ABSTRACT

This study aims to examine the effects of International Financial Reporting Standards (IFRS) adoption on the explanatory power of earnings for stock returns in Indonesia Public Companies. It is expected that there will be change in the information content or value relevance of earnings for returns which could be attributed to the IFRS and, its introduction of the fair value principle. The study makes a significant contribution to the research of the IFRS implementation.

This research uses quantitative analysis approach. Research samples are taken from all public companies in Indonesia listed in Indonesia Stock Exchange (IDX), except companies from finance industry sector. The period used is from 2009-2014, concentrated to mandatory period of IFRS adoption which is 2012 as the cutoff. Period of 2009-2011 reflects pre-IFRS period and 2012-2014 reflects post-IFRS period. The number of observations in this research is amount to 1792 observations. To test the effect of IFRS adoption on explanatory power of earnings for stock returns, this research uses the Easton and Harris model which is modified with Negakis model. It accommodates the substance for before and after IFRS implementation by using dummy variable. The data is processed with multiple linear regression method to all industry sectors and further divided into each industry sector by using software Microsoft Excel 2013 and IBM SPSS Statistics 20.

The findings show that IFRS adoption does not increase the explanatory power of earnings for stock returns significantly. There is no significant difference before and after IFRS adoption on explanatory power of earnings for stock returns. Therefore, IFRS adoption does not lead to higher financial statement quality as it expected to.

Keywords: International Financial Reporting Standard, Explanatory Power of Earnings, Stock Return, Indonesia.