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The Adoption of IFRS – Impact on Profitability Rate and Tax Income: Evidence from Companies Indonesia Listed in Indonesian Stock Exhange

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Abstract
The Purpose of this study is to examine the impact of the adoption of IFRS on profitability rate and tax income for before and after IFRS adoption in Indonesia Listed Company. By using paired samples t-test, using SPSS 20.0. Results form in descriptive statistics analysis and hypotheses testing. Results show that the average ratio of companies' profitability is increasing after the adoption of IFRS. The profitability results also show that there is no change in the amount of profit before tax after the adoption of IFRS.
IFRS is a set of standards in principles-based that needs full reasoning, clear judgement and deep understanding from its user. Lack of understanding and judgement will indicates that managers have bigger flexibility. Business environment and a fundamentally different situation also determine the form and content of accounting standards. This research is able to give a new paradigm in the adoption of IFRS that needs a comprehensive understanding for its user.
Keywords*:* IFRS, Profitability Rate, Tax Income

I. Introduction

On the first January of 2012, Indonesia has done full convergence in the implementation of IFRS while the previous convergence program has been prepared by IAI in December 2007. This is in accordance with the agreement settled between the members of the G20, one of which is to create an internationally accepted set of accounting standards. IFRS is the rejoinder of the needs for a standard that can be compared with other countries' reporting standards. Statement of Financial Accounting Standards (SFAS) is the standard used as a guideline for the accountants in Indonesia to prepare the financial statements. Unfortunately SFAS is only valid in Indonesia. To do the preparation of financial statements that are globally accepted, using IFRS is a major requirement, if not a must. On top of all those, the convergence process of GAAP to IFRS will have impacts in the field of accounting, taxation, and other business process.

The adoption of IFRS as the global accounting standards has impacts on some aspects of financial reporting for the items measurement in various countries, such as those in European Union. Deferred tax assets are able to predict future cash flows better until the next five years than compared to the EU GAAP (Marry, Sean and Connie, 2010). Zeghal, Chtourou and Fourati (2012) stated that the adoption of IFRS can improves the quality of financial reporting, with the specification that IFRS are able to lower earnings management, improve the timeliness, conditional conservatism, and value relevance. Hellman (2011) in Murni (2011) said that there was an increase in net profit, shareholders' equity, assets and liabilities following the implementation of IFRS standards.

One of use of the fair value concept adopted by the Indonesian Institute of Accountants (IAI) specifically in the investment property standard which set in SFAS 13 (after IFRS adoption). In contrast to SFAS 13 (1994) which does not allow using the fair value method to measure investment property, SFAS 13 (after the adoption of IFRS), which was revised in 2007 and became effective force on January 1, 2008. This provides two alternative for measurement of investment property by using cost model and fair value model to be applied consistently. The use of fair value is considered to provide more relevant information for decision making. As a result of the revaluation of assets, the value of these assets can go up or fall down. Differences arising from the revaluation of assets that encounter a hike are recognized as revaluation surplus which is a benefit/profit for the company, the benefits recognized are reported in income statement, thus increase profit for the company. When the difference is a decrease in the asset revaluation, it means losses for the company. Impairment in asset value is recognized as a loss, so the loss of asset impairment will reduce the profit earned. These changes will greatly affect the financial statements of a company when at the end of the road, will have impacts on the assessment of the company's profitability ratio consist of profit margin ratio (profit margin on sales), return on assets (ROA), and return on equity (ROE).

Other IFRS impacts are in the tax report. If the basic concepts of financial accounting used historical cost, which means that on a purchase of an asset, it will be recorded at cost, which we exhale when purchasing the asset. Whereas in the IFRS, this historical cost concept is forbidden, IFRS only recognize fair value/value today to record an item. This difference will greatly affects the financial statements of a company which will have impacts on the company's tax payments. If the companies in Indonesia have implemented IFRS in their financial reporting, then trading, including mergers and acquisitions (M&A) with overseas parties is very possible. IFRS also made it easier for foreign companies to sell shares in this country or vice versa. So the readiness of Indonesian companies to adopt IFRS will be a competitiveness point in global level. These are the advantages of IFRS.

Fair Value Accounting (FVA) in certain assets such as receivables or loans, fixed assets and intangible assets, as well as the translation of the post monetary and non-monetary for overseas activities, will affect the company's income tax . However, in other sectors, such as for securities classified as trading and available for sale did affect the income tax. This fact is confirmed by economists, Prof. Dr. Slamet Sugiri, MBA, Ak in IFRS Convergence Conference Against Impact Statement of Financial Accounting Standards (SFAS) Indonesia and Its Implication to taxation in R. Kertanegara UGM, Saturday (03/11/2012). "So, it can be concluded that the FVA for certain postal affect income tax, whereas for certain other post do not affect the income tax," said Sugiri. According to Sugiri, the income tax is calculated based on taxable income. That is, the amount of income tax equal to the amount of income tax according to the tax rules. The tax expense may be bigger or smaller than the income tax.

Previously, Sugiri explained the concept of FVA which is often contrasted with the historical cost accounting (HCA). The two paradigms lead to value (base measurement) that is attached to the financial statement items. HCA attach historical cost in financial statement items. If at a certain moment the historical cost of an asset or liability is different from its FV, HCA does not alter the carrying value to the FV. "HCA does not recognize losses or gains on the difference between the two values, while the FVA recognizes gains and losses from the market valuation is not true or the exchange transaction has not happened, " He added.

This study aimed to fill in the existing literatures in explaining differences in profitability and corporate income tax rate before and after the implementation of IFRS on companies listed in the Indonesia Stock Exchange (BEI) in Indonesia. Based on this background, the author wanted to know the differences in profitability of before and after IFRS by focusing on the ratio of profit margin (profit margin on sales), return on assets, and return of equity. Therefore, the author did a research which titled " An Analysis of Differences in Profitability Rate and Corporate Income Tax Magnitude Before and After the Implementation of IFRS (Study on Manufacturing Companies Listed in BEI).

II. Literature Review

1. New Institusional Theory (NIT)

New Institutional Theory (NIT) is a development of the conventional institutional theory, where this theory come from a theory in sociology of organizations. According to this theory, the development of the organization is not merely a technical process that oriented on efficiency factor, but rather a direct consequence of the motivation and rationality which is owned by the actors in it. Motivation and rationality is based on the purpose of its organization, which is to obtain legitimacy from the parties concerned. According to Scott and Meyer (1994), elements of institutional theory are institutions, organizations and the people. Institutions provide rules that must be followed by the organizations in conducting its activities and in its involvement in the competition. Institutions will also influence the behavior and views owned by the people in its organization individually. Scott (1995) showed that, in order to survive, organizations must abide by the rules and belief systems prevailing in the environment.

2. Linkages between NIT and the adoption of IFRS

Legitimacy can be achieved if the organizations, in the process of their activities is in accordance with the norms, rules and values in their institutional environment. Mezias (1990) provided a compelling argument about why the institutional theory is useful in understanding the financial reporting practices. According to Mezias (1990), the financial reporting practices are relatively routine and involve the interests of various parties including the accounting professions, individuals in organizations, and regulatory agencies. From the arguments above, we can formulated that institutional theory can be used to understand why the adoption of IFRS on a company is important to do by those who sit as the decision maker.

3. Legitimacy Theory

The legitimacy of the community is a strategic factor for the company in order to develop the company into the future. It can be used as a mode for the construction of the company's strategy, primarily related to efforts on positioning itself in the middle of the more advanced society. The legitimacy of the organization can be seen as something desirable or sought from the company to its people. Thus, legitimacy is a benefit or a potential resource for companies to survive (going concern).

Various studies on IFRS have been carried out, but the focus of research on the adoption of IFRS on the level of profitability and the tax rate is still limited. Ria Febria (2013) states that there is a decrease in earnings management in the period after the adoption of IFRS. The results in value relevance also showed that there was no increase after the period of the adoption of IFRS. Yunni Angela Yustisia (2012) states that there is a significant difference between the total amount of assets before and after the application of SFAS 13 (after the adoption of IFRS) on investment properties and there is a significant difference between the profit of the company before and after the application of SFAS 13 (after the adoption of IFRS) on the property investment. Ilham (2010) states that the application of SFAS 13 (after the adoption of IFRS) on investment properties which allow companies to use fair value on investment property valuation gives significant impact on corporate profits. Hellman (2011) and Murni (2011) said that there was an increase in net profit, shareholders' equity, assets and liabilities following the IFRS standards. Zeghal, Chtourou and Fourati (2012) which states that the adoption of IFRS can improve the quality of financial reporting, with the specification that IFRS are able to lower earnings management, improve the timeliness, conditional conservatism, and value relevance.

III. Research Methodology

The subject of this research is manufacturing companies listed in Indonesia Stock Exchange (BEI) that can be accessed in www.idx.com. This research is a causal research design, which analyzes the effect of one or more independent variables (independent variables) on the dependent variable (the dependent variable). The population was 139 companies listed in the Indonesia Stock Exchange. Sample selection is done with purposive random sampling method, the sample selection based on predetermined criteria. After making observations, of the 139 companies, author is able to acquired 43 companies as the final sample based on the predetermined criteria. Determination of the number of samples are detailed in the following table:

Table 3.1

Table of Predetermined Criteria Sample

Descriptions		**Total Companies**
Manufacturing companies listed in BEI for the periode of 2019 – 2012		139
Companies excluded from the sample:		
-	Currency not in Rupiah	-22
-	Incomplete Data	-20
-	The profit is negative	-3
-	The cash flows is negative	-49
-	Tax is overpayment	-2
Companies used as sample for every periods		**43**

Source : Secondary data processed on February 2014

This type of research is chosen because the purpose of this study is to describe its research variables that is in accordance with the hypothesis used in this study, which consisted of constructs that affect the level of corporate profitability such as ROA, ROE, and the amount of corporate income tax.

IV. Definitions and Operationalization Variable

1. Return Assets (Return on Assets)

Return on Assets measures the company's ability to utilize its assets in order to make profit. According to Dwi Prastowo (2008), this ratio measures the level of return on the investments made by the company using all the funds (assets) it posessed. Likewise, according to Robert C. Fink and Ann Harrison (1999: 72), states that: "ROA as the same income a company generates during normal operation dividend by its total assets. This calculation determines how well a company is using its assets to generate income. "

2. Results Return Equity (Return on Equity / ROE)

Results of return on equity or equity profitability is a ratio to measure the net after tax with their own capital. This ratio indicates the efficient use of capital itself. The higher the results is the better. It means that the position of the owner of the company is getting stronger, and vice versa.

3. Corporate Income Tax

Income tax is a tax levied on the subject of taxes both for individuals and entities, in respect of income received or accrued during the taxable year. Basic law of income tax is Act 17 of 2000 on the third amendment of Act No. 7 of 1983 on Income Tax details stipulated through Government Regulation, Presidential Decree, the Minister of Finance, decision of the Directorate General of Taxation, and Circular Directorate General of Taxation.

4. Measurement of Variables

a. Results Return Assets (Return on Assets)

Formula that often used to calculate the Return on Assets (ROA) is:

$$ROA = \frac{\text{Laba Setelah Pajak}}{\textit{Total Assets}} \text{ X } 100\%$$

b. Results Return Equity (Return on Equity / ROE)

The formula to figure Return on Equity (ROE) can be used as follows:

$$\textit{Return on Equity (ROE)} = \frac{\textit{Earning After Interest and Tax}}{\textit{Equity}}$$

c. Corporate Income Tax

The formula used to be able to see the effect of applying IFRS to the corporate income tax paid by the company is:

$$\textit{Total amount of Tax Income} = \frac{\textit{Income tax per year}}{\textit{Net Profit per year}} \textit{ x } 100\%$$

VI. Descriptive Statistics

The variables of this study consisted of Profitability Ratios Rate and Amount of Tax. Results of the data analysis through descriptive statistical processing of these variables are presented in Table 1

Table 1

Descriptive Statistics

	N	Mean	Std. Deviation
ROA_Before	43	0,13	0,092
ROA_After	43	0,14	0,092
ROE_Before	43	3,39	6,908
ROE_After	43	4,73	9,634
Tax_Before	43	0,27	0,083
Tax_After	43	0,25	0,076
Valid N (listwise)	43		

As seen in Table 1, for the period after the IFRS, the average value of ROA is 0.14 and the standard deviation is 0.092. Whereas in the period before the IFRS, the average value of ROA is 0.13 with the same standard deviation 0.092. The same standard deviation indicates that there is no change in the results in ROA that generated from net profit after tax than the period prior to IFRS. Increase in the average of ROA in the period after IFRS is happen due to the decrease in the value of total assets which quite significant despite the profit after tax also experienced a decline based on the numbers of data samples.

The average scores for ROE (4,73) and standard deviation (9.634) are significantly bigger after application of IFRS than before the adoption of IFRS (median value = 3.39; standard deviation = 6.908), indicating that the decline in equity is considered quite big if compared with before the implementation of IFRS, although profit after tax is also decreased. The contrast is happened with the amount of income tax paid by the company that actually declined at an average value of 0.25 and a decrease in the standard deviation (0.76) after the application of IFRS. Whereas before the IFRS, the average value is 0.27 and the standard deviation is 0.83. This indicates a difference in recording methods, because one time, the tax payment is records based on historical cost, and when IFRS is being implemented, it is records based on fair value, so the amount of income tax before and after the adoption of IFRS shows a huge difference.

Results of all data test with the total sample of companies listed on the Stock Exchange as many as 43 companies that retrieved based on the criteria outlined in the sampling procedure. Here's a classic assumption test results can be seen in the following table:

Table 2
Classic Assumption Test

		Mean	N	Std. Deviation	Std. Error Mean
	ROA_Before	0,13	43	0,092	0,014
Pair 1	ROA_After	0,14	43	0,092	0,014
	ROE_Before	3,39	43	6,908	1,053
Pair 2	ROE_After	4,73	43	9,634	1,469
	Tax_Before	0,27	43	0,083	0,013
Pair 3	Tax_After	0,25	43	0,076	0,012

Based on Table 2, the profitability rate as measured before and after the implementation of IFRS through return on assets (ROA) and return on equity (ROE), are likely to increase. Except for the standard deviation of the results of the average ROA and ROA Standard Error with static results or no changes both before and after the implementation of IFRS. If compared before the implementation of IFRS, it shows an increase on the profitability rate after the implementation of IFRS. Inversely, the amount of income tax results before IFRS experienced a decline in the amount of its income tax after the implementation of IFRS.

Table 3
Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	ROA_Before & ROA_After	43	0,879	0
Pair 2	ROE_Before & ROE_After	43	0,996	0
Pair 3	Tax_Before & Tax_After	43	0,308	0,044

Based on Table 3, ROA $r = 0.879$; ROE $r = 0.996$ with p values and the column sig. shows 0 for both ROA and ROE. It means that the productivity correlation for before and after the adoption of IFRS is very strong, because of r close to 1 and the result was significant at 95% confidence level for $p < 0.05$. However, for the results of the income tax, r = 0,308 with sig column. Shows 0,044 means the productivity correlation for before and after the implementation of IFRS is considered as weak.

Tabel 4
Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ROA_Before ROA_After	-0,009	0,045	0,007	-0,023	0,005	-1,335	42	0,189
Pair 2	ROE_Before ROE_After	-1,348	2,819	0,43	-2,215	-0,48	-3,135	42	0,003
Pair 3	Tax_Before Tax_After	0,02	0,093	0,014	-0,009	0,048	1,379	42	0,175

Test criteria used to accept or reject H_{01} is if t < *t table*, then H_{01} will be accepted but if t > *t table* then H_{02} is rejected, which means there is significant influence with the International Financial Reporting Standards (IFRS) for the company's profitability.

Based on the results of paired samples t-test, author obtained *t score* of -1.335 for the ROA; *t score* of -3.135 for the ROE; while the value of *t table* amounted to 2.018. So for ROA -1.335 t < *t table* 2.018; t for ROE -3.135 < t

table 2.018. Thus H_{a1} is accepted and H_{01} rejected. This shows that the profitability of the company before and after applying the IFRS program has a significant difference.
While the test criteria used to accept or reject H_{02} is if $t < t\ table$ then H_{02} will be accepted but if $t > t\ table$ then H_{02} will be rejected, which means the application of IFRS affects the corporate income tax. Based on the results of paired samples t-test, the *t score* is 1,379 while the value of *t table* amounted to 2.018. So 1,379 $t < t\ table$ 2.018. Thus H_{02} is accepted and H_{a2} is rejected.

VII. Results and Implications

Based on the test results of the study of manufacturing companies before and after the implementation of IFRS listed in the Indonesia Stock Exchange, it can be concluded that:

a. There are differences in the average of profitability of the companies before and after the application of the International Financial Reporting Standard (IFRS).
b. There are differences in the average corporate income tax rate before and after the application of International Financial Reporting Standards (IFRS).

This study aimed to analyzes the differences of profitability rate and the amount of income tax before and after the adoption of IFRS. Testing period before the adoption of IFRS to use financial statement data listed on the JSE in 2009-2010, while for the period subsequent to IFRS using the data in 2011-2012 The testing is done by comparing the two-dimensional profitability is Return on Assets, Return on equity (ROE), as well as one-dimensional corporate income tax rate in the period before and after the adoption of IFRS. The results show that there is an increase in the average ratio of the company's profitability in the period after the adoption of IFRS. Profitability results also showed that there was no increase in the value of the amount of taxes to earnings before tax after a period of adoption of IFRS.
These findings are not consistent with previous research, Ria Febria (2013) which states that there is no decline in earnings management in the period after the adoption of IFRS. Relevance value results also showed that there was no increase in the value relevance of the accounting information after the period of the adoption of IFRS. Zeghal, Chtourou and Fourati (2012) which states that the adoption of IFRS can improve the quality of financial reporting, with the specification that IFRS are able to lower earnings management, improve the timeliness, conditional conservatism, and value relevance. Hellman (2011) said that there was an increase in net profit, shareholders' equity, assets and liabilities following the IFRS standards. However, this finding is consistent with research conducted by Yustisia (2012) which states that there is a significant difference between the total amount of assets before and after the application of SFAS 13 (after the adoption of IFRS) on investment properties and there is a significant difference between the profit of the company before and after the application of SFAS 13 (after the adoption of IFRS) on investment properties. Ilham (2010) states that the application of SFAS 13 (after the adoption of IFRS) on investment properties which allow companies to use fair value on investment property valuation have significant impacts on corporate profits.
IFRS standards which use principles-based, is in need of reasoning, judgment, and a deep understanding of the reader in applying the rules, lack of detailed instructions or guidance may indicates that managers have greater flexibility. Business environment and a fundamentally different situation also determine the form and content of accounting standards.

VIII. Suggestions

The advice given to next similar studies is to multiply the numbers of sample, mainly to avoid bias research. Extend the period of the study after a period of adoption of IFRS, in this study the period before and after each only use the data two years. Future research may also consider the implementation of complete and thorough IFRS-based GAAP, negative earnings, negative cash flow to add variety to the results of research by testing the other dimensions of the profitability of the company and the amount of corporate income tax, such as conservatism and timeliness, comparability, predictability and persistence.

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LIST OF COMPANY

No	The Name of Manufacturing Company Listed in Indonesian Stock Exchange	Code
1	Delta Djakarta Tbk	DLTA
2	Indofood CBP Sukses Makmur Tbk	ICBP
3	Indofood Sukses Makmur Tbk	INDF
4	Nippon Indosari Corporindo Tbk	ROTI
5	Ultrajaya Milk Industry and Trading Company Tbk	ULTJ
6	Handjaya Mandala Sampoerna Tbk	HMSP
7	Darya Varia Laboratoria Tbk	DVLA
8	Kimia Farma Tbk	KAEF
9	Kalbe Farma Tbk	KLBF
10	Merck Tbk	MERK
11	Taisho Pharmacetical Indonesia Tbk (SQBB)	SQBI
12	Tempo Scan pasific Tbk	TSPC
13	Mandom Indonesia Tbk	TCID
14	Unilever Indonesia Tbk	UNVR
15	Indocement Tunggal Perkasa Tbk	INTP
16	Holcim Indonesia Tbk	SMCB
17	Semen Indonesia (persero) Tbk	SMGR
18	Asahimas Flat Glass Tbk	AMFG
19	Arwana Citra Mulia Tbk	ARNA
20	Surya Toto Indonesia Tbk	TOTO
21	Beton Jaya Manunggal Tbk	BTON
22	Lion Metal Works Tbk	LION
23	Lionmesh Prima Tbk	LMSH
24	Budi Acid Jaya Tbk	BUDI
25	Ekadharma International Tbk	EKAD
26	Berlina Tbk	BRNA
27	Champion Pasific Indonesia Tbk	IGAR
28	Trias Sentosa Tbk	TRST
29	Charoen Pokphand Indonesia Tbk	CPIN
30	Malindo Feedmill Tbk	MAIN
31	Fajar Surya Wisesa Tbk	FASW
32	Suparma Tbk	SPMA
33	Astra International Tbk	ASII
34	Astra Otopart Tbk	AUTO
35	Gajah Tunggal Tbk	GJTL
36	Multi Prima Sejahtera Tbk	LPIN
37	Selamat Sempurna Tbk	SMSM
38	Pan Brothers Tbk	PBRX
39	Ricky Putra Globalindo Tbk	RICY
40	Sepatu Bata Tbk	BATA
41	Primarindo Asia Infrastructure Tbk	BIMA
42	KMI Wire and Cable Tbk	KBLI
43	Voksel Electric Tbk	VOKS