

Transition to IFRS in Indonesia: Financial Position, Financial Performance, and Key Financial Indicators Effects

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Abstract

Financial reports are the resource for the decision making of investors. Because financial reports are made according to accounting standards, the changes in these standards would change the way investors view the data of financial reports. The shift to International Financial Reporting Standard (IFRS) has affected the financial reporting of almost all countries around the world, including Indonesia. Seriously planned since 2007, IFRS convergence in Indonesia was predicted to be completed in 2012.

The issuance of IFRS-based PSAK effective in January 1, 2011 has required the public companies to restate their financial statements for year 2010 which are provided as comparison balance in financial statements 2011, to comply with the converged PSAK. IFRS with its high-quality is believed to enhance the accounting information quality by minimizing the opportunity for earnings management. Thus, this convergence affects the level of conservatism in presenting the financial position and financial performance of the companies. Total equity is utilized as the proxy for financial position. Total profit (net income based on PSAK before IFRS convergence in 2011 and total comprehensive income based on IFRS-converged PSAK) will be utilized as the proxy for financial performance. Changes in level of conservatism are able to trigger changes in key financial indicators as well. Two key financial indicators chosen in this research are gearing and current ratio. Gearing ratio is used to present the long-term view while current ratio is used to present the short-term view. In order to study the changes on those financial information, this research compares the financial data for year 2010 according to PSAK 2010 with the financial statements 2010 which were restated to comply with PSAK 2011 (presented in financial statements 2011). All companies listed in Indonesian Stock Exchange on 2010-2012 were used, except property, real estate and building construction and financial institution sector. Comparability analysis utilized Gray's Index, Wilcoxon Signed Rank Test and Median Test.

Results of this research found that IFRS convergence on 2011 in Indonesia led to better financial position, financial performance and key financial ratio in significant manner. These results show that IFRS convergence led to lower level of conservatism. The financial results shown based on IFRS convergence effective from January 1, 2011 triggered less conservative financial presentation.

Keywords: IFRS convergence, conservatism, international standard, Gray's Index.

Introduction

Accounting has become an important issue in the society because accounting plays an important role in the efficient functioning of capital markets. Lenders, investors, financial analysts, regulators and stock exchange require information about the financial performance, position and the future prospects of companies seeking financing (Choi, Frost and Meek, 2002: p. 7). As a developing country, foreign investment is one of the most important issues that have to be considered. At the end of 2011, Fitch Rating Agency has upgraded the loan rating of Indonesia from BB+ into BBB- (Investor Daily Indonesia, January 17, 2012).