CHAPTER I

INTRODUCTION

1.1   Background

Global financial crisis has led to reformation of the financial regulatory system. Financial reporting as key role in financial system were contibuting factor of the crisis that caused disbelief among capital market participants (Financial crisis Advisory Group, 2009). Confidence in the transparency and integrity of financial reporting are crucial to build in response to that crisis (Financial Crisis Advisory Group, 2009). Therefore IASB (International accounting standard board) take corrective action by written up the International Financial Reporting Standards.
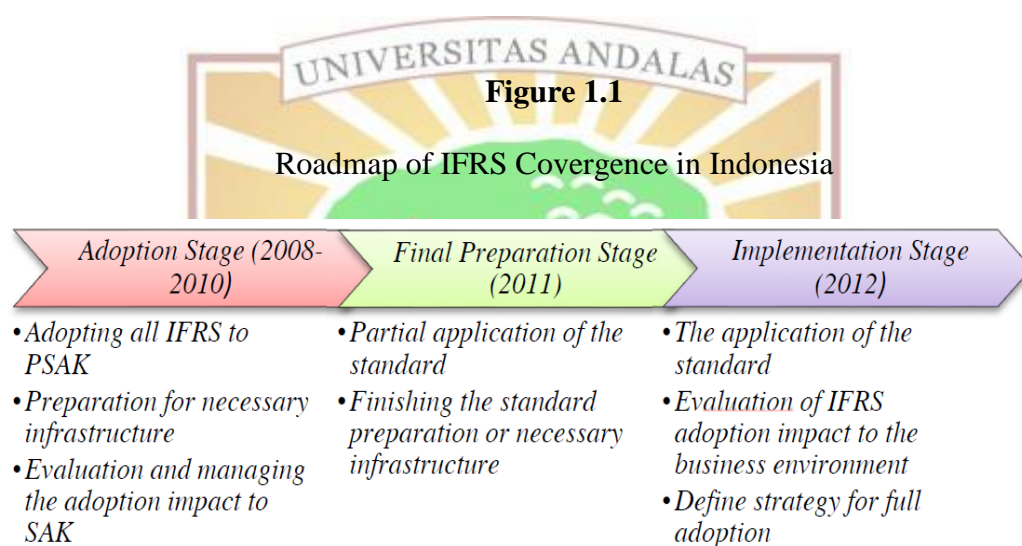
International Financial Reporting Standards is one of the most significant regulatory events in the history of financial accounting which is considered as a long term solution in response to the financial crisis by mantaining the integration of global economy (Beisland & Knivsfla, 2015 ; IFAC, 2009). The aim of the fundamental change is to achieve a single set of high-quality global accounting standards (IFRS Foundations and IASB, 2011).   G20 groups declared their support toward IASB actions to reform financial sector and achieving a single set of high-quality global accounting standards in preventing financial crisis in the future (G20 Toronto, 2010). Therefore, Indonesia as member of G-20 nations have obligation to to convergence with IFRS as accounting standard.

The Global accounting standard have been widespread in the world. Research by IFRS Foundations (2017) stated that approximately 144 jurisdictions have permitted and required to use IFRS for public held companies including Indonesia. All participants in the capital market such as multinational companies, national regulators and users support IFRS convergence as a single set of high quality accounting standards due to the its benefits (AICPA, 2011). A single set of high-quality international acconting standards is expected to bring transparency, strengthening accountability and contribute to economic efficiency which allowed investors to make better capital allocation in global market (IFRS Foundations, 2017). As consequence of IFRS convergence, the companies listed in capital market must prepare financial statements in accordance with IFRS and make transition from US GAAP. There are several major differences between GAAP and IFRS which mainly focused on the general approach area. First, GAAP is considered as rules-based standard with specific application guidance, while IFRS is argued as Principle-based standard with limited application guidance (Bohusova, 2011). Second, IFRS give more room for interpretation and professional judgment in drawing conclusion (Ahalik et al, 2018). Third, the US GAAP rely on historical cost while IFRS concern on Fair value accounting that provide higher degree of transparency of financial reporting lead to higher value relevance of accounting data and better capability reflect the current condition of company (Palea, 2014). Therefore, the transition is expected will improve the quality of financial reporting that would be more relevant for investor in decision making.

However some argued that this convergence may create false impression for investors that unlikely to produced comparable reporting outcomes accross countres due to complex and controversial nature, regulatory framework, infrastructure readiness and political differences and economic factors (Peng & Bewley, 2010). Furthermore, the adoption of IFRS is costly (Juniarti et al. ,2018), although the goal of this development of IFRS to improve the quality of reporting is cost-effective manner (Bohusova, 2011). Questions have been raised whether the IFRS convergence in reporting accounting information is beneficial or not primarily in investor's perspective. Investor's respons towards financial reporting and its relationship called value relevant. The value relevance of IFRS as well as the benefit of adoption of IFRS are important to be investigated in order to promote the standard compliance and build investor's confidence since the cost of adoption is high (Juniarti et al., 2018).

Ikatan Akuntan Indonesia (Institute of Indonesia Chartered Accountants) has committed to follow the roadmap of IFRS Convergence and set the year 2012 as starting point to implement fully convergence of IFRS in Indonesia (IAI, 2009). The phrase IFRS Convergence lately used to define the process of narrow the differences between the national accounting standard with International Financial reporting standards (IFRS). Indonesia maintain its national GAAP and converge it gradually by minimizing the differences instead of fully adoption the IFRS like Germany, England, Australia and Turky (Suprihatin & Tresnaningsih, 2013). According to Institute of Indonesia Chartered Accountants (IAI) There are three stages roadmap of IFRS convergence in Indonesia : adoption stage (2008-2010),

final preparation stage (2011) and implementation stage (2012). Since 2008-2009 there have been four financial accounting standard with IFRS basis are effectively applied (PSAK 13, PSAK 16, PSAK 30, PSAK 14). In 2010-2011 18 financial accounting standards (PSAK) and 7 interpretion of financial accounting standards (ISAK) are effectively applied although after evaluation 5 PPSAK are cancelled (Ikatan akuntan Indonesia).

Figure 1.1

Roadmap of IFRS Covergence in Indonesia

Adoption Stage (2008-2010)	Final Preparation Stage (2011)	Implementation Stage (2012)
• Adopting all IFRS to PSAK • Preparation for necessary infrastructure • Evaluation and managing the adoption impact to SAK	• Partial application of the standard • Finishing the standard preparation or necessary infrastructure	• The application of the standard • Evaluation of IFRS adoption impact to the business environment • Define strategy for full adoption

Lately, accounting researcher has a growing interest in study about value relevance, both academia and practitioner. This line of study is needed to determine the usefulness of of financial information for investors. The usefulness of accounting information from an investor's perspective is represented by the capability of accounting information to make a difference in investment decision called value relevance (Badu & Appiah 2018). A considerable amount of literature has been published regarding the study about the value relevance in which investigate the relation between economic values of the firm with the stock prices. Book value of equity and Earning per share are used as variables to explain

economic value of the firms that represent statement of comprehensive income and statement of financial position (Barth et al., 2008). The research developments in the field of global standard have led to increasing concern to investigate the value relevance due to the IFRS adoption. However, discussion on the value relevance upon IFRS adoption show mixed results.

Study about comparative evidence on the value relevance of IFRS-based accounting in developed countries conducted by Elbakry et al (2017) revealed that value relevance of book values of equity has been declined while the earnings has been increasing both in the UK and Germany. In contrary, Previous Study from Beisland & Knivsfla (2015) conclude that fair value accounting increase value relevance of book values and decreases the value relevance of earnings on Norway firms. Furthermore, Research publication of this study in developing country is also show conflicting result. Previous study conducted by Badu & Appiah (2018) investigate value relevance of accounting information in Ghana stock market and it reveals that the value relavance of book value and earning have declined significantly despite the adoption of IFRS. While another Researcher from Indonesia found an opposite finding. Studies from Juniarti *et al.* (2018) and Yusrina et al. (2017) Yurisandi & Puspitasari (2015) and Prihatni et al. (2016) proved that IFRS adoption makes the increasing in value relevant. Nevertheless, the evidence for this relationship is limited only for manufacturing companies that categorized as non-regulated industries. Therefore, this study will investigate the value relevance of accounting information on bankng industries that classified as regulated industries.

Investigation on the value relevant in banking sector has become an important issue since economy depends heavily on the banks. Failure of banks are considered become a contibutor on the financial crisis. Financial crisis 1997 has proven that liquidity problem and low trust on bank has led to the financial crsisis in Indonesia (Bank Indonesia, 2010). Therefore banking industries must be in controlled as regulated industries. The history of finacial crisis has put Banking industries more concern on those regulations. Due to this concern, banks become more aware in term of the importance of how important to following every regulations in preventing the crisis in the future. The financial regulatory system that must be followed strictly by banking sector is IFRS convergence in order to build confidence of users. Since the increasing of the awareness into the regulations and accounting standards, the author believe banks put more efforts and accountabilty in presenting the financial reporting that will increase the relevancy of financial information for users.

Therefore this research is aim to address the research gap and add more evidence for existing literature. The focus of this research is to investigate the value relevance of accounting information through empirical study of banking industries using ohlson model (1995).

1.2 Problem Statement

1. Do the Book Value Per Share (BVPS) influence market value per share significantly before IFRS adoption compare after IFRS adoption?

2.   Do the Earnings Per Share (EPS) influence market value per share significantly before IFRS adoption compare after IFRS adoption?

1.3   Research Objectives

This study aims to:

1.   To investigate the influence of Book Value Per Share (BVPS) to market value per share before IFRS adoption compare after IFRS adoption

2.   To investigate the influence of Earnings Per Share (EPS) to market value per share before IFRS adoption compare after IFRS adoption

1.4   Study Benefit

1.   Investors

   This study will be useful for investor in making optimal investment decision through the relevancy of accounting information

2.   Companies

   This study is expected to motivate the firm to comply with the IFRS since this standards are expected increase the value relevance of accounting information for investors. Thus the firm are willing to implement this standard to attract investors in providing capital.

3.   Standards setter

This study is expected to give confidence on standard setter to implement IFRS in order to increase the value relevance of accounting information

4.   Academics

This research provides benefits to the development of science and to be material for readers from academic to broaden insight about value relevance of accounting information upon IFRS adoption

5.   Future research

This study is expected to be useful for the future research as insight and reference for the future research about value relvance of accounting information upon IFRS adoption

1.5   Writing Systematic

Systematic of writing this thesis will be arranged in five chapters to make it easier for readers in understanding the reserach.   The first chapter is introduction becomes the basis of research that explains about the background, problem formulation, research purpose, research benefit, the scope of research and writing systematic. Second chapter is literature review that explain about about the relationship between theory and and the research problem. Moreover this chapter also looks previous research, theoritical framework, and the hypothesis that will be tested in this research. Third chapter is research methodology provides an overview the plan for conducting research that explains about reserach design, population, sample, data and methods of data colection, measurement of research

variables and method of data analysis. Fourth chapter is analysis and result that explain about the result of the hypthesis testing to answer the problem. The last chapter explain about conslusion, research limitation and suggestion.