INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

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ISSN: 2222-6990

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**To Link this Article:** http://dx.doi.org/10.6007/IJARBSS/v13-i1/15957 DOI:10.6007/IJARBSS/v13-i1/15957

***Received:*** *09* November *2022,* ***Revised:*** *13* December *2022,* ***Accepted:*** *28* December *2022*

**Published Online:** *17* January 2023

**In-Text Citation:** (Rasyid, 2023)

**To Cite this Article:** Rasyid, S. (2023). Quality of Financial Reporting: Differences Before and After IFRS Adoption in Basic and Chemical Industry Companies Listed on the Indonesia Stock Exchange. *International Journal of Academic Research in Business & Social Sciences*, *13*(1), 669 – 682.



**Vol. 13, No. 1, 2023, Pg. 669 – 682**

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ISSN: 2222-6990

# Quality of Financial Reporting: Differences Before and After IFRS Adoption in Basic and Chemical Industry Companies Listed on the Indonesia Stock Exchange

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**Abstract**
The purpose of this study was to obtain empirical evidence about the differences in the quality of financial reporting before and after International Financial Reporting Standards (IFRS) adoption in basic and chemical industry companies listed on the Indonesia Stock Exchange.
The sample in this research was basic and chemical industry companies listed in Indonesia Stock Exchange 2007-2010, two years before the adoption of IFRS and two years in the stage of adoption of IFRS by the total number sample was 192.
This study used quantitative research methods, multiple regression analysis to test the model attributes of quality of financial reporting. Meanwhile, differences in the quality of financial reporting before and after International Financial Reporting Standards (IFRS) adoption tested by using a comparative test, paired sample t-test.
The results of the study that were presented did not indicate differences of the quality of financial reporting as measured by earnings management. Based on the results of tests performed standard deviation values obtained from the equation of DACC amounted 0.2412570 for SAK GAAP and 0.2586949 for SAK IFRS with a significance value was 0.130 at the significance level (alpha) 0.05. Similarly, the results of testing the quality of financial reporting differences as measured by the relevance of values before and after the adoption of IFRS did not show any significant differences. Based on statistical tests, R2 from the equation of RET was 0.078 to SAK GAAP and 0,021 for SAK IFRS. The comparative test (T Test) showed a significance value 0.865 at the significance level (alpha) 0.05.
**Keywords:** Adoption of IFRS, the Quality of Financial Reporting, Earnings Management, the Value Relevance, Indonesia Stock Exchange

## Introduction

Currently there has been a fundamental change in the financial reporting system for companies that are publicly traded on the exchange. The current financial reporting system has led to the use of uniform accounting standards around the world, it means that every country has required to adopt accounting standards for financial reporting for public companies in the country concerned with international best practice. This is a consequence of globalization that has penetrated into the field of financial markets.

In this era, a company in one country can make an investment to other countries, as well as the investors may access the financial information of its investments in companies listed on the stock market in the entire world. This condition requires the accounting system and financial reporting in a uniform and acceptable by many countries. Investors and potential investors and creditors and potential creditors will certainly encounter many difficulties in understanding the financial statements which presented by different standards.

According to Purba (2010), the idea of developing standards for accounting and financial reporting globally has existed since the decade of the 70's. This idea was later realized by forming an organization that is an international standard setter, the International Accounting Standards Committee (IASC) by ten professional organization in the Netherlands, Canada Australia, Mexico, Japan, France, New Zealand, Germany, UK and US in 1973. The products of the IASC is the International Accounting Standards (IAS). In a further development IASC was restructuring institutionally by forming the International Accounting Standards Board (IASB) which produce international accounting standards product called IFRS International Financial Reporting Standards (IFRS). The main goal of IASB produces IFRS is to develop a set of high-quality financial reporting, to ensure transparency for the users of financial statements, improve the comparability of financial statement presentation as well as encouraging the use and application of IFRS.

Adoption of IFRS has been performed by more than 100 countries around the world, including Indonesia with adoption rates vary. According to Kusuma (2007), there are four IFRS adoption models, the first model is a total adoption without any reserves. The examples of this model is the adoption by Australia. The second model is a total adoption, but only for cross-border listing, while domestic listing only using local standards. The third model adopted most of the IFRS. The fourth model is a reference to IFRS for the purposes of making a national accounting standards.

Indonesian Accountants Association (IAI) as a member of IFAC must comply with SMO as required by IFAC. SMO No. 7 obliged IFAC members to make maximum efforts to incorporate and support the implementation of IFRS in the country. This requirement is enforced effectively since December 31 2004. As a follow up of the SMO, the Financial Accounting Standards Board (DSAK) has done a road map implies the convergence of IFRS and will eliminate differences with IFRS at the end of 2008.
In addition, the Indonesian government as a member of The Group of Twenty (G20 Forum) have agreed to converge towards IFRS. IFRS convergence is one of the Indonesian government agreement as member of The Group of Twenty (G20 Forum) in Washington DC, November 15, 2008. IAI has made the convergence of IFRS with the revised Statement of Financial Accounting Standards (SFAS) were adjusted to IFRS which became effective in stages since 2008. The adoption of IFRS is done by Indonesian Accounting Standards Board (DSAK) through three stages: adoption, preparation and implementation phase. The first stage in 2008-2010, was the adoption of the whole IFRS into PSAK. The second stage in 2011 was the entire preparation of supporting infrastructure for the implementation of PSAK for companies that

have adopted IFRS. The third stage in 2012 was the implementation stage of the PSAK's application to the public companies based IFRS in Indonesia.

IFRS convergence issue has took the attention of some researchers to examine the impact of adopting IFRS on the quality of accounting information. Iatridis (2007) examined the impact of the implementation of IFRS on financial reporting information quality and its effect on earnings management and the relevance of values. The results showed that implementation of IFRS has proven to reduce the scope of earnings management, early loss recognition and have a better relevancy score. Gordon et al (2012) examined the comparative attributes and the informative earnings quality in the American capital market under GAAP and IFRS. The results showed that Earning persistence, persistence cash, cash predictability and smoothness more profitable to GAAP than IFRS, while earnings predictability and accrual quality is more favorable for IFRS. The relevance of higher value for GAAP accrual quality is more informative under IFRS. Furthermore, Barth et al (2008) which examines the impact of the application of international accounting standards (IAS) on the quality of accounting information in European Union countries found that the adoption of IAS can reduce earnings management, has the relevance of values better and more precisely in the recognition of losses.

This study will test and obtain empirical evidence on the impact of the application of IFRS accounting standards based on the quality of financial reporting for public companies in Indonesia.

**The problem of this research can be formulated as follows**

Is there a difference in the quality of financial reporting, as measured by earnings management before and after the adoption of IFRS on the financial reporting of listed companies in Indonesia Stock Exchange.

Is there a difference in the quality of financial reporting, as measured by the value relevance before and after the adoption of IFRS on the financial reporting of listed companies in Indonesia Stock Exchange.

**The Purpose of this Study Were to Identify and Analyze**

The differences in the quality of financial reporting, as measured by earnings management before and after the adoption of IFRS on the financial reporting of listed companies in Indonesia Stock Exchange.

The differences in the quality of financial reporting, as measured by the value relevance before and after the adoption of IFRS on the financial reporting of listed companies in Indonesia Stock Exchange.

This research is expected to provide benefits or contribute to the development of science, especially with regard to the implementation of internationally-based accounting standards (IFRS) and their impact on the quality of financial reporting for companies listed on the Indonesia Stock Exchange.

The motivation for this research is that Indonesia through Institute of Indonesia Chartered Accountants (IAI) has done an IFRS convergence program in stages since 2008 which requires companies listed on the Indonesia Stock Exchange to prepare their financial statements based on financial accounting standards that have converged with IFRS. With the enactment of the adoption of these new standards, it will certainly affect the quality of financial reporting for companies that apply them, so this research is very interesting to do.

This research is expected to contribute to the development of financial accounting theory, especially with regard to the implementation of *International Financial Reporting Standards* (IFRS) in relation to improving the quality of financial reporting. In addition, it is expected to contribute to capital market participants and practitioners such as investors, financial analysts and fund manager to increase insight into how the effect of applying accounting standards has on the quality of financial reporting of companies listed on the Indonesia Stock Exchange. As well as contributing to policy interests.

**Framework Theory and Hypotheses Formulation**
**Quality of Financial Reporting**

Because of the accounting function is to present quantitative data which will be used for decision making, need to be maintained so that the data presented have certain qualities. Financial Accounting Standards Board (FASB) indicates the quality of accounting information in the qualitative characteristics of financial statements. FASB in 1980 published SFAC No. 2 which shows the sequence (hierarchy) of the quality of accounting information. According to FASB, the main criterion accounting information should be useful for decision making. In order to be useful, the information must have two main properties, that is relevant and reliable (reliability). There are three qualities of information relevancy: it has a predictive value, it has feedback value, and timely. Reliable information has three properties: it can be checked (verifiability), neutral, and presents the reality. Besides the two main characteristics of relevant and trustworthy, accounting information also has two secondary and interactive properties that are comparable and consistent.

Furthermore, the International Accounting Standards Board (IASB) also published a Framework (2010) of the qualitative characteristics of financial reporting. Based on the IASB Framework (2010), the characteristics of financial split into two main characteristics of relevance and faithful representation and four additional characteristic: comparability, verifiability, timeliness and understandability. The information is relevant if it can influence the decision to the users and or if it has a predictive value. The usefulness of financial information not only on the relevant aspects but also faithful representation. Faithful has three characteristics: complete, neutral and free from error.

Furthermore (Cohen, 2003) explains that the quality of financial reporting can be viewed from various perspectives such as earnings persistence, predictability of future performance, earnings variability, the relationship between cash, accrual and revenue. On the other hand, the IFRS conceptual framework explains that there are four characteristics of a qualitative financial statements as follows:

1. Understandability
2. Relevance
3. Reliability
4. Comparability

So the IFRS conceptual framework requires that financial information must have four qualities: (i) understandable; (ii) relevant; (iii) reliable; and (iv) comparable. An information said to be useful if it can be understood or understandable by the user. User information is assumed to have sufficient knowledge of the economic activity and business, finance and accounting.

The information contained in the financial statements should be relevant to the decision, if it is not there would not provide any benefits to users in making economic decisions of a business entity. The information is relevant if it can influence the economic decisions of the users. Relevant information has predictive value, feedback value, and timeliness.

To be useful, the information must also be reliable not only relevant. Information has the quality of reliability when it is free from the sense misleading, materially error and useful, verifiability, presenting an honest (representational faithfulness), and neutrality. In addition, the information of the financial statements should have the appeal that can be compared by the user between reporting periods to identify trends position and financial performance or have comparability between companies to evaluate the financial position, performance and changes the financial position relatively.

Meanwhile, (Paananen, 2011) measured the quality of financial reporting into three measurement: earnings smooting, timeliness, and association to share prices. Iatridis (2010) measured the quality of financial reporting into two measurements: the scope for earnings management (the quality of accrual) and the value relevant.

This study refers to Iatridis study (2010) that is measured by the scope for earnings management and value relevant.

**Adoption of IFRS and Earnings Management**

Earnings management arise because of the agency conflicts, the separation between ownership with company management. Through this separation, the owner of the company authorizes the manager to take care of the company as managing funds and make decisions on other companies behalf of the owner. By this authority, the manager might be unfaith to do the best (conflict of interests). Flexibility in the management of a company can lead to abuse of authority, as the manager of the company management will maximize the profit of the company that leads the process to maximize its interests at the expense of the owner of the company. This may occur because managers have information that is not owned by the owner of the company or the asymmetry of information between the manager and owner of the company.

Scott (2015:445) defines earnings management as follows: " Given that managers can choose accounting policies from a set of policies (for example, GAAP), it is natural to expect that they will choose policies that help achieve their objectives. They may also take real actions affecting earnings, such as cutting R&D. As mentioned, these choices can be motivated either by efficient markets and contracts, or by opportunism and rejection of market efficiency. Whatever the reason, this is called earnings management". From the definition of earnings management is the selection of accounting policies by the manager of the existing accounting standards and are naturally able to maximize their utility and or the market value of the company.

Iatridis (2010) has conducted research on the impact of the application of IFRS accounting standards based on the scope of earnings management which showed that the adoption of IFRS proven to reduce the scope for earnings management. Similarly, Barth et al (2008), which examines the impact of the application of international accounting standards (IAS) on the quality of accounting information in European Union countries found no evidence that the adoption of IAS can reduce earnings management.

Based on the theoretical framework, the hypothesis proposed in this study are as follows:

**Hypothesis 1**: There is a difference between the quality of financial reporting (as measured by the scope of earnings management) before and after the adoption of IFRS. IFRS adoption may reduce the scope for earnings management.

**Adoption of IFRS and The Value Relevance**

The concept of the vaue relevance of accounting information explaining how investors react to the announcement of accounting information. This reaction will prove that the accounting information is a very important issue and an important consideration in the investment decision-making process, so that it can be said that the accounting information is useful for investors (Scott, 2009). Accounting information contained in the financial statements should give the value of the benefit (useful) to users in decision-making.

The value relevance of accounting information is a concept that addresses a variety of meanings and measurements related to accounting. Accounting information may has a the value relevance, because statistically accounting information related to the stock market value.

(Paananen, 2011), which examines the adoption of IFRS on the Swedish stock market failed to find evidence of an increase in the quality of financial reporting (as measured by earnings smooting, timeliness and the value relevance) after the adoption of IFRS. Furthermore Iatridis (2010) has conducted a research on the impact of the application of IFRS accounting standards based on the relevance of the value that indicates the result that the adoption of IFRS proved to increase the relevance of values of accounting information. Similarly, (Gordon et al., 2012) found evidence that IFRS is better than GAAP in the aspects of the value relevance. Similarly, Barth et al (2008), which examines the impact of the application of international accounting standards (IAS) on the quality of accounting information in European Union countries found that the adoption of IAS can increase the relevance of values of accounting information.

Based on the theoretical framework, the hypothesis proposed in this study are as follows
**Hypothesis 2:** There is a difference between the quality of financial reporting (as measured with the value relevance) before and after the adoption of IFRS. Adoption of IFRS can improve the value relevance.

**Research Methods**

**Population and Sample**

The population in this study were all companies listed on the Indonesia Stock Exchange (IDX). The selection of the sample by using purposive sampling method, sampling technique using certain criteria. Criteria for selection of samples used in this study are as follows:

1. The sample were companies that have been listed in the Indonesia Stock Exchange since 2007 to 2010
2. The Company publishes regular financial statements from 2007 to 2010 with annual reporting period ending on December 31
3. The Company classified in basic and chemical industry.

**Types and Sources of Data**
The data used in this research is secondary data that consist of financial reports and corporate data that was listed in the Indonesia Stock Exchange began in 2007 s / d in 2010 as follows:

1. Data of financial statements of listed companies in Indonesia Stock Exchange obtained from the Indonesia Stock Exchange Website (Indonesian stock Exchange / IDX)
2. The stock price data obtained from the data base (website) Stock Exchange Indonesia (Indonesian stock Exchange / IDX).

**Variable Research**
**Earnings Management**
Earnings Management variables measured by discretionary accruals by looking at the standard deviation of the regression equation. A discretionary accruals is an accrual which arises because of the discretion of the management so that an action can be taken to reflect the earnings management performed by the manager. Because of discretionary accruals is difficult to observe directly, there would be an estimation of this value. The model used to estimate the value of discretionary accruals in this study refers to the model of Jones, 1991 (Iatridis, 2010) as follows:

$$DACC = \alpha_1 ( 1/TA_{it-1}) + \alpha_2 \Delta REV + \alpha_3 PPE + e_{It}$$

Where:

DACC = Discretionary Accruals, the difference between working capital this year with last year divided by total assets

TA = Total Assets

ΔREV = Difference in sales this year and last year divided by total assets

PPEit = Fixed assets of companies in the current year divided by total assets

**Value Relevance**
The variable of the value relevance is measured by calculating the value of adjusted R2 of the regression equation (Francis et al, 2004) by the following:

$$RET_{it} = \beta_0 \, Earnings_{it} + \beta_1 \, \Delta Earnings_{it} + \varepsilon_{it}$$

Where:
$RET_{it}$ = abnormal stock return of company i in year t

$Earnings_{it}$ = Profit before extraordinary items of the company i in year t

The value relevance is defined as the relationship between accounting information and stock market value (Francis and Shipper, 1999; Barth et al., 2008). the relevance of values measurement is the overall explanatory power of accounting information on stock prices. The value relevance can be measured by looking at the relationship between earnings and stock returns. Stock returns reflect the economic value of the company's value. The relevance of values is measured by looking at the power of explanation of the results of the regression between the return and the earnings. Brown, et al (1999) stated that research usually do regression stock prices on earnings per share to estimate the relevance of values of accounting information which will produce R2 which has a value close to zero. This R2 value then used to measure the relevance of values. If the value of R2 increases continuously it might means an increase in value and vice versa.

**Method of Analysis**

To test the impact of adopting IFRS on the quality of financial reporting of public companies in Indonesia were tested by using a comparative test. comparative test which used in this study were paired sample t-test used to find if there are differences in the average of two samples. The purpose of this test is to determine if there are differences in the quality of financial reporting of public companies in Indonesia before and after the adoption of IFRS. This test will conclude the quality of financial reporting of public companies in Indonesia as measured by earnings management and the relevance of values after the adoption of IFRS or vice versa.

**Results and Discussion**

Companies which are the sample in this study are the basic industry and chemical companies listed in Indonesia Stock Exchange with sample observation period on 2007 – 2010, the two years prior to the convergence of IFRS and two years in the future convergence of IFRS on Indonesian financial accounting standards that be a guide in the preparation of the financial statements of public companies in Indonesia.

The sample selection procedure can be seen in Table 1 Based on the sample selection procedure, acquired 48 companies sampled for 4 years. So the total sample are all 48 x 4 years = 192 samples. The names of sample companies in this study can be seen in table 4.1.

**Table 1**
**Sample Selection Procedures**

| Sample Selection Procedures | Total number of Samples |
|---|---|
| Number of basic industry and chemical companies listed in Indonesia Stock Exchange until the end of the year 2007- 2010 | 57 |
| The number of companies were delisted during 2007 s / d in 2010 | |
| The company listed above 2007 | 3 |
| Total company samples that can be processed data | 3 |
| Companies whose data outliers / incomplete | 51 |
| Companies selected in the sample | 3 |
| The number of observations during the study period: 2007 - 2010 = | 48 |
| 48 x 4 years old, divided into: | 192 |
| - Data of SAK GAAP | 96 |
| - Data of SAK IFRS | 96 |

**Impact of Adoption of IFRS to Earnings Management**
**Descriptive Statistics**
Table 2 shows the descriptive statistics model of earnings management measurement before the convergence of IFRS and Table 3 shows the descriptive statistics model of earnings management measurement after convergence of IFRS.

Table 2
*Descriptive Statistics Model of earnings management measurements before the convergence of IFRS*

| **Variabel** | **Minimum** | **Maximum** | **Mean** | **Std Deviation** |
|---|---|---|---|---|
| DACC (GAAP) | -0.7515 | 0.7652 | 0.1140 | 0.2412 |
| 1/TA | 0.0000 | 0.0000 | 0.000003 | 0.0000043 |
| ΔREV | 0.9156 | 1.2574 | 0.2019 | 0.3367 |
| PPE | 0.0033 | 0.9701 | 0.4030 | 0.2644 |
| Valid N (listwise) | 96 | | | |

Table 3
*Descriptive Statistics Model of Earnings Management Measurements After the convergence of IFRS*

| **Variabel** | **Minimum** | **Maximum** | **Mean** | **Std Deviation** |
|---|---|---|---|---|
| DACC (IFRS) | -0.6293 | 1.1504 | 0.0519 | 0.2587 |
| 1/TA | 0.0000 | 0.0005 | 0.000011 | 0.0000511 |
| ΔREV | -11.2729 | 9.6807 | 0.0443 | 1.8412 |
| PPE | 0.0374 | 2.7585 | 0.4787 | 0.45996 |
| Valid N (listwise) | 96 | | | |

Based on Table 2 it can be seen that sample company on the average has a positive accrual discretionary value (DACC) and there was a relatively small variation of the variable. While based on the value of total assets (1 / TA) shows that sample company on the average has a TA were relatively small, standard deviation indicates variation is not too large. The average value of sales (REV) is positive and the presence of considerable variation. Meanwhile, based on the total value of fixed assets (PPE) indicates that the sample company on the average has a value of PPE were positive and showed a relatively small variation.

Based on Table 3 it can be seen that the sample company on the average has a positive value accrual discretionary samples (DACC) and the presence of a relatively small variation of the variable. Similarly, the value of total assets (1 / TA) showed the sample company on the average has a relatively small TA, standard deviation value shows a relatively small variation. The average value of sales (REV) is positive and the considerable variation of these variables. Meanwhile, based on the total value of fixed assets (PPE) indicates that the sample company on the average has a value of PPE samples were positive and showed a fairly high variation.

**Analysis of The Impact of IFRS adoption to the Profit Management**

Table 4 presents the results of the quality of financial reporting differences as measured by earnings management before and after the adoption of IFRS. Based on Table 4 of the standard deviation values obtained from the equation of DACC was 0.2412570 for SAK GAAP and 0.2586949 for SAK IFRS with a significance value was 0.130 at the significance level (alpha) 0.05. Interpretation of the results of these tests indicate that there is no significant difference between the quality of financial reporting, as measured by earnings management before and after the adoption of IFRS.

The hypothesis proposed that there is a difference in the quality of financial reporting before and after the adoption of IFRS, as measured by earnings management is unacceptable. This study is not consistent with the results obtained from studies conducted by Iatridis (2010); Barth et al (2008) who has found of an increase in the quality of financial reporting, as measured by earnings management after the adoption of IFRS.

Table 4

*Accrual Discretionary based on SAK GAAP and SAK IFRS*

| **ACCRUAL DISCRETIONARY (DACC)** | **Mean** | **N** | **Std Deviation** | **Std Error** | **Sig** |
|---|---|---|---|---|---|
| **DACC (GAAP)** | 0.114053 | 96 | 0.2412570 | 0.0246232 | |
| **DACC (IFRS)** | 0.051915 | 96 | 0.2586949 | 0.0264029 | 0.130 |

**The Impact of IFRS adoption to The Value Relevance**

**Descriptive Statistics**

Table 4.5 showed the descriptive statistics model of the relevance of values measurement

Table 5

*Descriptive statistics Model of the Value Relevance Measurement*

*Before Adoption of IFRS*

| **Variabel** | **Minimum** | **Maximum** | **Mean** | **Std Deviation** |
|---|---|---|---|---|
| RET (GAAP) | 0.9426 | 2.7500 | 0.03619 | 0.6226 |
| EARNINGS | 0.3640 | 2.0425 | 0.2090 | 0.2805 |
| ΔEARNINGS | 0.2760 | 1.2061 | 0.0840 | 0.1758 |
| Valid N (listwise) | 96 | | | |

Table 6

*Descriptive statistics Model of the Value Relevance Measurement*

*After Adoption of IFRS*

| **Variabel** | **Minimum** | **Maximum** | **Mean** | **Std Deviation** |
|---|---|---|---|---|
| RET (IFRS) | 0.9000 | 3.5882 | 0.5066 | 0.7849 |
| EARNINGS | 0.8108 | 0.7726 | 0.1395 | 0.2375 |
| ΔEARNINGS | 0.6316 | 0.6604 | 0.0001 | 0.1758 |
| Valid N (listwise) | 96 | | | |

Based on Table 5 it can be seen that the sample company on the average has an abnormal return value (RET) is positive and the presence of sufficiently high variation of the variable. While based on the value of income before extraordinary items (EARNINGS) showed that the sample company on the average has EARNINGS with a standard deviation value showed the variation is not too large. The positive average value of the change in income before extraordinary item (ΔEARNINGS) is relatively small, and variations of these variables are relatively small.

Similarly in table 6 can be seen that the average company has a value of abnormal sample return (RET) is positive and the presence of sufficiently high variation of the variable. While based on the value of income before extraordinary items (EARNINGS) shows that the average company has EARNINGS positive samples with a standard deviation value shows the variation is not too large. The average value of the change in income before extraordinary item (ΔEARNINGS) is relatively small, and variations of these variables are relatively small.

**The Analysis of The Impact of IFRS adoption to The Value Relevance**

Table 7 presents the results of financial reporting difference quality as measured by the relevance of values before and after the adoption of IFRS. Based on the table 4.7 R2 values obtained from the RET equation was 0.078 for SAK GAAP and 0,021 for SAK IFRS. Interpretation of the results of these tests indicate that there is a tendency to decline in the quality of financial reporting, as measured by the relevance of values after the adoption of IFRS. And based on comparative test (T Test) conducted showed a significance value was 0.865 at the significance level (alpha) 0.05. Interpretation of the results of these tests indicate that there is no significant difference between the quality of financial reporting, as measured by the relevance of values before and after the adoption of IFRS.

The hypothesis proposed that there is a difference in the quality of financial reporting before and after the adoption of IFRS, as measured by the relevance of values can not be accepted. This study was not consistent with the results obtained from studies conducted by Iatridis (2010); . (Elizabeth A. Gordon, Bjorn N.Jorgensen, 2012); it was Barth et al (2008) have found an increase in the quality of financial reporting, as measured by the relevance of values after the adoption of IFRS.

Table 7
*The Comparison of The Relevance of Values based on SAK GAAP and SAK IFRS*

| **Value Relevance (RET)** | **n** | **$R^2$** |
|---|---|---|
| **SAK GAAP** | 96 | 0.078 |
| **SAK IFRS** | 96 | 0,021 |

**Conclusions and Suggestions**

**Conclutions**

Based on the discussion in chapter IV, it can be concluded that:

The results of the study that were presented does not indicate a difference of the quality of financial reporting as measured by earnings management. Based on the results of the tests that performed by standard deviation values obtained from the equation DACC amounted 0.2412570 for SAK GAAP and 0.2586949 for SAK IFRS with a significance value 0.130 at the significance level (alpha) 0.05. Interpretation of the results of these tests showed that there was no significant difference between the quality of financial reporting, as measured by earnings management before and after the adoption of IFRS. The hypothesis proposed that there is a difference in the quality of financial reporting before and after the adoption of IFRS, as measured by earnings management was unacceptable. This study was not consistent with the results obtained from studies conducted by Iatridis (2010) who found an increase in the quality of financial reporting, as measured by earnings management after the adoption of IFRS.

Similarly, the results of the quality of financial reporting differences tests as measured by the relevance of values before and after the adoption of IFRS did not show any significant difference. Based on statistical tests performed by R2 values obtained from the equation RET was 0.078 for SAK GAAP and 0,021 for SAK IFRS. Comparative test (T Test) showed a significance value 0.865 at the significance level (alpha) 0.05. Interpretation of the results of these tests indicate that there was no significant difference between the quality of financial reporting, as measured by the relevance of values before and after the adoption of IFRS. The hypothesis proposed that there is a difference in the quality of financial reporting before and after the adoption of IFRS, as measured by the relevance of values was unacceptable. This study was not consistent with the results obtained from the study conducted by Iatridis (2010) who have found an increase in the quality of financial reporting, as measured by the value relevance after the adoption of IFRS.

**Suggestions**

1. In this study, observation period was relatively short study, two years before the adoption of IFRS and two years after the adoption of IFRS. In addition, research was limited to the basic and chemical industry sectors listed on the Indonesia Stock Exchange. Therefore, further research is recommended to use the period of observation wider sample, for example, three years before and three years after the adoption of IFRS.
2. The quality of financial reporting attribute limited to the earnings management and the relevance of values. Therefore for further research should expand the variables used.
3. Development of further research should expand the study sample, not just the company but the company manufacturing services company, financial or other industries.

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