

CHAPTER I

INTRODUCTION

In this chapter, the backgrounds, research question, purpose of research, advantages of research, scope of research, and systematics writing will be explained. Then, explicit explanation on the reason why the topic is chosen will also be explained.

1.1 Background

Accounting standards are those principles, opinions, interpretations, rules, and regulations that guide companies or organizations in preparing the financial statements (Hendrickson, 2001). As one of the important sources of information on decision making, financial statements are prepared based on applicable accounting standards to provide relevant and reliable information, and the existence of accounting standards that are used globally will certainly improve comparability and make it easier for the users of financial statements to analyze information and make decisions (Irfan, 2019). Today, many countries adopt international accounting standards into their local accounting standards, with the purpose of producing financial reports that have higher credibility (Irfan, 2019), that is – International Financial Reporting Standards (IFRS).

International Financial Reporting Standards (IFRS) aim to bring transparency, accountability, and efficiency to financial markets around the world in order to help businesses and investors make educated financial analyses and decisions (ifrs.org, 2020). Over the past years, more than 27,000 domestically companies on 88 major stock exchanges in the world has adopted and used IFRS standards (ifrs org, 2020).

The strategy of IFRS adoption may vary between the countries. The strategy of IFRS adoption consists of big bang strategy and gradual strategy (Irfan, 2019). Countries such as South Korea decided to take the big bang strategy and fully adopted IFRS without certain stages, while countries such as Indonesia, chose to carry out IFRS convergence gradually.

Although the relevancy of accounting information has been boosted by the widespread adoption of International Financial Reporting Standards, questions regarding the value relevance of accounting information continue to persist (Ali A, 2018). Accounting information is considered to be more relevant when it can influence investors to revise their prior decisions on firm value. (Kargın, 2013). As the adoption of IFRS is expected to increase transparency, accountability and efficiency of financial information which may influence decision making of the users, it should cause a significant impact on the value relevance of accounting information.

However, prior studies that investigated the effect of IFRS adoption on value relevance have produced conflicting empirical results. For example, Juniarti (2018) and Barth et al. (2008) reported that IFRS adoption had significant effects on the value relevance, while Ki, Leem and Yuk (2019) and Clarkson et al. (2011) reported that the adoption had insignificant effect on the value relevance of accounting information.

Unlike existing studies that try to address all the advantages of the adoption of International Financial Reporting Standards in one study, this study focuses only on the effect of IFRS on the value relevance of accounting information in Indonesia,

according to the primary purpose of IFRS itself. Moreover, Prior researchers that examined the effect of IFRS adoption on the value relevance of accounting information conducted their studies by limiting to one specific sector. This study investigates whether the value relevance of accounting information of Indonesian companies under IFRS was substantially changed regardless the sectors.

1.2 Research Question

Based on the background presented above, the relationship between the adoption of International Financial Reporting Standard and the value relevance of accounting information will be investigated. The research problem is defined as follow:

“Does the adoption of IFRS increase the value relevance of accounting information in Indonesia?”

1.3 Purpose of Research

Accounting information compiled under IFRS should better describe the current state of firm value and have a higher level of comparison. Accordingly, the transparency and the comparability of financial reporting should also increase for firms that adopt IFRS. Thus, this study aims to empirically prove whether the adoption of the International Financial Reporting Standards brings substantial impact on the value relevance of the accounting information.

1.4 Advantages of Research

The writer conducted this study to hopefully benefit many people such as readers, researchers, investors, and others.

For academic field:

Through this study, researchers, students, and other relevant readers will better understand the concept of the International Financial Reporting Standards and how it may bring positive influence on the value relevance of the accounting information in Indonesia.

For investors:

Higher quality of accounting information will improve the investors' confidence in their decision making, since the financial reports and statements convey information about the firm value. Therefore, through this study, people who use financial information in their decision making will better understand the effect of IFRS adoption on their decision makings.

1.5 Scope of Research

This paper will conduct a study based on the information from Capital IQ and S&P 500. The companies are publicly listed firms in Indonesian Stock Exchange (IDX). Companies' market price, book value per share and earnings per share will be analyzed as the price of the firm's equity is determined by earnings, book value of equity and other relevant information.

Time period that will be used in this study is 8 years. Specifically, 4 years before the commitment year are used as Pre-adoption period (2004-2007) and 4 years after the convergence year are used as Post-IFRS period (2012-2015).

1.6 Chapter Outline

The research paper is systematically divided into five chapters as follows:

CHAPTER I: INTRODUCTION

This chapter will discuss subchapters including background, research questions, purpose of research, Advantages of research, scope of research, and chapter outline.

CHAPTER II: THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter will firstly discuss the conceptual definitions. Then, based on previously published journals, theoretical framework will be built and hypothesis will be developed.

CHAPTER III: METHODOLOGY

In this chapter, the data used and its gathering technique will be explained in detail, including the population, sample, and an empirical model. The data will be gathered from Capital IQ and calculated using the regression model as a proxy to measure the value relevance.

CHAPTER IV: RESULTS AND DISCUSSION

This chapter will explain the empirical result and the discussion from the results obtained. They will be analyzed using the SPSS program to prove and support the purpose of the research and research questions.

CHAPTER V: CONCLUSION AND SUGGESTIONS

The last chapter of this study consists of conclusion and suggestions that are derived from the result and discussion in previous chapter. Limitations in the current research and recommendation for future research are also included.

