Improvement of Accounting Value Relevance Post Convergence IFRS

Elly Astuti
[1]*Universitas PGRI Madiun, Madiun -Indonesia*

Keywords: Value Relevance, IFRS Convergence, Banking Company

Abstract: The purpose of this study is to evaluate the increasing relevance of accounting values after IFRS convergence in Indonesia. The research focused on banking companies in two stages of full adaptation, namely in 2012 for the first and 2015 stages for the second phase. The research method uses multiple linear regression and chow test follow-up tests to evaluate structural changes in the relevance of accounting values during the adaptation period. The results of the study using price models found that after IFRS convergence in Indonesia there was an increase in the relevance of the value of accounting information in banking sector companies. But when testing is done with the return model, IFRS convergence has no effect. This condition indicates that investors in the banking sector companies pay more attention to the company's fundamental valuation for long-term investments rather than short-term capital gains. Increasing the relevance of values after IFRS convergence with price models, indicates that the market responds positively to IFRS adaptation policies in Indonesia so as to strengthen the country's economic stability. Future research is expected to carry out testing using the proxy of earnings management and timeliness to represent the relevance of accounting information values.

1 INTRODUCTION

IFRS is a set of global accounting standards that have been required to be applied in the process of preparing financial statements of business entities throughout the world. IFRS convergence in various parts of the world, has increased the value relevance of accounting information (Agostino, Drago, & Silipo, 2011; Rodr, Aimer, Alejandro, & M, 2017; Trabelsi & Trabelsi, 2014) However, increasing the relevance of these values will differ between IFRS adaptation processes carried out voluntarily with mandatory IFRS adaptation (Kouki, 2018). A country's economic growth rate also influences the increase in the relevance of accounting values after IFRS convergence. Less consistent results occur in developing countries. IFRS convergence is able to increase the relevance of accounting values in Latin American countries (Rodr et al., 2017). But when tested in Nigeria showed different results, IFRS convergence did not have a significant impact on increasing the relevance of accounting values (Olowolaju, Ogunsan, & Plc, 2016).

Indonesia has carried out continuous harmonization of standards to further improve the quality of reporting produced. Full IFRS convergence is a decision to further improve the quality of information, where the information presented is increasingly relevant and is used as the basis for the company's economic decision making. However, the convergence process is slightly different from other countries. Indonesia adapted IFRS gradually and carried out continuously. This might result in an increase in the relevance of different accounting values.

The banking industry is one of the most affected sectors due to the full IFRS convergence process. IFRS which provides a different perspective with its fair valuation concept requires a lot of assessments that involve complex aspects of the economy. One of them is a financial instrument component that is very sensitive to the entity's business environment. The main components forming the sacrificial industrial assets derived from financial instruments, may also have a different effect on the value relevance of accounting information after IFRS convergence in the banking industry.

In stage 1 IFRS convergence in Indonesia it was stated that IFRS did not have a significant impact on value relevance due to institutional environmental

Astuti, E.
Improvement of Accounting Value Relevance Post Convergence IFRS.
DOI: 10.5220/0009500409951000
In *Proceedings of the 1st Unimed International Conference on Economics Education and Social Science (UNICEES 2018)*, pages 995-1000
ISBN: 978-989-758-432-9

conditions based on code law (Cahyonowati & Ratmono, 2013). Juniarti *et al.*, (2018) extended the observation period with 4 years before and 4 years after convergence, IFRS had an impact on increasing the relevance of accounting values in Indonesia. However, the study was limited only to manufacturing companies. Different institutional environmental conditions have an impact on the relevance of values after different IFRS convergences (Karampinis & Hevas, 2011). For this reason, the research will focus on banking companies because research on IFRS is usually only focused on manufacturing companies.

2 THEORICAL FRAMEWORK

Value relevance is the ability of accounting information in financial statements to influence the economic decision making of investors. This is reflected in stock price movements after the financial statements are published (Barth et al., 1996). The relevance of values can be fulfilled by the existence of a good set of accounting standards, so that the information delivered is more transparent and able to reduce information asymmetry that can reduce management opportunistic behavior.

IFRS is an accounting standard designed by the IASB to be applied internationally to improve transparency and comparability of company financial statements. The main objective of establishing the standard is to expand investment opportunities for investors globally. Investors can obtain adequate information so they can carry out investment portfolios. On the other hand, this also benefits the company in gaining access to funding its operational activities.

Clarkson *et al.*, (2011) suggested that after IFRS convergence there was no change in the relevance of values in European and Australian countries. However, there are similar impacts between common law and code law countries. This indicates that IFRS can improve comparability. In line with this, Callao, Jarne, & Laínez (2007) state that perhaps local standard convergence to IFRS does not show an increase in value relevance because the gap between book value and market value is wider than the impact of IFRS convergence. However, in the long run, the benefits of IFRS will definitely be felt.

Daske, Leuz, & Verdi (2008) and Alali & Foote (2012) document that the government environment influences the relevance of accounting information. When in a volatile period, the role of the government must be greater by increasing compliance with regulations to convince investors that the information presented in the company's financial statements is relevant. Thus, the institutional environment also influences value relevance (Ball, Robin, & Shuang, 2003; Daske et al., 2008) which is one of the qualitative characteristics of accounting information.

The Indonesian government's commitment to converging local standards to IFRS has been seen since 2008. IAI as an accounting standard-making body in Indonesia has converged local standards to IFRS gradually since 2008 with full adoption stage I in 2012. In the banking sector, BI also issued PAPI (Indonesian Banking Accounting Guidelines) in 2008 which was harmonized with the IFRS convergence stage at that time. In 2015 there was a matching and full adoption stage II. Adjustments in stage II were carried out to reduce the gap between local accounting standards and IFRS from 3 years to 1 year. All companies listed on the IDX are required to use accounting standards that have converged IFRS

H1: There is an increase in the relevance of accounting values in banking companies after IFRS convergence in Indonesia.

3 RESEARCH METHOD

This research method uses a positive approach with a quantitative form using multiple linear regression in analyzing changes in the value relevance of information. The research population is all banking companies listed on the Indonesia Stock Exchange from 2007 to 2015. The sample collection technique uses purposive sampling with criteria; 1) registered on the IDX since 2007, 2) functional currency using rupiah, 3) data related to research variables available.

Measurement of the relevance of accounting values using price regression models (PRM) and return regression models (RRM) (Onali, Ginesti, & Vasilakis, 2017). Price model refers to the equation proposed by Barth (2008) as follows:

$$P_{it} = a + bBVPS_{it} + cEPS_{it} + e_{it} \quad (1)$$

While the return model refers to Barth and Clinch (2009) as follows:

$$RET_{it} = a + b\frac{EPS_{it}}{P_{it-1}} + c\frac{\Delta EPS_{it}}{P_{it-1}} + e_{it} \quad (2)$$

Where $RET_{it} = \frac{P_{it}+DPS_{it}-P_{it-1}}{P_{it-1}}$, and $\Delta EPS_{it} = EPS_{it} - EPS_{i}$

P is the stock price after the end of the company's fiscal year (Barth, Landsman, and Lang, 2008; Lang, Raedy, and Wilson, 2006). This study use the stock prices 90th after the end of the fiscal year because the relevance of information is a test of whether the information submitted by the company gives a difference in economic decision making reflected in the stock price. In capital market regulations and auditing standards that apply in Indonesia, companies are allowed to submit financial reports no later than 90 days after closing the book (fiscal year). Prahesti, Utomo, & Astuti (2016) documented that banking company audit delay is between 7 - 90 days. Thus, the company's financial statements are published a maximum of 90 days after the accounting period.

To test the effect of IFRS convergence on the relevance of values, we examine whether structural changes occur before after convergence. The test uses the chow test. Besides that, there are also some control variables that might influence company adjustments with accounting standards that have converged IFRS. Some of the control variables used in this study are the size and level of corporate debt.

4 ANALYSIS

This research is a follow-up study from the previous study to reexamine the impact of IFRS convergence on value relevance (Astuti & Sulistyowati, 2017; Cahyonowati & Ratmono, 2013; Juniarti et al., 2018). The test results in Table 1 show that there was an increase in value relevance in the first phase of convergence, namely in 2012, whereas in the second period there was no increase. This can be seen from the adjusted R square value from 2007 to 2012 which has increased and from 2012 to 2015 has decreased.

Table 1: Results of Hypothesis testing (Price Model)

Variabel	Pra IFRS (2007-2008)		IFRS I (2012-2013)		IFRS II (2015-2016)		All	
	Coefficient	P Value	Coefficient	P Value	Coefficient	P Value	Coefficient	P Value
Constant	-18,845	0,002	-4,797	0,083	-13,611	0,052	-6,323	0,002
BVEPS	-0,000004	0,952	0,001	0,000	0,000294	0,067	0,000088	0,145
EPS	0,003	0,069	-0,003	0,028	0,0001	0,443	0,002	0,000
PER	0,001	0,012	0,000151	0,881	0,0004	0,417	0,001	0,030
LEV	7,610	0,022	-1,586	0,061	6,639	0,058	-0,856	0,301
Ln_TA	0,521	0,000	0,382	0,001	0,367	0,025	0,420	0,000
F value	11,542	0,000	30,822	0,000	16,820	0,000	37,704	0,000
Adjusted R Square	0,616		0,784		0,659		0,595	

In the period before IFRS convergence investors paid more attention to the fundamental value and stock market value in a balanced manner. Investors consider profitability (EPS), company market performance (PER), company risk (LEV) and assets that are capable to support the company's operations (Ln_TA). However, in the period after stage I convergence (2012-2013), the company considered more fundamental values than market performance. Investors do not consider stock prices in their investment decisions (PER doesn't effect stock prices). This indicates that investors trust the intrinsic value of the company rather than market performance which is much influenced by the

external environment beyond the control of the company.

In stage II the value of Adjusted R2 has decreased. this indicates that there is no increase in the relevance of values from stage I to stage II. In stage II, investors also do not consider the company's profitability (EPS) in making economic decisions. It is possible to avoid mistakes, because of the existence of earnings management practices that usually occur in companies. overall it can be concluded that investors use accounting information in financial reports that reflect the intrinsic value of the company for the decision making process.

Table 2: Results of Combined Regression (Price Model)

Variabel	Pra IFRS + IFRS I		IFRS I + IFRS II	
	Coefficient	P Value	Coefficient	P Value
Constant	-5,825	0,012	-2,991	0,261
BVEPS	0,000028	0,671	0,000421	0,001
EPS	0,003	0,000	0,001	0,173
PER	0,001	0,030	0,000274	0,825
LEV	-1,097	0,220	-1,328	0,127
Ln_TA	0,412	0,000	0,323	0,001
F value	26,046	0,000	31,857	0,000
Adjusted R Square	0,601		0,650	

The follow-up test was carried out by combining pre IFRS data with stage I. Combined data was regressed and compared with the combined results of data after stage I and II IFRS convergence. The adjusted R2 value shows an increase (see table 2). This shows that there is an increase in value relevance in stage II even though it is not as big as stage I. Further analyses using the chow test found that there were structural changes in both stages I and II of IFRS convergence (see Table 3 and Table 4).

Table 3: Results of Chow Test Stage I (Price Model)

Notation	Description	Pre IFRS + Post IFRS I	
		Value	
RSS_r	*Sum of square residual (2007-2008 s.d 2012-2013)*	71,567	
RSS_1	*Sum of square residual (2007-2008)*	32,233	
RSS_2	*Sum of square residual (2012-2013)*	19,250	

Notation	Description	Pre IFRS + Post IFRS I	
		Value	
RSS_{ur}	$RSS_1 + RSS_2$		51,483
k	Number of parameters estimated	5	
n_1	Number of observations before IFRS convergence	42	
n_2	Number of observations after IFRS convergence (stage I)	42	
F value	$((RSS_r-RSS_{ur}/k)/(RSS_{ur})/(n_1+n_2-2k)$		5,7713
F table			2,34

Table 4: Results of Chow Test Stage II (Price Model)

Notation	Description	Post IFRS I + Post IFRS II	
		Value	
RSS_r	*Sum of square residual (2012-2013 s.d 2015-2016)*	68,532	
RSS_1	*Sum of square residual (2012-2013)*	19,250	
RSS_2	*Sum of square residual (2015-2016)*	31,993	
RSS_{ur}	$RSS_1 + RSS_2$		51,243
k	Number of parameters estimated	5	
n_1	Number of observations after IFRS convergence (stage I)	42	
n_2	Number of observations after IFRS convergence (stage II)	42	
F value	$((RSS_r-RSS_{ur}/k)/(RSS_{ur})/(n_1+n_2-2k)$		4,9932
F table			2,34

Table 3 and Table 4 show that the value of F is greater than F table. These results support the previous test, there were structural changes during the period of IFRS convergence. Thus it can be concluded that there is an increase in the relevance of values after IFRS convergence, both in stage I and stage II. However, the increase in stage II is not as big as stage I.

Further analysis uses the return model. Table 5 shows that when using the return model analysis cannot be done, because it is unable to meet the classical assumption test. Influence between variables is not consistent. Thus it can be concluded that the use of return models is not relevant to test the increase in value relevance in the banking sector in Indonesia.

Table 5: Results of Hypothesis testing (Return Model)

Variabel	Pra IFRS (2007-2008)		IFRS I (2012-2013)		IFRS II (2015-2016)		All	
	Coefficient	P Value	Coefficient	P Value	Coefficient	P Value	Coefficient	P Value
Constant	-3,328	-0,292	-0,572	0,345	-0,665	0,848	0,144	0,883
BVEPS	0,178	0,610	0,631	0,048	-0,092	0,856	-0,093	0,691
EPS	-0,252	0,434	-0,324	0,357	0,638	0,235	0,129	0,566
PER	0,000084	0,596	0,000379	0,192	0,000390	0,910	0,000024	0,879
LEV	3,026	0,099	-0,458	0,023	3,504	0,155	0,412	0,352
Ln_TA	-0,002	0,972	0,031	0,140	-0,099	0,227	-0,016	0,595
F value	0,806	0,553	2,765	0,033	1,600	0,185	0,341	0,887
Adjusted R Square	-0,024		-0,177		0,068		-0,027	

5 RESULTS

The results of the study show that there is an increase in value relevance after IFRS convergence using the price model, but not with the return model. This indicates that investors in the banking sector prefer long-term investments rather than obtaining capital gains in the short term. The results of this study confirm the previous literature (Agostino et al., 2011; Ebaid, 2014; Kouki, 2018; Palea & Scagnelli, 2017) that IFRS is able to improve the quality of financial reports with increasing the relevance of value.

These results also confirm (Daske et al., 2008; Nurunnabi, 2015) which states that increasing the relevance of values after IFRS convergence occurs if there is support from the national and international institutional environment. IFRS convergence in Indonesia can increase value relevance because it is strongly supported by the government. The conversion of SAK (Indonesian Accounting Standards) to IFRS in stage I was able to have a positive impact because it was followed by Bank Indonesia policy by issuing PAPI (Banking Accounting Guidelines) at 2008 with strict regulations and legal. Whereas in stage II the increase in value relevance is not as big as in stage I because there has only been a change in financial accounting standards without being accompanied by the issuance of relevant new regulations related to banking by Bank Indonesia.

However, further analysis of the return model, the results of the study failed to document the impact of IFRS convergence on the relevance of accounting values. Testing using the return model does not meet the classic assumption test. Clarkson et al., (2011) explained that, the impact of IFRS on value relevance in the banking sector cannot fulfill classical assumptions because two things, there are influence the conservatism in the previous period and earnings fluctuations before testing.

6 CONCLUSIONS

IFRS has a positive impact on increasing the relevance of accounting values in the Indonesian banking sector. Structural changes occur in the period before convergence, stage I convergence and stage II convergence. These changes differ depending on how big the role of the government is. The government acts as a mediation to convince investors that accounting numbers in financial statements can be relied upon by enforcing regulations on compliance with applicable standards (Daske et al., 2008; Ebaid, 2014).

This condition also occurs in some countries that evaluate the impact of IFRS on increasing value relevance (Alali & Foote, 2012; Karampinis & Hevas, 2011). When IFRS convergence is done voluntarily, management will be more open if there is an increase in incentives obtained. Also the convergence decision depends on bad news or good news that happens to the company. Thus IFRS convergence that is applied voluntarily will not have any impact on increasing the relevance of IFRS values (Christensen, Lee, Walker, & Zeng, 2015). But when the standard regulatory body mandatory IFRS convergence, it is found that value relevance increases significantly.

The limitations of this study are not able to reveal the impact of IFRS on value relevance by using the return model. Future research is expected to be able to eliminate conservatism and earnings fluctuations so as to reveal an increase in value relevance holistically. At the beginning of 2018, SAK 71 was introduced for the regulation of financial instruments, which were mandatory implemented at the beginning of 2020. The adoption of the new standard may will have a significant impact on the relevance of accounting values in banking companies because financial instruments are the main components forming a company's balance sheet.

REFERENCES

Agostino, M., Drago, D., & Silipo, D. B. (2011). The value relevance of IFRS in the European banking industry. *Review of Quantitative Finance and Accounting*, *36*(3), 437–457. https://doi.org/10.1007/s11156-010-0184-1

Alali, F. A., & Foote, P. S. (2012). The Value Relevance of International Financial Reporting Standards: Empirical Evidence in an Emerging Market. *International Journal of Accounting*, *47*(1), 85–108. https://doi.org/10.1016/j.intacc.2011.12.005

Astuti, E., & Sulistyowati, N. W. (2017). Analysis Of Implementation Sak Converged Ifrs For Financial Instruments (Psak 50, 55 And 60) In Banking Company. In *Proceedings of the 2nd International Conference on Accounting, Management, and Economics 2017 (ICAME 2017)*. https://doi.org/10.2991/icame-17.2017.8

Ball, R., Robin, A., & Shuang, J. (2003). Incentives versus standards : properties of accounting income in four East Asian countries $. *Journal of Accounting and Economics*, *36*, 235–270. https://doi.org/10.1016/j.jacceco.2003.10.003

Barth, M. E., Beaver, W. H., Landsman, W. R., Barth, M. E., Beaver, W. H., & Landsman, W. R. (1996). Value-Relevance of Banks ' Value Disclosures under No . *The Accounting Review*, *71*(4), 513–537.

Cahyonowati, N., & Ratmono, D. (2013). Adopsi IFRS dan Relevansi Nilai Informasi Akuntansi. *Jurnal Akuntansi Dan Keuangan*, *14*(2), 105–115. https://doi.org/10.9744/jak.14.2.105-115

Callao, S., Jarne, J. I., & Laínez, J. A. (2007). Adoption of IFRS in Spain: Effect on the comparability and relevance of financial reporting. *Journal of International Accounting, Auditing and Taxation*. https://doi.org/10.1016/j.intaccaudtax.2007.06.002

Christensen, H. B., Lee, E., Walker, M., & Zeng, C. (n.d.). Incentives or Standards : What Determines Accounting Quality Changes around IFRS Adoption ?, (April 2015), 37–41. https://doi.org/10.1080/09638180.2015.1009144

Clarkson, P., Hanna, J. D., Richardson, G. D., & Thompson, R. (2011). The impact of IFRS adoption on the value relevance of book value and earnings. *Journal of Contemporary Accounting and Economics*, *7*(1), 1–17. https://doi.org/10.1016/j.jcae.2011.03.001

Daske, H., Leuz, C., & Verdi, R. S. (2008). Mandatory IFRS Reporting Around the World : Early Evidence on the Economic Consequences Mandatory IFRS Reporting Around the World : Early Evidence on the. *Journal of Accounting Research*, *46*, 1085–1142.

Ebaid, I. E.-S. (2014). International Accounting Standards and Accounting Quality in Code laws Countries the Case of Egypt. *Journal of Financial Regulation and Compliance*, *24*(1), 41–59. https://doi.org/http://dx.doi.org/10.1108/MRR-09-2015-0216

Juniarti, J., Helena, F., Novitasari, K., & Tjamdinata, W. (2018). The Value Relevance of IFRS Adoption in Indonesia. *Jurnal Akuntansi Dan Keuangan*, *20*(1), 13. https://doi.org/10.9744/jak.20.1.13-19

Karampinis, N. I., & Hevas, D. (2011). Mandating IFRS in an Unfavorable Environment: The Greek Experience. *The International Journal of Accounting*, *46*(3), 304–332. Retrieved from https://econpapers.repec.org/article/eeeaccoun/v_3a46_3ay_3a2011_3ai_3a3_3ap_3a304-332.htm

Kouki, A. (2018). IFRS and value relevance: A comparison approach before and after IFRS conversion in the European countries. *Journal of Applied Accounting Research*, *19*(1), 60–80. https://doi.org/10.1108/JAAR-05-2015-0041

Nurunnabi, M. (2015). The impact of cultural factors on the implementation of global accounting standards (IFRS) in a developing country. *Advances in Accounting*, *31*(1), 136–149. https://doi.org/10.1016/j.adiac.2015.03.015

Olowolaju, P. S., Ogunsan, J. O., & Plc, Z. B. (2016). VALUE RELEVANCE OF ACCOUNTING INFORMATION IN THE DETERMINATION OF SHARES PRICES OF QUOTED NIGERIAN DEPOSIT MONEY BANKS. *International Journal of Economics, Commerce and Management*, *IV*(10), 128–147.

Onali, E., Ginesti, G., & Vasilakis, C. (2017). How should we estimate value-relevance models? Insights from European data. *The British Accounting Review*. https://doi.org/10.1016/j.bar.2017.05.006

Palea, V., & Scagnelli, S. D. (2017). Earnings Reported under IFRS Improve the Prediction of Future Cash Flows? Evidence from European Banks. *Australian Accounting Review*, *27*(2), 129–145. https://doi.org/10.1111/auar.12115

Prahesti, E., Utomo, S. W., & Astuti, E. (2016). Pengaruh Profitabilitas Dan Solvabilitas terhadap Audit Delay pada Perusahaan Perbankan Yang Terdaftar di Bursa Efek Indonesia (BEI). *FIPA: Forum Ilmiah Pendidikan Akuntansi*, *11*, 1–8.

Rodr, P., Aimer, K., Alejandro, C., & M, A. B. (2017). Does an IFRS adoption increase value relevance and earnings timeliness in Latin America? *Emerging Markets Review*, *30 (C)*, 155–168. https://doi.org/10.1016/j.ememar.2016.11.001

Trabelsi, N. S., & Trabelsi, M. (2014). The Value Relevance of IFRS in the UAE Banking Industry : Empirical Evidence from Dubai Financial Market , 2008-2013. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *4*(4), 60–71. https://doi.org/10.6007/IJARAFMS/v4-i4/1241