

IFRS Convergence and Accounting Quality

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Abstract

Purpose: This study aims to empirically prove the impacts of IFRS convergence on the quality of information. Methods: This study used non-finance companies listed on the Indonesian Stock Exchange as research samples. The total number of samples consisted of 181 companies with a total of 2,511 observations. The research hypotheses were examined using multiple linear regression. Findings: This study indicates that the implementation of IFRS convergence in Indonesia does not guarantee improvements in information quality. Therefore, strict regulation and good governance are needed to support the implementation of IFRS convergence. Limitation: The research samples were limited to Indonesian non-finance companies. Practical Implications: Company managers need to enforce regulations and strengthen internal and external governance mechanisms to improve the quality of information. Originality/Value: This study examines accounting quality using data from longer periods, precisely four years before the full adoption (2008-2011) and ten years after the full adoption (2012-2021).

Keywords: IFRS Convergence, Accounting Quality, Value Relevance, Price Earnings, Return Earnings.

INTRODUCTION

The rapid changes in the business world, which has become more globalized, have encouraged the growth of international markets and increased foreign investments (Joshi et al., 2016). These changes have led regulators to develop a set of international accounting standards (Ebaid, 2016). The International Accounting Standards Board (IASB) has developed International Financial Reporting Standards (IFRS) to unify capital markets through the convergence of globally accepted accounting standards, where financial reporting across the world uses a universal language (Houqe et al., 2014; Karapınar & Zaif, 2022; Srivastava & Muharam, 2022). This standardization facilitates the users of financial reports in comparing the financial information of entities from all parts of the world.

IFRS has become a single, high-quality international accounting standard (Fuad et al., 2019). The benefits of IFRS implementation in a country include improving accounting quality (ElKelish, 2021), comparability of international financial reporting, and transparency of a company's financial reports (Joshi et al., 2016; Karapınar & Zaif, 2022). Additionally, IFRS helps minimize capital costs and facilitates better investment decisions (Adhikari et al., 2021). Since its first introduction, IFRS has been fully adopted and converged with national accounting standards in 144 countries. Indonesia, one of the Southeast Asian countries with rapid economic growth, also updated its economic policies through IFRS convergence. It is expected that this convergence will attract more investors to Indonesia (Srivastava & Muharam, 2022). Investors tend to trust companies that adhere to qualified international accounting standards, consisting reliable, consistent, relevant, comparable, and neutral comprehensive principles.

The Financial Accounting Standards Council of the Indonesian Accounting Association (known as DSAK-IAI in Indonesian) has planned three phases for IFRS convergence: the adoption phase from 2008 to 2011, the infrastructure preparation phase in 2011, and the implementation phase in 2012 (Siregar et al., 2020). The financial accounting standard regulation that has been converged with IFRS also becomes principle-based and requires professional considerations and better integrity and competencies. Implementing principle-based regulations may effectively mitigate issues in accounting practices and result in cost reduction while evaluating the risks and opportunities associated with global market investments.

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The adoption of IFRS has yielded substantial outcomes in many countries where it has been implemented. Previous research has investigated the impacts of IFRS on accounting quality. However, it remains debatable whether IFRS provides similar results in countries that have fully adopted it and in those that have converged with it. Studies conducted by Klish et al. (2022), ElKelish (2021), Saji (2021), and Houqe et al. (2014) found that the adoption of IFRS is beneficial in improving the quality of accounting reports (Ab Klish et al., 2021; ElKelish, 2021; Houqe et al., 2014; Saji, 2022). Companies that have adopted IFRS exhibit better accounting report quality than those that have not implemented IFRS. The adoption of IFRS leads to lower income smoothing (Ab Klish et al., 2021), more timely loss recognition (Key & Kim, 2020), increased transparency of company financial reports (Houqe et al., 2014), and improved relevance and faithful representation of accounting information (Krismiaji et al., 2016).

Contrary to these findings, a study by Adhikari et al. (2021) indicated that accounting quality deteriorated soon after IFRS convergence (Adhikari et al., 2021). The adoption of IFRS resulted in lower net profit variability, higher discretionary accruals, less timely loss recognition, and lower value relevance than reported earnings. IFRS adoption and convergence did not lead to an improvement in the quality of financial accounting information. There was no significant difference in company accruals and income smoothing before and after the adoption of IFRS (Fuad et al., 2019; Kouki, 2018; Lenormand & Touchais, 2021; Morais et al., 2018).

This study is based on the agency theory, where a company is formed through contracts between principals and agents. This relationship causes asymmetrical information and conflicts of interest (Jensen & Meckling, 1976). A company improves its internal controlling system, governance (ElKelish, 2021; Jensen & Meckling, 1976), and accounting information quality to overcome agency issues. Improvements in accounting information quality serve as a positive signal for the principals, allowing them to use this qualified information as a basis for decision-making.

There are several reasons why this study needs to be conducted. First, this study aims to provide advanced empirical evidence of the effects of IFRS convergence on the quality of accounting in Indonesia. Indonesia is one of the countries with the most rapid economic growth in Asia. The country has decided to revolutionize its economic policies to increase foreign investments (Srivastava & Muharam, 2022). IFRS enforcement can improve the quality of information in company financial reports. Better information quality positively impacts the improvement of incoming global capital flows and strengthens Indonesian capital markets. Unlike other countries that fully adopt IFRS or adopt it in a "big-bang" manner, Indonesia attempts to adopt IFRS through a convergence process by making several adjustments while maintaining some local non-IFRS standards (Fuad et al., 2019). IFRS convergence in Indonesia was initiated by a compliance process in 2008 and followed by a final preparation phase in 2011. Indonesia fully committed to comprehensively carrying out IFRS convergence in 2012 (Siregar et al., 2020).

Second, unlike previous studies conducted by Srivastava and Muharram (2022) and Krismiaji et al. (2016) that examined accounting quality using data from before the adoption period, this study attempts to examine accounting quality using data from longer periods, precisely four years before the full adoption (2008-2011) and ten years after the full adoption (2012-2021) (Krismiaji et al., 2016; Srivastava & Muharam, 2022). This study enables a comprehensive comparison of accounting quality before and after the adoption period.

Third, this study attempts to measure information quality based on two models: the model developed by Ohlson (1995), where accounting quality correlates with company stock price, and the model developed by Easton and Harris (1991), which uses stock returns explained by earnings and earnings variability (Easton & Harris, 1991; Ohlson, 1995).

Based on the aforementioned background, the research question formulated in this study is whether IFRS convergence improves the value relevance of equity book value and earnings, as well as the value relevance of earnings and the change in earnings.

This study contributes to the development of research literature related to accounting quality. The authors attempt to examine further the impacts of IFRS convergence on company accounting quality using companies listed on the Indonesian Stock Exchange as research samples. The findings of this study are expected to benefit

internal and external stakeholders by enhancing their understanding of the impacts of IFRS convergence on company accounting quality and help improve the implementation of IFRS convergence in the future.

The next part of this paper contains reviews of literature relevant to the research topic. The third part covers research methodology, population, and samples. The fourth part discusses the findings of this study. The final part presents research conclusions, limitations, and suggestions for future research.

Literature Review and Hypothesis Development

LITERATURE REVIEW

Agency Theory

The agency theory proposed by Jensen and Meckling (1976) states that a company is a set of contracts between company principals and agents (Jensen & Meckling, 1976). The principals employ the agents and delegate service functions and decision-making authorities to them. This agency relationship causes information asymmetry and conflicts of interest. Agents, being directly involved in the company's daily activities, possess more information than the principals. This information asymmetry eventually creates opportunities for agents to pursue their goals and maximize their earnings (Bansal & Garg, 2021; Jensen & Meckling, 1976). Agents are not always oriented toward the principals' best interests.

To overcome and reduce these agency issues, the supporters of agency theory advise companies to improve their internal control systems and upgrade their corporate governance (ElKelish, 2021; Jensen & Meckling, 1976). Information asymmetry issues can be mitigated by improving the quality of company accounting information (Krismiaji et al., 2016). One approach to improving accounting information quality is implementing IFRS as a mechanism to control the relationship between principals and agents (Ebaid, 2016). By implementing IFRS, companies can encourage their agents to improve the quality of their information. In other words, the implementation of IFRS will improve accounting quality (ElKelish, 2021). Improvements in a company's financial accounting quality serve as a positive signal for the principals, allowing them to use this qualified information as a basis for decision-making.

International Financial Reporting Standards (IFRS) Convergence in Indonesia

The adoption rate of IFRS is different in every country. According to the IFRS Foundation (2013), some countries carry out total adoption without making any changes to the contents of IFRS, commonly known as full adoption. Other countries adopt IFRS by making certain adjustments according to their national conditions, known as "convergence." According to a study conducted by Fuad et al. (2019), Indonesia adopted IFRS with several adjustments to its local standards (Fuad et al., 2019). Through convergence, the quality of accounting information is expected to improve and benefit stakeholders in Indonesia (Krismiaji et al., 2016; Srivastava & Muharam, 2022).

The Financial Accounting Standards (known in Indonesian as *Standar Akuntansi Keuangan* or SAK) issued by the Council of Accounting Standards of the Indonesian Accounting Association (DSAK-IAI) are regularly revised. In 2008, DSAK-IAI announced its commitment to support IFRS achievements and gradually converge SAK to IFRS. IFRS convergence is one of the agreements between the Indonesian government and other members of the G-20. Stage one of convergence began in 2012, referring to IFRS as of January 1, 2009 (IAI, 2022). IFRS convergence continued to the second stage, which ran from 2013 to 2014 and became effective as of January 1, 2015. This second stage of convergence referred to IFRS as of January 1, 2014. The Financial Accounting Standards, effective as of June 1, 2015, consist of Statements of Financial Accounting Standards (PSAK), Interpretations of Financial Accounting Standards (ISAK), revisions, and amendments. This SAK is also complemented by the Statement of Revocation of Financial Accounting Standards (PPSAK) and non-IFRS accounting standards.

The 2012 Indonesian financial accounting standards converged with the 2009 IFRS, creating a three-year gap (Fuad et al., 2019). This delay was due to a lack of resources in Indonesia, causing a relatively longer adoption period. In 2014, the second stage of convergence occurred, with the PSAK effective as of January 2015 and

converging with the 2014 IFRS. The convergence gap between the effective dates of IFRS and SAK was reduced from three years to one year (Siregar et al., 2020). DSAK-IAI maintained this one-year gap until 2022, with SAK effective as of January 1, 2022, referring to IFRS as of January 1, 2021.

Hypothesis Development

Impacts of the International Financial Reporting Standards Convergence on Accounting Quality

Financial reports are beneficial for company stakeholders as the main medium to deliver information regarding the performance of company governance (Habib et al., 2019). According to the agency theory, company shareholders possess less information than company managers, who deal with and are closely involved in the company's daily operations. To address this information asymmetry, company managers need to publish financial statements and improve their internal control systems (Jensen & Meckling, 1976). Improved accounting information quality can also overcome agency issues between agents and principals (Krismiaji et al., 2016).

Previous studies have examined the impacts of IFRS on accounting quality. The findings of these studies indicated that IFRS adoption and convergence could improve the quality of accounting information, signified by improved financial statement transparency (Houque et al., 2014), decreased income smoothing (Ab Klish et al., 2021), decreased loss recognition and discretionary accruals (Hao et al., 2019), as well as improved accounting earnings value relevance and improved company book value (Isaboke & Chen, 2019; Kouki, 2018; Srivastava & Muharam, 2022).

Several factors contribute to improving accounting quality after IFRS adoption and convergence. IFRS is a set of high-quality international accounting standards that reduces managerial policies on accounting options regarding opportunistic earnings. These standards prevent managers from engaging in income smoothing, meaning they cannot mark up their income (Key & Kim, 2020). IFRS promotes persistent and more conservative income reporting. Additionally, IFRS supports the use of fair value accounting, increasing the relevance of accounting information (Krismiaji et al., 2016; Srivastava & Muharam, 2022). Value relevance indicates the ability of accounting information to reflect market values. Accounting information is considered relevant if it accurately describes the company's actual economic conditions, characterized by a strong relationship between stock prices or returns and the book value of equity and earnings. Enhanced value relevance helps investors make informed and accurate decisions (Hao et al., 2019; Saji, 2022). Based on this explanation, this study aims to examine the effects of IFRS convergence on accounting quality. Therefore, the research hypotheses proposed in this study are:

H1a: The value relevance of equity book value and earnings increased after IFRS convergence.

H1b: The value relevance of earnings and changes in earnings increased after IFRS convergence.

Research Method

Operational Definitions and Variable Measurement

Table 1. Description of Variables

| Variable | Symbol | Description | Source |
|--------------------|--------|---|--------------------------|
| Stock Price | P | P_{it} refers to the price of stocks of company i at time t by the end of the fiscal year (December 31) | OSIRIS |
| Stock Return | R | R_{it} refers to stock returns of company i at time t measured based on $((P_{it} + D_{it}) - P_{i(t-1)}) / P_{i(t-1)}$ ratio. | OSIRIS |
| Earnings per Share | EPS | EPS_{it} refers to earnings per share of company i at time t , measured by dividing net income by the number of company shares outstanding. | OSIRIS and annual report |

| | | | |
|-----------------------------|---------------------|--|--------------------------|
| Book Value Equity per Share | BVEPS | BVEPS _{it} refers to the book value of equity per share of company <i>i</i> at time <i>t</i> , measured by dividing the book value of equity by the number of company shares outstanding. | OSIRIS and annual report |
| Earnings | Earn | Earn _{it} is measured based on EPS _{it} /P _{it(t-1)} ratio | OSIRIS |
| Variable | Symbol | Description | Source |
| Earning Changes | ΔEarn | ΔEarn _{it} refers to changes in EPS of company <i>i</i> at time <i>t</i> measured based on ((EPS _{it} - EPS _{it(t-1)})/P _{it(t-1)}) ratio. | OSIRIS |
| IFRS | IFRS | IFRS is measured using dummy variables. 1 will be given on the post-IFRS period (2012-2021) and 0 will be given on the pre-IFRS period (2002-2011) | Annual report |
| Company Size | FSIZE _{it} | FSIZE is measured using the natural logarithm of the company's total assets | Annual report |
| Leverage | Lev | Lev refers to the ratio used to measure a company's capability to pay off all of its liabilities, measured by the ratio of total liabilities to total equities. | Annual report |
| Market to Book Value | MTB | MTB is measured using the ratio of market value to book value of equity at time <i>t</i> | OSIRIS and annual report |
| Growth Opportunity | Growth | Growth is used to identify the growth opportunity of a company, measured by ((Sales _{it} - Sales _{it(t-1)})/Sales _{it(t-1)}) ratio. | Annual report |

Source: Processed data (2023)

The dependent variable used in this study was information quality, measured using value relevance. The authors used two value relevance models: the model developed by Ohlson (1995), which relates to stock price, and the model developed by Easton and Harris (1991), which relates to stock returns explained by earnings and earnings changes (Easton & Harris, 1991; Ohlson, 1995). This study employed IFRS as the moderating variable and several control variables to clarify the interpretation of research findings. The control variables were company size (FSIZE), leverage (Lev), market-to-book value (MTB), and growth opportunity (Growth). The operational definitions and measurements of each variable are presented in Table 1 above.

Population and Sample

This study employed a quantitative approach to obtain empirical proof of the effects of IFRS convergence on accounting quality. Research data were obtained from OSIRIS and company annual reports accessed at www.idx.co.id or company official websites. The population of this study comprised all companies listed on the Indonesian Stock Exchange from 2008-2021. The authors chose this period to examine accounting quality using data from a longer timeframe, both before and after IFRS convergence. Research samples were selected based on the following criteria:

Non-finance companies listed on the Indonesian Stock Exchange from 2008-2021.

Non-finance companies with complete data required for this research.

The authors excluded finance companies and insurance companies due to their specific accounting practices. The samples were classified into two sub-samples: pre-IFRS (2008-2011 period) and post-IFRS (2012-2021 period). Based on compliance with the predetermined research criteria, the final sample in this study consisted of 181 companies with a total of 2,511 observations. The results of the sampling process are presented in the following table:

Table 2. Sampling Criteria

| Criteria | Pre-IFRS | Post-IFRS | Number of Observations |
|---|----------|-----------|------------------------|
| Non-finance companies listed on the Indonesian Stock Exchange | 715 | 1,796 | 2,511 Observations |
| Excluded | | | |
| Companies without complete data | - | - | 0 Observations |
| Research Samples | 715 | 1,796 | 2,511 Observations |

Source: Processed data (2023)

Research Models

Information quality was measured using value relevance. The authors employed two value relevance models. The first model, which relates to company stock prices, was developed by Ohlson (1995). The equation for the first model is as follows:

$$P_{it} = \beta_0 + \beta_1 BVEPS_{it} + \beta_2 EPS_{it} + \beta_3 IFRS_{it} + \beta_4 BVEPS_{it} * IFRS_{it} + \beta_5 EPS_{it} * IFRS_{it} + \beta_6 FSIZE + \beta_7 Lev + \beta_8 MTB + \beta_9 Growth + \epsilon_{it}$$

..... (1)

Where:

P = stock price of company *i* at the time *t* by the end of a fiscal year (December 31)

BVEPS = book value equity per share of company *i* at the time *t*

EPS = Earnings per share of company *i* at the time *t*

IFRS = dummy variable, 1 score is given to the post-IFRS period (2012-2021), and 0 score is given to the pre-IFRS period (2008-2011)

The second model was developed by Easton and Harris (1991). This model assumes that stock return can be explained by earnings and earnings changes. The equation for this model is as follows:

$$R_{it} = \beta_0 + \beta_1 Earn_{it} + \beta_2 \Delta Earn_{it} + \beta_3 IFRS_{it} + \beta_4 Earn_{it} * IFRS_{it} + \beta_5 \Delta Earn_{it} * IFRS_{it} + \beta_6 FSIZE + \beta_7 Lev + \beta_8 MTB + \beta_9 Growth + \epsilon_{it}$$

..... (2)

Where:

R = stock returns of company *i* at the time *t*

Earn = Earnings of company *i* at the time *t*

ΔEarn = Earning changes of company *i* at the time *t*

IFRS = dummy variable, 1 score is given to the post-IFRS period (2012-2021), and 0 score is given to the pre-IFRS period (2008-2011)

FINDINGS AND DISCUSSION

Descriptive Statistics and Pearson Correlation Test

The results of the descriptive statistics and Pearson correlation test on the price-earnings model are presented in Table 3 below. The descriptive statistics were carried out on the full sample, which consisted of 2,511 observations. The average stock price in Indonesia from 2008-2021 was IDR2,079.62, with a median value of IDR450, a minimum value of IDR7,375, and a maximum value of IDR 83,800. The average BVEPS value was 1.50, with a median value of 0.40. The average EPS value was 0.21, with a median value of 0.02. IFRS was measured using a dummy variable, with a score of 1 if it was in the period after IFRS convergence in 2012-2021 and 0 otherwise. The IFRS mean was 0.72, with a median of 1. The results of the Pearson correlation test revealed a positive correlation between book value equity per share, earnings per share, IFRS, firm size, and market-to-book value ratio variables and the stock price variable, with a significance rate of 1%. A negative correlation was observed between the leverage variable and the company stock price variable, with a significance rate of 1%. A positive correlation signifies a linear relationship, while a negative correlation signifies an inverse relationship.

The results of the descriptive statistics and Pearson correlation test on the returns-earnings model are presented in Table 4 below. The descriptive statistics were carried out on the full sample, which consisted of 2,511 observations. The average stock returns in Indonesia during the 2008-2021 period was 0.296, with a median value of 0.009, a minimum value of -1, and a maximum value of 63,642. The average earning value was 0.000,

with a median value of 0.000. The average value of Δ Earn was 0.000, with a median value of 0.000. The average value of IFRS was 0.715, with a median value of 1. The results of the Pearson correlation test revealed a positive correlation between earnings, Δ Earn, and market-to-book variables and the stock returns variable. A negative correlation was observed between the FSIZE variable and the company stock return variable. A positive correlation indicates a linear relationship, while a negative correlation indicates an inverse relationship.

Table 3. Results of the Descriptive Statistics and Pearson Correlation Test of the Price-Earnings Model

| Variables | Mean | Median | Minimum | Maximum |
|--|-----------|-----------|-------------|-------------|
| <i>Panel A: Descriptive statistics</i> | | | | |
| P | 2,079.617 | 450,000 | 7,375 | 83,800.000 |
| BVEPS | 1,502 | 0.402 | -12,182 | 270,153 |
| EPS | 0.211 | 0.026 | -17,350 | 60,656 |
| IFRS | 0.715 | 1,000 | 0.000 | 1,000 |
| FSIZE | 19,916 | 20,850 | 9,010 | 26,629 |
| Lev | 0.589 | 0.508 | 0.004 | 10,489 |
| MTB | 2,325.395 | 1,000.279 | -96,146.529 | 27,4820.713 |
| Growth | 0.688 | 0.062 | -0.998 | 901,291 |

Panel B: Correlation between variables

| Variables | P | BVEPS | EPS | IFRS | FSIZE | Lev | MTB | Growth |
|-----------|----------------------|----------------------|--------------------|---------------------|----------------------|--------------------|---------------------|--------|
| P | 1,000 | | | | | | | |
| BVEPS | 0.406*** (0.000) | 1,000 | | | | | | |
| EPS | 0.345*** (0.000) | 0.854*** (0.000) | 1,000 | | | | | |
| IFRS | 0.074*** (0.000) | 0.060*** (0.003) | 0.037* (0.067) | 1,000 | | | | |
| FSIZE | 0.189*** (0.000) | 0.055*** (0.006) | 0.047** (0.019) | 0.077*** (0.000) | 1,000 | | | |
| Lev | -0.093*** (0.000) | -0.080*** (0.000) | -0.032 (0.111) | -0.029 (0.152) | -0.233*** (0.000) | 1,000 | | |
| MTB | 0.139*** (0.000) | -0.019 (0.339) | -0.001 (0.963) | 0.018 (0.355) | 0.076*** (0.000) | -0.033* (0.097) | 1,000 | |
| Growth | -0.004 (0.822) | -0.005 (0.809) | -0.003 (0.892) | -0.033* (0.095) | -0.032 (0.109) | 0.015 (0.441) | 0.132*** (0.000) | 1,000 |

p-values in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Processed data (2023)

Table 4. Results of the Descriptive Statistics and Pearson Correlation Test of the Returns-Earnings Model

| Variables | Mean | Median | Minimum | Maximum |
|--|-----------|-----------|-------------|-------------|
| <i>Panel A: Descriptive statistics</i> | | | | |
| R | 0.296 | 0.009 | -1,000 | 63,642 |
| Earn | 0.000 | 0.000 | -0.016 | 0.010 |
| Δ earn | 0.000 | 0.000 | -0.016 | 0.029 |
| IFRS | 0.715 | 1,000 | 0.000 | 1,000 |
| FSIZE | 19,916 | 20,850 | 9,010 | 26,629 |
| Lev | 0.589 | 0.508 | 0.004 | 10,489 |
| MTB | 2,325.395 | 1,000.279 | -96,146.529 | 274,820.713 |
| Growth | 0.688 | 0.062 | -0.998 | 901,291 |

Panel B: Correlation between variables

| | R | Earn | ΔEarn | IFRS | FSIZE | Lev | MTB | Growth |
|--------|----------------------|----------------------|----------------------|---------------------|----------------------|--------------------|---------------------|--------|
| R | 1,000 | | | | | | | |
| Earn | 0.073*** (0.000) | 1,000 | | | | | | |
| ΔEarn | 0.048** (0.017) | 0.574*** (0.000) | 1,000 | | | | | |
| IFRS | -0.017 (0.407) | -0.050** (0.012) | -0.047** (0.017) | 1,000 | | | | |
| FSIZE | -0.070*** (0.000) | 0.048** (0.017) | -0.056*** (0.005) | 0.077*** (0.000) | 1,000 | | | |
| Lev | -0.011 (0.576) | -0.177*** (0.000) | 0.096*** (0.000) | -0.029 (0.152) | -0.233*** (0.000) | 1,000 | | |
| MTB | 0.034* (0.087) | 0.016 (0.413) | -0.003 (0.866) | 0.018 (0.355) | 0.076*** (0.000) | -0.033* (0.097) | 1,000 | |
| Growth | 0.030 (0.131) | -0.010 (0.611) | -0.009 (0.647) | -0.033* (0.095) | -0.032 (0.109) | 0.015 (0.441) | 0.132*** (0.000) | 1,000 |

p-values in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Processed data (2023)

Multiple Regression

The results of the multiple linear regression test on the first model are presented in Table 5 below. A positive correlation was observed between the BVEPS variable and the stock price variable, with a coefficient of 2,315.596 at a significance rate of 1%. Based on these regression results, it can be inferred that BVEPS has a significant positive effect on stock prices in Indonesia. Higher BVEPS tend to increase stock prices. The findings demonstrated that the control variables had various effects on stock prices. The correlation between FSIZE and stock prices revealed that FSIZE had positive effects on stock prices, with a coefficient of 215.467. MTB also had a positive effect on stock prices, with a coefficient of 0.091, while the coefficient of the growth variable on stock prices was -2.993. Hence, it can be inferred that the growth variable has negative impacts on stock prices.

Table 5. Results of the Multiple Linear Regression Test on the Price-Earnings Model

| | (1) P |
|------------|-------------------------|
| BVEPS | 2,315.596*** (15.90) |
| EPS | 511,859 (1.10) |
| IFRS | 1,854.323*** (8.19) |
| BVEPS*IFRS | -2.1e+03*** (-14.19) |
| EPS*IFRS | -501,540 (-1.06) |
| FSIZE | 215,467*** (8.24) |
| Lev | 169,250 |

| | |
|--------|-------------|
| | (0.95) |
| MTB | 0.091*** |
| | (7.89) |
| Growth | -2,993 |
| | (-0.59) |
| _cons | -4.6e+03*** |
| | (-7.94) |
| r2 | 0.287 |
| r2_a | 0.285 |
| N | 2,511 |

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Processed data (2023)

The findings also revealed that the moderating variable influenced the correlation between the independent variables and the dependent variable. One of the research hypotheses stated that the value relevance of equity book value and earnings increased after IFRS convergence. The findings indicated that this hypothesis was rejected because IFRS reduced company value relevance proxied by stock prices, as reflected by the negative moderating coefficients between BVEPS and IFRS, which were characterized by negative coefficients with a significance rate of 1%. This finding revealed that IFRS weakened the correlation between BVEPS and stock prices.

Table 6. Results of the Multiple Linear Regression Test on the Returns-Earning Model

| | |
|------------|-----------|
| | (1) |
| | R |
| Earn | 281,262** |
| | (2.58) |
| Δearn | -48,842 |
| | (-0.75) |
| IFRS | -0.035 |
| | (-0.39) |
| Earn*IFRS | -163,542 |
| | (-1.21) |
| ΔEarn*IFRS | 140,083 |
| | (1.34) |
| FSIZE | -0.044*** |
| | (-3.89) |
| Lev | -0.075 |
| | (-0.94) |
| MTB | 0.000* |
| | (1.78) |
| Growth | 0.003 |
| | (1.18) |
| _cons | 1,225*** |
| | (4.91) |
| r2 | 0.014 |
| r2_a | 0.010 |
| N | 2,511 |

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source: Processed data (2023)

The multiple linear regression test on the second model indicated that earnings had a positive correlation with stock returns, with a significance rate of 1% and a coefficient of 281.262. It can be inferred that higher earnings tend to improve a company's stock returns. The second model also examined the impacts of the controlling variables. MTB had positive impacts on stock returns, with a coefficient of 0.000, while FSIZE had negative impacts on stock returns, with a coefficient of -0.044. The results of the regression test presented in Table 6 also revealed that the moderating variable influenced the correlation between the independent variables and the dependent variable. The research hypothesis stated that the value relevance of earnings and changes in earnings

increased after IFRS convergence. Based on the findings, this hypothesis is rejected. IFRS convergence cannot improve a company's relevance value proxied by the company's stock returns, as reflected by the moderating effects of Earn and IFRS characterized by negative coefficients. This indicates that IFRS weakens the correlation between earnings and stock returns.

Impacts of the International Financial Reporting Standards (IFRS) Convergence on Accounting Quality

The results of the hypothesis examinations concerning the moderating effects of IFRS convergence on company value relevance proxied by stock prices and returns are presented in Tables 5 and 6. The findings indicated that the implemented IFRS convergence could not improve company value relevance. Thus, the proposed research hypothesis is rejected. This means IFRS convergence cannot guarantee the improvement of company value relevance or information quality. This finding aligns with the conclusions drawn from previous studies stating that information quality tends to worsen soon after IFRS convergence (Adhikari et al., 2021; Fuad et al., 2019; Kouki, 2018; Lenormand & Touchais, 2021; Morais et al., 2018). IFRS convergence does not bring significant changes to company information quality.

Without regulation enforcement, IFRS adoption or convergence will not improve accounting quality (Fuad et al., 2019). A country's Institutional factors, including legal systems, law enforcement mechanisms, reporting frameworks, and company governance, also contribute to the success of IFRS implementation (Morais et al., 2018). A company must be capable of integrating, building, and configuring its internal and external competencies to face rapid external changes (Habib et al., 2019).

Timely coordination between legislative and institutional aspects related to accounting and auditing is vital. Companies are also facing challenges in consciousness, training, costs, interpretations, infrastructure, and human resources during the process of IFRS implementation. IFRS involves intense learning and takes time to integrate into a system and provide the expected outcomes. Analysis of IFRS convergence impacts on accounting quality takes a longer time (Adhikari et al., 2021). The findings of this study validate the concerns raised in previous studies on convergence to principle-based standards and highlight the need for standard makers to focus on moderating quality improvements because accounting quality is not only determined by accounting standards. We need to pay more attention to implementation and diffusion problems.

CONCLUSION

This study attempted to obtain empirical evidence on the impacts of IFRS convergence on information quality proxied by value relevance. According to the results of this research, it can be inferred that IFRS convergence cannot improve the value relevance of a company. It can also be concluded that IFRS weakens the impacts of BVPS on stock prices and the impacts of earnings on stock returns.

This study has several limitations because it only used non-finance companies in Indonesia as its research samples. Therefore, the findings of this study cannot be used to generalize other studies conducted with different backgrounds. Furthermore, the authors only measured accounting quality based on its value relevance. Future researchers should use longer observation periods to obtain a better description of actual conditions and use samples from other countries, such as South East Asian countries. Additionally, future researchers should measure the quality of accounting information based on other measurements, such as income smoothing, net profit variability, discretionary accruals, and loss recognition. Future researchers should also be able to control the impacts of governance and law enforcement in countries adopting and converging IFRS because these factors affect the presented accounting information.

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Conflict of Interest

The authors have stated that they do not have any conflict of interest regarding this study.

Authors' Contribution

All authors contributed to data analysis, article preparation, and paper revision. All the authors have read the paper and collectively assumed responsibility for all aspects of this work.

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