Quest Journals
Journal of Research in Business and Management
Volume 3 ~ Issue 8(2015) pp: 12-17
ISSN(Online) : 2347-3002
www.questjournals.org

Research Paper

IFRS Convergence And The Impact To Earning Quality, And Firm Value (Empirical Study In Manufacturing Companies That Have Been Listed In The Indonesia Stock Exchange

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Received 12 September, 2015; **A**ccepted 24 September, 2015

ABSTRACT:- This study aimed to examine and obtain empirical evidence about the impact of the application of IFRS accounting standards based on the quality of earnings and corporate value for companies listed on the Indonesia Stock Exchange. The data used in this research was secondary data, financial reports and other data from manufacturing companies listed in the Indonesia Stock Exchange in 2007 - 2010 obtained from *web site* Bursa Efek Indonesia (*Indonesian Stock Exchange*/IDX). T-test and used for the data analysis result. Based on the results of this study it can be concluded that. Firstly results of empirical testing the difference in average earnings quality as measured by the absolute value of the total current accrual (TCA) before and after the convergence of IFRS in Indonesia, shows that there is no significant difference between earnings quality companies listed on the Indonesia Stock Exchange as measured with the absolute value of the total current accrual (TCA) before and after the convergence of IFRS in Indonesia. It can be concluded that the results of this test showed that the convergence of IFRS in Indonesia does not have a significant effect on earnings quality companies listed on the Indonesia Stock Exchange as measured by the quality of (the absolute value of the total current accrual/TCA). Second, the empirical test results in the difference in average value of the company before and after the convergence of IFRS in Indonesia, shows that there are significant differences between the value of companies listed on the Indonesia Stock Exchange before and after the convergence of IFRS in Indonesia. The findings of this study support the hypothesis that there are significant differences between the value of the company before and after the convergence of IFRS in Indonesia. It can be concluded that the results of this test showed that the convergence of IFRS in Indonesia had a significant effect on the value of manufacturing companies listed on Indonesia Stock Exchange.

Keyword:- IFRS convergence, earnings quality, firm value.

I. INTRODUCTION

International Financial Reporting Standards (IFRS) is an internationally based accounting standards issued by the International Accounting Standards Board (IASB). Financial accounting standards play an important role in the process of preparing financial statements. The accounting standard is used as guidance in measurement, assessment, recognition, and presentation of financial statements. IFRS is a warm issue discussed today by accountants, auditors and market participants because it is associated with a fundamental change in the financial reporting system for companies that are publicly trading their shares in global stock markets. IFRS is the dynamics of the financial reporting system, especially for companies that are publicly trading their shares in the stock. The development of financial reporting system is the answer to the globalization that has penetrated into the field of financial markets characterized by the establishment of regional capital markets and global scale in several countries in the world.

The main objective of IFRS according to Field (2004) in Kusuma (2007) are: (1) Develop a set of accounting standards of high quality that can be imposed, (2) Providing information in the financial statements which are transparent and comparable, (3) Assist capital markets to take economic decisions, (4) Achieving convergence between national and international accounting standards. The Government of Indonesia as a member of The Group of Twenty (G20 Forum) has agreed to converge towards IFRS. IFRS convergence is one of the agreements between the governments of Indonesia as a member of The Group of Twenty (G20 Forum) in Washington DC, November 15 2008. Indonesian Institute of Accountants (IAI) has done a convergence of IFRS

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by revising Statement of Financial Accounting Standards (SFAS) adjusted to IFRS, effective in stages since 2008.

IFRS convergence issue has attracted the attention of some researchers to test the impact of IFRS convergence on the quality of accounting numbers and examine the economic consequences for the adoption of IFRS. Previous studies in several countries have shown inconsistent results. Iatridis (2010), who examined the impact of the implementation of IFRS on financial reporting information quality and its effect on profit management and relevant value. Results show that the implementation of IFRS proven to reduce the scope for profit management, faster in the recognition of its loss and has a better relevancy score. Furthermore, Gordon et al (2010) examined comparative quality attributes and its informative earnings under US GAAP and IFRS at 161 companies in 25 countries. The results showed that there was no significant difference between quality attributes earnings (*accrual quality, earning persistence, cash persistence, cash predictability, earning predictability, smootness, timelines dan conservatism)* under US GAAP and IFRS, except for the value relevance.

Gassen and Sellhorn (2006), who examined the application of IFRS in the stock market of Germany, documented evidence of a significant difference between quality attributes of such profits after the adoption of IFRS namely the companies that adopt IFRS has the persistence of higher profits, have lower predictability earnings and more conservatively. In addition adopters of IFRS have a lower information asymmetry or experiencing decreased of bid ask spread and more liquid. Kim (2013) has examined the impact of IFRS adoption on the quality of accounting numbers (quality accrual) and the value of companies in South Korea stock market. Research results show that there is no increase in the value of the company (measured by Tobins' Q) after the adoption of IFRS. On the other hand Loureiro and Taboada (2012) documented the evidence of stock prices' increased for companies that adopt IFRS voluntarily. Likewise, Landsman, et al. (2012) documented the increasing evidence of abnormal stock returns and stock trading volume after the adoption of IFRS in the 16 countries that have adopted IFRS.

This study aimed to examine and obtain empirical evidence about the impact of the application of IFRS accounting standards based on the quality of earnings and corporate value for companies listed on the Indonesia Stock Exchange. To achieve these objectives, this study will analyze differences in the quality of earnings and the value of the company before and after the convergence of IFRS in Indonesia. The problem of this research can be formulated as follows: 1) Is there a difference between the quality of earnings before and after the convergence of IFRS in Indonesia, 2) Is there a difference between the value of the company before and after the convergence of IFRS in Indonesia.

II. FRAMEWORK THEORY AND HYPOTHESES FORMULATION

2.1 Convergence of IFRS and Quality of Earnings

Terminology of earnings quality has different attributes of measurements coming from various researchers. Suwardjono, (2005: 463) explains that the quality of the accounting profit is shown by the "proximity or correlation between accounting profit and economic profit." Francis et al. (2004) divides the earnings quality attributes into seven attributes into two groups namely attributes of earnings quality of the market (market-based attributes) and accounting-based earnings quality attributes (accounting based attribute). The quality of accounting-based profit consists of *Accrual quality, predictability, persistency, and smoothness*. While the quality of market-based earnings consists of value relevance, timeliness and conservatism.

In this study, earnings quality was measured by accruals quality attributes. Accrual provides information about cash flows that will come. Francis et al. (2004) uses accruals quality as one measure of earnings quality by connecting between the accrual of cash flows. Therefore, the concept of quality of accruals examines the extent of closeness between the accrual of cash flows. If its proximity growing distant, would cause major distortion of cash recognition making earnings do not reflect the actual reality (low accrual quality), and vice versa the closer it gets then it would show reality of the actual cash. The higher the value of accruals quality will show low earnings quality, conversely the lower the value of accruals quality will generates high earnings quality.

Research on the relationship between the convergences of IFRS with accruals quality has been documented by several researchers. Iatridis (2010) found evidence of declining earnings management scope (measured by the quality of accrual) after the adoption of IFRS in UK. Correspondingly, Ward (2009) found evidence of a significant and negative impact between IFRS convergence towards discretionary accruals, which means that the convergence of IFRS can lower discretionary accruals of the company. Similarly, Gassen and Sellhorn (2006), who examined the application of IFRS adoption in Germany, found evidence that IFRS is lower than the GAAP coming from the quality aspects of accrual. Further research by Gordon et al. (2010), who examined the comparison of earnings quality attributes based on IFRS and GAAP in the US stock market did not find evidence of differences between IFRS and GAAP from accrual quality aspects.

Based on the theoretical framework mentioned above, the hypothesis proposed in this study is as follows: Hypothesis 1: There is a significant difference between the quality of earnings (as measured by the quality of accrual) before and after the convergence of IFRS in Indonesia. Adoption of IFRS can reduce absolute discretionary accruals.

2.2 Convergence of IFRS and Company Value

The value of the company is often associated with the share price meaning that if the stock price is higher then the value of the company was also higher due to the increased value of the company, it can deliver prosperity to the shareholders to the maximum. The impact of the enactment of IFRS accounting standards based on the value of the company has been documented by several previous investigators. Kim (2013) has examined the impact of IFRS adoption on the quality of accounting numbers (the quality of accrual) and the value of companies in South Korea stock market. Research results show that there is no increase in the value of the company (measured by Tobins' Q) after the adoption of IFRS.

On the other hand Loureiro and Taboada (2012) documented evidence of rising stock prices for companies that voluntarily adopt IFRS in the EU. Correspondingly Landsman, et al. (2012) documented the increased evidence of abnormal stock returns and stock trading volume after the adoption of IFRS in the 16 countries that have adopted IFRS. Thus in this study it is presumed that the convergence of IFRS influence on the value of the company. The hypothesis is as follows:

Hypothesis 2: There is a significant difference between the value of the company before and after the convergence of IFRS in Indonesia. IFRS convergence can enhance shareholder value.

III. RESEARCH METHODS

3.1 Population and Sample

The populations in this study were all companies listed on the Indonesian Stock Exchange (Indonesian Stock Exchange/IDX) in the period 2007 - 2010. Sample election of companies in this study was using purposive sampling method namely sampling technique by using specific criteria. Criteria for selection of samples used in this study are as follows (1) The Company is a sample of manufacturing companies that have been listed in the Indonesian Stock Exchange period 2007-2010, (2) The company regularly publishes financial reports from 2007-2010 with annual reporting period ended on December 31, (3) the company actively trades in 2007-2010.

3.2 Types and Sources of Data

The data used in this research was secondary data, financial reports and other data from manufacturing companies listed in the Indonesian Stock Exchange in 2007 - 2010 obtained from *web site* Bursa Efek Indonesia (*Indonesian Stock Exchange*/IDX).

3.3 Variables Research and Measurement.

Variables used in this study and its measurement are described as follows: (1) Quality of Earnings, proxied with the quality of accruals. Accrual quality measurement in this study refers to the measurement model of Dechow and Dichev (2002) with modifications to the model of McNichols (2002) as follows.

$$TCA = \beta_0 + \beta_1 CF_{i,t-1} + \beta_2 CF_{it} + \beta_3 CF_{i,t}+ + \beta_4 \Delta Sales_{it} + \beta_5 PPE_{it} + \varepsilon_{it} \ldots\ldots(1)$$

Which :

TCA = Net income of the company in t - operating cash flow of the company in t

$CFi,_{t-1}$ = The company's operating cash flow last period divided by total assets

$CF_{i,t}$ = The company's operating cash flow in year t divided by total assets

$CF_{i,t+1}$ = The company's operating cash flow next year

$\Delta Sales_{it}$ = Difference in sales company i year t - last year

PPE_{it} = The fixed assets of the company in t

All the items are scaled by total assets

(2) The value of the company is the market value of a company measured by the ratio of Tobins' Q as follows:

$$Q = \frac{MVE + BVD}{BVE + BVD}$$

Q = The value of the company

MVE = Market value of equity

BVD = Book value of debt
BVE = Book value of equity

3.4 Data analysis technique

To examine the impact of IFRS convergence on the quality of earnings and the value of companies listed on the Indonesia Stock Exchange, it was tested using a different test (T-test) for sample-related (Paired Sample T-test) used to test whether there are differences in the average of two related samples (Ghozali, 2006).

The purpose of this test was to determine whether there are differences in the quality of earnings and the value of the company before and after the convergence of IFR in Indonesia. This test will conclude whether there are differences in the quality of earnings and corporate value for the companies listed on the Indonesian Stock Exchange before and after the convergence of IFRS in Indonesia.

IV. RESULTS AND DISCUSSION

4.1 Description of Research Samples

This study used a sample of manufacturing companies listed on Indonesian Stock Exchange during the observation period 2007- 2010 that is two years before the convergence of IFRS and two years after the convergence of IFRS in Indonesia. Based on the criteria and sampling procedures used in this study obtained: as many as 98 companies with the number of observations for 4 years. Thus, the overall total sample in this study was 98 x 4 years = 392 samples (divided into 196 samples before the convergence of IFRS and 196 samples after the convergence of IFRS).

4.2 Descriptive Statistics

4.1 The following table presents the descriptive statistics for the accrual of quality variable (measured by Total Current Accrual/TCA).

Table 4.1 Descriptive Statistics Total Current Accrual (TCA) Before and After Convergence IFRS

	N	Minimum	Maximum	Mean	Std. Deviation
TCA GAAP	196	0.5225	1.5096	0.014923	0.1705594
TCA IFRS	196	0.8947	1.0289	0.027136	0.2046278
Valid N (listwise)	196				

Source: Output SPSS 16 (data processed, 2015)

From Table 4.1 above it shows that the variable of accrual quality as measured by the Current Total Accrual (TCA) in the period prior to the convergence of IFRS (GAAP TCA) has a minimum value of 0.5225, the maximum value of 1.5096, the average value of 0.014923 and standard deviation value of 0.1705594. While TCA in the aftermath of the convergence of IFRS (IFRS TCA) has a minimum value of .8947 maximum value of 1.0289, the average value of 0.027136 and the value of a standard deviation of 0.2046278. From these values it shows that the average value of TCA is positive, it indicates that the average TCA in this study is income increasing.

Next Table 4.2 below presents the descriptive statistics for the variable of company value (NP).

Table 4.2 Descriptive statistics Company Value (CV) before and after Convergence IFRS

	N	Minimum	Maximum	Mean	Std. Deviation
NP GAAP	196	0.1812	11.3418	1.409916E0	1.4991236
NP IFRS	196	0.2793	15.4844	1.737374E0	2.0723135
Valid N (listwise)	196				

Source: Output SPSS 16 (data processed, 2015)

From table 4.2 above it shows that the variable of company value (NP) in the period prior to the convergence of IFRS (NP GAAP) has a minimum value of 0.1812, the maximum value of 11.3418, the average value of 1.409916 and standard deviation value of 1.4991236 , While the value of the company (NP) in the aftermath of the convergence of IFRS (NP IFRS) has a minimum value of 0,2793, the maximum value 15.4844, the average value of 1.737374 and standard deviation value of 2.0723135. From these values it shows that the average of NP is positive, it indicates that the average company acting as the sample of this research have increased in value. .

4.2 IFRS Convergence effect on the Quality of Earnings

4.3 The following table presents the results of testing the differences in quality of earnings as measured by absolute value of the total current accrual (TCA) before and after the convergence of IFRS in Indonesia.

Table 4.3 Different Test Results Mean Total Current Accrual (TCA) Before and After Convergence IFRS

	Mean	N	Std. Deviation	Std. Error Mean	Sig. (2- tailed)
TCA GAAP	0.014923	196	0.1705594	0.0121828	
TCA IFRS	0.027136	196	0.2046278	0.0146163	0.539

Source: Output SPSS 16 (data processed, 2015)

According to Table 4.3 obtained average values of TCA at 0, 014 923 .For period prior to the convergence of IFRS (TCA GAAP) is smaller than the average value of TCA after the convergence of IFRS (TCA IFRS) which is equal to 0.027136. However, based on the results of the test the average difference (Paired Sample T-test) obtained significance value of 0539 or above α 0:05. Interpretations of the results of these tests show that there is no significant difference between earnings quality as measured by the absolute value of the total current accrual (TCA) before and after the convergence of IFRS in Indonesia. It can be concluded that the results of this test showed that the convergence of IFRS in Indonesia does not have a significant effect on earnings quality of companies listed on the Indonesia Stock Exchange as measured by the quality of accrual (the absolute value of the total current accrual/TCA).

The hypothesis proposed that there are differences in the quality of earnings before and after the convergence of IFRS as measured by the absolute value of the total current accrual (TCA) is not acceptable. This study was not able to prove that there is a difference in the quality of earnings before and after the convergence of IFRS in Indonesia. Results of this study are not consistent with the results obtained from studies conducted by Gassen and Sellhorn (2006); Iatridis (2010); found no evidence of an increase in the quality of financial reporting, as measured by earnings management after the adoption of IFRS.

4.3 Convergence of IFRS Effect on the Company Value

Table 4.4 presents the results of testing the difference in value of the company (NP) before and after the convergence of IFRS in Indonesia.

Table 4.4 Different Test Results Mean Value Company (NP) Before and After Convergence IFRS

	Mean	N	Std Deviation	Std Error	Sig. (2- tailed)
NP GAAP	**1.409916E0**	**196**	**1.4991236**	**0.1070803**	
NP IFRS	**1.737374E0**	**196**	**2.0723135**	**0.1480224**	**0.000**

Source: Output SPSS 16 (data processed, 2015)

Based on the table 4.4 obtained average value of the company (NP) of 1.409916 .For the period before the convergence of IFRS (NP GAAP) is smaller than the average value of the company (NP) after the convergence of IFRS (NP IFRS) which is equal to 0, 027 136. However, based on the results of the test the average difference (Paired Sample T-test) obtained significance value of 0.000 or below α 0:05. Interpretations of the results of these tests show that there are significant differences between the value of the company before and after the convergence of IFRS in Indonesia. It can be concluded that the results of this test showed that the convergence of IFRS in Indonesia had a significant effect on the value of manufacturing companies listed on Indonesia Stock Exchange.

The hypothesis proposed that there were differences in the value of the company before and after the convergence of IFRS accepted. This study proved that there is a difference in the value of the company before and after the convergence of IFRS in Indonesia. Results of this study are consistent with results obtained from studies conducted by Landsman (2010); Loureiro and Taboada (2012) who found evidence of an increased value of the company after the adoption of IFRS.

V. CONCLUSION, LIMITATIONS AND SUGGESTIONS

Based on the results of this study it can be concluded that. Firstly results of empirical testing the difference in average earnings quality as measured by the absolute value of the total current accrual (TCA) before and after the convergence of IFRS in Indonesia, shows that there is no significant difference between earnings quality companies listed on the Indonesia Stock Exchange as measured with the absolute value of the total current accrual (TCA) before and after the convergence of IFRS in Indonesia. It can be concluded that the results of this test showed that the convergence of IFRS in Indonesia does not have a significant effect on earnings quality companies listed on the Indonesia Stock Exchange as measured by the quality of (the absolute value of the total current accrual / TCA). Second, the empirical test results in the difference in average value of the company before and after the convergence of IFRS in Indonesia, shows that there are significant differences between the value of companies listed on the Indonesia Stock Exchange before and after the convergence of IFRS in Indonesia. The findings of this study support the hypothesis that there are significant differences between the value of the company before and after the convergence of IFRS in Indonesia. It can be concluded that the results of this test showed that the convergence of IFRS in Indonesia had a significant effect on the value of manufacturing companies listed on Indonesia Stock Exchange..

Recommendations of this study are (1) In this study, observation period was relatively short sample studied ie two years before the convergence of IFRS and two years after the convergence of IFRS in Indonesia. Therefore, further research is recommended to use broader observation period, for example, three years before and three years after the convergence of IFRS. (2) In addition, this study is limited to manufaitur company listed on the Indonesia Stock Exchange. It is therefore advised for further studies examining non-manufacturing companies, for example, banking companies, service companies and others, (3) earnings quality attribute studied is limited to proxy the quality of accruals. Therefore for further research should expand the size of earnings quality.

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