COMPARATIVE VALUE RELEVANCE OF ACCOUNTING INFORMATION IN THE IFRS PERIOD BETWEEN MANUFACTURING COMPANY AND FINANCIAL SERVICES GO PUBLIC IN INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this study is to examines the value relevance of accounting information between the manufacturing industry and the Financial Services on IFRS period of 2008 through 2014 and compares the results for both groups of sectors. The reason the researchers compare the two groups of sectors is to have different characteristics, the presentation of different financial statements, have different rules and some companies within the sector have first implemented IFRS and also includes both sectors are contributors of gross domestic product is quite large. This study uses the value of accounting profit, book value, and cash flow as a proxy for the value relevance of accounting information. This study uses a quantitative approach. The population of this research is a public company manufacturing and the financial services on the Indonesia Stock Exchange. The dependent variable of this research is the study uses the stock price and independent variable used in this study are earnings per share, book value per share, and total cash flow per share. Analysis of research data using linear regression. The results showed that accounting information such as earnings, book value and cash flow have value relevance fluctuates on the phase of adoption and implementation of IFRS however the value relevance has been increasing of earnings, book value, and cash flow in the implementation phase of IFRS compared early adoption phase of IFRS and then earnings have value relevance higher than book value of equity, and cash flow both two groups of manufacturing and financial services industries.

Keywords: Value Relevance, Accounting Information, Earnings, Book Value, Cash Flow, IFRS.

INTRODUCTION

An information is available in the capital market can be considered meaningful or valuable if the existence of such information causes investors to transactions reflected in the stock price changes (Rahmawati, 2005). Accounting information has value relevance of the accounting information can be used as a basis for predicting the company's market value (Barth, 2001; Scott, 2009: 196). Thus, how much usefulness of information known by studying the effect of the stock price at the time the information is received by investors? The change in the stock price will lead to a return that will be accepted by investors.

The study, initiated studies on earnings relationship with stock returns made by Ball & Brown (1968). Earnings variable has relevant value because it has an influence on the share price reflects the value of the company Ball & Brown (1968). Value relevance of earnings and book value information is not decreased over the last 40 years but shows a slight upward movement, as well as a shift in the value relevance of earnings information to the value of the book (Collins, 1997). Cross-sectional relationship model of return, ie the reporting relationship of accounting profit and operating cash flow with stock returns has decreased over the 20-year observation period. On the use of pricing models, namely the relationship between accounting earnings and book value with the share price also declined over the 20-year observation period. This is due to the limitations of financial statements that do not adequately describe the changes of the company's operations due to technological innovations and competition (Brief & Zarowin, 1995).

In its development, IFRS many adopting fair value using realizable value and present value. Fair value is the measurement basis is considered more independent and impartial. Trends in the use of fair value as the measurement and assessment base is expected to increase from year to year (Purba, 2010). Impact of IFRS implementation for companies varies widely depending on the type of industry, type of transaction, the elements of financial statements that are owned, and also accounting policy choice. Such changes can be related to accounting procedures. Banking company, including the impact of the changes that have quite a lot. The changes are not only done at the corporate level, but there should also be changes in the regulations of Bank Indonesia, for example, about the provision for loans disbursed (Martani, 2011). Adoption of IFRS impact on aspects of measurement of financial reporting items, such as net income and equity (Jermakowijcz, 2004), as well as adoption of IFRS improve the quality of financial statements (Daske and Gunther, 2006). Implementation of IFRS standards on the financial statements of this item may reduce the level of earnings management and adoption of IFRS has positive influence toward the shareholder equity, net income, and liquidity (Tsalavautas & Evans, 2010).

This study aims to examine the value relevance of accounting information between groups the manufacturing industry and the Financial Services in period from 2008 through 2014. In order to achieve the objectives of this research will comparative analyze value relevance of the company’s manufacturing and financial services in the period IFRS convergence (Hendriksen & Van Breda, 1992).

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

Definition Relevance Value

A number of accounting is defined as the value relevance if the figure is associated with equity market values (Ohlson, 1995; Barth, 2001; Holthausen & Watts, 2001). Accounting information is said to have value relevance if the accounting information can be used to predict the company's market value (market stock price or stock returns) (Barth, 2001). Easton (1999) and Beaver (2002) states that the value relevance research aims to examine the association between the dependent variable based on the price of securities by a number of fundamental accounting variables. A number of accounting called "value relevant" if the numbers associated with the dependent variable (price/return securities). Value relevance research plays an important role to provide empirical evidence on accounting numbers associated with the predicted value of the securities market**.**

Valuation Model Theory Clean Surplus

This theory states that the value of the company is reflected in the accounting data contained in the financial statements (Ohlson, 1995, and Feltham & Ohlson 1995). Based on the theory of clean surplus, Ohlson indicates that the market value of the company can be shown in the profit / loss statements and balance sheets. This theory provides a consistent framework with a measurement perspective. This condition is then stated that the accounting data has relevance value. The net surplus theory developed by Ohlson and then refined again by Feltham & Ohlson.

Signal Theory

Information published as an announcement will give a signal to investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react to the timing of the announcement is received by the market (Hartono, 2003: 392), At the time the information was announced and all market participants have received such information, market participants prior to interpret and analyze information such as signal (good news) or the signal is bad (bad news). If the announcement of such information as a good signal for investors, then there is a change in the volume of stock trading.

Theory of Regulation

The theorists claim that almost without exception that regulation occurs as a reaction to a crisis that cannot be identified. And the establishment of the regulation is associated with some interest. The interest related to the consequences that will be received by the user, on the establishment of a regulation. The new accounting standards, the IFRS is also intended to create a regulation that can meet all the needs of every user. General arguments raised against the new accounting policies (IFRS) is that many facts stating any changes in the standard will affect the meaning of financial ratios and financial figures of any financial activity. According to Lev (1979) states that the change in the applicable standards have a noticeable effect on financial operations.

Convergence of International Financial Reporting Standard (IFRS)

The IFRS international accounting standards issued by the International Accounting Standards Board (IASB). International Accounting Standards are prepared by four major world organizations, namely the International Accounting Standards Board (IASB), Commission of the European Communities (EC), the International Organization Capital Markets (IOSCO), and the International Accounting Federation (IFAC). International Accounting Standards Board (IASB), which was formerly the International Accounting Standards Committee (IASC) is an independent agency to develop accounting standards. This organization has a goal to develop and encourage the use of global accounting standards are of high quality, understandable, and comparable (Choi, 1999).

Based on the convergence of IFRS, PSAK will be principle-based and require professional judgment. Increased competence must also be accompanied by an increase in integrity, the general benefits of IFRS convergence are:

1. Facilitate the understanding of the financial statements with the use of Financial Accounting Standards internationally known (Enhance comparability),

2. Increasing global investment flows through transparency,
3. lowering the cost of capital to fund raising opportunities through the capital market,
4. Creating efficiencies financial statements
5. Improve the quality of financial statements, among others, by reducing the opportunity to perform earnings management.

Based on the convergence of proposals that have been issued by IAI adoption process is divided into 3 stages, i.e adoption phase in 2008-2010, namely the entire IFRS adoption last into the PSAK, the preparatory phase in 2011, namely, the preparation of the entire support infrastructure for the implementation of the already adopted PSAK entire IFRS, and the implementation phase in 2012, namely, the application of which has adopted PSAK entire IFRS for companies that have public accountability.

Previous research

Research value relevance of earnings based on IAS on members of 35 country of the IASC performed by Jaggi and Li (2002) which showed that the IAS-based earnings are more relevant than domestic GAAP-based earnings for companies of Germany, Italy and Switzerland. However, domestic GAAP-based earnings are comparatively more value relevance for French companies. Comparative evaluation of the relevance of value-based IAS earnings between countries shows that the value relevance of earnings differ between countries. These results indicate that the value relevance of earnings-based IAS differ between countries, and even between the two countries based law code.

Research conducted by Barzegari (2011) identifies the value relevance of accounting information with the impact of IFRS adoption in the two countries, namely Bahrain and the United Arab Emirates. The results showed that an increase in the value relevance of accounting information after a change in accounting standards in Bahrain stock market, while for the results on the stock market the United Arab Emirates (UAE) decreased value relevance of accounting after the change in accounting standards. These results can be interpreted that after IFRS in the UAE is not an increase in the value relevance of accounting information (Covrig, DeFond, & Hung, 2007; Hung & Subramanyam, 2007).

Value Relevance of Earnings, Book Values, and Cash Flow on Group Industry

Application of accounting standards with good quality will produce quality financial statements also so that information about the company will be better and will be delivered to the investor or prospective investor as consideration for taking investment decisions. Investors had expected that with the implementation of IFRS will provide guidelines to produce quality financial reporting information that is better for the company.

The phenomenon of convergence of IFRS allows there is movement of the increase in the value relevance of accounting information in Indonesia from year to year or vary from year to year in the period IFRS Convergence. Barth et al. (2008) argue that a principles-based IFRS standards could further enhance the value relevance of accounting information. This is due to the fair value measurement is to describe the position and economic performance of the company.

Impact of IFRS implementation for companies varies widely depending on the type of industry, type of transaction, the elements of financial statements that are owned, and the choice of accounting policies. Therefore, researchers need to divide the sample into two groups, namely, manufacturing and Financial Services industries. On the grounds that for these two industry groups have different characteristics, different presentation of financial statements and also financial services company has special regulations that strictly regulated banks and securities dealers regulated by laws and other regulations.

METHODS

The study population is the entire manufacturing and financial services that go public who reported financial statements for seven consecutive years on the Indonesia Stock Exchange starting from 2008 up to 2014. The sample in this study was obtained by purposive sampling method. The dependent variable of this research is the study uses the stock price. The stock market price measured by the price per share of firm i at the date of submission of financial statements. This is to reflect the price of the stock market after the audit was published (Karunarathne and Rajapakse 2010). Testing the relevance of the value of using the pricing model developed by Ohlson (1995) is also consistent with studies prior period IFRS as Barth, et.al, (2008), Karampinis & Hevas (2011), and Alali & Foote (2012). Independent variable used in this study are earnings per share, the book value per share, and total cash flow per Share. Earnings is net income before extraordinary items and discounted operations. The book value per share showed net assets held by the shareholders by having a share. Total cash flow is the total cash flows which are net income added back with depreciation and amortization.

Test equipment used for the analysis is a simple linear regression test. To view accounting information that proxy variable earnings, book value, and cash flow have relevance to cause change stock price, that is by using R^2 as a measure of value relevance. This is due to R^2 is a measure of the explanatory power of the independent variable in a linear regression (Gu, 2002). Thus, R^2 looks a good measure of the relevance value.

RESULT AND DISCUSSION

Samples Manufacturing Company

Based on the regression results show that earnings, book value, and cash flow has a positive and significant effect on the stock price for each IFRS period (2008-2014). Accounting information such as earnings, book value and cash flow have value relevance fluctuates on the phase of adoption and implementation of IFRS. The value relevance has been increasing of earnings in the implementation phase of IFRS compared early adoption phase of IFRS. The value relevance has been increasing of book value in the implementation phase of IFRS compared early adoption phase of IFRS, Similarly, The value relevance has been increasing of cash flow in the implementation phase of IFRS compared early adoption phase of IFRS

Tabel 1
RESULT REGRESSION MANUFACTURING COMPANY

Model : $Y = \beta_0 + \beta_1X_1 + \varepsilon$ (EPS)							
	2008	2009	2010	2011	2012	2013	2014
β_1	0,697	0,999	1,037	0,874	0,956	0,839	0,732
	(6,340)***	(10,763)***	(11,372)***	(12,806)***	(12,646)***	(10,572)***	(9,690)***
Model : $Y = \beta_0 + \beta_2X_2 + \varepsilon$ (BVPS)							
	2008	2009	2010	2011	2012	2013	2014
β_2	0,644	1,018	1,424	1,149	1,054	0,988	0,521
	(3,539)***	(7,566)***	(9,274)***	(9,279)***	(6,675)***	(8,478)***	(7,165)***

Tabel 1 RESULT REGRESSION MANUFACTURING COMPANY							
Model : $Y = \beta_0 + \beta_3 X_3 + \varepsilon$ (CFPS)							
	2008	2009	2010	2011	2012	2013	2014
β_3	0,623	0,801	0,900	0,700	0,875	0,643	0,634
	(6,073)***	(8,043)***	(7,425)***	(7,326)***	(7,869)***	(7,180)***	(6,995)***

Samples Financial Services

Based on the regression results show that earnings, book value, and cash flow has a positive and significant effect on the stock price for each IFRS period (2008-2014). Accounting information such as earnings, book value and cash flow have value relevance fluctuates on the phase of adoption and implementation of IFRS. The value relevance has been increasing of earnings in the implementation phase of IFRS compared early adoption phase of IFRS. The value relevance has been increasing of book value in the implementation phase of IFRS compared early adoption phase of IFRS, Similarly, The value relevance has been increasing of cash flow in the implementation phase of IFRS compared early adoption phase of IFRS.

Tabel 2 RESULT REGRESSION FINANCIAL SERVICES							
Model : $Y = \beta_0 + \beta_1 X_1 + \varepsilon$ (EPS)							
	2008	2009	2010	2011	2012	2013	2014
β1	0,424	0,557	0,565	0,774	0,958	0,777	0,637
	(4,111)***	(5,784)***	(5,593)***	(9,081)***	(11,383)***	(7,841)***	(7,324)***
Model : $Y = \beta_0 + \beta_2 X_2 + \varepsilon$ (BVPS)							
	2008	2009	2010	2011	2012	2013	2014
β2	0,609	0,685	0,803	0,819	1,004	0,806	1,165
	(3,727)***	(5,355)***	(6,463)***	(6,502)***	(9,721)***	(5,411)***	(10,513)***
Model : $Y = \beta_0 + \beta_3 X_3 + \varepsilon$ (CFPS)							
	2008	2009	2010	2011	2012	2013	2014
β_3	0,401	0,439	0,275	0,295	0,286	0,395	0,431
	(3,551)***	($,657)***	(2,736)***	(2,943)***	(2,565)***	(3,870)***	(5,040)***

***significant at the 0.01 level

Overall the results of the r-square with two industrial samples in the previous section can be summarized as in Table 3.

Table 3 Summary of Results of R square for two samples Industry						
Period	**R^2 Manufacturing Sample**			**R^2 Financial Services Sample**		
	Earnings	**Book Value**	**Cash Flow**	**Earnings**	**Book Value**	**Cash Flow**
2008	0.391	0.157	0.367	0.284	0.253	0.225
2009	0.653	0.492	0.507	0.442	0.409	0.347
2010	0.681	0.599	0.478	0.425	0.505	0.146
2011	0.721	0.595	0.480	0.660	0.496	0.164
2012	0.716	0.421	0.496	0.754	0.690	0.125
2013	0.627	0.522	0.434	0.584	0.408	0.264
2014	0.608	0.444	0.424	0.574	0.737	0.342

The test of value relevance of accounting information between company samples of manufacturer and financial service that earnings, book value, and cash value affect the stock price during the convergent period of IFRS (2008-2014) obtained that Accounting information such as earnings, book value and cash flow have value relevance fluctuates on the phase of adoption and implementation of IFRS however the value relevance has been increasing of earnings, book value and cash flow in the implementation phase of IFRS (2012-2014) compared early adoption phase of IFRS (2008). This result showed earnings higher relevance than book value, and cash flow for the two sample groups of financial and non-financial industries. Similarly, research conducted Bartov, Goldberg & Kim (2005), found evidence that the earnings-based accounting standards on America and IFRS has a higher value relevance than German accounting standards-based, and research Alali & Foote (2012) that earnings have value relevance higher than the book value of equity. Similarly, in Portugal and Spain have earnings per share information more value relevance by using IFRS (Aubert & Grudnitski, 2008). Thus, high-quality earnings figures will have a strong association with the variables of the market (ie stock prices or stock returns). In other words, high-quality earnings will have higher value relevance.

The results of this study related to the signalling theory and the theory of regulation. Signal theory suggests about how a company should provide signals to the users of financial statements. The use of such rules of IFRS that improve the quality of reporting is one of the signal companies to attract investors or other users.

A Company when going to IFRS will certainly consider its cost and benefits. The Company will apply IFRS if it obtains incremental benefits for the implementation of IFRS. But for multinational companies must apply IFRS in the financial statements because the company is partnered with other companies globally and will require financial reports of international standard. Benefits for the Indonesian state to adopt IFRS is to provide opportunities for international cooperation so as to support economic growth that can increase national income through the entry of investors from abroad and open up opportunities for employment.

To see the economic development of one important indicator is the gross domestic product (GDP). GDP is basically the amount of value added generated by all business units in a particular country within a certain period. The manufacturing industry has the greatest role in the formation of gross domestic product annually but continues to decline where in 2008 it was 23.01 while in 2014 it was 21.08. As for the financial services industry continues to increase since 2011 to 2014. Table 4 shows the distribution of percentage of GDP at current prices according to the field of business on the sample of manufacturing industry and financial services in the year 2008-2014. In view of the total net inflows of foreign direct investment (Table 5) using data from the Investment Coordinating Board, Manufacturing is still a major sector for foreign investment inflows compared to other sectors, and foreign investment in the manufacturing sector has increased from 2008 to 2013 but declining in 2014.

CONCLUSION

The results show for the manufacturing and financial services has value relevance of information of earnings, book value, and cash flows for the period 2008-2014 IFRS period. The higher earnings, book value, and cash flow, the higher the firm stock price. Value relevance of accounting information shows that increasing the value of the IFRS implementation period in 2012 compared to the initial period of IFRS adoption in 2008 except for cash flows for financial services. IFRS financial standards-based principles considered more concise and is effective globally. It can improve the transparency of the company and improve financial statement information companies in Indonesia. These results are consistent with research Ashbaugh and Pincus (2001); Glaum, Baetge, Grothe and Oberdoerster (2010); and Beuselinck, Joos, Khurana, and Meulen (2009) found evidence that IFRS implementation increased significantly predicted Meulen et al. (2009).

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