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The Impacts of IFRS Adoption on Financial Statement Quality for Firms Listed in Indonesia Stock Exchange*

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ABSTRACT

Objective – the objective of this research is to explain whether the adoption of IFRS in Indonesia has improved accounting information quality.

Methodology/Technique – Earnings volatility and discretionary accruals are used to test the scope of earnings management on a set of accounting standard used. The regression of share price and book value per share and net profit per share, along with the explanatory power of the model were used to test the value relevance of the accounting standards applied.

Findings – This research finds that no significant difference of earnings management's scope after the mandatory adoption of the IFRS. Moreover, this research also finds that IFRS does not result in higher value relevance.

Novelty – This research presents evidence of IFRS convergence from an emerging market point of view, particularly in Indonesia. Focus of this research is to examine the impact of IFRS adoption to financial statement quality using multiple measurements.

Type of Paper: Empirical

Keywords: Financial statement quality; International Financial Reporting Standard (IFRS); Earnings management; Earnings volatility; Value relevance.

1. Introduction

The adoption of IFRS was expected to bring higher quality of accounting information (Palea, 2013). There are some researches that had been conducted to prove the impacts of IFRS adoption on financial statement quality. According to Ashbaugh and Pincus (2001), the implementation of IFRS reduced information asymmetry due to higher disclosure. In line with the previous results, Iatridis (2010) found that IFRS adoption reduces scope of earnings management and produces greater value relevance. Therefore, IFRS adoption leads to higher

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