirms that value relevance of accounting information increase after IFRS adoption than before adoption. The results robust using Pooled Least Square and Random effect model. **Keywords: IFRS adoption; value relevance; accounting information; stock prices.**

1

INTRODUCTION Unlike the US GAAP which rely on rule-based and historical cost, IFRS as a new standard focus on principle based and fair value. The proponents of IFRS argue that this standard provides

more value relevance than the old one [2]. Accounting

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information has a value relevance when this information can influence investors to revise their prior decision on firm value [29]. IFRS is aimed to increase the information content of financial reporting, to reduce reporting lag and to enhance the foreign investment inflows [35]. Further, the

adoption of IFRS is also expected to

30

enrich transparency and value relevance of financial information [39;47]. Besides its proposed benefits, the adoption of IFRS is costly. The costs include the cost of implementation, training costs, IT investigation, audit fee, renegotiation of debt and others [14]. The costs of IFRS adoption are expected to be less than the benefits.

A number of studies on IFRS adoption have been conducted in

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developed countries [9; 28; 36; 43; 27; 56; 38; 50; 5; 45; 13; 17; 4; 18; 47; 1; 41; 10], with positive result. [16; 6] find negative result. However, the results did not entirely support the notion that IFRS adoption increases value relevance. Current studies in developing countries also show conflicting results. Some studies suggest that IFRS adoption increase value relevance [7; 29; 24; 8; 31; 39; 59; 46]. While other studies uncovered the opposite finding. They found negative association between IFRS adoption and value relevance [30; 58]. The varying results have to lead to sharp debates among researchers whether IFRS adoption augments value relevance or not. As one of the developing countries and the member of the G20, Indonesia has committed to convergence to IFRS starting in 2012 [23]. The significant changes of accounting standard can alarm for some parties, including managers and investors since the cost of adoption is very high. It is essential to adopters in Indonesia to grasp the benefit of the passage. Unfortunately,

research on the value relevance of IFRS adoption in Indonesia is

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very rare. A survey that related to IFRS adoption in Indonesia [33] only focus

on the association between IFRS and earning quality and

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does not specifically

investigate the value relevance of the passage. **The benefit of IFRS**

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adoption is important to be examined to promote the compliance of the standard since there is no direct

incentive pro- mised to the adopters. Moreover, in Indonesia, it is the right time to begin examining the benefit of IFRS adoption after its five years of implementation. Prior research only investigated several years before the passage. Therefore, the results did not pertain to the value relevance of IFRS adoption. To overcome the inconsistency of prior results, this study will compare several years before and after adoption. The usage of longitudinal data in this study helps to capture the changes over time and among firms. 13 14

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13-19 This study is also the first in examining value revise their prior decisions [15]. The changes of relevance of IFRS adoption in Indonesia using investors' choice are represented in the variations longitudinal data. Unlike prior studies that try to of stock prices. The higher the association of grab all benefits of IFRS adoption in one study,

accounting information and stock prices, the higher this **research** focuses only **on the value relevance**

10

of the value relevance of accounting information [3]. passage according **to the** aim of **the** issuing of

8

Accounting information will be considered to have IFRS itself. Therefore the results are expected to a value relevance when stock prices fluctuate due contribute to study on IFRS adoption in developing to the report [20]. countries that so far is very rare, and its results are This study bases on Ohlson model (1995) in still inconclusive. measuring

value relevance of accounting informa- tion. **This is** done **by** investigating **the**

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association The Development of Accounting Standards of information content of accounting earning, i.e., in Indonesia

earning per share, book value per share and stock prices, **using the**

14

following model: Indonesia has a series of financial reporting standard development. It was started from period , = 0 + 1 + 2 + 3 + (1) 1973-1984 when Indonesia Institute of Accountant (the IAI) established the accounting standards that Where: known as Indonesia Accounting Principles (IAPs). BV =

book value of equity firm i, year t

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In 1984, these rules were revised to be IAPs -1984. EPS = earning

per share firm i , year t At the end of 1994, The

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Committee of IAPs started CFOS = cash from operating

per share firm i , year t with the

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numerous revision of accounting standards and resulting 35 pronouncements which The statistical association between accounting majority of them in line with International information that proxied by EPS, BVPS or CFOS, Accounting Standards published by International and stock prices, imply the existence of value Accounting Standard Board (IASB). Since 1994 relevance [53]. According to [44] accounting earn-until 2004, there was a significant change in plat- ing has value relevance if it was capable of altering form, where Indonesia Accounting Standard Setter stock prices. The variation of stock prices as a moved from US GAAP platform to International representation of investors' response. Standards platform [51]. There is a substantial difference between both standards, the first one IFRS Adoption and Value Relevance focus on rule-based and historical cost, while the rest uses principle-based and fair value. Value relevance shows the level of association Early in 2004, the convergence of IFRS has between accounting information and stock prices, become a commitment for Indonesia. The Financial the higher the level of relationship means the Accounting Standard Setter (DSAK) under IAI has higher the value relevance of the report [3; 15]. played a significant role in promoting IFRS conver- Accounting information has value relevance if gence among G20 members especially in South stock prices react over the data [20;37]. East Asia [23]. Accounting information compiled under IFRS The stages of IFRS convergence begin with will better describe the current state of firm value the adoption stage of 2008-2010, the preparation and has a higher level of comparison. Thus the stage in 2011 and the implementation stage in transparency and the comparability of financial 2012. However, many firms have initiated to reporting increase for firms that adopt IFRS. Once voluntary adopted earlier. Therefore in this study, the transparency increase, the information asym- we used 2011 as the cut off year for post-adoption. metry between internal and external parties such as managers and owners, majority and minority Value Relevance investors will reduce. Investors value the lower estimation risk of companies and thus reduce the To accommodate the need for relevant cost of capital. On the other hand, the improve- information, IFRS has focused on fair value ment of comparability makes easier for investors to approach. The using of this method is expected to compare performance among businesses and be responded by the market through the changes of worldwide. Investors' confidence over the account- stock prices [21]. IFRS adoption will produce ing information increase. Further, it will influence competent financial reporting thus increasing its investors' decisions as reflected by the changes in value relevance [39; 2]. Value relevance refers to the stock prices. When accounting information affects capability of accounting information to portrait the the investor response, the accounting information firm value, so that is capable of making investors has value relevance. It is expected that post-adoption IFRS will have

more value relevance accounting information than

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pre-adoption. It also has been supported by some prior researchers, among others are [8; 29; 24; 7; 31; 39; 59]. They documented that the

value relevance of accounting information increase after IFRS adoption,

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it

means that there was a higher **association between** accounting **information and stock prices**

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in post-IFRS adoption. Therefore, this research proposes the following hypothesis: H1: There was an increase of

value relevance of accounting information in post **-IFRS adoption.**

3

RESEARCH METHODS **This study**

predicts that there is an increasing of the

value relevance of accounting information **after IFRS adoption.** To test **the** hypothesis, **this study**

3

assesses the

value relevance of accounting information

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four years before passage (2007- 2010) and four years after adoption (2011-2014) using modified Ohlson Model (1995), then compared R2 of pre and post adoption. If R2 after adoption increase and the model fit, in which prob- F or prob-Chi2 less than 0,1 or 0,05, the hypothesis is confirmed. The

value relevance is measured **by the** level of **association** of **accounting information and stock prices.**

7

Three proxies represent accounting information are

earning per share (EPS), **book value equity per share** (BVPS), **and cash**

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flow from operating **per share**

(CFOS). Stock prices are the average ten days of stock prices after three months of the publication date of financial reporting. EPS indicates net income available for common shareholders. It obtains from net income fewer dividends on preferred shares scaled by the weighted average of common stock outstanding [13]. BVPS refers to total equity scaled by weighted average outstanding share [5]. While CFOS is cash flow from operating scaled by weighted average common share outstanding. The sample is selected using the following criteria; (1) firm listed in Indonesia Stock Exchange since 2007, (2) staying at public companies for the period 2007-2014 and (3) has adopted IFRS since 2011.

The sample in this research is all manufacturing **companies.** 60 firms in

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each sample group qualify the criteria. In total, we have 480 firm-year in both sample groups. The source of accounting and stock prices data are from Bloomberg and YahooFinance. RESULTS Profile of variables of each of sample groups (pre-adoption, post adoption and total) are presented in table 1 and 2, as follows. Table 1. Pairwise Correlation

	EPS	EPS 1,000	BVPS	CFOS	SPRICE
EPS	1,0000				
EPS 1,000	0,9029 ***	0,0000			
BVPS	0,5364 ***	0,6087 ***	0,0000		
CFOS	0,4976 ***	1,0000	0,0000		
SPRICE	0,9328 ***	0,8911 ***	0,0000	0,4976 ***	1,0000

The table shows a significant correlation between independent variables of EPS and BVPS to the Share price. Table 2. Mean Difference

between Pre and Post Adoption

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Total Sample t-test

	EPS	BVPS	CFOS	SPRICE	Obs
EPS	68,853				
BVPS	116,548	944,599			
CFOS	-1,878 **	574,423	954,031		
SPRICE	764,227	-2,495 ***	79,384	86,903	83,143
Obs	-0,312	954,265	2.110,971	1.532,618	-2,345 ***

240 240 480

Selection of the Best Model To determine the best model of panel data of each of sample groups, Chow tests, and Hausman test is applied. From the Chow test of pre-adoption data known that fixed effect is more appropriate since p-value is less than 0,1, therefore H0 that stated the best model is Pooled Least Square (PLS) is rejected and the fixed effect is the more suitable model. Subsequently, Hausman

test is applied **to** decide **whether the fixed** effect **or random** effect **is**

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the best model for pre-adoption panel data. The result shows that H0 stated that model is fixed effect model cannot be rejected. Therefore fixed effect is verified as the best model for pre-adoption panel data. Summary of the test of data panel is presented in table 3. Table 3 indicates that EPS and BVPS consistently prove as the significant influence on stock price, while CFOS as an additional variable in modified Ohlson model (1995) does not show the same results. Overall, R2 of all model either PLS, fixed effect or random effect

model is very high. It supports **that the value**

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relevance exists in accounting information. The results of post-adoption panel data arrive the same

conclusion with the pre-adoption test in which fixed effect model proved as the best model. The results are robust either tested with PLS and random effect model, although they are not selected as the best model. Both model still have high R2. It indicates that value relevance exists in accounting information. 16

19 **Table 3.** Summary of

PLS, Fixed Effect, and Random Effect Tests-Pre Adoption EPS BVPS CFOS Const. Adj R-sq between within overall F Prob-F Coef 12.081 0.674 0.520 -305.930 0.818 359.900 0.000 PLS t 12.570*** 3.530* 0.860 -2.610** Fixed effect Coef t 1.486 1.480 8.496 15.730*** -0.142 -0.300 4016.909 -15.380*** 0.812 0.849 0.709 254.000 0.000 Table 4. Summary of PLS, Fixed Effect, and Random Effect Tests-Post Adoption Random effect Coef z 11.256 11.330*** 0.910 4.150*** 0.712 1.190 -440.213 -2.430** 0.605 0.926 0.819 706.210 0.000 EPS BVPS CFOS Const. Adj R-sq between within overall F Prob-F PLS Fixed effect Coef t Coef t 14.439 14.560*** 1.829 2.290*** 0.955 5.590*** -1.531 -8.750*** -1.559 -2.760*** -0.793 -2.910*** -347.982 -2.410** 4016.909 -15.380*** 0.359 0.825 0.910 0.762 810.360 32.970 0.000 0.000 Random effect Coef z 8.630 7.960*** 1.039 5.080*** -0.952 -2.030** -196.703 0.580 0.012 0.950 0.908 291.280 0.000 Table 5. Hypothesis Testing than 0,05. It means that heteroscedasticity exists in both models. To overcome this problem, data is Coef t Coef t EPS 0,229 4,130 *** 0,115 2,300 ** cedasticity tests after data transformation prove BVPS 0,186 1,060 1,544 6,170 *** that the issues have been mitigated as indicated by CFOS 0,056 1,320 ** -0,051 -0,890 the value of prob-chi2 for both models is higher Const. 4,425 4,190 *** -3,194 -2,370 ** than 0,05. After the heteroscedasticity problem mitigat- Adj R-sq ed, data is rerun using fixed-effect model. The between 0,186 0,387 results of fixed effect model for both pre and post within 0,711 0,493 adoption are as follow (Table 5) overall 0,625 0,512 Post Adoption Pre Adoption converted into logarithmic. The results of heteros- DISCUSSION F 8,290 23,400 Prob-F 0,000 0,000 IFRS adoption is intended to increase tran- R2 of each of model seems higher than the pre- sparency and comparability of accounting infor- mation [47; 39]. Higher quality of accounting infor- adoption data, but the conclusion cannot be drawn mation will improve the investors' confidence in from this model since fixed effect model has financial reporting since the reports convey infor- heteroscedasticity problem that needs to be fixed mation about the firm value to the investors. This first. study using longitudinal data exhibits that accounting information has information content, Heteroscedasticity Test and as predicted, R2 in post-adoption is as 0,625 The common problem in fixed effect model is greater than pre-adoption that only has 0,512. It means that the value relevance of accounting infor- heteroscedasticity; therefore this issue should be mation increase after IFRS adoption. This finding mitigated. Breusch-Pagan/Cook-Weisberg test for consistent with some prior research especially in heteroscedasticity applied to detect heteroscedasti- developing countries [7; 29; 24; 8; 31; 39; 59; 46]. city and the results show that prob-chi2 of fixed The regulation of the Indonesia Standard Setter effect model for both pre and post adoption less that mandate firms adopt IFRS remind the ques- tion of its benefits. This results can answer the doubts and motivate firms to comply with the standard since the benefit justifies it. In developing countries like Indonesia with characterized by low investors protection and weak law enforcement, the mandatory of IFRS adoption acts as a new tool to increase the confidence of investors and other users

increase of

value relevance of accounting information after

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adopting new standard could be as an incentive for them, in the condition that there is no direct incentive promised to adopters. The pros and cons around the benefit of IFRS adoption are expected to be narrowed with this results. This study supports the argumentation of proponent of the new standard that it was result- ing in more transparent and comparable account- ing information. Following up the prior

study that investigates **the impact of IFRS adoption in**

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multi-countries that usually too simplified the differences among countries, this study has been applied only in a single state so that the results can be specified. This study proves that IFRS is capable enough to strengthen the quality of accounting information. This research is supported by [33] which found

a positive association of IFRS adoption on accounting information quality.

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However, this study is the contrast to [34] that found that IFRS adoption has not been able to

improve the value relevance of accounting information. CONCLUSION, LIMITATION **AND** FUTURE RESEARCH **The study is the**

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first research that investi- gates the benefit of IFRS adoption using longitu- dinal data by comparing

the value relevance of accounting information before and after IFRS adoption. The

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results successfully prove that the value relevance increase after IFRS adoption. This finding is expected to enhance the standard setter confidence to mandate IFRS to all firms consis- tently. The efforts to adopt IFRS provide excellent results, increase not only the

value relevance of accounting information but also **the** confidence of standard setter. **This result is**

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limited to manufacturing com- panies, to be more generalizable, future studies need to involve other sectors and extend the period of adoption to get more consistent results. REFERENCES [1] Ahmed, K.,

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