

## The Effect of IFRS Implementation to the Value Relevance of Accounting Information

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**Abstract:** IFRS as international accounting standards is used by most of the industries in the world so that the financial statements are harmonized. IFRS is now mandated for more than 100 countries, including Indonesia and Malaysia. IFRS aims to improve the quality of financial statements. However, there has been considerable debate over the benefits of IFRS for countries with code law traditions such as Indonesia because IFRS tend to be oriented common law such as Malaysia. Accordingly, the objectives of this study are: (i) to determine the change on value relevance of accounting information in Indonesia; (ii) to determine the change on value relevance of accounting information in Malaysia; and (iii) to examine the significant difference between value relevance of accounting information after IFRS implementation in Indonesia and Malaysia. The data is obtained from Data Stream and analyzed using Eviews version 8.0 as a panel data regression. The empirical study reveals that there is a movement of value relevance in Indonesia and Malaysia that indicated by the change of coefficient correlation, R square and adjusted R square value. The findings also demonstrate that the value of R square and adjusted R square in Indonesia and Malaysia are similar. Nevertheless, the coefficient correlation of EPS, BVPS, SIZE and IFRS between Indonesia and Malaysia is divergent. Overall, this result supports the main hypothesis of this study that value relevance of accounting information after IFRS implementation has a significant difference between Indonesia and Malaysia.

**Key words:** IFRS implementation • Indonesia • Malaysia • Value Relevance of Accounting Information

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### INTRODUCTION

In this era, all areas are global, such as education, sport, culture, including economics as one of the important areas in the survival of a nation. In order to support and enhance the economic activity, a country must be able to follow the progress and meet the demands of the global market. Accounting, as one of the tools to support the economic environment, provides companies, investors, regulators and others with a standardized way to measure the financial performance of an entity. Accounting standards help in achieving the economic objectives.

IFRS, as international accounting standards, is used by most of the industries in the world so that the financial statements are harmonized. A business can present its

financial statements on the same basis as its foreign competitors in making comparisons easier. Companies may also benefit by using IFRS if they wish to raise capital abroad. Therefore, companies listed on public stock exchanges are legally required to publish financial statements in accordance with the relevant accounting standards.

IFRS is now mandated for more than 100 countries, including ASEAN countries. Indonesia, as one of the member countries of ASEAN, could not be separated from the need to use acceptable accounting standards globally. Therefore, Indonesia began to gradually convert into IFRS. By the 1<sup>st</sup> May 2011, 95% of the IFRS has been adopted in Indonesia. The IFRS are also required for public companies since 2012 [1].

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The Malaysian Accounting Standards Board (MASB) also had been working towards converging the requirements of Malaysian Financial Reporting Standards (MFRS) with IFRS. MASB has announced their plan to fully convert into the IFRS by 1<sup>st</sup> January 2012 [2]. Therefore, the implementation of IFRS in Indonesia and Malaysia were commenced at the same year.

IFRS aims to improve the quality of financial statements. The quality of financial statements could be seen from their qualitative characteristics. One of the characteristics listed in Statement of Financial Accounting Concepts (SFAC) No. 2 is the relevance of accounting information. Accounting information must be relevant to be useful [3].

Prior studies show supporting empirical evidence on the benefits of IFRS in improving the quality of accounting information. Alali and Foote [4] found that the value relevance of accounting information under IFRS in the Abu Dhabi Stock Exchange has changed. Furthermore, Iatridis [5] indicated that the implementation of IFRS generally reinforces accounting quality and leads to more value relevant accounting measures.

Nevertheless, there are still contradicting opinions about the effect of IFRS on the value relevance of accounting information. Garanina and Kormiltseva [6] found that there is no evidence of increased value relevance of financial reporting to external users of financial information after adopting IFRS in Russia. Moreover, Cahyonowati and Ratmono [7] showed that there is no increase in the value relevance of accounting information as a whole after the adoption of IFRS in Indonesia.

In Addition, there has been considerable debate over the benefits of IFRS for countries with code law traditions such as Indonesia because IFRS tend to be oriented to common law such as Malaysia. Cahyonowati and Ratmono [7] showed that there is no increase in the value relevance of accounting information as a whole after the adoption of IFRS in Indonesia. On the other hand, Kadri *et al.* [8] found that the change in financial reporting regime in Malaysia affects significantly the value relevance of book value but not earnings. Therefore, this research addresses the question of changes in the value relevance of accounting information in each country (Indonesia and Malaysia) and whether there is significant difference between value relevance of accounting information post-IFRS implementation in Indonesia and Malaysia.

Following several previous studies such as Iatridis [5], Alali and Foote [4], Cahyonowati and Ratmono [7] as well as Garanina and Kormiltseva [9], the quality of accounting information is measured by a proxy namely the value relevance. Higher value relevance is regarded as higher quality [10]. Considering the importance of financial statements quality, the author is motivated to re-examine some of the factors in previous research which affect the value relevance of accounting information.

First factor to be examined is earnings per share (EPS). Earnings that are high in quality should be more value relevant because high quality earnings should have greater ability to explain market value of companies [11]. Second factor to be examined is book value of equity per share (BVPS). Higher quality accounting information exhibits higher value relevance of equity book value [10]. Both of the factors are examined against stock price. Quality of accounting information can be seen on the relevance of accounting information in the decision making of investors as reflected in the stock price [12].

Consistent with prior studies, this study analyzes the effect of the overall adoption of IFRS and not the effect of each standard adopted. The IFRS implementation is the determinant of the period selected for this research. Thus, this research is conducted in two steps. First, the period before the IFRS implementation which is from 2009 to 2011. Second, the period after the IFRS implementation which is from 2012 to 2014. Then, the pre-period and the post-period of IFRS are compared in each country (Indonesia and Malaysia).

## Literature Review

### Theoretical Review

**Signaling Theory:** Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information [13]. Typically, one party, the sender (company), must choose whether and how to communicate (or signal) that information and the other party, the receiver (investor), must choose how to interpret the signal. Cues or signals are actions taken by the company's management in which management has a more complete and accurate information about the company's internal information and future prospects rather than the investors.

The signal will affect the stock market particularly the company's stock price. If the management signals good news, stock price will increase. Otherwise, if the

management signals bad news, stock price will decrease. The signal of the company is important for investors to make decisions. In this study, a good quality company is regarded as the IFRS adopter, while poor quality company will be unlikely to comply with the IFRS.

**International Financial Reporting Standards (IFRS):**

IFRS is a set of global accounting standards developed by IASB. Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies. Approximately 90 countries have fully conformed with IFRS and the companies in the jurisdictions include statements acknowledging such conformity in their audit reports [14].

**IFRS Implementation in Indonesia:** According to DSAK, the level of IFRS adoption can be divided into five levels, which are:

- Full Adoption: the entire country adopting IFRS and IFRS are translated exactly into that country's language use.
- Adopted: GAAP to IFRS convergence program has been launched by IAI in December 2008. The intention is to adopt IFRS according to the conditions in the country.
- Piecemeal: a majority of countries simply adopt IFRS certain standard number and even choose certain paragraphs.
- Referenced (convergence): as a reference, the standard applied to certain IFRS with language and paragraphs compiled by standards-making body.
- Not-adopted at all: the country did not adopt IFRS.

There are five different convergence approaches a country can implement in adopting the IFRS (Chand and Patel, 2011), namely:

- Adoption of the IFRS in entirety;
- Selective adoption of the IFRS or adoption within time interval;
- IFRS adoption with modification to account for country-specific characteristics;
- Preserving national accounting standards which is in line with the IFRS; and
- Continuation of national accounting standards.

Of these five approaches, IFRS convergence in Indonesia follows both the second and third approaches, in which IFRS are adopted gradually into local accounting standards and minor modifications are made to align the standards with Indonesian regulations and business

environment. This approach has led to different phases in the IFRS convergence programme, in which every phase has a set of objectives that guide the progression of the convergence process [15].

**IFRS Implementation in Malaysia:** Effective from the 1<sup>st</sup> January 2012, there are three sets of MASB approved accounting framework in Malaysia, namely:

- MFRS framework;
- Financial Reporting Standards (FRS) framework; and
- Private Entity Reporting Standards (PERS) framework.

All entities other than private entities are required to comply with MFRS framework for the annual periods beginning on or after the 1<sup>st</sup> January 2012 [16].

IFRS convergence in Malaysia is similar to Indonesia in which the IFRS are adopted gradually into local accounting standards and minor modifications are made to align the standards with Malaysian regulations and business environment. Convergence with IFRS means full compliance with IFRS as a basis for the financial reporting system in Malaysia [17].

**The Quality of Financial Reporting:** Financial Accounting Standard Board (FASB) in the Statement of Financial Accounting Concepts (SFAC) No. 1 states that "financial reporting includes, not only financial statements, but also the media reporting of other information, which relates directly or indirectly, with the information provided by the accounting system - namely information about economic resources, debt, income and other periodic". The quality of financial reporting can be seen from the qualitative characteristics of financial statements. The characteristics listed in SFAC No. 2 as below:

- Relevant
- Reliability
- Appeal power and consistency
- Cost-benefit considerations
- Materiality

The qualitative characteristics of the information presented in the financial statements is an important factor that must be considered in presenting the company's financial statements. FASB, in SFAC No. 2, states that qualitative characteristics are intended to provide basic criteria in choosing alternative methods of accounting and financial reporting as well as disclosure requirements. The criteria is used to indicate the type of information that is relevant and useful in decision making.

IAI also emphasized the importance of the qualitative characteristics of financial information which produces information useful for decision making. Qualitative characteristics used by the IAI are understandability, relevant, reliability and comparability.

From the theory description above, it can be concluded that the qualitative characteristics of financial reporting also determine the quality of financial statements. Furthermore, the quality of financial reporting is very important and useful for decisionmaking so that the company will not be wrong in determining an action which will have implications for the future of the company.

**Value Relevance of Accounting Information:** Value relevance is defined as the ability of information disclosed by the financial statements to capture and summarize firm value [18]. During its development, studies on the value relevance is directed to investigate the empirical relationship between the value of capital market with a

variety of accounting numbers, which are intended to assess the usefulness of accounting numbers as the equity valuation.

According to Liu and Liu [19], the concept of the value relevance of accounting information is defined as the ability of accounting numbers to summarize the information underlying the stock prices, thus the value relevance is indicated by a statistical association between financial information and prices or returns. Value relevance of accounting information is often examined based on the relationship of the market value accounting variables in the Ohlson's model [20]. In many studies, Ohlson's model [20] has been adopted to explore relationships among the Market Value of Equity (MVE) and two main financial reporting variables, namely the BVPS (represents balance sheet) and EPS (represents income statement) [18]. The relationship is measured by the coefficient of determination ( $R^2$ ) from the price regression model [21].

**Previous Studies:**

Table 2.1: Summary of Previous Researches

Source	Title	Variable	Result
Cahyonowati and Ratmono [7]	Adopsi IFRS dan Relevansi Nilai Informasi Akuntansi	Stock Price; EPS; BVPS; Loss; Industry; SIZE	The application of IFRS-based standards has not increased the quality of accounting information in Indonesia and the relevance of accounting earnings has not increased significantly after the adoption of IFRS-based standards.
Lestari and Takada [22]	Value Relevance of Accounting Information during IFRS Convergence Process in Indonesia	Stock Price; EPS; BVPS; Stock Return	The value relevance of accounting information increases after the accounting standards change, the less informative of negative earnings and both large firms and firms with a higher level of good corporate governance enjoy higher value relevance information before and after accounting standards change.
Vijitha and Nimalathasam [23]	Value Relevance of Accounting Information and Share Price?: A Study of Listed Manufacturing Companies in Sri Lanka	Market Price per Share; EPS; NAVPS; ROE; P/E	The value relevance of accounting information has the significant impact on share price is significantly correlated with share price.
Karğın [18]	The Impact of IFRS on the Value Relevance of Accounting Information: Evidence from Turkish Firms	MVPS; EPS; BVPS; IFRS	The value relevance of accounting information has improved in the post-IFRS period (2005-2011) based on book values while improvements have not been observed in value relevance of earnings.
Kadri <i>et al.</i> [8]	Value Relevance of Book Value and Earnings: Evidence from Two Different Financial Reporting Regimes	MVE; Earnings; BVPS; OCF; IFRS	The result of market valuation approach indicated that the introduction of new or improved standards under FRS regime strengthen the position of book value thus leaving earnings behind in equity valuation. On the other hand, the result of non-market valuation model revealed that the level of relationship between earnings and OCF persists as long as OCF comprise of cash and cash equivalent components whereas earnings comprise of cash and accruals components.

Table 2.1: Continued

Source	Title	Variable	Result
Kwong [24]	The Value Relevance of Financial Reporting in Malaysia?: Evidence from Three Different Financial Reporting Periods	MVPS; BVPS; Earnings; OCF	IFRS is value relevant for decision making among investors (as reflected in the market value).

**Theoretical Framework:** Value relevance is one of the basic attributes of the quality of financial statements [23]. Alternatively, high quality of accounting information refers to high value relevance [7]. The higher the value relevance, the higher the accounting information effect the decision making. Relevant accounting information is capable of making a difference in a decision [25].

Based on the Ohlson’s model, the value relevance of accounting can be proxied by the relationship between EPS and BVPS with stock prices. This relationship shows how much accounting information (EPS and BVPS) influences investor decisions which are reflected in the stock price. Firms with higher quality accounting

information have a higher association between stock price with earnings and equity book value because higher quality accounting information better reflect a firm’s underlying economics [26]. Alzoubi and Selamat [11] also found that IFRS adoption is associated with better quality reported earnings i.e. price earnings.

Based on the assessment of limitations and inconsistencies of previous studies, this study examines factors that affect value relevance (shown in stock price) with independent variables, i.e. EPS and BVPS. EPS is measured by how much a company's profit is allocated to each outstanding share of ordinary share. BVPS is measured by comparing the amount of shareholders' equity to the number of shares outstanding.

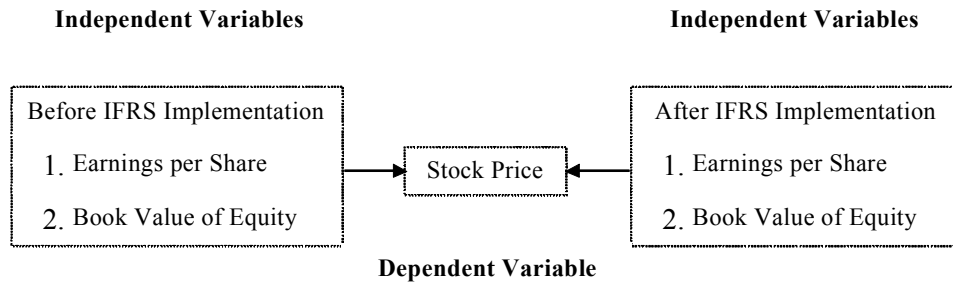


Fig. 2.1: Research Framework

**Hypotheses Development:** Cahyonowati and Ratmono [7] showed that the application of IFRS-based standards has not increased the quality of accounting information in Indonesia. Their study found that the relevance of accounting earnings has not increased significantly after the adoption of IFRS-based standards. On the other hand, Lestari and Takada [22] showed that the value relevance of accounting information increases after the accounting standards change in Indonesia. Thus, based on the above line of arguments, this study predicts that there will be a movement on the value relevance of accounting information in Indonesia. This leads to the following hypothesis:

H1: There is a change on the value relevance of accounting information in Indonesia

In Malaysia, Kwong [24] found that the bookvalue and earnings are significant in jointly explaining the

variations in their associatedmarket value for the following three reporting periods. Othman [27] explained that the introduction of the new FRS in Malaysia which bearsignificant effect on the information content of earnings.Thus, based on the above line of arguments, this study predicts that there will be a movement on the value relevance of accounting information in Malaysia. This leads to the following hypothesis:

H2: There is a change on the value relevance of accounting information in Malaysia

Maharani and Siregar [28] found that the overall accounting information reported during the period towards full convergence of IFRS is value relevant for listed companies in Indonesia, Malaysia and Singapore. Nevertheless, there has been considerable debate over the benefits of IFRS for countries with code law traditions

such as Indonesia because IFRS tend to be oriented common law such as Malaysia. In summary, this study predicts that the value relevance of accounting information in Indonesia and Malaysia will be different. So, based on the arguments presented above the following hypothesis is as follows:

H3: There is a significant different on the value relevance of accounting information after IFRS implementation between Indonesia and Malaysia

**Research Methodology**

**Population and Sample of Research:** The population in this study is property and real estate companies listed on the IDX or MSE in the year of observation i.e. 2009 to 2014. The samples in this study use purposive sampling method, therefore the sample selection is not random and the information is obtained by certain considerations.

Table 3.1: Number of samples based on the criteria of the sampling

Criteria	Companies	
	Indonesia	Malaysia*
Property and real estate companies listed on Indonesia or Malaysia* Stock Exchange in 2014	81	50
The company's initial public offering (IPO) after 2008	(14)	(13)
Total Sample	32	68
Year of Observation	6	6
Number of Observation	192	408

Source: [www.idx.co.id](http://www.idx.co.id), [www.bursamalaysia.com](http://www.bursamalaysia.com) and Data Stream

**Data and Resources:** This data is obtained from the official website of Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)), Malaysia Stock Exchange ([www.bursamalaysia.com](http://www.bursamalaysia.com)) and Data Stream.

**Method of Analysis**

**Descriptive Statistics:** Descriptive statistics is used to display the level of EPS, BVPS, SIZE and IFRS in property and real estate companies listed on IDX or MSE. Measurements used in this descriptive analysis are mean, median, maximum value, minimum value, standard deviation and observations.

**Test of Classical Assumptions:** To determine whether the regression model could be used to investigate significant association and representativeness, the model must satisfy the test of Classical Assumptions i.e., the test of normality, multicollinearity, autocorrelation and heteroscedasticity.

**Hypotheses Testing:** In this study, the testing is conducted using multiple regression analysis, a statistical method that is commonly used to examine relationships between a dependent variable with several independent variables. The regression models used are as follows:

$$P = \alpha + \beta_1 \text{EPS} + \beta_2 \text{BVPS} + \beta_3 \text{SIZE} + e \quad (1)$$

$$P = \alpha + \beta_1 \text{EPS} + \beta_2 \text{BVPS} + \beta_3 \text{SIZE} + \beta_4 \text{IFRS} + e \quad (2)$$

where,

- P : Share Price
- $\alpha$  : Constants
- EPS : Earnings per Share
- BVPS : Book Value of Equity per Share
- SIZE : Natural log of firm *i*'s total assets from the previous year's annual report.
- IFRS : Indicator or dummy variable that equals 1 when firm *i* reports according to IFRS and 0 when firm *i* reports according to PSAK or MASB Standards in year *t*
- e : Error

Model (1) is used to answer the first and second research objectives. In this model, the period used is divided into two periods i.e., before and after the implementation of IFRS in each of country. The application of IFRS is assumed to have been applied by the companies in 2012 in accordance with the IFRS enforcement of standards.

While the model (2) is used to answer the third research objective. In this model, the six-year period is used as a whole without separating between pre and post. In addition, IFRS dummy variable is used to distinguish between mandatory and voluntary use of IFRS.

Table 3.2: Research Variables and Measurements

Variable	Measurement	Scale
Dependent Variable: Share Price	Determined by market participants and by the demand and supply of the relevant shares in the capital market.	Ratio
Independent Variable: Earnings per Share	$\frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$	Ratio
Book Value of Equity per Share	$\frac{\text{Value of Common Equity}}{\text{\# of Shares Outstanding}}$	Ratio
Control Variables: Firm Size	Ln Total Assets <sub>t-1</sub>	Ratio
IFRS	IFRS = 1; PSAK or MASB = 0	Dummy

**RESULTS AND DISCUSSION**

**Descriptive Statistics:**

Table 4.1: Descriptive Statistics Results of Indonesia

Panel	Measures	P	EPS	BVPS	SIZE	IFRS
A Pre – IFRS	Mean	0.032989	0.001494	0.035195	5.185172	-
	Median	0.020000	0.000000	0.024000	5.110000	-
	Maximum	0.100000	0.040000	0.190000	6.860000	-
	Minimum	0.010000	0.000000	0.003000	3.870000	-
	Std. Dev.	0.024358	0.005398	0.031641	0.801588	-
	Observations	87	87	87	87	-
Post – IFRS	Mean	0.067816	0.005402	0.045931	5.824598	-
	Median	0.030000	0.000000	0.026000	5.740000	-
	Maximum	0.620000	0.100000	0.356000	8.720000	-
	Minimum	0.000000	0.000000	0.005000	3.910000	-
	Std. Dev.	0.096079	0.015980	0.055514	0.983790	-
	Observations	87	87	87	87	-
B	Mean	0.050402	0.003448	0.040563	5.504885	0.448276
	Median	0.030000	0.000000	0.026000	5.415000	0.000000
	Maximum	0.620000	0.100000	0.356000	8.720000	1.000000
	Minimum	0.000000	0.000000	0.003000	3.870000	0.000000
	Std. Dev.	0.072034	0.012053	0.045373	0.950445	0.498753
	Observations	174	174	174	174	174
Panel	Measures	LP	EPS	LBVPS	SIZE	IFRS
A Pre – IFRS	Mean	-3.678207	0.001494	-3.674673	5.185172	-
	Median	-3.912023	0.000000	-3.729701	5.110000	-
	Maximum	-2.302585	0.040000	-1.660731	6.860000	-
	Minimum	-4.605170	0.000000	-5.809143	3.870000	-
	Std. Dev.	0.741455	0.005398	0.824620	0.801588	-
	Observations	87	87	87	87	-
Post – IFRS	Mean	-3.203928	0.005595	-3.480171	5.887857	-
	Median	-3.218876	0.000000	-3.558005	5.820000	-
	Maximum	-0.478036	0.100000	-1.032825	8.720000	-
	Minimum	-4.605170	0.000000	-5.298317	3.910000	-
	Std. Dev.	1.016016	0.016233	0.886937	0.940514	-
	Observations	84	84	84	84	-
B	Mean	-3.445228	0.003509	-3.579128	5.530351	0.438596
	Median	-3.506558	0.000000	-3.649659	5.420000	0.000000
	Maximum	-0.478036	0.100000	-1.032825	8.720000	1.000000
	Minimum	-4.605170	0.000000	-5.809143	3.870000	0.000000
	Std. Dev.	0.915784	0.012150	0.858827	0.938647	0.497673
	Observations	171	171	171	171	171

Table 4.2: Descriptive Statistics Results of Malaysia

Panel	Measures	P	EPS	BVPS	SIZE	IFRS
A Pre – IFRS	Mean	0.230197	0.020136	0.387245	-0.654224	-
	Median	0.198000	0.010000	0.354000	-0.644000	-
	Maximum	0.701000	0.130000	0.932000	0.829000	-
	Minimum	0.049000	0.000000	0.091000	-2.354000	-
	Std. Dev.	0.136887	0.021865	0.189925	0.635251	-
	Observations	147	147	147	147	-
Post – IFRS	Mean	0.340871	0.045034	0.470068	-0.293395	-
	Median	0.283000	0.030000	0.437000	-0.272000	-
	Maximum	1.071000	0.280000	1.166000	1.112000	-
	Minimum	0.052000	0.000000	0.115000	-1.772000	-
	Std. Dev.	0.219608	0.049107	0.231536	0.646774	-
	Observations	147	147	147	147	-

Table 4.2: Continued

Panel	Measures	P	EPS	BVPS	SIZE	IFRS
B	Mean	0.285534	0.032585	0.428656	-0.473810	0.765306
	Median	0.240000	0.020000	0.388500	-0.450000	1.000000
	Maximum	1.071000	0.280000	1.166000	1.112000	1.000000
	Minimum	0.049000	0.000000	0.091000	-2.354000	0.000000
	Std. Dev.	0.190896	0.039942	0.215425	0.664972	0.424530
	Observations	294	294	294	294	294
Panel	Measures	LP	LEPS	LBVPS	SIZE	IFRS
A Pre – IFRS	Mean	-1.546971	-3.825460	-1.000657	-0.565916	-
	Median	-1.523260	-3.912023	-0.918794	-0.536000	-
	Maximum	-0.355247	-2.040221	-0.070422	0.829000	-
	Minimum	-2.830218	-4.605170	-2.312635	-2.163000	-
	Std. Dev.	0.587114	0.679997	0.520032	0.641688	-
	Observations	107	107	107	107	-
Post – IFRS	Mean	-1.171990	-3.297159	-0.812052	-0.199992	-
	Median	-1.180908	-3.218876	-0.765718	-0.223000	-
	Maximum	0.068593	-1.272966	0.153579	1.112000	-
	Minimum	-2.551046	-4.605170	-2.063568	-1.735000	-
	Std. Dev.	0.599816	0.800558	0.487971	0.603033	-
	Observations	129	129	129	129	-
B	Mean	-1.342003	-3.536685	-0.897564	-0.365898	0.809322
	Median	-1.331835	-3.506558	-0.861567	-0.334000	1.000000
	Maximum	0.068593	-1.272966	0.153579	1.112000	1.000000
	Minimum	-2.830218	-4.605170	-2.312635	-2.163000	0.000000
	Std. Dev.	0.621646	0.791906	0.510424	0.645856	0.393671
	Observations	236	236	236	236	236

Descriptive statistics above shows the distribution of raw data that is not normal for both of Indonesia and Malaysia. In each table, there is a category of Panel A which is used for Model (1) and Panel B which is used for Model (2). Data, which were not normally distributed, are transformed into logarithm (Log) to obtain a normal distribution of data. Normal distribution of data is likely to generate regression models which are unbiased and free from problems of classical assumptions [29]. Thus, data in Indonesia is transformed into logarithm (i.e. price and BVPS), whereas in Malaysia, data that are transformed into logarithm is price, EPS and BVPS.

**Test of Classical Assumptions Analysis**

**Normality:** Normality of data is detected by the value of Jarque-Bera. Jarque-Bera is a statistical test to determine whether the series is normally distributed [30]. The Jarque-Bera value is obtained by detecting residual normality of the data. Based on the result, it can be concluded that all of the data in this study achieve normal distribution. Because the level of confidence interval is at 95 percent and alpha is at 5 percent. The probability obtained is more than alpha 5 percent. Thus, clearly, the data is normally distributed.

**Multicollinearity:** A good regression model should not have perfect relationships among the independent variables. Gujarati [31] defines that multicollinearity exists when there are perfectly linear relationships among the explanatory variables. Test of multicollinearity can be identified using correlation testing among explanatory variables. The study finds that there is no high correlation among explanatory variables used. The correlation limit among variable is no more than 0.85. The higher correlation between independent variables in this case is size of the company and book value of equity per share by coefficient *r*. The results indicate that the company size has a positive correlation with the book value of equity per share. Thus, it could be concluded that the explanatory variables used on this data are free from multicollinearity.

**Autocorrelation:** Autocorrelation of data can be detected using the Durbin-Watson statistic. The Durbin-Watson (DW) statistic tests whether there are correlation between stochastic disturbance terms (residual) is zero [31]. The conclusion is obtained by determining the observations. The autocorrelation test in this study uses DW statistic by performing the Ordinary Least Square (OLS) method. The DW values should comply with



certain conditions. The DW statistic should be in the range of between Durbin-Lower and Durbin-Upper. Meanwhile, Gujarati [31] revealed that the DW value close or more equal to 2 and to 4 shows no autocorrelation. Therefore, it could be concluded that the data in this study are free from autocorrelation.

**Heteroscedasticity:** This study applied Park test to detect whether the data are free from heteroscedasticity symptoms. Park test is conducted by obtaining the squared residuals after estimating the OLS regression model [31]. A linearized version of the Park model is obtained by using a logarithm transformation. Park test performed using regression residual powers of two and all explanatory variables, obtains the statistic and probability values by variables more than significant level i.e. 5 percent and confidence interval 95 percent. The findings demonstrate that explanatory variables used in this study achieve the conditions of homogeneity different variance from residual. Thus, it is clear that there is no heteroscedasticity in the data.

**Hypotheses Test Analysis:**

*The Change on Value Relevance of Accounting Information in Indonesia*

Table 4.3: Regression Result for Pre and Post – IFRS in Indonesia

Model 1 Variable	P = $\alpha + \beta_1$ EPS + $\beta_2$ BVPS + $\beta_3$ SIZE + e	
	Pre – IFRS (2009 – 2011)	Post – IFRS (2012 – 2014)
C	-5.12 (-7.97)***	-0.51 (-0.41)
EPS	16.66 (1.55)	7.09 (1.10)
LBVPS	0.22 (2.32)**	0.87 (3.36)***
SIZE	0.43 (5.65)***	0.05 (0.42)
Observation	87	84
R <sup>2</sup>	0.43	0.93
Adjusted R <sup>2</sup>	0.41	0.89
S.E. of Regression	0.41	0.34
F-stat	20.75***	23.00***
Regression Model	REM	FEM

\*\*\* Significant at level 1%  
 \*\* Significant at level 5%  
 \* Significant at level 10%

Based on the results obtained, the multiple regression model for Pre – IFRS in Indonesia can be formulated as follows:

$$P = -5.12 + 16.66 (\text{EPS}) + 0.22 (\text{BVPS}) + 0.43 (\text{SIZE}) + e$$

and the multiple regression model for Post – IFRS in Indonesia can be explained by the following model:

$$P = -0.51 + 7.09 (\text{EPS}) + 0.87 (\text{BVPS}) + 0.05 (\text{SIZE}) + e$$

Value relevance of accounting information in Indonesia experienced a change which is represented on the enhancement of BVPS and reduction of EPS and SIZE. The coefficient correlation of BVPS increases from 0.22 to 0.87. While the coefficient correlation of EPS and SIZE decrease from 16.66 to 7.09 and 0.43 to 0.05 but they are not significant. The empirical results also discover that there is a movement of value relevance that indicated by the value of R square and adjusted R square which is multiply from 0.43 to 0.93 and from 0.41 to 0.89.

The findings contradict with Cahyonowati and Ratmono [7] results. They showed that the improvement of value relevance only occurs for EPS while this study finds that the improvement occurs for BVPS. In addition, they implied that there is no advancement of value relevance after IFRS implementation as a whole, while it is indicated in this study.

At the same time, this findings support the previous research by Lestari and Takada [22] who found that the value relevance of accounting information has increased after a change in accounting standards. Thus, H<sub>1</sub> is accepted and verified by the change on the value of coefficient correlation, R square and adjusted R square.

*The Change on Value Relevance of Accounting Information in Malaysia*

Table 4.4: Regression Result for Pre and Post – IFRS in Malaysia

Model 1 Variable	P = $\alpha + \beta_1$ EPS + $\beta_2$ BVPS + $\beta_3$ SIZE + e	
	Pre – IFRS (2009 – 2011)	Post – IFRS (2012 – 2014)
C	-0.78 (-7.06)***	-0.57 (-6.65)***
EPS	0.07 (2.42)**	0.12 (4.43)***
LBVPS	0.08 (1.84)*	0.05 (1.03)
SIZE	0.73 (19.83)***	0.81 (19.82)***
Observation	107	129
R <sup>2</sup>	0.81	0.87
Adjusted R <sup>2</sup>	0.81	0.87
S.E. of Regression	0.21	0.21
F-stat	148.61***	283.34***
Regression Model	REM	REM

\*\*\* Significant at level 1%  
 \*\* Significant at level 5%  
 \* Significant at level 10%

Based on the results obtained, the multiple regression model for Pre – IFRS in Malaysia can be retrieved as follows:

$$P = -0.78 + 0.07 (EPS) + 0.08 (BVPS) + 0.73 (SIZE) + e$$

and the multiple regression model for Post – IFRS in Malaysia can be retrieved as follows:

$$P = -0.57 + 0.12 (EPS) + 0.05 (BVPS) + 0.81 (SIZE) + e$$

The change on value relevance of accounting information in Malaysia is contradicted with Indonesia. Coefficient correlation of BVPS declined from 0.08 to 0.05 but not significant. Coefficient correlation of EPS and BVPS improves from 0.07 to 0.12 and 0.73 to 0.81. Even so, the value of R square and adjusted R square in Malaysia increase as Indonesia. The R square and adjusted R square have an identical value which increase from 0.81 to 0.87.

This study verify the previous research by Kwong [24] that determined when the IFRS become mandatory for reporting entities in the Malaysian market, the role of earnings and income statement in stock market valuation become increasingly important as compared to the role of book value of equity. Thus, H<sub>2</sub> is accepted with R<sup>2</sup> changes as much as 6 percent.

**The Change on Value Relevance of Accounting Information after IFRS Implementation in Indonesia and Malaysia:** First, the model estimation is done to determine the most appropriate model in a panel data analysis. There are three approaches that can be tested to estimate model in panel data, namely Pooled Least Squares Model (PLSM), Random Effects Model (REM) and Fixed Effects Model (FEM). Then, Hausman test is performed to choose which one of the model is the most appropriate model (REM or FEM) to be used in the panel data analysis. The test is performed with H<sub>0</sub>: random effects model is accepted and H<sub>1</sub>: fixed effect model is accepted. From the results of Hausman test, it is found that the most appropriate models for Indonesia and Malaysia are FEM and REM. Then, the panel data regression is performed. Subsequently, multiple regression results of Indonesia and Malaysia is compared to see the significant difference of their results.

Table 4.5: Regression Result for Indonesia and Malaysia

Model 2 Variable	P = α + β <sub>1</sub> EPS + β <sub>2</sub> BVPS + β <sub>3</sub> SIZE + β <sub>4</sub> IFRS + e	
	Indonesia	Malaysia
C	-3.16 (-4.79)***	-0.64 (-9.15)***
EPS	16.22 (3.92)***	0.11 (5.32)***
LBVPS	0.47 (3.49)***	0.06 (1.76)*
SIZE	0.23 (3.93)***	0.79 (28.90)***
IFRS	0.13 (1.92)*	0.02 (0.61)
Observation	171	236
R <sup>2</sup>	0.87	0.88
Adjusted R <sup>2</sup>	0.84	0.88
S.E. of Regression	0.36	0.22
F-stat	29.67***	427.30***
Regression Model	FEM	REM

\*\*\* Significant at level 1%  
\*\* Significant at level 5%  
\* Significant at level 10%

Based on the results obtained, the multiple regression model for Indonesia can be retrieved as follows:

$$P = -3.16 + 16.22 (EPS) + 0.47 (BVPS) + 0.23 (SIZE) + 0.13 (IFRS) + e$$

and the multiple regression model for Malaysia can be retrieved as follows:

$$P = -0.64 + 0.11 (EPS) + 0.06 (BVPS) + 0.79 (SIZE) + 0.02 (IFRS) + e$$

According to previous discussion in chapter 2 and chapter 3, it is expected that there is a significant difference between value relevance of accounting information in Indonesia and Malaysia. The empirical study found that the value of R square and adjusted R square in Indonesia and Malaysia are similar. The value of R square of Indonesia is 0.87 and Malaysia is 0.88. While the adjusted R square value of Indonesia is 0.84 and Malaysia is 0.88.

Nevertheless, the coefficient correlation of EPS, BVPS, SIZE and IFRS between Indonesia and Malaysia is divergent. The coefficient of EPS in Indonesia and Malaysia are 16.22 and 0.11. The coefficient of BVPS in Indonesia and Malaysia are 0.47 and 0.06. The coefficient correlation of SIZE in Indonesia and Malaysia are 0.23 and 0.79. Besides, the significant value of BVPS is different i.e. 1 percent in Indonesia and 10 percent in Malaysia.

The results do not support the prior study by Maharani and Siregar [28]. They indicated that the value relevance of accounting information in Indonesia and Malaysia is not increase during the period towards full convergence of IFRS. However, the findings explain the argument of Barth *et al.* [32] that the effect of IFRS adoption on the value relevance of accounting information is a function of country-specific factors. Overall, this result supports the main hypothesis of this study that value relevance of accounting information after IFRS implementation has a significant difference between Indonesia and Malaysia.

### DISCUSSION OF FINDINGS AND CONCLUSION

**Summary of Findings:** The overall result of this study suggested that there is a sufficient evidence to support all of the hypotheses. The result found that there is a change on the value relevance of accounting information in Indonesia or Malaysia. It also implied that there is a significant difference on value relevance of accounting information after IFRS implementation for both of Indonesia and Malaysia.

**Limitation of the Study:** These findings of this study have important implications for Indonesia and Malaysia given the recent decision to converge local GAAP with IFRS and for transitional economies attempting to integrate local GAAP with IFRS. However, the findings must be interpreted in the context of some limitations in this study. First, there are a different number of samples between Indonesia and Malaysia. However, the sample sizes of Indonesia and Malaysia have an equal proportion i.e. 9.28 percent and 8.16 percent which can represent the market.

Second, there are data constraints and a lack of data for all companies. This is especially prominent during the earlier part of the sample period. However, the sample size is sufficient for analysis purposes.

Third, the model that is used to proxy the value relevance of accounting information is only stock price model. This model is chosen accordance to prior research findings that stock price model is more able to detect the value relevance of accounting information. Even though, there is another model that could be used i.e. stock return model.

**Recommendations for Future Research:** The findings of this study, together with the limitation, provided avenues for future research. First and foremost, more research could be conducted in other sector so that the impact of

IFRS adoption in different environment can be revealed. Furthermore, additional studies may consider return model and other attributes of value relevance of accounting information such as stock return and price per earnings ratio.

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