The effects of audit quality on the value relevance of other comprehensive incomes

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A B S T R A C T

Stockholders claim deals with handling crucial role to investors while another accounting measurement has not yet been paid attention by the investors and analysts. Beside, another comprehensive income despite of its equal role to net income also requires a deep concern. This research uses financial industry data in Indonesia Capital Market for 2011-2012 under panel method and also cross-section method as the additional analysis. This research assesses the effect of audit quality on value relevance of other comprehensive income regarding subjectivity embedded in other comprehensive income components. These components are determined through fair value aspects, which eventually lead to management discretion in measuring other comprehensive income components. Subjective components of other comprehensive incomes consist of foreign exchange translation (forex), revaluation in fixed assets (rev), minimum pension liability adjustment (pen), and available-for-sale securities adjustment (sec). The audit quality is believed as a mechanism which can increase the value relevance of subjective of other comprehensive income components. On the other hand, when assessing the value relevance of other comprehensive income components both individually and in aggregate, it is encouraged by inconsistency of previous research results.

A B S T R A K

Hak pemegang saham berhubungan dengan penanganan peran penting investor saat pengukuran akuntansi yang lain belum diperhatikan oleh para investor dan analis. Selain itu, pendapatan komprehensif lain, di samping peran pentingnya pada pendapatan bersih, juga diperlukan kepedulian. Penelitian ini menggunakan data industri keuangan di Pasar Modal Indonesia untuk 2011-2012 dengan metode panel dan cross-section method sebagai analisis tambahan. Penelitian ini menganalisis pengaruh kualitas audit terhadap relevansi nilai pendapatan terkait dengan subjektivitas komprehensif lain yang tertera pada komponen pendapatan komprehensif lain. Komponen-komponen ini ditentukan melalui aspek nilai wajar, yang akhirnya menyebabkan kebijakan manajemen dalam mengukur komponen pendapatan komprehensif lain. Komponen subjektif dari pendapatan komprehensif lain terdiri dari valuta asing (forex), revalusasi aset tetap (rev), penyesuaian kewajiban pensiun minimum (pen), dan penyesuaian efek yang siap jual (sec). Kualitas audit diyakini sebagai mekanisme yang dapat meningkatkan relevansi nilai subjektif komponen pendapatan komprehensif lain. Di sisi lain, ketika menilai relevansi, nilai komponen pendapatan komprehensif lain baik secara individu maupun secara keseluruhan, diakibatkan oleh inkonsistensi hasil penelitian sebelumnya.

1. INTRODUCTION
Net income is residual income after deduction of all expenses and interest. It reflects stockholders' claim, thus, it can handle a crucial role to investors. Meanwhile, another accounting measurement, which has not yet received focus from investors and analysts, is also other comprehensive income, despite of its equal role to net income. Association for Investment Management and Research (AIMR) elevated public attention to other comprehensive income as a result of all inclusive approach reports published in 1993. This is considered as better measurement of company values. Hence, accounting regulator continuously tries to lift the importance

of other comprehensive income as accounting income measurement, which is regulated on International Accounting Standard (IAS) No. 1 then adopted through Pernyataan Standar Akuntansi Keuangan (PSAK) No. 1 (Revised 2009).

The implementation of PSAK 1 (Revised 2009) effectively started on January 1st, 2011 required company to present other comprehensive income as part of financial statement. IAS 1: *Presentation of Financial Statements* paragraph 7 defines total other comprehensive income as changes in equity during period of time resulted from series of events and transactions other than changes from transactions with owners in their capacities as owners. Components of other comprehensive income consist of the following:

1. changes in revaluation surplus (PSAK 16 (Revised 2011): Fixed Assets and PSAK 19 (Revised 2009): Intangible Assets);
2. actuarial gains and losses of defined pension obligation recognized according to PSAK 24 (Revised 2004): Employment Benefit;
3. gains and losses of foreign exchange translation from foreign entity (PSAK 10 (Revised 2009): Effects of Foreign Exchange);
4. gains and losses from remeasurement of available-for-sale securities (PSAK 55 (Revised 2006): Financial Instrument: Recognition and Measurement);
5. effective part of gains and losses from cash flow hedging derivative instruments (PSAK 55 (Revised 2006): Financial Instruments: Recognition and Measurement).

Some researchers suggested that other comprehensive income is value relevant (Hurstand Hopkins 1998; Maines and McDaniel 2000; Biddle and Choi 2006; Choi and Dhas 2003), while others declared opposite result (O'Hanlon and Pope 1999; Dhaliwal et al. 1999). Therefore, the researcher reevaluates the value relevance of other comprehensive income in Indonesia both in aggregate and individual components, which were not included in the previous researches. Furthermore, the researcher focuses on financial industry which has never been on the previous research object through two assessment methods, panel regression, and cross section regression to enhance the reliability of results. Researcher uses price model to align the assessment to research purposes specifically related to value relevance (Landsman and Magliolo 1988), then read book value equity as variable which previously removed by Lee and Parker (2013) to maintain stability of value relevance.

Lee and Parker (2013) stated that there is sub-jectivity inside components of other comprehensive income as the result of fair value hierarchy difference (PSAK 60 2009). The only one component of other comprehensive income which is considered as the least subjective due to existence of active market is available-for-sale security adjustment. The inherent subjectivity laid on the rest of components lower their value relevance. Meanwhile, audit quality, which is reflected by size of public accounting offices as Big 4 and non Big 4, is expected to improve value relevance of other comprehensive income subjective components. Hence, this research evaluates effects of subjectivity to value relevance of other comprehensive components which later will have audit quality as addition in variables. Finally, effects of audit quality are expected to be able improving value relevance of other comprehensive income in aggregate.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

The underlying theory of this research is efficient market hypothesis (Jones 2007) that explains that all relevant available information in the market will be reflected on stock price. In addition, other comprehensive income is an effort from accounting regulator's to enhance availability and reliability of accounting information as one of public information in market, which also will be reflected on stock price if it is value relevant. Value relevance concept defined relevant information as information that will affect decision-making process of financial statement users.

Value Relevance of Aggregate other Comprehensive Income

Penman et al. (1997) stated that other comprehensive income has value added because other comprehensive income identifies all value source resulted in measurement, then extinguishes changes in equity which resulted from value-creating items and non-value creating items. Furthermore, Dhaliwal et al. (1997) also stated that other comprehensive income is useful in identifying changes in assets resulted from non-owners' transactions. Chambers et al. (2007) stated that other comprehensive income showed value relevance after the adoption of mandatory rules for it (data 1998-2003), however before this (data 1994-1997) investors did not take other comprehensive income into consideration. Kanagaretnam et al. (2009) stated that other comprehensive income is more advanced to predict future cash flow, while Tsuji (2013) stated that other comprehensive income is useful to predict future

stock return. Lin and Rong (2012) also explained that other comprehensive income is useful in suppressing earning management significantly since other comprehensive income enables public to have better understanding on firms. Darsono (2012) explained that other comprehensive income has value relevance, especially in determining stock value. Meanwhile, value relevance of accounting information differed for company with positive and negative financial performance. Based on researcher's assessment on research results as mentioned above, researcher develops hypothesis as follows.
H1: Other comprehensive income has value relevance in aggregate.

Value Relevance of Other Comprehensive Income Individual Components
Cahan et al. (2000) concluded that investors take into account the aggregate value of other comprehensive income, but not for the reporting of its individual components. Cahan specially stated for asset revaluation surplus and foreign exchange translation as the components of other comprehensive income. Meanwhile, Brimble and Hodgson (2001) stated that other comprehensive income comprised of different earnings components which cannot be combined with equity adjustments which cannot be realized under any pragmatic finance logic. Choi et al. (2007) also stated the same opinion as Cahan et al. (2000), but specifically researching on effective part of cash flow hedging. Based on researcher's assessment on research results as mentioned above, researcher develops hypothesis below.
H2: Other comprehensive income components as individual do not have value relevance.

Audit Quality and Value Relevance of Aggregate Other Comprehensive Income
It can be referred to the studies stating that investors valued other comprehensive income and its components consistently (Dhaliwal et al. 1999) and (O' Hanlon and Pope 1999). Hirst and Hopkins (1998) also stated that financial analyst treat equally firms which applied earning management and not when other comprehensive income presented in income statement, but treat differently when other comprehensive income presented in changes in equity statement.

De Angelo (1981) defined audit quality as the probability of auditor to deter and report breach in clients' accounting process. Regarding to audit quality, Big 4 public accounting firms are believed to posses better audit quality compared to non Big

4, which are reflected through capital market due to several factors below as been studied by Lee and Parker (2013). First, Big 4 tends to be reluctant to litigation risk compared to non Big 4 (Francis & Wang 1998). High litigation risk is born from big reputation and enormous asset owned by Big 4 which can be sued by counterparties. Second, Big 4 are able to mitigate asymmetric information occur between manager and stockholder through better audit quality compared to non Big 4 (Francis et al. 1999).Third, BAPEPAM often investigate and run strict supervision to Big 4 due to large amount of Big 4 clients registered in Indonesia Stock Exchange. It will encourage Big 4 to have better audit quality and cautiously act (DeFond 2010). Fourth, sophisticated technology, superior knowledge, and strong position in negotiation owned by Big 4 to question clients' accounting practices resulting better audit quality compared to non Big 4 (DeFond & Jiambalvo 1993; Francis et al. 1999). Fifth, market value perceived differences audit quality between Big 4 and non Big 4 (Knechel et al. 2007).

Therefore, audit quality is expected to enhance value relevance of other comprehensive income which now still inconsistently valued by financial statements user. Below is the development of hypothesis based on abovementioned research results.
H3: Value relevance of other comprehensive income is higher in aggregate for firms audited by Big 4 compared to firms audited by non Big 4.

Value Relevance of Subjectivity on Other Comprehensive Income Components
Fair value hierarchy (PSAK 60 2009) stated that first level of fair value measurement use active market quotation. The second level is observable inputs other than active market quotation, and then the third level is an unobservable input which is not based on market price. Most of available for sale security measured on active market quotation and highly regulated on its classification, for instance tainting rules. Meanwhile, minimum pension liability adjustment, cash hedging adjustment, and revaluation surplus adjustment are measured on highly subjective management assumptions and sensitive to changes, which put them on the second or third level in fair value hierarchy.

Management has the right to determine current rate or temporal rate as translation method thus resulting management opportunistic behavior on foreign exchange translation adjustment (Holt 2011; Pinto 2012). Meanwhile, actuarial assumptions on minimum liability adjustment on pension
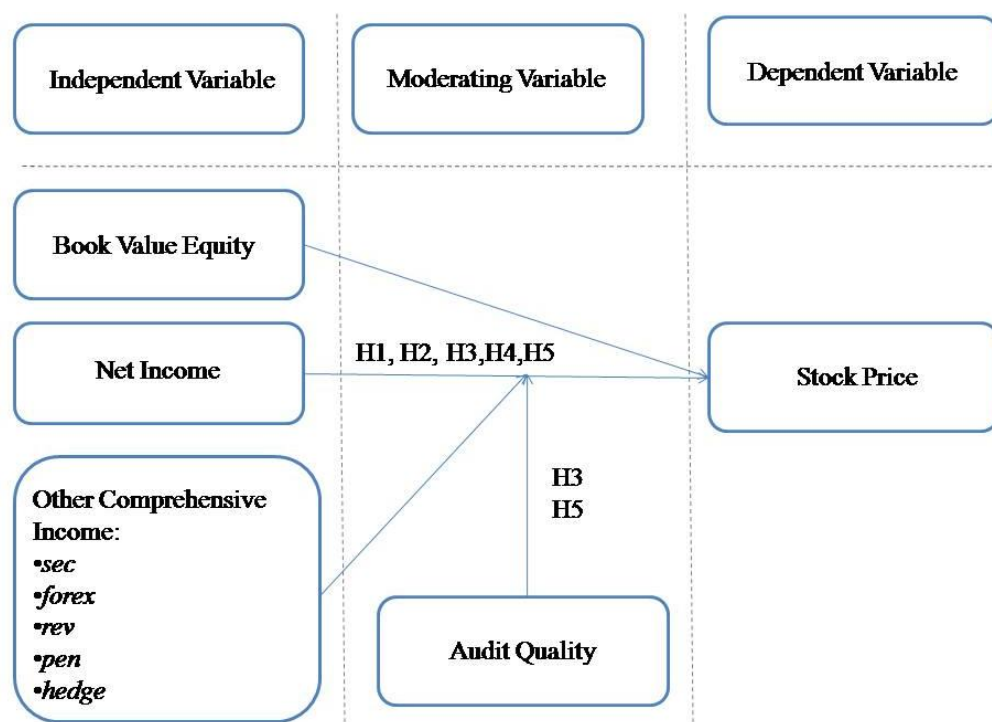
Figure 1
Hypothesis Development

Source: Created by the researcher.

as stated by PCAOB (2008) depend on professional judgment of management, for instance discount rate, expected rate of return and compensation rate. Besides, key inputs on derivative model resulting from counterparty quotation or other market data when there is no active market. Therefore, researcher develops hypothesis as mentioned below.
H4: Value relevance of objective other comprehensive income component is higher compared to subjective other comprehensive income components.

Audit Quality and Value Relevance on Subjectivity of Other Comprehensive Income Components
Highly subjective and sensitive to changes assumptions lied beneath subjective of other comprehensive components which require significant efforts from auditors (ISA 540 2010; IFRS 13 2011). PCAOB also published standard for instance AU section 328: Auditing Fair Value Measurements and Disclosures, which required auditor to evaluate fitness of measurement and disclosure for fair value to applicable standards. Other than that, auditor also must obtain whole understanding of client business process in determining measurement and disclosure of fair value, then evaluate rationale and consistency management's assumptions (PCAOB 2007b). It is expected that audit quality is able to lower subjectivity and enhanced value relevance of subjective other comprehensive income compo-

nents. Therefore, researcher develops hypothesis as below.
H5: Value relevance for subjective other comprehensive income components is higher for firms audited by Big 4 compared to firms audited by non Big 4.

The hypotheses development is shown in Figure 1.

3. RESEARCH METHOD
First hypothesis is done by referring the research model of Cahan et al. (2000) to assess the value relevance of other comprehensive income in aggregate. The value relevance of this research always links to accounting summary measures. For example book value equity and net income are always included in the equation referring to the original model of Ohlson (1995) to map the impact of book value equity, net income, and other comprehensive income on the stock price and compare its level of significance. Other comprehensive income is considered value relevant if $\alpha_3 > 0$ and significantly is affected by the dependent variable, which is stock price.

$$price_{it} = \alpha_0 + \alpha_1 bve_{it} + \alpha_2 ni_{it} + \alpha_3 oci_{it} + \varepsilon_{it}. \qquad (1)$$

$price_{it}$ = average stock price for eight months before and four months after end of fiscal year (31 December)
bve_{it} = book value of ordinary stock on company

Table 1
Descriptive Statistic Analysis

Variables	Observation	Mean	Standard Deviation	Minimum Value	Maximum Value
price	102	1,604.32	2,427.96	50	12,188
bve	102	950,813.70	1,180,232	25,000	6,665,000
ni	102	200,053.5	416,529	-253,813	3,366,000
sec	102	-3,988.78	40,649.31	-410,493	1,991
forex	102	-0.07	2.24	-19	8
rev	102	0.11	1.09	0	11
pen	102	-0.12	0.94	-9	0
hedge	102	0.02	1.34	-12	4
sub	102	-0.06	3.01	-19	11
oci	102	-3,988.83	40,649.31	-410,493	1,991

Source: Created by researcher.

financial statement in year t divided by numbers of outstanding stock

ni_{it} = annual income before tax on company financial statement in year t divided by numbers of outstanding stock

oci_{it} = other comprehensive income on company financial statement in year t divided by numbers of outstanding stock

All variables on the equations are divided by numbers of outstanding stocks to reflect value per stock. Kin Lo (2004) explained that firm's stock value cannot be determined by numbers of outstanding stocks, as well as value and size of the firm, which eventually leads to scaling bias. However, latest research by Barth and Clinch (2009) proved that numbers of outstanding stocks deflator produce the least scaling bias result in modified Ohlson model (1995) compared to other deflator, such as book value equity, lagged price, returns, or equity market value.

All coefficients on the second equation (2) are expected to have value other than zero. Meanwhile, value of $α_3$, $α_4$, $α_5$, $α_6$, and $α_7$ are not significant to be determined that individual component of other comprehensive income do not have value relevance. In order to specifically assess components of other comprehensive income, the researcher uses modified regression model by Kanagaretnam et al. (2009) and has been used in several previous value relevance researches (Barth and Clinch 1996; Rees and Elgers 1997; Harris and Muller 1999). Second regression model differs with Kanagaretnam et al. (2009) model in addition of surplus revaluation adjustment components and minimum pension liability adjustment according to PSAK 1 (Revision 2009).

$price_{it} = α_0 + α_1bve_{it} + α_2ni_{it} + α_3sec_{it} + α_4forex_{it} + α_5rev_{it} + α_6pen_{it} + α_7hedge_{it} + ε_{it}.$ (2)

sec_{it} = available for sale security adjustment on company financial statement in year t divided by numbers of outstanding stock

$forex_{it}$ = foreign exchange translation adjustment on company financial statement in year t divided by numbers of outstanding stock

rev_{it} = fixed asset revaluation adjustment on company financial statement in year t divided by numbers of outstanding stock

pen_{it} = minimum pension liability adjustment on company financial statement in year t divided by numbers of outstanding stock

$hedge_{it}$ = cash flow hedge adjustment on company financial statement in year t divided by numbers of outstanding stock.

On the third hypothesis, the researcher uses OLS regression model as based on Lee and Parker (2013) that is an expansion of model used by Chambers et al. (2007), Choi et al. (2007) and Dhaliwal et al. (1999). Third regression model differs from the previous model in terms of usage for book value of equity and numbers of outstanding stock to scale research variables. In this case, stock price is chosen to be dependent variable due to limitation of return data and purpose of this research related to value relevance. Third hypothesis is accepted if and only if $α_5 > 0$ significantly affected stock price.

$price_{it} = α_0 + α_1bve_{it} + α_2ni_{it} + α_3oci_{it} + α_4big4_{it} + α_5oci*big4_{it} + ε_{it}.$ (3)

$big4_{it}$ = dummy variable as indicator for size of auditor, whether classified as Big 4 or non Big 4

The fourth regression model aims to evaluate the fourth hypothesis and hypothesis will be accepted if and only if coefficient value $α_3 > 0$ and $α_3 > α_4$. Meanwhile, significance level of *sec* is expected to be higher than *sub*.

$price_{it} = α_0 + α_1bve_{it} + α_2ni_{it} + α_3sec_{it} + α_4sub_{it} + ε_{it}.$ (4)

sub_{it} = changes in other comprehensive income other than available-for-sale securities which are measured as sum of minimum pension liability adjustment balance (*pen*), adjustment of foreign exchange translation balance (*forex*), and gains or losses from derivatives classified as *designated cash flow hedges (hedge)*; which are divided by numbers of outstanding stock.

Table 2
Panel Regression Results Summary

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
bve	-0.000048	-0.000037	-0.000047	-0.000030	-0.000019
	0.000186	0.000179	0.000185	0.000177	0.000176
	0.7938	0.8369	0.8031	0.8655	0.9163
ni	0.002418	0.002202	0.002378	0.002229	0.002128
	0.000915	0.000987	0.000901	0.000948	0.001019
	0.0110**	0.0302**	0.0112**	0.0228**	0.0419**
oci	-0.002180		-0.002181		
	0.000025		0.000025		
	0.0000***		0.0000***		
sec		-0.002185		-0.002184	-0.002185
		0.000026		0.000026	0.000027
		0.0000***		0.0000***	0.0000***
forex		17.012825			
		14.671572			
		0.2518			
rev		4.651726			
		0.638225			
		0.0000***			
pen		-7.463990			
		31.358351			
		0.8129			
hedge		159.05124			
		160.22104			
		0.3257			
big4			-29.358842		-30.622105
			33.291389		30.175878
			0.3822		0.3152
big4*oci			4.771098		
			7.981393		
			0.5527		
sub				14.477035	-2.845377
				11.916257	4.832010
				0.2302	0.5587
big4*sec					0.182155
					11.030982
					0.9869
big4*sub					26.197808
					22.278027
					0.2453
_cons	1,077.68	1,082.34	1,090.67	1,089.56	1,109.6847
	209.12	204.45	205.85	205.55	208.18702
	0.0000***	0.0000***	0.0000***	0.0000***	0.0000***
r2	0.282576	0.313496	0.290587	0.294446	0.303655

First row: b= coefficient;
Second row: se= standard error;
Third row: p= p-value
Source: Calculated using STATA.

Furthermore, the fifth regression model assesses the fifth hypothesis will be accepted if and only if subjective components which are attested by Big 4 auditors (*sub*big4*) possess higher level of value relevance than adjustment of available-for-sale securities attested by Big 4 (*sec*big4*). It is proved by $\alpha_7 > 0$ and $\alpha_7 > \alpha_6$, then significance level of *sub*big4* is higher than *sec*big4*.

$price_{it} = \alpha_0 + \alpha_1 bve_{it} + \alpha_2 ni_{it} + \alpha_3 sec_{it} + \alpha_4 sub_{it} + \alpha_5 big4_{it}$ $+ \alpha_6 sec*big4_{it} + \alpha_7 sub*big4_{it} + \varepsilon_{it}.$ (5)

The researcher uses all listed firms in Indonesia Stock Exchange during 2011-2012 categorized into financial industry. Table 1 shows the descriptive analysis of data used in the research.

In order to avoid research bias due to outlier existence, thus researcher performed outlier test using four sigma rules under Chebyshev's Theorem. It is done to guarantee that at least 94% of data

Table 3
Additional Analysis Cross Section Regression Results Summary

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
bve	-0.0001578	-0.000171	-0.000115	-0.000165	-0.00012003
	0.000190	0.000189	0.000170	0.000189	0.000171
	0.4106	0.3708	0.5028	0.3863	0.4858
ni	0.008951	0.009053	0.008413	0.009027	0.008498
	0.001240	0.001271	0.001220	0.001241	0.001239
	0.0000***	0.0000***	0.0000***	0.0000***	0.0000***
oci	-0.001934		-0.002332		
	0.0002267		0.000289		
	0.0000***		0.0000***		
sec		-0.001950		-0.001934	-0.0023255
		0.000239		0.000223	0.000299
		0.0000***		0.0000***	0.0000***
forex		-82.897514			
		46.319098			
		0.0797*			
rev		-6.221418			
		8.851026			
		0.4854			
pen		2.6095671			
		27.404678			
		0.9245			
hedge		10.749817			
		165.508180			
		0.9485			
big4			474.632610		438.589280
			275.439860		264.875280
			0.00912*		0.1041
big4*oci			-24.39107		
			15.355268		
			0.1185		
sub				-56.200837	-2.444441
				43.372511	16.600462
				0.2011	0.8835
big4*sec					-15.912871
					8.545544
					0.0686*
big4*sub					-62.177153
					47.472950
					0.1964
_cons	184.69	174.67	47.97	180.97	45.56
	98.41	98.99	97.82	96.72	102.17
	0.0665*	0.0839*	0.6261	0.0673*	0.6576
r2	0.7662186	0.774867	0.780712	0.772191	0.783397

First row: b= coefficient;
Second row: se= standard error;
Third row: p= p-value
Source: Calculated using STATA.

lied on certain ranges with 10 observations as minimum. Usage of 25 observations or more indicates more sufficient data distribution. Hence, 94% observations are concluded to be normally distributed. Formula used to determine upper and lower outlier limits is written below:

outlier = mean ± (standard deviation*4). (6)

Outlier data are data with values beyond upper and lower outlier limits. Based on outlier test,

thus research samples amounted for 50 companies from 2011-2012 resulting 100 observations. Company that is excluded from research samples is Adira Dinamika Multi Finance.

4. DATA ANALYSIS AND DISCUSSION
Panel regression contains far more information than single cross-sections and thus gets an increased precision in estimation. Due to data limita-

tion which only involves two year periods of research, panel data in this research is categorized as micro econometrics panel. Unfortunately, actual information of micro econometrics panel is often overstated since micro econometric data is likely to exhibit all sorts of cross sectional and temporal dependencies (see Table 2).

As the above condition, erroneously ignoring possible correlation of regression disturbances over time and between subjects can lead to biased statistical inference. In order to provide more robust result, researcher decided to create additional analysis under cross section method. Cross section regression treats data individually, then tell more about data itself and more suitable for short period of research. Hence, researcher could take advantage of consistency between data results under panel regression and more representative result under cross section regression. Table 3 presents the result under cross section regression.

Results Analysis
Value Relevance of Other Comprehensive Income in Aggregate

Increasing significance of *ni* and *bve* on the first hypothesis occurs under cross-section regression compared to panel regression. *Ni* under panel regression model 1 on second row is significant on 95% confidence level, then under cross-section regression model 1 on second row increases to 99% confidence level. Additional analyses strengthen the evidence that *ni* has positive correlation and *oci* has negative correlation to stock price. *Bve* is considered not to have value relevance under both methods. However, independent variables are able to explain 76.62% variance on dependent variable under cross-section regression compared to 28.26% under panel regression.

Value Relevance Individual Components of Other Comprehensive Income

Under panel regression, *ni, sec,* and *rev* are proved to be value relevant. Positive changes in *rev* reflect increasing level of company assets and good asset management, thus earning positive response from the market in forms of increasing stock price. The higher revaluation surplus reported by the company, then the higher stock price will be consistently driven up. This research result supporting research done by O'Hanlon and Pope (1999), Dhaliwal et al. (1999), and Cahan et al. (2000). However, on additional analysis *rev* becomes insignificant. Meanwhile, *bve, ni*, and *forex* experience higher level of signi-

ficance accompanied by lower level of significance for *rev, pen,* and *hedge.*

The component *forex* at first is insignificant, then negatively affected stock price on additional analysis. Negative correlation of *forex* consistently proves research done by Collins et al. (1999), Louis (2003), and Chambers et al. (2007). The phenomenon could be explained as loss of value caused by foreign exchange translation adjustment. Positive changes in *forex* is associated with increasing cost of production and liabilities amounts, which eventually drive down value of the firm. *Forex* is significant on 90% confidence level.

Furthermore, as the main asset in financial industries, *sec* is value relevant. Negative coefficient of *sec* represents offsetting of changes in value due to changes in interest rate Ahmed and Takeda 1995). If changes in interest rate are controlled in the research, it will lead to positive relationship between *sec* and stock price. Therefore, *ni, sec,* and *forex* together explain 77.49% variance of stock price, which previously only explaining 31.35% variance of stock price.

The Effects of Audit Quality to Other Comprehensive Income in Aggregate

All variables on the third model under cross-section regression experience increasing value relevance compared to panel regression. Meanwhile, *big4* positively affects stock price on additional analysis, which is previously insignificant. *Bve, ni,* and *big4* explain 29.06% under panel regression and 78.07% under cross-section regression.

The Effects of Subjectivity to Value Relevance of Other Comprehensive Income

All variables on the fourth model show increasing value relevance on additional analysis. Variable *ni* and *sec* explain 77.22% variance of stock price, which previously under panel regression only explain 29.44%.

The Effects of Audit Quality to Components of Other Comprehensive Income

Variable *bve, ni, sec, big4, secbig4,* and *subbig4* show increasing significance, while *sub* experience decreasing level of significance. On additional analysis, variable *secbig4* becomes significant, but still lower than *sec* because *sec* originally has already been considered objective so it is highly value relevant. Variable *ni, sec,* and *secbig4* explain 30.37% variance of dependent variable under panel regression and 78.34% under cross-section regression.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATION

It can be generalized as the following. This research proves that other comprehensive income is value relevant in aggregate. Therefore, company's unique operational characteristics are disclosed better using other comprehensive income thus resulting negative correlation with stock price. In addition, negative correlation created due to negative correlation of available-for-sale securities adjustment, which represents biggest portion among other components. Furthermore, individual components of other comprehensive income are proved not to possess value relevance, except for available-for-sale securities adjustment and revaluation surplus adjustment. Most of financial industries' assets are in forms of available-for-sale securities thus it is highly value relevant.

Besides the above conclusion, another generalization is that an audit quality does not affect value relevance of other comprehensive income in aggregate. In addition, other comprehensive income has high level of value relevance, even beyond the significance level of net income in financial industry. In financial industry, available-for-sale securities adjustment is considered to be objective component that represents biggest portion of other comprehensive income. Hence, audit quality does not affect its value relevance.

Again, subjective components, which consist of foreign exchange translation adjustment, revaluation surplus adjustment, and effective portion of cash flow hedging, minimum pension liability adjustment, do not have value relevance in financial industry. Meanwhile, it is proved that subjectivity possessed by those components resulting higher value relevance for available-for-sale securities adjustment compared to subjective components.

Moreover, audit quality is expected to improve value relevance of subjective components of other comprehensive income. However, research shows insignificant result due to early adoption of related regulation about other comprehensive income. On additional analysis, revaluation surplus adjustment does not have significant correlation with stock price and foreign exchange translation adjustment negatively correlate with stock price. Negative correlation show positive changes in foreign exchange translation adjustment reflect loss of value in company's assets and increasing cost of production.

Some limitations occur in this research encourage researcher to elevate some suggestions to improve research related to this topic, which are as follows:

Data used in this research is classified as premature, which only involves two periods of financial reporting since effective implementation of PSAK 1 (Revision 2009) started on January 1st, 2011. Premature research data are able to affect magnitude of coefficients and significance level of research results. As the time pass by, market eventually will understand and believe new accounting measurement so value relevance will be improved. Therefore, researcher encourages further research on this topic using longer research periods to provide more reliable conclusion.

Researcher suggest that next research should control effects caused by interest rate changes on available-for-sale securities adjustment, which is expected to change direction of correlation from negative to positive (Ahmed and Takeda 1995). Negative correlation do not represent the real practice in capital market, thus controlling that effect will result more reliable research result.

In this research, the researcher does not use control variable, such as firm size or leverage. For that reason, this research cannot mitigate firm specific factor which causes research results are less reliable to be widely generalized. Therefore, for further research, it is recommended that researchers control firm specific factors.

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