

# The effect of IFRS implementation level and audit quality on timely loss recognition in companies listed on Indonesia Stock Exchange

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## ABSTRACT

This study aims to examine the effect of IFRS implementation and audit quality as represented by public accountant firms' size on timely loss recognition in Indonesia. This study uses firm size, profitability, and growth as control variables. This research was conducted in the non-state-owned companies and non-financial companies listed on Indonesia Stock Exchange in 2012-2015. This study used a purposive sampling method for getting the sample. Multiple regression analysis was used as the main analysis and the results show that timely loss recognition is affected by audit quality and firm size. However, this study finds that IFRS implementation, profitability, and growth do not have significant effect on timely loss recognition.

## ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh tingkat implementasi IFRS dan kualitas audit yang diwakili oleh ukuran KAP terhadap ketepatan waktu pengakuan kerugian perusahaan di Indonesia. Selain itu, dalam penelitian ini juga ditambahkan variabel kontrol berupa ukuran perusahaan, profitabilitas, dan growth. Penelitian ini dilakukan pada perusahaan non BUMN dan non finansial yang terdaftar di Bursa Efek Indonesia pada tahun 2012-2015. Metode pengambilan sampel yang digunakan dengan metode purposive sampling. Analisis regresi linier berganda digunakan sebagai alat analisis utama. Hasil penelitian menunjukkan bahwa timely loss recognition dipengaruhi oleh kualitas audit dan ukuran perusahaan. Namun, tingkat implementasi IFRS, profitabilitas, dan growth menunjukkan hasil yang tidak signifikan terhadap timely loss recognition.

## 1. INTRODUCTION

The internationally accepted accounting standard is the International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board (IASB). The IASB, or formerly known as the International Accounting Standards Committee (IASC), is an international institution that aims to develop internationally understandable, applicable, and accepted accounting standards.

Indonesia as the only G-20 member in South-east Asia (IAI 2015) agreed to embrace IFRS as a standard for financial reporting. The agreement for listing companies on the stock exchange to use IFRS is one of the most significant changes in the history of accounting regulation (Daske et al. 2008). More than 100 countries have adopted IFRS, and it is expected that IFRS implementation can

improve the transparency of financial statements, facilitate comparability and quality of financial reporting (Cahyonowati & Ratmono 2012).

In this case, FRS has three main features that distinguish it from the previous standard, namely principle based, reporting using fair value, and greater disclosure (Wahidah & Sri 2015). In principle based, the regulated provisions are only in the form of principles and are not detailed in order to require professional judgment to apply the standard. In addition, the existence of fair value reporting requires the company to report its assets and liabilities to a certain amount of market value. IFRS also requires a wider disclosure in order for financial reporting users to get a lot of information so that they can consider it as a basis for decision-making.

If IFRS is well implemented, IFRS adoption

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empirically can improve accounting quality as indicated by decreased earnings management, increased timely loss recognition, and improved value relevance (Arum 2013; Barth et al. 2008; Chua et al. 2012; Elias 2012; Ismail et al. 2013; Kusuma 2015; Paglietti 2009).

Timely-loss recognition is one of the perspectives of the qualitative characteristics of the enhancements in the conceptual framework issued by the IASB. The qualitative characteristics of such supporters are timeliness or timeliness. IFRS emphasizes a fair value utilization in the measurement so that the company will recognize the loss due to a fair value of the fair value in the comprehensive income even though the loss is not realized (Martani 2011). That way, the company will more quickly recognize the loss. The implementation of IFRS in the financial statements is expected to increase the timeliness of loss recognition so that the information presented can be useful for users of financial statements.

In the stage of convergence of PSAK to IFRS, not just accountants have to adapt themselves to some of the prevailing standard changes. The profession of independent auditors working in Public Accounting Firm (KAP) must also follow the development of existing standards. If an auditor does not understand well the standards used in the preparation of financial reporting, and then the audit results are not good quality.

Dimitripoulos et al. (2013) stated that the quality of accounting information is closely related to the quality of external audits. Qualified auditors possess high independence and sufficient knowledge to implement IFRS in the audit process, including in assessing loss recognition. In his research, Dimitripoulos et al. (2013) disclose that companies in Greece that are audited by Big 5 KAP will show more timely loss recognition. This is because high-performance KAPs are more likely to follow rules and policies in assessing loss recognition.

Indonesia has been in the process of converting IFRS since 2012. In the four-year period, the companies should have had enough time to study the new standards. The presence of IFRS convergence is expected to facilitate growth in Indonesia's equity market by providing high-quality financial reporting to meet the needs of investors (Wahidah 2015). A qualified and highly qualified auditor who is able to supervise the company in order to avoid misuse of financial statements must also support the application of IFRS in the company. Thus, decreased earnings management, in-

creased timely loss recognition, characterizes improved accounting quality and improved value relevance can be achieved.

This study aims to determine whether the implementation of IFRS supported by good audit quality in Indonesia can improve the quality of accounting. In this study, the quality of accounting is characterized by an increase of timely loss recognition. Unlike previous studies that compare the periods before and after the IFRS convergence, this study focuses on the level of IFRS implementation in each of the firms after the IFRS convergence period.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

As a member of the G20 forum, which was held in Washington DC on December 15, 2008, Indonesia has an agreement to participate in the convergence of the International Financial Reporting Standards (IFRS). As a follow up of the agreement, in 2008 the Indonesian Institute of Accountants (IAI) initiated the IFRS convergence process in Indonesia. The convergence is through three stages, namely the adoption phase in 2008-2010, the final preparation stage in 2011, and the implementation phase in 2012.

As referred, there have been 10 Statements of Financial Accounting Standards (PSAK) that have questioned IFRS. Effective SFAS from 1 January 2015 outlined convergence with IFRS effective January 1, 2014. DSAI IAI has managed to minimize the difference between the two standards, from three years from January 1, 2012, to one year on January 1, 2015. This is a form of Indonesia's commitment through DSAK IAI in playing its role as the only G20 member in Southeast Asia (IAI 2016).

Research on the effect of the application of pre and post period IFRS on accounting quality has been done in both inside and other countries but still shows different results. For example, a research conducted by Chua et al. (2012) found that mandatory disclosure after IFRS imposition decreased earnings management, increased timely loss recognition, and increased relevance values. In line with Chua, Outa (2011) also examined the relationship between the implementation of IFRS in companies listed in Kenya with accounting quality and showed positive results. Wahidah (2015) examines the impact of IFRS on the relevance and reliability of the company's financial statements. The results of his research indicate that IFRS is positive for both and improves the

quality of financial statements. IFRS implementation also empirically can improve the quality of information of financial statements such as the results of research conducted by Barth et al. (2006), Christensen (2007), Iatridis & Rouvolis (2010), and Liu et al. (2011).

In contrast to some of the above studies, Chan et al. (2010) found that there was an increase in earnings smoothing in the company and decreased recognition of timely losses after IFRS adoption in EU countries compared to adoption. Research conducted by Paglietti (2009), Braurer et al. (2011), as well as Sun et al. (2011), supported the study in which he found that IFRS had no effect on accounting quality. Sianipar & Marsono (2013) analyzed the comparative quality of accounting before and after IFRS adoption and found no difference in accounting quality. Research conducted by Arum (2013) and Kristanto (2014) found IFRS has no effect on the improvement of earnings quality.

The recognition of timely losses as one of the quality indicators of accounting has also been studied specifically. For example, Fontanella et al. (2015) examined the timeliness of loss recognition on listed and non-listed SOEs in Indonesia. As a result, listed SOEs whose performance is closely monitored by BPK were not proven to recognize more timely losses than non-listed SOEs. Braurer et al. (2011) conducted a study to determine whether IFRS affected the timeliness of loss recognition before and after IFRS adoption in Germany. The results show that companies prior to adopting IFRS are more conservative in recognizing losses. Jayaraman (2012) which shows that the recognition of timely losses has increased after the implementation of the policy has investigated the relationship between timely loss recognition and insider trading laws policy. Fadila (2016) examines the effect of IFRS and foreign ownership convergence on timely loss recognition, which shows the result that TLR is not affected by the two independent variables.

In general, improving the quality of accounting information is not only seen from the standards applied by the company but also relates to the role of the auditor as a party who has the authority to conduct checks and to identify fraud in the financial statements (Atik 2008). Therefore, the quality of auditors also affects the quality of financial statements generated by the company.

Research on the quality of audit with accounting quality has quite a lot been done, among others research conducted by Christensen (2007) who

found a positive influence of audit quality to decrease earnings management, increase in timely loss recognition, and increase value relevance. Research conducted by Francis & Wang (2008) finds that audit quality has a positive effect on improving the quality of profit that is marked by the recognition of a large conservatism loss. Dimitripulous (2013) also agrees that audit quality has a positive effect on improving the quality of accounting. However, research conducted by Kristanto (2014) showed different results. He found that audit quality proxied by KAP size did not affect the quality of the firm's earnings. Similarly, the results of research Fadila (2016) who did not find the effect of quality audit on timely loss recognition.

### **The Effect of IFRS Implementation on Timely Loss Recognition**

Timely loss recognition is an indication of high-quality earnings, where major losses are recognized in the current period and are not deferred for subsequent periods (Barth et al. 2008). Companies are usually more willingly to disclose good information and postpone bad news. Therefore, time in the regulation of profit and loss is important (Iatridis & Rouvolis 2010).

IFRS implementation empirically can improve the quality of information on financial reports (Barth et al. 2008; Iatridis & Rouvolis 2010; Chua et al. 2012). These qualities can be measured by a decrease in earnings management, an increase in the timely recognition of losses, and an increase in the relevance value of financial statement information. To be able to achieve a high quality of financial information, the characteristics of IFRS must be fulfilled. These characteristics are principle-based, fair value, and broader disclosure.

In principle-based, companies apply accounting methods based on principle, not technical in detail because of differences in industry characteristics. It enables companies to make financial statements according to their respective industry characteristics so that the information made more reflects the company's economic condition.

IFRS also eliminates standards that have the potential to provide management with an opportunity to use the method based on its importance so that the financial statements will be more transparent, including in the recognition of losses (Fadila 2016). In addition, IFRS emphasizes fair value utilization in measuring so that the company will recognize a loss due to fair value changes in the comprehensive income even though the loss

is not realized (Martani 2011). That way, companies will more quickly recognize the loss.

### The Effect of Audit Quality on Timely Loss Recognition

Auditors have an important role in a company's financial statements. Users of financial statements, especially investors will take economic decisions based on reports that have been issued by the auditor. Therefore, the quality of auditors influences the quality of the reports they generate. A good audit quality can produce quality audit reports and the information contained in the company's financial report becomes more reliable (Fadila 2016).

According to De Angelo (1981), audit quality is directly related to the size of the audit firm or KAP. The results of his research indicate that large audit firms will try to present quality audit reports compared to small-scale audit firms. Dye (2003) says that KAP with large assets has the drive to produce more accurate audit reports. Basu (2001) found that earnings quality conservatism was found to be higher in the Big Eight Auditor. This indicates that loss recognition is done more timely than the recognition of corporate profits (Fadila 2016).

Based on the above arguments, the hypothesis can be formulated in this research is as follows:

H1: The level of IFRS implementation has a significant effect on timely loss recognition.

H2: Audit quality has a significant effect on timely loss recognition.

## 3. RESEARCH METHOD

### Selection of Data and Sample

The population consists of the listed companies on the Indonesia Stock Exchange (IDX) in 2012 until 2015 in addition to companies engaged in banking and companies with state-owned status. The researchers excluded companies in the banking sector and state-owned enterprises from the population because the two companies have different corporate governance regulations and are closely monitored by the Financial Services Authority (OJK) and Bank Indonesia (BI).

The sample in this research is taken using purposive sampling technique that is sample retrieval technique with certain consideration or criteria according to research purpose. The criteria used are as follows:

1. Companies listed on the BEI and publish an annual report (annual report) in 2012 until 2015.

2. Companies that move not in the banking sector and SOEs.
3. The Company was not excluded from BEI's list during the study period.
4. The company has the required data completely.
5. The Company's financial statements are presented in rupiah.

### Data Analysis Method

In this research, the data analysis is descriptive statistical analysis, classical assumption test, and hypothesis testing. Multiple linear regression analysis

$$TLR = a + \beta_1 IFRS_{it} + \beta_2 AUDIT_{it} + \beta_3 SIZE_{it} + \beta_4 PROFIT_{it} + \beta_5 GROWTH_{it} + e. \quad (1)$$

Details:

$TLR$  = Timely Loss Recognition

$a$  = Constant

$\beta$  = Regression Coefficient

$IFRS_{it}$  = Degree of IFRS implementation of company-  $i$  in year-  $t$

$AUDIT_{it}$  = company Audit quality-  $i$  in year-  $t$

$SIZE_{it}$  = Company size-  $i$  in year-  $t$

$PROFIT_{it}$  = Company profitability-  $i$  in year-  $t$

$GROWTH_{it}$  = Company growth-  $i$  in year-  $t$ .

### Variable Measurement

In this study, the dependent variable is timely loss recognition (TLR) or the timeliness of loss recognition. TLR is projected using the time-series test of the timely-loss recognition model from Ball & Shivakumar (2005). The equations are as follows:

$$\frac{\Delta NI}{TA_{t-1}} = \lambda_0 + \lambda_1 1NIDI_{t-1} + \lambda_2 \frac{\Delta NI_{t-1}}{TA_{t-2}} + \lambda_3 3NIDI_{t-1} * \frac{\Delta NI_{t-1}}{TA_{t-2}}. \quad (2)$$

In which,  $\Delta NI$  is the change in net income;  $TA$  is total assets;  $\Delta NI$  is an indicator of value 1 is  $<0$ , and is 0 for the other. This equation is first prioritized for each firm, and then its  $\lambda_3$ -value is taken as a large negative coefficient of profit.

The level of IFRS implementation as the first independent variable is measured using the identification of Deloitte IFRS Presentation and Disclosure Checklist items (Al-Mutawaa & Hewaidy 2010; Prawinandi et al. 2012; Utami et al. 2013; Sutiyo & Evi 2014). The items used are adjusted to the IFRS-referenced PSAKs for the period 2012 to 2015. There are 10 PSAKs that have converged with IFRS, as shown in Table 1.

Items need to be disclosed differently each year because IFRS does the repairs and adjustments of items with confrontations and accounting issues that evolve over time. For 2012, 2013 and 2014, the items disclosed amounted to 59

**Table 1**  
**List of PSAK Converged in IFRS**

No.	Financial Accounting Standard	IFRS Standard	Date effective	No of Items	
1	PSAK 5	Operation Segment	IFRS 8	Jan 1, 2011	3
2	PSAK 22	Business combination	IFRS 3	Jan 1, 2011	9
3	PSAK 53	Share-based payment	IFRS 2	Jan 1, 2012	12
4	PSAK 58	Fixed asset owned for sale	IFRS 5	Jan 1, 2011	4
5	PSAK 60	Financial instrument for disclosure	IFRS 7	Jan 1, 2015	20
6	PSAK 62	Insurance contract	IFRS 4	Jan 1, 2012	8
7	PSAK 64	Financial report in hypertension economy	IFRS 6	Jan 1, 2012	3
	PSAK 65	Consolidate financial report	IFRS 10	Jan 1, 2015	3
8	PSAK 66	Collective Arrangement	IFRS 11	Jan 1, 2015	5
9	PSAK 67	Disclosure for Other entity’s Interest	IFRS 12	Jan 1, 2015	1
10	PSAK 68	Measurement of Fair value	IFRS 13	Jan 1, 2015	13

items and for 2015, 22 items due to the addition of convergent PSAKs with IFRS beginning January 1, 2015, of PSAK 65, 66, 67 and 68. Thus, when a total of 81 items

The study used scoring technique to measure the level of implementation with the provisions. For example, when the item can be applied in the company and disclosed, it is given a score of 1 and if not disclosed, it would be given score 0 (Apostolou & Nanopoulos 2009). After that, it was calculated using the Partial Compliance Weighted (PC Weighted) method, i.e. the number of items disclosed by the company divided by the total item applicable in the company (Tsalavoutas et al. 2008). The equations used to calculate the level of IFRS implementation are as follows:

$$IFRS_{BY} = \frac{SCORE_{BY}}{MAX_{BY}} \quad (3)$$

In Which:

$IFRS_{BY}$  = Score of IFRS implementation Level of Company B in year Y

$SCORE_{BY}$  = number of items of company disclosure B in year Y

$MAX_{BY}$  = maximum item which can be implemented by company B in year Y.

The second independent variable is audit quality proxied with KAP size. The large KAP size is the KAP included in the Big Four Accounting Firms (Christensen 2007; Francis & Wang 2008; and Dimitripoulos 2013). If the company under study uses the services of auditors incorporated in the Big Four, then it will be assigned a value of 1. The company will be assessed 0 if using the services of auditors other than that. KAPs incorporated into Big Four Accounting Firms are Deloitte, Price water house Cooper (PwC), Klynveld Peat Marwick Goerdeler (KPMG), and Ernst & Young (E & Y).

In addition, in this study, even control va-

riables were added in the form of company size, profitability, and growth. Company size is proxied by using natural logarithm (Ln) of total assets owned by the company. Profitability is measured by Return on Assets (ROA) (Jayaraman 2012; Fadila 2016). The average total assets of the firm calculate ROA using the company's after-tax earnings formula divided. Then, the growth is measured using profit growth ratio (Jayaraman 2012). The ratio is derived from the following formula:

$$Growth = \frac{NetProfit_t - NetProfit_{t-1}}{NetProfit_{t-1}} \quad (4)$$

**Note:**

Growth : ratio of profit growth

$NetProfit_t$  : net profit acquired in year t

$NetProfit_{t-1}$  : Net profit acquired before year t.

#### 4. DATA ANALYSIS AND DISCUSSION

The purpose of this study is to determine the effect of IFRS implementation level and quality of audit on timely loss recognition on companies listed on the BEI in 2012 until 2015. After purposive sampling, it is obtained the number of research samples is shown in Table 2.

##### Descriptive Statistics

The number of companies used the research sample after the purposive sampling is 101 companies for 4 years so that total sample is 404. Descriptive statistical results are in Table 3.

##### Hypothesis Testing

Based on the multiple linear regression test in Table 4, two independent variables have an influence on the dependent variable that is audit quality and firm size. The significance value is less than 0.05 or 5%. Audit quality has a significant value of 0.002 with a negative direction. It is timely loss recognition that increases if the firms are audited

**Table 2**  
**Research Sample Criteria**

Criteria	Number of Companies
Companies listed on the BEI and publish an annual report in 2012 until 2015.	365
Companies engaged in the banking sector and state-owned companies	(108)
Companies issued from BEI list during the period of study (delisting)	(15)
Companies with incomplete data	(54)
Companies that use currencies other than rupiah	(87)
The number of research samples	101
Number of Observations	404

**Table 3**  
**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
IFRS	404	.25	.88	.4798	.10705
AUDIT	404	0	1	.39	.489
SIZE	404	9.95	19.32	14.3411	1.64728
PROFITABILITAS	404	-.78	1.29	.0774	.14486
GROWTH	404	-86.38	475.32	.4241	24.79460
TLR	404	-42.34	67.53	1.3421	13.03991
Valid N (leastwise)	404				

Note: IFRS= Level if Company's IFRS Implementation; AUDIT = Company Audit Quality, valued 1 if included KAP Big Four and 0 for others; SIZE= Company Size; PROFIT= Company Profitability; GROWTH= Company Growth; TLR= Timely Loss Recognition.

by Public Accountant Offices (KAP) other than Big 4. Therefore, it can be concluded that the second hypothesis cannot be rejected or accepted.

The results of this study are consistent with the research conducted by Rohaeni & Aryati (2012) which shows that KAP Big 4 has not always had a positive influence on the quality of accounting. Their results found a high income smoothing on firms audited by Big 4's KAP than those audited by other than Big KAP 4. This shows that auditor quality is not determined by the large size of the sheltered KAP, but back again to the personal qualities of each.

The existence of the negative effect of Big 4 KAP on timely loss recognition can happen because at the time of research period many events such as IPO that happened in the company. The existence of the event makes the company tends to falsify the financial statements including by not recognizing the loss at the time of the occurrence. There is empirical evidence showing that at the time of the IPO, the company frequently changed the auditor and selected the Big Five auditor (Chan et al. 2005, Rohaeni & Aryati 2012).

Another factor is the desire of the company to get a loan from the bank with the aim of doing the expansion. The bank usually advises the company to conduct an audit first so that the bank believes that the company is in good shape and has prospects to repay the loan. For the sake of the need,

the company will choose a reputable KAP such as Big 4 KAP. In addition, the company also tends to beautify its financial statements for the bank to agree to provide additional expenses for business expansion.

Chaerunisa et al. (2012) found that audit quality was not affected by KAP measures. The result of the research shows that the relationship between KAP and audit quality is positive but not significant. Therefore, the quality of the audit can be influenced by other factors.

There are several arguments in the absence of significant differences between audit quality of Big 4 and non-Big 4 KAP (Louis 2005). The first argument, the absence of differences in standards and work regulations between Big 4 and Big 4 Big KAP so that the resulting audits quality will not be much different. Then, the second argument states that smaller non-Big 4 KAP sizes make them make more efforts in the audit process to minimize audit risk because they cannot afford to buy insurance thoroughly to protect them.

The firm size variable has a significance value of 0.004 that is smaller than 0.05 in the positive direction. That is, the greater the size of the company. This can increase the timeliness of recognition losses.

The other three independent variables that have no effect on timely loss recognition because the level of significance exceeds 0.05 is the level of

**Table 4**  
**Results of Hypothesis Testing**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-6.986	6.624		-1.055	0.292
IFRS	5.791	6.150	0.048	0.942	0.347
AUDIT	-5.113	1.624	-0.192	-3.149	0.002
SIZE	0.491	0.477	0.062	1.030	0.004
PROFIT	6.617	4.754	0.074	1.392	0.165
GROWTH	-.009	0.027	-0.018	-0.342	0.733

Note: IFRS= Level if Company's IFRS Implementation; AUDIT = Company Audit Quality, valued 1 if included KAP Big Four and 0 for others; SIZE= Company Size; PROFIT= Company Profitability; GROWTH= Company Growth; TLR= Timely Loss Recognition.

IFRS implementation, profitability, and growth. IFRS implementation level of significance is 0.347; profitability with a significant value-si 0.165; and growth with a significance value is 0.733.

The results of this study are consistent with the research undertaken by Braurer et al. (2011), Sun et al. (2011), Arum (2013), Sianipar & Marsono (2013), Fadila (2016), and Bening (2016). Braurer et al. (2011) examined the level of timeliness of losses in the periods before and after the enactment of IFRS and found that following the adoption of IFRS there was a decrease in timely loss recognition. Similarly, the results of research conducted by Sun et al. (2011) found that there was no change in the timeliness of loss recognition before and after IFRS convergence.

Several studies in Indonesia examining the effect of IFRS convergence on timely loss recognition also support the results of this study. For example, Arum in 2013 conducted research on the impact of IFRS implementation on accounting quality at companies listed on BEI in 2010-2011. The results showed that IFRS implementation had no effect on timely loss recognition. This is because the company is not ready to report a large loss even though IFRS has required broad and transparent disclosure. Also, a research by Sianipar & Marsono (2013) on manufacturing companies in Indonesia in 2011-2012 also showed similar results with Arum research in 2013. There is no difference between before and after the full adoption of IFRS on value relevance, earnings management, and timely loss recognition. Another study by Fadila (2016) also examined the effect of IFRS conferencing on timely loss recognition and found no effect between the two variables. The company is not ready to implement the new standards and still lack of tools that support the course of IFRS is the reason why it happens.

Similarly, Bening (2016) also examined the effect of IFRS adoption in 2009-2014. The results showed that there was no increase in the timeli-

ness of loss recognition after the application of IFRS. This shows that there are still many obstacles in the process of implementing IFRS in Indonesia.

According to Saputra & Hermawan (2012), there are three main problems faced by Indonesia in the process of adopting IFRS, namely: (1) the lack of prepared DSAK as standard setter in Indonesia, (2) the laws and regulations in Indonesia, which are not necessarily in accordance with IFRS, and (3) the lack of human resources, especially in education. In addition to the above three issues, problems that can not be excluded are language problems. The PSAK should be written in Indonesian so that the process of translation of this language takes a short time. This process of translating must also be done carefully and carefully so that the corresponding word is appropriate and does not give a different meaning.

Dynamic IFRS changes are also a factor why companies in Indonesia are difficult to implement in their financial statements. In order to reduce these constraints, DSAK has made an effort to minimize the difference between IFRS and PSAK from initially differing from 3 years to 1 year on January 1 2015 (IAI 2017).

IFRS emphasizes fair value utilization in the measurement so that the company will recognize the loss due to a fair value of the fair value in the comprehensive income even though the loss is not realized (Martani 2011). That way, the company will more quickly recognize the loss. If there are still many obstacles in the application of IFRS, then the company is also not maximized in doing the loss recognition in a timely manner. This resulted in low level of timely loss recognition in the company.

## **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

This study tries to determine the effect of IFRS implementation level and audit quality

represented by the size of KAP against timely loss recognition. In addition, the researchers also added control variables such as firm size, profitability, and growth to show the effect of these three variables on the timing of loss recognition. It used the sample taken from non-state-owned and non-financial companies listed on Indonesia Stock Exchange (BEI) in 2012-2015.

Based on the results of data processing previously described, it can be concluded that:

1. The level of IFRS implementation is not effective against timely loss recognition.
2. Audit quality negatively affects timely loss recognition.
3. The control variable in the form of firm size has a positive influence on the variable timely loss recognition. On the contrary, profitability and growth indicate no effect on the dependent variable.

There are some limitations in this study including measuring instruments focused on the financial aspect of the numbers on the financial statements only. This less represents the IFRS characteristic of greater disclosure. In addition, audit quality is measured using only one dimension of KAP size.

For further research, it is important for the researchers to add dimensions in audit quality measurement, for example tenure or length of time the auditor performs audit of a company, audit fee, and auditor independence level. Researchers can also add other measuring tools to test IFRS implementation levels in addition to financial terms e.g. in terms of voluntary disclosure.

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