The Impact of Convergence with International Finanancial Reporting Standards (IFRS) on Accounting Quality in Indonesia

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Abstract
The purpose of this study was to examine the impact of the implementation of accounting standards converge with International Financial Reporting Standards (IFRS) on accounting quality in Indonesia in the financial sector companies listed on the Indonesia Stock Exchange in 2008-2012. Accounting quality operationalized with earnings management, timely loss recognition, and value relevance. Samples were taken by using purposive sampling method, and obtained 62 companies. The data in this study were analyzed using multiple linear regression to measure earnings smoothing and value relevance and for managing earnings towards a target and timely loss recognition by using logistic regression. The results of this study showed that of the four metrics earnings management studied, only one metrics which gives significant results, the correlation accruals with cash flows, while the other metrics earnings management does not give significant results. Variable timely loss recognition also did not provide significant results. Variable value relevance gives significant results. When viewed between earnings per share or book value per share, the earnings per share has greater value relevance in explaining stock prices.
Keywords: IFRS, accounting quality, earnings management, timely loss recognition, value relevance.

1. Introduction
Financial accounting standards used in Indonesia is the Pernyataan Standar Akuntansi Keuangan (PSAK) issued by the Financial Accounting Standards Board of Indonesia, Ikatan Akuntan Indonesian (IAI). In December 2008, IAI launched the convergence of PSAK to International Financial Reporting Standards (IFRS) in full in the year 2012. Convergence process in Indonesia is carried out in stages. It is targeted that by 2012, the entire PSAK not have a material difference with IFRS applicable as of 1 January 2009. After the year 2012, PSAK will be updated continuously as the changes in IFRS. The adoption of international accounting standards into domestic accounting standards aim to produce high degree credibility of financial statements. Previous studies to look at the accounting quality in Indonesia showed that accounting quality in Indonesia is still low. This is evident from of income smoothing and earnings management is also carried out by the companies listed in Indonesia Stock Exchange (Sulistyanto, 2008). This can happen either because the accounting standards in Indonesia before convergence is a flexible standard that allows for the application of accounting methods are different in every company. The flexible standard raises the possibility of creative accounting and earnings management. If this happens, the resulting financial statements do not present a true picture of the company. IFRS are principles-based standards, and removing the allowable alternative accounting and accounting measurements require that better reflect the economic position and performance of an enterprise. Accounting quality can be increased if the accounting standards to limit discretion in determining the number of opportunistic management accounting, for example, to manage earnings (Ashbaugh & Pincus, 2001). Accounting quality can also be increased due the changes in the financial reporting system in conjunction with the adoption of IFRS, for example, stricter enforcement system (Barth *et al.*, 2008).

Previous studies provide some reasons why IFRS could lead to improvements accounting quality (Armstrong *et al.*, 2010; Barth *et al.*, 2008; Daske *et al.*, 2008; Li, 2010). Barth *et al.* (2008) conducted a study of applications IAS association with improved accounting quality in 21 countries in 1994-2003. They find evidence in general there is an increase in accounting quality firms implementing IAS, from the reduction in earnings management, timely loss recognition and value relevance of accounting numbers are getting bigger. Chen *et al.* (2010) found evidence of a decrease in earnings management towards a target, a decrease in absolute discretionary accruals and decline in the standard deviation of accrual in the Dechow-Dichev model. Barth *et al.* (2008) presents three reasons why the adoption of IFRS could lead to improvements in accounting quality. First, IFRS accounting eliminate certain alternatives that reduce managerial discretion. This can reduce the rate of opportunistic earnings management and thus improve the accounting quality (Ewert & Wagenhofer, 2005). Second, IFRS is seen as a principle-based standard is thus potentially more difficult to avoid. Thirdly, IFRS allows the measurement, such as the use of fair value accounting, which may better reflect the underlying economics rather than domestic standards.

Christensen *et al.* (2008) found that voluntary adoption IFRS are associated with lower earnings management and more timely loss recognition. But this study found no evidence of an increase in accounting

quality at the company that was forced to adopt IFRS. The results showed the adoption IFRS does not always lead to high accounting quality, at least not when the company does not have an incentive to adopt, this is consistent with research Soderstrom & Sun (2007) which proved that voluntary adopters choose to adopt IFRS because it tends to have a strong incentive to report high quality accounting numbers. Paglietti (2009) examines on accounting quality with the mandatory adoption IFRS in Italy provide mixed results, in which one side is after the adoption of IFRS accounting quality decreases when seen from earnings management and timely loss recognition. However, when seen from value relevance indicated increased accounting quality. While research conducted by Ahmed *et al*. (2013) proved that after the mandatory adoption of IFRS in 20 countries makes accounting quality has declined, which it is according to their due execution mechanism mandatory adoption of IFRS implementation in these countries cannot cope with a large initial effect of the flexibility of IFRS. Barth *et al*. (2008) noted two reasons why the adoption of IFRS may reduce of accounting quality. First, IFRS can eliminate the most appropriate alternative for communicating the underlying economics of a business that forces managers to use less precise alternative that result in a decrease in accounting quality. Secondly, because the IFRS principles-based standards, it is inherently lack the detailed implementation guidelines and thus provide greater flexibility for management.

Research about the impact of IFRS adoption on accounting quality in developing countries, among others, performed by Outa (2011), by examining all the companies listed on the Nairobi Stock Exchange (NSE) in the 1995-2004. The results proved that the earnings of the eight quality metrics they studied, only three metrics that demonstrate an increase in the accounting quality, while five other metrics are not. In Indonesia, a similar study carried out by Saito & Mayangsari (2011). They show that the adoption of IFRS is associated with decreased accounting quality. The emergence of interest in the convergence of accounting standards and the inconclusive results of related studies provide the motivation to do research in determining the relevance and feasibility of such convergence.

2. Literature Review and Hypotheses' Development

Accounting standards is an important device accounting rules, provide guidance on how accounting information should be recorded, reported, and interpreted. Differences in the quality of accounting standards will play a role in the differences in the value relevance of accounting numbers (Graham & King, 2000; Babalyan, 2001; Bartov *et al*., 2002). High quality accounting standard affects the user's perception of the financial information quality. A good perception of the standard will lead to a standard that is used to make accounting information more easily used by the users of information, which in turn increases the value relevance of accounting information. High-quality accounting standards is considered to provide a consistent, comparable, relevant financial information and reliable for the investors to make investment decisions (Barth *et al*., 2008).

Accounting quality can be defined as the extent to which financial statement information reflects the underlying economic situation. The underlying economic situation cannot be observed directly. Some researchers operationalize the concept of accounting quality using three indicators, namely, earnings management, timely loss recognition and value relevance (Barth *et al*., 2008; Christensen *et al*., 2008; Gassen & Sellhorn, 2006; Chen *et al*., 2010; Outa *et al*., 2011; Ahmed *et al*., 2013; Christensen *et al*., 2008; Clarkson *et al*, 2011; Gunter *et al*., 2009).

The relationship between accounting standards and accounting quality can describes using the approach of agency theory. In an agency relationship, the manager has the information asymmetry to external parties, such as creditors and investors (Jensen and Meckling, 1976). Information asymmetry occur when the manager have internal corporate information relatively more and knowing that information faster relative to external parties. In such conditions, managers can use the information learned to manipulate financial reporting in an effort to maximize their own welfare.

In a theoretical study conducted by Soderstrom & Sun (2007), a model for the determinants of accounting quality after adoption of IFRS in the EU is still debated, highlighting the importance of both institutional and company factors that can affect accounting quality. Hail *et al*. (2009) highlight the incentives as a key determinant of accounting quality, and found, accounting quality can differ between companies and between countries. Ball & Shivakumar (2006), Lang *et al*. (2006) and Leuz & Wysocki (2008) developed a theoretical analysis of the consequences of the implementation of IFRS. They conclude that the specific characteristics of the relevant companies to determine the differences in the financial statements. According Gassen & Sellhorn (2006) accounting standards, legal and political systems, and financial reporting incentives all influence the accounting quality. Although the conversion to IFRS will likely affect financial reporting, it is only one determinant accounting quality overall. Because other determinants will continue to be different in different countries, it is possible that the accounting quality will continue to be different in various countries following the adoption of IFRS. If the IASB continues to improve the quality of IFRS, they can expect the financial statements under IFRS into increasing the value relevance and reliable.

2.1 Implementation Accounting Standards Convergence with IFRS and Earnings Management
Earnings management is one of the dimensions of accounting quality is very responsive to financial reporting incentives (Van Tendeloo & Vanstraelen, 2005; Barth *et al*., 2008; Hung & Subramanyam, 2007; Burgstahler *et al*., 2006). These constructs depend on managerial policies and therefore likely to be influenced by incentives and characteristics of constituent company financial statements. Earnings management identifies positive earnings as a common target of earnings management. Evidence of the positive earnings management is a greater frequency of small positive earnings (Burgstahler & Dichev, 1997; Leuz *et al*., 2003). The idea underlying this target is that management prefers to report small positive earnings rather than negative earnings. Reduced earnings management indicates an increase in accounting quality. Ewert & Wagenhofer (2005) showed that the application of accounting standards that limit the discretion of management should result in a higher variation in the accounting profit.
H1: Implementation accounting standards convergence with International Financial Reporting Standards (IFRS) lowers earnings management, as an indication high accounting quality.

2.2 Implementation Accounting Standards Convergence with IFRS and Timely Loss Recognition
Timely loss recognition is the frequency of large negative net income, as an indicator of a higher accounting quality. Greater frequency as more evidence of timely loss recognition. Ball & Shivakumar (2006) argue that the timely recognition of gains and losses, which is consistent with higher earnings quality, tends to increase the volatility of earnings relative to cash flow. Barth *et al*. (2008) found that companies that voluntarily adopt IFRS showed more timely loss recognition (after controlling for potential incentives voluntary adoption of IFRS). Higher earnings quality showed a higher frequency of large losses. This is consistent with the results of Lang *et al*. (2003), Leuz *et al*. (2003), Ball & Shivakumar (2006), and Lang *et al*. (2006) who showed that one of the characteristics of higher earnings quality is that large losses are recognized as incurred rather than deferred to the future. This characteristic is closely related to income smoothing in that if earnings are smoothed, large losses should be relatively rare. Although the predicted results of high accounting quality in a higher frequency of larger losses, the opposite can happen. The higher frequency of large losses can be indicative of a large bath earnings management. Also, a higher frequency of large losses can occur due to errors in estimating accruals. Thus, high accounting quality can result in a lower frequency of large losses.
H2: Implementation accounting standards convergence with International Financial Reporting Standards (IFRS) improve timely loss recognition, as an indication high accounting quality.

2.3 Implementation Accounting Standards Convergence with IFRS and Value Relevance
Value relevance is the explanatory power of net income and equity book value for the price, and the stock return to profit. Higher explanatory power as more evidence of value relevance. It is expected that the company has a high accounting quality has a higher correlation between stock prices and earnings and book value of equity due to higher quality earnings better reflect the underlying economics of a company (Barth *et al*., 2008). First, the result of high accounting quality of the application of accounting standards require the recognition of the amount that is meant to keep the underlying economic represent a company. Second, high accounting quality is less subject to opportunistic managerial policy. Two features of high accounting quality connected by Ewert & Wagenhofer (2005) which indicate the accounting standards that restrict results opportunistic in accounting policies that have higher value relevance. Third, high accounting quality non opportunistic have less error in estimating accruals. Consistent with the three features of high accounting quality, previous empirical studies show that higher earnings quality over the value relevance   (Lang *et al*., 2003; Leuz *et al*., 2003; Lang *et al*., 2006). Therefore, it is expected that the company will apply IFRS showed a higher value relevance of net income and book value equity of the company is applying domestic standards.
H3: Implementation accounting standards convergence with International Financial Reporting Standards (IFRS) increases the value relevance, as an indication high accounting quality.

3. Research Methodology
The population in this study is a public company's financial sector listed in Indonesia Stock Exchange (IDX) from 2007 to 2012. Samples were taken by using purposive sampling method, and obtained 62 companies. Observations were made for four years, from 2008 to 2011. In 2008 and 2009 is the year prior to the implementation of PSAK converged with IFRS (PSAK 50 and PSAK 55), whereas in 2010 and 2011 was the year began implementation of PSAK are convergent with IFRS. Chosen companies in the financial sector since the financial sector is the most affected sector of PSAK 50 and PSAK 55 adopted from IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement which went into effect in 2010. The data in this study were analyzed using multiple linear regressions to measure income smoothing and value relevance metrics, dan using logistic regressions to measure earnings management and timely loss recognition metrics. Income smoothing and value relevance metrics before and after the

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implementation calculated separately.

3.1 Earnings Management

This study examines two manifestations of earnings management, i.e earnings smoothing and managing towards positive earnings. Consistent with previous studies (Lang *et al.*, 2003; Lang *et al.*, 2006; Barth *et al.*, 2008), earnings management is measured by controlling the impact of exogenous factors accounting standards and reflect the economic environment in which the company operates. These factors are considered to be related to the quality of earnings in the previous literature (Collins and Kothari, 1989; Penman, 2001). For earnings smoothing, three different metrics applied, namely:

i) Variability of the change in net income

The first earnings smoothing metric is based on the variability of the change in net income. Earnings variability metrics is the variance of the residual regression of change in net income.

$$\Delta NI_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 CF_{it} + \alpha_8 AUD_{it} + \varepsilon_{it}$$

Where:

ΔNI	: variability of the change in net income scaled by total assets;
$SIZE$	: the natural logarithm end of the year market value of equity;
$GROWTH$	: percentage change in sales;
$EISSUE$	: percentage change in commond stock;
LEV	: end of year total liabilities divided by end of year equity book value;
$DISSUE$	: percentage change in total liabilities;
$TURN$	: sales divided by end of year total assets;
CF	: annual net cash flow from operating activities divided by end of year total assets;
AUD	: an indicator variable that equals one if the firm's auditor is big four and zero otherwise.

Metric variability is the residual variance of the regression of net income to changes in variables identified (Lang *et al.*, 2003; Lang *et al.*, 2006; Barth *et al.*, 2008). Residuals from the model above is denoted by ΔNI^* and standard deviation is $\sigma \Delta NI^*$. The lower value of $\Sigma \Delta NI^*$ is evidence of an increase in earnings smoothing, and vice versa, if the value is greater, indicating a decrease in earnings smoothing.

ii) Ratio of variability of change in net income to the variability of the change in operating cash flow.

The second metric into the ratio between ΔNI^* and ΔCF^*, in accordance with the residuals of the model:

$$\Delta CF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 CF_{it} + \alpha_8 AUD_{it} + \varepsilon_{it}$$

From these equations, ΔCF is the changes in annual net cash flow (CF) were measured with the scale total assets. Ratio $\Delta NI^*/\Delta CF^*$ measures the relationship between the relative change in annual net income to changes in annual cash flow. The standard deviation of this ratio, $\sigma \Delta NI^*/\Delta CF^*$, measures the change in the relative variability of net income to the variability of changes in cash flows.

iii) Correlation between accruals and cash flow

Earnings smoothing also assessed by considering the interdependencies between accruals (ACC) with cash flow (CF). Also in this case, to control the possible influence of endogenous factors, the following estimated regression equation:

$$CF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_8 AUD_{it} + \varepsilon_{it}$$

$$\Delta CC_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_8 AUD_{it} + \varepsilon_{it}$$

ACC indicates accrual, obtained by subtracting the CF from NI. Earnings smoothing measured by Spearman correlation coefficient between the residual model *of CF^** and ACC^*, denote by $\rho(CF^*, ACC^*)$. Previous literature (Leuz *et al.*, 2003; Ball & Shivakumar, 2005) reported that $\rho(CF^*, ACC^*)$ are more likely to be negative earnings smoothing. This is because the possibility of an increase in accruals made by managers to smooth earnings when cash flow is low.

Aside from the three metrics above earnings smoothing, earnings management is measured by measuring the preference manager to reporting small positive net income, instead of the negative net income. Behavior manage the positive earnings measured as the frequency of small positive net income (Burgstalher & Dichev, 1997; Leuz *et al.*, 2003; Barth *et al.*, 2007). This study evaluated the characteristics of earnings

management by estimating the *SPOS* coefficients the dummy variables in the logistic regression equation (Barth *et al*, 2008):

$POST (0,1)_{it} = \alpha_0 + \alpha_1 SPOS_{it} + \alpha_2 SIZE_{it} + \alpha_3 GROWTH_{it} + \alpha_4 EISSUE_{it} + \alpha_5 LEV_{it} + \alpha_6 DISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 CF_{it} + \alpha_9 AUD_{it} + \varepsilon_{it}$

SPOS is equal to one if net income by total assets scale is between 0.00 and 0.01, and zero otherwise. *POST* variables in the model above is a dummy variable equal to one for the period after the implementation (2010-2011), that is, they apply PSAK convergent with IFRS, and zero otherwise. The sign and magnitude of the coefficient α1 related to *SPOS*, here in after referred *αSPOS*, providing information about the practice of earnings management. In particular, the negative *αSPOS* means that the companies before implementation PSAK convergence with IFRS oriented report small positive net income as compared with when they implemented PSAK convergent with IFRS.

3.2 Timely Loss Recognition

Timely loss recognition measured by the coefficient of large negative net income (*LNEG*) of the regression equation as in previous studies (Lang *et al*., 2003; Lang *et al*., 2006; Barth *et al*., 2008). Lang *et al*. (2003) argue that earnings quality is higher if the firm reported a loss when it occurs and not delay the report in the next period. *LNEG* positive coefficient indicates that companies recognize large losses more frequently after the implementation period compared to the period before implementation.

$POST (0,1)_{it} = \alpha_0 + \alpha_1 LNEG_{it} + \alpha_2 SIZE_{it} + \alpha_3 GROWTH_{it} + \alpha_4 EISSUE_{it} + \alpha_5 LEV_{it} + \alpha_6 DISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 CF_{it} + \alpha_9 AUD_{it} + \varepsilon_{it}$

LNEG is a dummy variable equal to one if the annual net income scaled by total assets is lower than -0.20. The sign and magnitude of the coefficient α_1 associated with *LNEG*, referred αLNEG, informing about the timely loss recognition. In particular, positive *αLNEG* shows that large losses are recognized more frequently in the financial statements based on PSAK are converging with IFRS than ever before.

3.3 Value Relevance

Value relevance is the measurement of the ability of accounting numbers to reflect the economic value of the underlying company. Value relevance trying to connect between the value of the company as reflected in stock prices with the income statement and balance sheet are reported. Adjusted R^2 and regression coefficients of the Ohlson model (1995) is a metric used to measure the combined value relevance. This model is defined as follows:

$P = \beta + \beta_{1(BV,E)}BV + \beta_{2(BV,E)}E + \varepsilon_{(BV,E)}$

where

P : price of share for a firm six months after the fiscal year-end

BV : book value per share

E : earnings per share.

In addition, to determine the explanatory power that *BV* and *E* have for prices individually, equation above can be split into two models in order to consider the relative value relevance of *BV* and *E* respectively (Paglietti, 2009):

$P = \beta + \beta_{1(BV)}BV + \varepsilon_{(BV,E)}$ and

$P = \beta + \beta_{1(E)}E + \varepsilon_{(BV,E)}$

The value relevance of *E* and *BV* is measured by the adjusted R^2 and the estimated coefficient $\beta_{1(BV)}$ and $\beta_{1(E)}$ of each model. In particular, by comparing the value of adjusted R^2 derived from both models it is possible to understand if *BV* is more value relevance than *E*, or vice versa.

After getting the value of each matrix earnings management, timely loss recognition and value relevance, then made a comparison between the period prior to the implementation of PSAK convergence with IFRS will be effective with the period after implementation. Income smoothing and value relevance metric before and after implementation counted separately. Statistical significance testing is done in accordance with Barth *et al*. (2007) using the t test based on the empirical distribution differences. If the variability of *ΔNI** after> before, it can be said that the adoption of IFRS lowers earnings management, thus improving the accounting quality. If the variability of *ΔNI** against *ΔCF** after> before, it can be said that the adoption of IFRS lowers earnings management, thus improving accounting quality. If the correlation between *ACC** with *CF** after> before, it can be said that the adoption of IFRS lowers earnings management, thus improving accounting quality. To see the significance of the value relevance used Chow test.

4. Empirical results

The results of processing the data to see the effect of the implementation of accounting standards convergent with IFRS on accounting quality as seen from the dimensions of earnings management can be seen in the Table 1.

Table 1. Earnings Management Before and After Implementation

	Prediction	Before (Pre)	β	After (Post)	t test/ z score	Sig
Earnings Smoothing:						
- Variability of ΔNI^*	Post>Pre	0,0567		0,0490	0,862	0,389
- Variability $\Delta NI^*/\Delta CF^*$	Post>Pre	0,3512		0,3038	-0,416	0,678
- Correlation of ACC^* and CF^*	Post>Pre	-0,929		-0,969	3,303	0,000
Managing Positive Earnings						
Small positive net income (SPOS)	Negative (-)		-0,217			0,554

From Table 1 it can be seen that the variability of changes in net income (ΔNI^*) after the implementation period decreased from 0.0567 becomes 0.0490, which indicates an increase in earnings smoothing after implementation period. This situation is not consistent with the predictions. If seen from the significant value of 0.389 which is well above 0.05 indicates that the difference in the variability of change in net income before and after the implementation is not significant or showed no real difference. When viewed from the variability of changes net income to the variability of change cash flows ($\Delta NI^*/\Delta CF^*$) indicates a decrease in the period after implementation, from 0.3512 becomes 0.3038. This decrease indicates an increase in earnings smoothing in the period after implementation, which indicates an increase in earnings management, thus lowering accounting quality. This is consistent with the first matric, the variability of changes in net income. This situation is not consistent with the predictions. If seen from the significant value of 0.678 which is well above 0.05 indicates that the difference in variability of changes in net income to the variability of changes in cash flows before and after the implementation is not significant or showed no differences. The third metric is correlation accrual with cash flow ($\rho(ACC^*,CF^*)$) showed a decrease in the period after implementation, from -0.929 become -0.969, which showed an increase in earnings smoothing in the period after implementation. This situation is not consistent with the predictions. This is consistent with the first and second matrics. If seen from the significant value of 0.000 which is far below 0.05 indicates that the difference in the correlation between accruals with cash flows in the period before and after implementation show difference.

At matrics manage small positive earnings (*SPOS*), net income categorized as a small positive earnings if net income divided by total assets between 0.00 and 0.01. *SPOS* coefficient -0.217 is negative and not significantly different from zero. Negative coefficient indicates that the company reported a small positive net income in the period after implementation more frequently than before, but it was not statistically significant because it has a significance value of 0.554 which is much larger than 0.05. It is shown that earnings management increased in the period after implementation of accounting standards convergence with IFRS when compared to the period before. These findings provide evidence that the adoption of IFRS does not improve accounting quality it is seen in the presence of earnings management undertaken by the company after the adoption of IFRS.

From Table 1 it can be concluded that the overall matrics of four earnings management are tested, only one matric that gives significant results or supported by data, the correlation between the accrual of cash flows. However, the results are not in accordance with the prediction, decline after implementation period. Eearnings management increased in the period after the implementation of accounting standards convergence with IFRS compared with the previous period, provides evidence that the convergence of IFRS does not improve the accounting quality. The results of this study do not support the research Barth *et al*. (2008); Chen *et al*. (2010) and Outa (2011) but consistent with the results of the research Chistensen *et al*. (2008) who argue that the adoption of IFRS did not have an impact on accounting quality, and Paglietti (2009) and Saito & Mayangsari (2011), whose results proves that the adoption of IFRS degrade accounting quality.

Table 2. Timely Loss Recognition

	Prediction	β	Sig
Timely loss recognition			
- Large negative net income (*LNEG*)	Positive (+)	0,705	0,596

Table 2 shows the results of timely loss recognition. For timely loss recognition test used matrics a large negative net income (*LNEG*). *LNEG* coefficient 0.705 is positive and not significantly different from zero. Positive coefficient indicates that the company reported a large negative net income in the period after the implementation of more often than the period before implementation, but it was not statistically significant because it has a significance value of 0.596 which is much larger than 0.05. This result is consistent with the prediction, but not supported by the data, or insignificant. This result is consistent with the results of the research Chistensen *et al*. (2008); who said that that the adoption of IFRS did not have an impact on accounting quality.

Table 3. Value Relevance

	Prediction	Before	Sig	After	Sig
- Adjusted R^2	Post>Pre	0,408	0,000	0,835	0,000
- βE	Post>Pre	0,321	0,005	0,898	0,000
- βBV	Post>Pre	0,362	0,002	0,027	0,569
- Adjusted R^2	Post>Pre	0,363	0,000	0,836	0,000
- βE	Post>Pre	0,607	0,000	0,915	0,000
- Adjusted R^2	Post>Pre	0,374	0,000	0,348	0,000
- βBV	Post>Pre	0,615	0,000	0,594	0,000
Chow's F test	10,35				0,000
F table	2,13				

From Table 3 it can be seen the value of adjusted R^2 of the regression model between the stock price (*P*) with earnings per share (*E*) and the book value per share (*BV*) increased from 0.408 into 0.835. To test the difference between the periods before and after implementation of the statistical test used Chow F, this way to validate the increase in R^2. Of the Chow test conducted showed that the calculated F value of 10.35 is much larger than the F table that is equal to 2.13, this means that there are significant differences between before and after implementation. The regression coefficient of earnings per share (*E*) is positively and significant affect stock prices both before and after implementation. Regression coefficient increased from 0.321 in the period before to 0.898 after implementation period. While, the regression coefficient of the book value per share (*BV*) positively influence the stock price (*P*), significant before implementation, but not significant after implementation. Regression coefficient decreased from 0.362 into 0.027 after the implementation period. Individual relationship between earnings per share *(E)* or book value per share (*BV*) with a stock price (*P*), in other words, the relative value relevance, measured respectively by using simple regression, showed a decrease in the value relevance of *BV*, that can be seen from the adjusted R^2 value of 0.374 becomes 0.348, but not significant. As for the *E* value of adjusted R^2 increased significantly, from 0,363 becomes 0,838. This means that the earnings per share (*E*) have greater informative value in influencing the stock price for investors in the increased value relevance after implementation.

From the results of testing the value relevance can be concluded that the implementation of PSAK are convergent with IFRS increased accounting quality, which means the ability of accounting numbers to provide useful information for decision-making for investors. Provide evidence that the value relevance of accounting between the two numbers, earnings per share and book value per share to share price showed a significant result, and in accordance with the prediction, which increases the value relevance after the implementation period compared to the period before implementation. When compared between earnings per share and book value per share, the earnings per share have greater value relevance to the stock price compared to book value per share. This means that the earnings per share can provide useful information for investors. The results of this study support the results of previous studies conducted by Barth *et al*. (2008); Chen *et al*. (2010); Outa (2011); and Paglietti (2009) which proved that the value relevance increased after IFRS adoption period compared with the period before the adoption of IFRS, which means that the adoption of IFRS will improve accounting quality.

Overall these results still provide mixed results. This is probably caused by a variety of factors, including accounting quality only influenced by the quality of the standards, but also by environmental effects and economic incentives underlying an enterprise, but it is also likely due to the observation time period is very short, two years before the period implementation and two years after the implementation period, so the result is the convergence of these standards cannot be seen to the fullest. In addition, the seriousness in adopting a standard is also a factor that determines accounting quality. Chistensen *et al*. (2008) argue that accounting quality around the time the adoption is determined by the incentives of the standard. This argument is supported by the results of research Barth *et al*. (2008), in which the voluntary adopters have better accounting quality than mandatory adopters. Barth *et al*. (2007) also argued that accounting quality can be increased based on the severity of the implementation.

5. Conclusion

The purpose of this study was to examined impact of the implementation of accounting standards converge with

International Financial Reporting Standards (IFRS) on accounting quality in Indonesia. In this study, accounting quality metrics operationalized with earnings management, timely loss recognition, and value relevance. Of the four metrics earnings management studied, only one metrics that gives significant results, ie the correlation accruals with cash flows, while four other earnings management metrics, variability changes in net income, the ratio between the variability of changes in net income to the variability of the change in operating cash flows and a small positive net income not yield significant results. Variable timely loss recognition this study did not yield significant results, but value relevance yield significant results. If seen between earnings per share or book value per share, the earnings per share had greater value relevance in explaining stock price. The findings of this study also showed that, on the one hand, after the implementation the accounting standards convergence with IFRS, accounting quality decreases if considered to be related to earnings management and timely loss recognition. Instead, the test results show the value relevance of accounting numbers increased ability to provide information that is useful to investors for the purpose of decision making.

These findings have important implications, where intermediate accounting rules through high-quality accounting standards are not sufficient to ensure improved accounting quality. In fact, although there is a higher correlation between accounting numbers and stock prices after the implementation the accounting standards convergence with IFRS, which indicates that investors are considering the use of accounting information for economic decision making, but the quality of accounting when seen from earnings management and timely loss recognition even more decreased. The practice of earnings management may indicate that the flexibility inherent in the IFRS are no direct or encourage managers to produce a more informative financial statements are characterized by an increase in accounting quality, at least the first two years of the period after implementation. Overall these results still provide mixed results. This is probably caused by a variety of factors, including accounting quality is not only influenced by the quality of a standard, but also by the effects of incentives and the underlying economic environment of a company, but it is also likely due to the observed time period is very short ie two years before the period adoption of IFRS and two years after the period of adoption of IFRS, so the impact of the adoption cannot be seen as a maximum. Seriousness factor in adopting a standard is also a factor that determines the quality of accounting. Must be considered a company if it makes the serious adopter or adopters only label, besides that there must be legitimacy in enforcement the standard.

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