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*by* Harnovinsah Harnovinsah

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## FULL ADOPTION OF INTERNATIONAL FINANCIAL REPORT STANDARDS (IFRS) AND ITS IMPACT ON ACCOUNTING INFORMATION QUALITY IN INDONESIA

Harnovinsah

Faculty of Economics and Business, Mercu Buana University  
INDONESIA

&

Tessya Dwikatresna

Faculty of Economics and Business, Mercu Buana University  
INDONESIA

9

### ABSTRACT

This study aimed to examine whether there is any difference in the quality of accounting information from before and after full adoption of IFRS on the financial statement of companies listed on the Stock Exchange. This research utilized earnings management, value relevance and timely loss recognition to assess the accounting information. This research is an empirical study with purpose sampling technique in data collection. The data were obtained from secondary data of manufacturing company's financial statements from 2010 to 2013. The period observed in this research is two years prior and two years after the full adoption. The sample in this study is 29 companies. In this research, earnings management was measured using Modified Jones and Conditional Revenue Stuben models, the value relevance was measured using price regression from the earnings per share (EPS) and net book value (NBV). Meanwhile, the timely loss recognition was measured using the large negative net income (LNEG) coefficient. This research was analyzed using the Wilcoxon Signed Ranks Test and Chowtest. The results of this research indicated that there is no difference between before and after the full adoption of IFRS on earnings management, value relevance, and timely loss recognition.

**Keywords:** International Financial Report Standard (IFRS), Accounting Information Quality, Earnings Management, Value Relevance, Timely Loss Recognition.

### INTRODUCTION

Xerox and Lehman Brothers issue and other accounting scandals at the beginning of 2000 made arose questions for a better accounting standard which can produce reliable financial information. IFRS (International Financial Accounting Standard) is an attempt to give emphasis on the revaluation of professionals with a clear and transparent disclosures related to the economic substance of the transaction, the explanation, up to reaching certain conclusions. IFRS adoption in Indonesia serves as the global financial reporting language, which will make the company understandable by the global market. The IFRS adoption impacts the aspects of financial reporting measurement items such as net profit and equity (Jermakowicz, 2004), while Daske et.al. (2003) research states that IFRS adoption improves the quality of financial statements. The adoption of international accounting standards to the domestic accounting standards aims to produce financial statements that have a high degree of credibility. Previously, there have been several researches that indicate that the IFRS adoption is generally able to

improve the quality of accounting standards in most countries (Leuz et.al, 2003; Bartov et.al, 2005; Chen et.al, 2010; Augusta and Marsono (2013)). Zeghal et.al. (2012) states that the IFRS adoption can improve the financial reporting quality with the specification that the IFRS is able to lower earnings management, improve timeliness, conditional conservatism, and value relevance. Hellman (2011) and Iatridis (2010) state that increased net profit, shareholder's equity, assets and liabilities follow the adoption of IFRS standards.

In addition to research supporting the IFRS, several other researches also oppose. Shanklin et.al, (2011) argues that IFRS regulation requiring the valuation of assets based on fair value will hamper the countries which adhere the Generally Accepted Accounting Principles (GAAP), which is basically accustomed to use historical value. Business environment and a fundamentally different situation also determine the form and content of the accounting standards (Healy and Wahlen, 1999). Thus, the same accounting standards do not need to be applied in different countries and the IFRS adoption does not necessarily improve earnings quality. Ball et.al. (2003) research also shows that the high quality standard doesn't always produce high quality accounting information. That research concludes that this is caused by poor incentives for financial statements makers and that the reporting quality is ultimately determined by economic and political factors in the country concerned which affect the incentives of managers and auditors, and not solely determined by the accounting standards (Ball et.al, 2003; Jeanjean and Stolowy, 2008). In other words, accounting information quality improvement cannot only be judged by the standards used, but is also associated with the manager and auditor, as parties conducting the assessment to the information and the parties that will identify any fraud in the financial statements.

Based on the above explanation, there is a difference from previous research's result related to the influence of full IFRS adoption on accounting information quality. Thus, this research is intended to fill in the existing literature in explaining differences in earnings quality before and after IFRS full adoption in Indonesia. This research uses accounting quality variable as the dependent variable and the earnings management, timely loss recognition, and value relevance as the accounting information quality variables. The measurement for detecting earnings management utilizes a comparison between Revenue Discretionary Model approach introduced by Stubben (2010) on the basis of dissatisfaction with the common accrual model used today, with the Jones model which is the first earnings management detection model introduced by Jones (1991) and was later developed by Dechow et.al., (1995), known as the modified Jones model. With such comparison, a better earnings management detection model will be obtained. According to Stubben (2010), the conditional revenue model is more effective in detecting earnings management. However, this model is not yet widely used in earnings management research as the most common technique to estimate earnings management is the modified Jones model.

Generally, the objective of this research is to find empirical evidence on differences in earnings quality from before and after the IFRS adoption on manufacturing listed companies on Indonesia Stock Exchange (IDX). In particular, this research examines whether there is a significant decline in earnings management practices and whether there is an increase in the relevance value on the financial statements after the IFRS adoption.



## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### IFRS Adoption

IFRS adoption has great influence on the company, especially in its financial reporting. The adoption of international accounting standards into domestic accounting standards aims to produce financial statements that have high degree of accountability, provide more relevant and accurate financial statements, provide a more comparable financial statements with valid information (Hung and Subramanyam, 2007). The company's goal to fully adopt IFRS is to experience an increase in accounting quality from prior to full adoption. Thus the company will be globally-acceptable and facilitate foreign parties to make contact with the company (in terms of investment). A qualified financial statement should reflect profit which is regarded as a measure of corporate performance which is in line with the actual condition. This also means that the qualified financial statements should not be made by manipulating profits.

Jermakovicz (2004), Daske et al (2008) and Hellman (2011) finds that after the IFRS adoption, the company's profits and equity book value increased, in terms of accounting information value relevance. On the other hand, Tsalavoutas (2012) notes that there is no change in the value relevance of profits and equity book value before and after the IFRS adoption. From various contradictory studies, this research sees to assert accounting quality which is assessed from earnings management, earnings value relevance and the timely loss recognition as well as on the company before and after full IFRS adoption. Thus, the researcher develops hypotheses as follow:

**There is a difference in earnings management from prior and after full IFRS adoption.**

International accounting standards intends to simplify the accounting policy alternatives that are allowed and is expected to restrict the management's discretion on earnings manipulation so as to improve the earnings quality (Cai et.al, 2008). The limited management's discretion is related to fewer choices of accounting methods that can be applied so as to minimize fraudulent in accounting practices. Thus, the IFRS adoption on the company will reduce earnings management actions as there are restrictions in terms of management's discretion due to fewer accounting methods options following the IFRS adoption.

Based on theories on the IFRS and GAAP differences, it is also explained that the IFRS adoption also impacts on the increasing and more detailed disclosure requirement. The disclosure level that is getting closer to full disclosure will reduce the degree of information asymmetry. The information asymmetry is one of the causes of conflict between management and shareholders. Thus, based on the above theory, it can be concluded that the IFRS adoption will have an impact on a more detailed disclosures and will reduce information asymmetry so as to reduce earnings management action (Armstrong et al, 2010).

Outa et.al. (2011) examines the accounting quality before and after the IFRS adoption. His research finds that after IFRS adoption, earnings management level becomes lower, the value relevance becomes higher, and the loss recognition becomes more more timely, as compared with prior the transition in which the accounting was still based on local GAAP. The income smoothing is a part of earnings management.

Wan Adibah et al. (2013) finds evidence that while the company is adopting IFRS, it performs less earnings management and higher value relevant. Based on the above explanation, the first hypothesis in this research is:

**H1 = full IFRS adoption has a negative influence on earnings management.**

#### **There is a difference in Value Relevance from prior and after the IFRS adoption**

According to Barth (2008), IFRS as a principles-based standards may further enhance the value relevance of accounting information. This is because the fair value measurement can better describe the company's position and economic performance. It can further assist investors in making investment decisions. Accounting fair value reflects changes in financial condition as a result of fluctuations in interest rates, credit quality and foreign currencies movements. The assessment shift with fair value is believed to provide information on current market prices and has relevant financial data to users of financial statements. The fair value information disclosure is expected to provide more useful information for users to assess the influence of derivative transactions (Wilson and Rasch, 1998).

Companies with high-quality accounting has a high correlation between stock prices and earnings and equity book value as higher earnings quality better reflects the firm's underlying economic (Barth, Beaver and Landsman, 2001). First, the results of high-quality accounting from accounting standards implementation requires a certain number of recognition that can faithfully represents the firm's underlying economic. Second, high-quality accounting will make the company less subject to opportunistic managerial policy. Then both features of the accounting quality are linked by Ewert and Wagenhofer (2005) which show that accounting standards restrict the opportunistic policy on accounting earnings which has a higher value relevance. Lastly, the higher accounting quality has fewer opportunistic errors in accruals estimates. Therefore, companies adopting IFRS will demonstrate higher value relevance in earnings and equity book value than before the adoption (Callao et al (2007; Hung and Subramanyam, 2007; Jermakowicz et al., 2007; Gaston et al., 2010; Jarva and Lantto, 2010; Zeghal et al., 2011). This result provides evidence that the estimated fair value provides a significant powerful explanation excluding historical costs. Based on the above explanation, the second hypothesis is:

**H2 = Full IFRS adoption has a positive influence on the value relevance.**

#### **There is a difference in Timely Loss Recognition from before and after the full IFRS adoption**

The Full IFRS adoption in Indonesia began in 2012. The adoption changed the standards change direction of Indonesian accounting which originally refers to rule-based to principal-based arrangement. Principles-based arrangement aims to meet the objectives of IFRS to improve the accounting information quality contained in the financial statements (Cahyonowati and Gatmono, 2012). As for the high quality accounting information is shown on the decreasing earnings management, timely loss recognition, and value relevance from higher earnings and equity book value. The abroad research result which uses these three proxies still end in various research results.

Jarva and Lantto (2010), Zeghal (2011) and Elias (2012) finds that after the IFRS adoption, the company's profits and equity book value increased, in terms of accounting information value relevance. Thus, the third research hypothesis is:

**H3 = Full IFRS adoption had a positive influence on Timely Loss Recognition**

## RESEARCH METHODS

### Research Variables

This study analyzes the accounting information quality from before and after full IFRS adoption. The accounting information quality is derived into three variables: earnings management, value relevance, and timely loss recognition.

### Earnings Management

Earnings management is measured using two approaches: Revenue Discretionary Model introduced by Stubben (2010) and modified Jones model by Dechow et.al. (1995).

Earnings management is analyzed by using conditional Revenue concept (Stubben, 2010) calculated by regressing the following equation, later after the coefficient is found, it will be multiplied by the variables contained in the formula, as follows:

$$\Delta AR_{it} = \alpha + \beta_1 \Delta R_{it} + \beta_2 \Delta R_{it} \times SIZE + \beta_3 \Delta R_{it} \times AGE_{it} + \beta_4 \Delta R_{it} \times AGE\_SQ_{it} + \beta_5 \Delta R_{it} \times GRR\_P_{it} + \beta_6 \Delta R_{it} \times GRR\_N_{it} + \beta_7 \Delta R_{it} \times GRM_{it} + \beta_8 \Delta R_{it} \times GRM\_SQ_{it} + \varepsilon_{it}$$

Remark:

$\Delta AR_{it}$  = company i accounts receivable in year t minus accounts receivable of year t-1.

$\Delta R_{it}$  = (year t earnings – year t-1 earnings) divided by the average total assets

SIZE = The size of the companies acquired through the natural log of the total assets.

AGE = The age size obtained by 'natural log'-ing the company's age.

AGE\_SQ = Age square obtained by squaring the result of company's age natural log.

GRR = Growth Rate in Revenue ([year t revenue - year t-1 revenue] / year t-1 revenue)

GRR\_P = If GRR is negative then GRR\_P is equal to 0

GRR\_N = If GRR is positive then GRR\_N is equal to 0.

GRM = Gross Margin ([Revenue - Cost of goods sold] / revenue)

GRM\_SQ = GRM\_SQ obtained by squaring GRM

10

Meanwhile, the earnings management measured by discretionary accruals is calculated by deducting total accruals (TACC) with non-discretionary accruals (NDACC). In calculating the DACC, Modified Jones Model is used. To measure discretionary accruals, the total accrual is first measured using the following formula:

$$Taccit = Net\ Income - Cash\ Flow\ from\ Operations$$

The total accrual which is later formulated by Jones and modified by Dechow et al (1995) is as follows:

$$\frac{TAC_{i,t}}{TA_{i,t-1}} = \beta_0 \left[ \frac{1}{TA_{i,t-1}} \right] + \beta_1 \left[ \frac{\Delta Sales_{i,t}}{TA_{i,t-1}} \right] + \beta_2 \left[ \frac{PPE_{i,t}}{TA_{i,t-1}} \right] + \varepsilon_{it}$$

Remarks:

10

TAC<sub>it</sub> = total accruals of company i in year t



$TA_{i,t-1}$	= total assets of company i in year t-1
$\Delta Sales_{i,t}$	= revenue of company i in year t minus revenue i-1
$PPE_{i,t}$	= fixed assets of company i in year t
$\varepsilon_{i,t}$	= error term of company i in year t

The calculation for non-discretionary accrual according to the modified Jones model is formulated as follows:

$$NDACC_{i,t} = \beta_0 \left[ \frac{1}{TA_{i,t-1}} \right] + \beta_1 \left[ \frac{\Delta Sales_{i,t} - \Delta TR_{i,t}}{TA_{i,t-1}} \right] + \beta_2 \left[ \frac{PPE_{i,t}}{TA_{i,t-1}} \right] + \varepsilon_{i,t}$$

Remarks:

$NDACC_{i,t}$	= non-discretionary accruals of company i in year t
$TA_{i,t-1}$	= total assets of company i in year t-1
$\Delta Sales_{i,t}$	= revenue of company i in year t deducted by accounts receivable in year t-1
$\Delta TR_{i,t-1}$	= accounts receivable of company i in year t minus business accounts receivable in year t-1
$PPE_{i,t}$	= fixed assets of company i in year t
$\varepsilon_{i,t}$	= error term of company i in year t

From the above equations, the discretionary accrual can be calculated by using the formula:

$$DACC_{i,t} = \frac{TACC_{i,t}}{TA_{i,t-1}} - NDACC_{i,t}$$

Remarks:

$DACC_{i,t}$	= discretionary accruals of company i in year t
$TACC_{i,t}$	= total accruals of company i in period t
$TA_{i,t-1}$	= total assets of company i in period t-1
$NDACC_{i,t}$	= nondiscretionary accruals of company i in year t

## Value Relevance

The value relevance is calculated by regressing profit value and equity book value in the formula below, the measurement of this model is to test the equal coefficient from two or more groups (Ghozali, 2011). To test regression using chow test from earnings and book value separately, the following model is used:

$$P_{it} = \alpha_0 + \beta_1 LPS_{it} + \varepsilon_{it}$$

and

$$P_{it} = \alpha_0 + \beta_1 NBS_{it} + \varepsilon_{it}$$

Remarks:

$P_{it}$	= stock price of company i in year t
$LPS_{it}$	= Earnings per share for company i in year t
$NBS_{it}$	= Book value per share of company i at the end year t
$\varepsilon_{it}$	= Error

### Timely Loss Recognition

In this research, the timely loss recognition is calculated in line with large negative net income (LNEG) coefficient. LNEG is an indicator variable measured by net income divided by total assets. If a company produces less than 0.20, will be coded 1, otherwise, it's coded 0 (Barth et.al, 2008).

This research uses LNEG coefficients derived from logistic regression equation as follows (Barth et.al, 2008):

$$\text{IFRS}(0,1) = \alpha_0 + \alpha_1 \text{LNEG}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{GROWTH}_{it} + \alpha_4 \text{EISSUE}_{it} + \alpha_5 \text{LEV}_{it} + \alpha_6 \text{DISSUE}_{it} + \alpha_7 \text{TURN}_{it} + \alpha_8 \text{CF}_{it} + \alpha_9 \text{AUD} + \alpha_{10} \text{CLOSE} + \varepsilon_{it}$$

Remarks:

IFRS = Equal with one for the company after the full adoption and 0 for company before the full adoption.

LNEG = Measured by net income divided by total assets. If the result is less than -0.20, it will be coded 1, otherwise, it's coded 0.

SIZE = The size of the company, calculated by Ln Total Assets

GROWTH = The change in company's sales percentage

EISSUE = The change in company's common stock percentage

LEV = The leverage ratio is calculated by total liabilities divided by equity book value

DISSUE = The change in total company's liability percentage

TURN = Turnover ratio, calculated by sales divided by total assets

CF = Cash flows from operating activities

AUD = KAP size

CLOSE = Percentage of shares used by the company.

### Research Population and Sample

The research population is 137 manufacturing companies listed on Indonesia Stock Exchange (IDX) in 2010-2013. From those 137 companies, 29 companies are final sample selected by purposive sampling with criteria as follows:

1. The company issued complete financial statements and annual report from 2010 through 2013.
2. The company has positive earnings capacity.
3. The company has positive operations cash flow.
4. Using rupiah for its main currency
5. The company didn't undertake any corporate action during the research period.

### Analysis Method

#### Earnings management

In this research, Wilcoxon Signed Ranks Test is used to test whether there are differences in the magnitude of earnings management between the period before and after the full IFRS adoption. Wilcoxon Signed Rank Test is a non-parametric test to measure the significance of the differences between the two groups of data with ordinal scale or interval but having abnormal distribution. Wilcoxon Signed Rank Test is an alternative test of pairing t test.



The test is conducted on earnings management components which are divided into two groups of samples. The sample group 'before' consists of the data on two years before the full adoption of IFRS and the 'after' group consists of the data on two years after the adoption.

The decision for the Wilcoxon Signed Ranks Test is based on the significance output value. If it is less than 0.05, the  $H_A$  is accepted. However, if the significance output value is greater than 0.05, then the  $H_0$  is accepted.

### Value Relevance

The hypothesis test on the value relevance is done using the Chow Test. Chow test is a tool to test the similarity coefficient of two or more groups derived from regression during the years observation (from 2010 to 2013). Here's the Chow Test formula by Ghazali (2011):

$$F = \frac{(RSS_r - RSS_{ur}) / k}{(RSS_{ur}) / (n_1 + n_2 + n_3 + n_4 - 2k)}$$

Remark:

RSS<sub>r</sub> = Restricted residual sum of squares value (2010-2013)

RSS<sub>ur</sub> = RSS<sub>1</sub> (2010) + RSS<sub>2</sub> (2011) + RSS<sub>3</sub> (2012) + RSS<sub>3</sub> (2013)

$n_1$  = Number of samples in 2010

$n_2$  = Number of samples in 2011

$n_3$  = number of samples in 2012

$n_4$  = number of samples in 2013

$k$  = number of parameters to be estimated

If the F-count > F-table, hypothesis 0 is rejected and concluded that the value relevance regression model before the full adoption of IFRS and the value relevance regression model after the adoption is different.

### Timely Loss Recognition

The hypothesis test for timely loss recognition is done by looking at the LNEF coefficient significance probability value.

The  $p < 0.05$  indicates that there are differences in the timely loss recognition between before and after full IFRS adoption. LNEG coefficient obtained is derived from the following logistic regression model (Barth et.al, 2008):

$$\text{IFRS}(0,1) = \alpha_0 + \alpha_1 \text{LNEG}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{GROWTH}_{it} + \alpha_4 \text{EISSUE}_{it} + \alpha_5 \text{LEV}_{it} + \alpha_6 \text{DISSUE}_{it} + \alpha_7 \text{TURN}_{it} + \alpha_8 \text{CF}_{it} + \alpha_9 \text{AUD} + \alpha_{10} \text{CLOSE} + \varepsilon_{it}$$

## TEST RESULTS AND ANALYSIS

### Earnings management

Table 1: Test Statistics

	ABS_CR_Post - ABS_CR_Pra
6 Asymp. Sig. (2-tailed)	-.476 <sup>b</sup> ,634

a. Wilcoxon Signed Ranks Test

b. Based on positive ranks.

Based on Wilcoxon Signed Rank Test calculation on table1, the obtained Z value is -0.476 with p-value (Asymp. Sig 2 tailed) of 0.634, which is greater than the critical research limit of 0.05. Hence, the hypothesis decision is to reject H1 or which means there is no difference in the earnings management from before and after the full adoption of IFRS based on the conditional revenue model (Stuben).

Table 2: Statistics Test

	ABS_DACC_Post - ABS_DACC_Pra
6 Z	-1,370 <sup>b</sup>
Asymp. Sig. (2-tailed)	,171

a. Wilcoxon Signed Ranks Test

b. Based on negative ranks.

ABS\_DACC\_Post - ABS\_DACC\_Pra

6 -1,370b

Asymp. Sig. (2-tailed), 0.171

a. Wilcoxon Signed Ranks Test

b. Based on negative ranks.

Based on Wilcoxon Signed Rank Test calculation, the obtained Z is -1.370 with p-value (Asymp. Sig 2 tailed) of 0.171 which is greater than the critical limit of 0.05. Hence, the hypothesis decision is to reject H1 or which means there is no difference in the earnings management from before and after the full adoption of IFRS based on Modified Jones model. The hypothesis I is rejected, meaning that after full adoption of IFRS, there is no decline in earnings management, or in other words, the adoption has a positive influence on earnings management.

The research result is in line with that of Jeanjean and Stolowy (2008), which examines the influence of IFRS adoption necessity on earnings management by observing 1146 companies in Australia, France, and the UK from 2005 to 2006. The research tells us that the earnings management in these countries does not decline after the necessity to adopt IFRS, and even increase in France. According to Jeanjean and Stolowy (2008), management incentive and national institutions play important roles in framing the characteristics of financial reporting, and perhaps it is more important than just accounting standards. Additionally, the readiness of human resources in the use of international standards is also encouraging the effectiveness in the use of these standards.

Table 3: Sensitivity Test of Earnings management Measurement Model

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
Nilai	Equal variances assumed	7.011	.010	-1.552	85	.124	-12585.67	8111.4547	-28713.4	3542.076
	Equal variances not assumed			-2.201	57.000	.032	-12585.67	5718.8691	-24037.5	-1133.83

The SPSS output shows that levene's test F-count is 7.011 with a probability of 0.010. As the probability  $< 0.05$ , the research concludes that  $H_0$  is rejected or has a different variance. The SPSS output shows that the t value on equal variance assumed is -2.201 with a significance probability of 0.032 (two tail). Hence, the research concludes that the measurement to detect earnings management is different between the Conditional Revenue Stuben model and Modified Jones model.

### Value Relevance

Table 4: Profit Value Residual Sum of Square

Year	Model	Sum of Square	.Sig
2010-2011	Residual	55074754731,52	0,075
2012-2013	Residual	229351459628,04	0,554
2010-2013	Residual	285880574511,6	0,956

$$RSS_r(RSS3) = 285880574511,6$$

$$RSS_{ur} = RSS1 + RSS2 = 55074754731,52 + 229351459628,04 = 284426214359,56$$

$$F = \frac{(285880574511,6 - 284426214359,56) / 2}{284426214359,56 / (116 - 4)} = 0,286346$$

From table F with  $df = 2$  and  $112$ , and significance level = 0.05, the F-table value reaches 3.08. Because F-count  $<$  F-table, it can be concluded that there is no difference between the earnings value relevance from before and after full IFRS adoption. Hence, the research concludes that the second hypothesis ( $H_2$ ) is rejected.

Table 5: Book Value Residual Sum of Square

		NBS	
Year	Model	Sum of Square	.Sig
2010-2011	Residual	52009757658.72	0.075
2012-2013	Residual	227941469006.15	0.554
2010-2013	Residual	285946217690.3	0.956

$$RSS_r(RSS3) = 285946217690.3$$

$$RSS_{ur} = RSS1 + RSS2 = 52009757658.72 + 227941469006.15 = 279951226664.87$$

$$F = \frac{(285946217690.3 - 279951226664.87) / 2}{279951226664.87 / (116 - 4)} = 1,19$$



From table F with  $df = 2$  and  $8112$ , and significance level = 0.05, the F-table value reaches 3.08. Because  $F\text{-count} < F\text{-table}$ , it can be concluded that there is no difference between the equity book value from before and after full IFRS adoption. Values relevance between before and after full IFRS adoption is no better, thus the research result concludes that the second hypothesis (H2) is rejected. Hypothesis 2 fails to be accepted, which means that after full IFRS period there is no increasing earning value relevance and equity book value from before the adoption. In other words, full IFRS adoption negatively influences value relevance. This finding also supports Karampinis and Hevas (2011) research which states that in code law countries (including Indonesia), with the institutional environment characteristic such as weak investor protection, lack of enforcement, concentrated ownership and banking-oriented funding, IFRS adoption may not necessarily increase the value relevance of accounting information.

These various institutional environment characteristics have made the public disclosure requirement becomes less important in code law rather than in common law countries (Karampinis and Hevas, 2011). This may hamper the IFRS adoption purpose of improving the accounting information quality. Karampinis and Hevas (2011) findings show that IFRS adoption in less appropriate institutional environment causes insignificant increase of accounting information quality after the adoption has been done. This supports Bradshaw and Miller (2007) and Alali and Foote (2012) arguments that the influence of IFRS adoption on the accounting information quality depends on each country's specific factors.

### Timely Loss Recognition

Table 6:

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1	SIZE	.176	.248	.501	1	.479	1.192
	GROWTH	-2.004	1.621	1.527	1	.217	.135
	EISSUE	12.276	11.124	1.218	1	.270	214512.2
	LEV	-.514	.447	1.324	1	.250	.598
	DISSUE	1.184	.671	3.113	1	.078	3.268
	TURN	.487	.459	1.124	1	.289	1.627
	CASH_FLOW	.000	.000	.016	1	.900	1.000
	AUD	-.515	.659	.610	1	.435	.598
	CLOSE	-.630	1.088	.335	1	.563	.532
	LNEG	.621	.575	1.165	1	.280	1.860
	Constant	-5.032	6.750	.556	1	.456	.007

a. Variable(s) entered on step 1: SIZE, GROWTH, EISSUE, LEV, DISSUE, TURN, CASH\_FLOW, AUD, CLOSE, LNEG.

Table 6 above shows that the LNEG coefficient is not significant ( $p=0.280$ ). Hence, it can be concluded that there is no difference between the timely loss recognition from before and after full IFRS adoption and the third hypothesis (H3) is rejected. It means that after IFRS adoption there is no increase in timely loss recognition, or in other words, IFRS adoption negatively influences timely loss recognition.

The research results that do not fit the initial hypothesis are probably due to IFRS regulations that require the assets valuation based on the fair value of which complicate the countries adherents of Generally Accepted Accounting Principles (GAAP) which are basically familiar

with historical value. The principles-based IFRS standards highly require reasoning, judgment, and deep understanding of the reader of the regulation in its implementation. Considerations with lack of instruction or less detailed guidance may indicate that managers have greater flexibility.

This research results do not support Barth et.al.(2008) research. Barth, et.al. (2008) research, that consists of companies across 23 countries tested whether there is a difference in accounting quality of companies that have implemented IAS and non-IAS, shows that companies that have adopted IAS have better accounting information quality than the non-IAS companies. But as experienced by other developing countries in IFRS convergence, Indonesia is expected to influence the lack of infrastructure readiness, resulting in the lack of financial statement information improvement after full IFRS adoption.

## CONCLUSIONS AND SUGGESTIONS

### Conclusions

After analyzing and testing the data, the research concludes that that there is no difference in earnings management practices between before and after full IFRS adoption. Therefore, the earnings management after full IFRS adoption does not decline. In addition, the sensitivity test result for earnings management detection model with Modified Jones and Conditional Revenue Stuben shows that there are differences between each model, and theoretically the Conditional Revenue Stuben is more effective in detecting earnings management. In addition, there is no difference in the value relevance from before and after full IFRS adoption. The timely loss recognition after the full adoption of IFRS has no difference than prior the adoption.

The lack of visible difference in accounting quality after full IFRS adoption as has been practiced by Barth, et.al. (2008) may be caused by the same factor as experienced by other developing countries: the infrastructure. This infrastructure includes Financial Accounting Standards Board In Indonesia called DSAK, as the financial accounting standard setter in Indonesia, state laws and regulations that are not in sync with IFRS, and the lack of human resources readiness and education in the preparation for IFRS adoption which is a requirement from economic globalization. The role of professional body as a standards constituent and the government's role as a regulator are very necessary so that the regulation and accounting standards can be synced in order to produce qualified financial statements in accordance with the business environment in Indonesia.

<sup>3</sup> The results of the study showed that adoption of IFRS had a statistically not significant effect on the quality of financial report. Hence, we identified that transition to IFRS provided the opportunity for capital maintenance and the protection against failure risk. There were some limitations in this study. <sup>3</sup> First, The Study only considered the transition periods. Therefore, time period was limited.. The selected sample size was limited when compared to all of the companies listed in Indonesia Stock Exchange. The study did not allow us to measure the impact of each standard on the financial ratios and accounting figures. Considering these constraints may provide more accurate results in future studies.

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