

## THE IFRS ADOPTION: CONTRIBUTION TO VALUATION THEORY

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### ABSTRACT

*The transition to IFRS has brought fundamental changes as it has impact on corporate accountants, public auditors, investors and its influence extends well beyond the change in accounting rules. The purpose of the paper is to investigate whether the information on IFRS adjustments is value relevant. This paper analyses value-relevance, incremental, and relative association of the effects of IFRS reconciliations reflected in earnings and owners' equity, versus Indonesia GAAP measures. This study adopts a market value model, which relates a firm's earnings to shareholders' equity measured under Indonesia GAAP together with the respective IFRS reconciliation adjustment, to its market value, adding some firm specific factors to the regressions. This research uses regression to test the hypothesis. The results show that IFRS adjustments improve financial reporting quality and the capacity of financial statements to explain firm values, over and above the INDONESIA GAAP numbers. However, the effect is not equally distributed given that they are more significant for larger firms. The research also reveals that the market places a high value on the earnings reconciliation adjustments but, in general, it appears that the IASB has had at least some success in providing relevant information because it has the capacity to make a difference in investors' decisions.*

**Key words:** Accounting harmonization, IAS/IFRS, Value relevance

### INTRODUCTION

Over the past two decades, globalization and the integration of capital markets around the world have confronted companies and investors with unfamiliar and incomparable accounting standards. Furthermore, the economic activity has resulted in an increased demand for high-quality, internationally comparable financial information. As such, international standard setters have come to recognize the need for change towards "international convergence". In this context, "international convergence" means working with other standard-setting bodies to develop new or revised standards that contributes to the development of a single set of accounting standards for worldwide use.

This study examines the implication of IFRS adoption on value relevance. Actually, this study was inspired by Armstrong et al. (2009) who found that the investors in Europe provide positive reaction for European firms when they adopt IFRS. Further,

the investors expecting that IFRS adoption will result in greater informational benefits for these firms. On the contrary, they found negative reaction for firms domiciled in code law countries. This reaction could be attributable to other factors associated with such as perception that code laws' countries have weaker accounting standards enforcement.

Given the context described above, this research provides insights about value relevance of International Financial Reporting Standards (IFRS) in code law countries, such as Indonesia. As prior study (Armstrong, et al., 2009) suggested that in code law countries may be the quality of financial report will not be influenced by accounting standard.

This study also provides empirical evidence regarding the benefit of adopting international accounting standard in code law countries, such as Indonesia. This study investigates whether the information on IFRS adjustments about the transition from

INDONESIA GAAP to IFRS is value relevant – that is, from the investors' perspective, relevant information is information that has the capacity to make a difference in investors' decisions and so may affect the company's market value. First we were able to isolate the pure accounting change of the firms accounts reported under INDONESIA GAAP. With the reconciliations we investigate the value-relevance, incremental, and relative association of the effects of IFRS reconciliations, reflected in earnings and owners' equity, versus INDONESIA GAAP measures. Thus we adopt a market value model, which relates a firm's earnings and shareholders' equity measured under INDONESIA GAAP together with the respective IFRS reconciliation adjustment, to its market value, adding some specific factors to the regressions.

The structure of this paper is as follows. Section 2 presents a brief review of literature of the studies on consequences of the adoption of IFRS. In section 3, describes the development of several hypotheses and the methodology. Section 4 presents the results obtained from the empirical analysis. Finally, in section 5, it provides some concluding remarks.

## **THEORITICAL FRAMEWORK AND HYPOTHESIS**

### **Prior Research**

Several studies have addressed harmonization and convergence in global accounting standards. For example, Anderson (1993) discusses the advantages of convergence as a common set of global accounting system. Other examples are Belkoui (1994) and Choi et al. (1999) who present the factors influencing the development of an international accounting system and the harmonization process. Saudagaran (2001), Dunn (2002) and Mednick (1991) also examine the impediments in the harmonization of accounting including the cultural and political barriers.

These studies argue that the harmonization process provides several advantages:

improving the comparability of international accounting information, enabling the flow of international investment, and making consolidation of divergent financial reporting more cost-effective. The most severe impediment to harmonization is the extent of differences in accounting policies and practices of various countries, lack of vigilant and effective standard-setting bodies in some countries, and the diversity in political and economic factors worldwide. Prior studies (e.g., Barth, Landsman, & Lang, 2005; Gassen&Sellborn, 2006; Barth, Landsman, & Lang, 2007) report some improvements in financial reporting quality following voluntary IFRS adoption. Barth et al. (2005, 2007) find that a sample of firms that voluntarily adopted IFRS exhibited lower levels of earnings management and more timely loss recognition compared with a sample of firms that used local GAAP. Other studies (e.g., Goncharov et al., 2005; Vantendeloo et al. 2005) find no differences in earnings management between firms that voluntarily adopted IFRS and those that did not.

Daske, Hail, Leuz, & Verdi (2007) examine the economic consequences of requiring IFRS for financial reporting worldwide and find an increase in market liquidity and equity valuations around the time of the mandatory introduction of IFRS, whereas there is mixed evidence of the effect on firms' cost of capital. Furthermore, Daske et al. (2007) report capital market benefits were more pronounced in countries with strict enforcement regimes and for firms that voluntarily switch to IFRS, less pronounced for countries when local GAAP are closer to IFRS, with an IFRS convergence strategy and in industries with higher voluntary adoption votes. The use of IFRS is expected to improve the comparability of financial statements, strengthen corporate transparency, and enhance the quality of financial reporting. Armstrong, Barth, Jogolinzer, & Reidl (2007) argue that IFRS reporting makes it less costly for investors to compare firms across countries and capital markets. Covrig, DeFond, & Hung (2007) suggest

that convergence towards IFRS reporting can facilitate cross-border investment and thus the integration of capital markets.

Prior studies pertaining to convergence towards IFRS either investigate market reactions to several events regarding the EU's movement toward mandatory IFRS reporting or examine the impact of mandatory IFRS adoption in financial reporting in different countries. Results of market event studies of the mandatory IFR reporting are mixed and inconclusive. Comprix, Muller, & Stanford-Harris (2003) find insignificant but negative market reaction to four key events associated with mandatory IFRS reporting for EU firms. Armstrong et al. (2007) report a positive (negative) market reaction to 16 events that increase (decrease) the likelihood of IFRS adoption in 2002 to 2005 with more positive effects for firms with high pre-adoption information asymmetry, lower quality pre-adoption information environments and firms that are domiciled in common law countries. Academic studies (e.g., Lang, Smith Raedy, & Wilson, 2006; Leuz, 2006) support that suggests that IFRS financial reports are not only affected by home-country institutions but also retain a strong national identity. Daske et al. (2007) find that a serious IFRSs adopter experienced significant declines in their cost of capital and substantial improvements in their market liquidity compared to label adopters. The emerging interests in convergence in accounting standards and inconclusive results of related studies motivate us to conduct a survey in determining the relevance and feasibility of such convergence.

The widespread adoption of IFRS led to a large number of research studies on determinants and consequences of voluntary IFRS adoption. Prior research in European focuses on the effects of mandatory adoption on investors and companies. Academic research on the economic consequences of IFRS adoption finds that companies adopt IFRS voluntarily early because in their view the benefits exceed the costs (Harris and Muller, 1999; Ashbaugh and Pincus, 2001).

Their choices might indicate who is likely to benefit most from mandatory implementation of IFRS.

On the other hand, academic studies have largely supported that IFRS require higher levels of disclosure than local regulations in Continental European countries (Leuz and Verrecchia, 2000; Botosan and Plumlee, 2002; Walton, 2004; Daske, 2006). However, IFRS have not only added disclosure requirements, they also have different recognition and measurement rules affecting the accounting numbers (Walton, 2004). Although some studies (Harris and Muller, 1999; Leuz and Verrecchia, 2000; Daske, 2006; Barth, Landsman and Lang, 2007) find evidence that firms that adopt IASB standards show higher quality accounting information than firms that adopt local standards, whether these rules possess higher information quality is still subject to intense discussions in the EU.

The question of IFRS's value relevance is of great importance given the part accounting information plays in equity valuation and the facilitation of investment decisions. Hellstrom (2006) notes that value relevance is one of the most important attributes of accounting quality and is important not only for the investors, but provides insight into accounting issues to other user groups and to the standard-setters. It might be expectable that the adoption of uniform high-quality standards would produce more relevant financial information, however, research on mandatory IFRS is at an early stage and currently there is only limited and somewhat inconsistent evidence on the consequences. Market-based evidence shows that IFRS income explains market prices over and above national GAAP income (Horton and Serafeim, 2007) and that reconciliations between IFRS and local GAAP convey new information at least for some companies (Christensen, Lee and Walker, 2007; Horton and Serafeim, 2007). Aubert and Dumontier (2007) provide evidence that suggests that analysts were unable to predict all changes from local GAAP to IFRS sup-

porting the finding that IFRS provide information that was not available under the prior regimes. These studies are all based on information from the transition period and it is unclear whether the results will hold in the longer run. The early findings suggest that IFRS financial statements include information that was not available under national GAAP and that investors use this information. IFRS has affected the value of companies, however, research on mandatory IFRS is at an early stage and currently there is only limited and somewhat inconsistent evidence on the consequences.

### **Adoption IFRS**

IFRS are accounting standards issued by International Accounting Standards Board (IASB), an independent organization based in London, UK. They want to publish a set of rules that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, the International Accounting Standards were issued by the IASB. Since April 2001, this rule has had a new label, "International Financial Reporting Standards (IFRS)".

According to IASB, a world level marketing cap of accounting standards shows that IFRS now covers 33% of global capitalization, US GAAP represents 35%, while 22% of other territories plan to have partial adoption IFRS. Other countries not participating are estimated at 10% (Financial Times, 2007). Brazil, Canada and India have announced mandated adoption of IFRS. All European Union countries as of 2005 are required to use IFRS reporting. Today IFRS is used in over 100 countries (Deloitte & Touche, 2008).

In developing convergence of standards, the standard setter has three options. They may opt for a FASB standard, use an IFRS standard, or develop a new rule (Herman, 2006). Many areas of accounting standards remain to be comprised and converged. Measurement of interpretations includes IFRS standards which, for the most part, are broader and with principle based as com-

pared to US GAAP. Studies have identified several influences on the production of financial information in addition to a country's institutional framework. For instance, competitive market forces and managerial incentives have been shown the form and content of financial statements. These factors could affect the use of international accounting standards (Tarca, 2004).

It is suggested that firms are motivated to produce financial reports because of the operation of competitive market forces (Healy and Palepu, 2001). In addition, information asymmetry between buyers and sellers in the capital market means that there is the possibility of being perceived as a "lemon" (Akerlof, 1970) so sellers make disclosures to distinguish their product from the "lemons". Competitive market forces could promote the use of international standards where firms consider that an international regime will enable better communication with information users. KPMG (2000) reported that European company executives provided many reasons for changing from national standards to IAS or US GAAP or National GAAP. Leuz and Verrecchia (2001) examined German firms that changed from national to international standards and found that cost of capital proxies indicated that the use of IAS and US GAAP reduced the cost of capital.

International accounting standard could send a positive signal to capital markets. For example, Hunt (1985) said that managers could use the financial statements to signal their expectations and intentions. Thus, the use of international accounting standards could signal to market participants that the firm is prepared to disclose more information. Moreover, Asbaugh (2001) suggested that communicating with investors was an important motivation for the use of international standards. The use of international accounting standards could be influenced by managerial incentives. Managers' disclosure of financial information has been investigated using agency theory (Jensen and Meckling, 1976), which posits that dislo-

sure is used to reduce information asymmetry that exists between agents and principals about future prospects of the firm and managers' consumption of perquisites.

Currently, there are three methods by which national standards setters or regulators have implemented IFRSs. The first method requires both domestic and foreign listed companies to use IFRSs in their financial statement preparation and to state conformity to IFRSs in the management's assertions, financial statements, and independent audit report. A second method would be to adopt all IFRSs for listed companies but to make changes to comply with the regulatory, legal, and business environments of the country. Finally, the third approach is to require dual reporting for listed companies where the financial statements state conformity with both national GAAP and IFRSs (Rezaee, 2003). Indonesian's standards that have adopted IFRS in the beginning of 2008 are PSAK 13, PSAK 16, and PSAK 30. Actually, PSAK 50 and PSAK 55 also was revised in this period but the implementation start in year 2010.

## HYPOTHESIS

First hypothesis is addressed in order to establish the effect that the change to IFRS has on firms' share prices. It does not indicate an expected sign for the relationship between IFRS reconciliations and market value; however we expect that the adjustment made under IFRS in either the income statement or balance sheet is value relevant. H1: IFRS adjustments are predicted to be related to companies' value.

Another hypothesis examines whether there is a firm-size effect. Several anomalies related to firm size have been documented in various accounting and finance studies. Therefore, we investigate whether firm size affects the association between IFRS adjustments and firms' share prices.

H2: Larger firms are expected to have higher levels of valuation impact than other firms.

## RESEARCH METHOD

### Sample Selection

The sample comprise Non-Financial Public companies that have been listed in Indonesia Stock Exchange since 2004 to 2008. The sample consists of LQ 45 firms and non LQ 45 firms. LQ 45 firms have been chosen because they have good market performance and their market capitalization is high, meanwhile the non LQ 45 firms represent firms with lower market capitalization. This paper eliminates observations that lack lagged data and non-December year-ends, and extreme value observations in the persistence and valuation samples consistent with prior research. Extreme observations are defined as share prices, book value per share, or earnings per share exceeding \$1,000 per share in the valuation sample. The availability of *IDX* data and variables to construct our accruals measures are the most restrictive constraints in forming our samples resulting in the forecast and accrual quality samples being the smallest. This paper also eliminate the firms which not consistently in LQ 45 during observation period (2004-2008). Finally, there were 55 firms (18 LQ 45 firms and 37 non LQ 45 firms).

### REGRESSION MODELS

To investigate whether IFRS adjustments are reflected in share prices, a valuation model was used; that relates the value of the firm to the information provided in the financial statements. It includes book value of equity and net income for firm valuation. The prior valuation model as suggested by Ohlson (1995) can be written as follows:

$$MV_{i,t} = \alpha_0 + \alpha_1 BVE_{i,t} + \alpha_2 NI_{i,t} + \varepsilon \quad (1)$$

$\varepsilon$  is error term, reflect other information as well as random error, and the  $i$  and  $t$  subscripts denote firms and years, respectively (This research does not adhere strictly to the Ohlson model (1995))

This study use modified Ohlson model to investigate whether adjustments from

IFRS standards are significantly associated with share prices, we conduct the following regression, which relates IFRS measures of shareholders' equity and net income, IFRS reconciliation adjustments to market value (H1):

$$MV_{i,t+6} = \alpha_0 + \alpha_1 BVE_{i,t}^{IFRS} + \alpha_2 TOTALADJ_{i,t-1} + \alpha_3 NI_{i,t}^{IFRS} + \varepsilon \quad (2)$$

$$M_{i,t+6} = \alpha_0 + \alpha_1 BVE_{i,t}^{IFRS} + \alpha_2 ABVE_{i,t-1} + \alpha_3 ANI_{i,t} + \alpha_4 NI_{i,t}^{IFRS} + \varepsilon \quad (3)$$

In order to provide more credible inferences and to examine whether the reconciliation adjustments are valued differently equation (1) is modified and equation (2) is estimated to allow for all IFRS reconciliation adjustments.

Given the potential effect of implementing IFRS may be some factors specific we modified equations to include dummy variables. To analyse the association between adjustments and share prices with firm-specific factors we introduce in our model a measure for the size of the capital market, namely the total market capitalization of listed companies as a percentage of a region's of gross domestic product (*MARKET\_CAP*) (A region's gross domestic product (GDP) is one of the ways for

measuring the size of its economy. The GDP of a country is defined as the market value of all final goods and services produced within a country in a given period of time. It is also considered the sum of value added at every stage of production of all final goods and services produced within a country in a given period of time). The complete empirical regression is show below (H2):

$$MV_{i,t+6} = \alpha_0 + \alpha_1 BVE_{i,t}^{IFRS} + \alpha_2 TOTALADJ_{i,t-1} + \alpha_3 NI_{i,t}^{IFRS} + \alpha_4 MARKET\_CAP_{i,t} + \varepsilon \quad (4)$$

Larger firms as well as high-growth firms may be significantly affected by IFRS adoption. Thus, we use the market capitalization ratio at the year-end to partition sample firms into large and small sub-groups.

**DATA ANALYSIS AND DISCUSSION**

The preliminary results of the research presented in panel seem to suggest that both IFRS overall adjustments do provide information that is value relevant to stock market participants. We interpret this result as suggesting that for companies previously reporting under INDONESIA GAAP, the overall reconciliations adjustments appear to be associated with share prices and therefore have incremental price relevance over and

**Table 1**  
**Variables Definition for Equation (2) dan (3)**

$MV_{i,t+6}$	Market value of common shares outstanding six months after fiscal year-end $t$ , after reporting under IFRS, which contained the restatement at time $(t-1)$ .
$BVE_{i,t}^{IFRS}$	IFRS book value of common equity at fiscal year-end $t$ less all the adjustments made to balance sheet and income statement at year-end $(t-1)$ .
$TOTALADJ_{i,t}$	All adjustments made to shareholders' equity and income statement accumulated to year-end $(t-1)$ to restate INDONESIA GAAP to IFRS made to shareholders' equity and income statement.
$TOTALSOADJ_{i,t-1}$	All adjustments made to shareholders' equity and income statement accumulated to year-end $(t-1)$ to restate INDONESIA GAAP to IFRS made to shareholders' equity.
$NI_{i,t}^{IFRS}$	Profit (loss) under IFRS rules at fiscal year-end $t$ .
$ABVE_{i,t-1}$	All adjustments made to shareholders' equity accumulated to year-end $(t-1)$ to restate INDONESIA GAAP to IFRS made to shareholders' equity.
$ANI_{i,t-1}$	Effect of transition at year-end $(t-1)$ to restate INDONESIA GAAP profit (loss) to IFRS made to the income statement.

**Table 2**  
**Variables Definition for Equation (4)**

$MV_{i,t+6}$	Market value of common shares outstanding six months after fiscal year-end $t$ , after reporting under IFRS, which contained the restatement at time $(t-1)$ .
$BVE_{i,t}^{IFRS} - TOTALADJ_{i,t}$	IFRS book value of common equity at fiscal year-end $t$ minus all accumulated adjustments made to balance sheet and income statement at year-end $(t-1)$ .
$TOTALADJ_{i,t-1}$	All adjustments made to shareholders' equity and income statement accumulated to year-end $(t-1)$ to restate INDONESIA GAAP to IFRS made to shareholders' equity and income statement.
$NI_{i,t}^{IFRS}$	Profit (loss) under IFRS rules at fiscal year-end $t$ .
$MARKET\_CAP_{i,t}$	Log (number of common shares multiplied by the current price)

above INDONESIA GAAP numbers.

However, panel B reveals that the coefficient for the balance sheet reconciliation ( $ABVE$ ) is positive but not statistically significant while the coefficient for ( $ANI$ ) is positive and significant. These results may reflect that the IFRS and INDONESIA GAAP earnings are very different and are highly variable, whereas the IFRS and INDONESIA GAAP shareholders' equity appear to be very similar, suggesting that one would not be surprised that the balance sheet reconciliation is negligible and therefore irrelevant, as opposed to the earnings adjustment. Thus, it appears that the market places a high value on the earnings reconciliation adjustment between IFRS and INDONESIA GAAP. Although the earnings differences have value-relevance, this does not appear to be the case for the differences in shareholders' equity between IFRS and INDONESIA GAAP. Therefore IFRS earnings include a value relevant component, which was not recognized previously in the financial statements under INDONESIA GAAP and seem to be of great importance for the valuation of firms.

On the other hand, the fact that analysts were unable to predict all changes from INDONESIA GAAP to IFRS supports the finding that reconciliations convey new information, at least for some companies. These results are consistent with Horton and Serafeim (2007), Christensen *et al.* (2007)

and Aubert and Dumontier (2007).

In table 4 present the results for estimating equation (4). Panel A seems to suggest that for larger companies overall adjustments from IFRS standards do provide information that is more value relevant to stock market participants. This suggests that the valuation impact primarily appears in large sample firms. On the contrary, when we analyze small companies, panel B reveals that the coefficients for all variables in the regression also significant except for the book value equity ( $BVE_{i,t}^{IFRS} - TOTALADJ_{i,t}$ ) are not statistically significant.

These results suggest that for small companies previously reporting under INDONESIA GAAP, the overall reconciliations adjustments do not appear to be associated with share prices and therefore have no incremental price relevance over and above INDONESIA GAAP numbers. One possible explanation might be that small firms are followed by less sophisticated investors who have difficulty interpreting the valuation implications of IFRS reconciliation adjustments.

Prior studies provided evidence supporting the idea that the method of presentation in the financial statements does matter, depending on who uses the financial statements and how naive they are in interpreting them (Bell *et al.*, 2002). Therefore, new information communicated to the market might still be value-relevant, but it may not

**Table 3**  
**Summary Statistics from Regression of Share Price on Book Value of Equity,  
 Net Income and IFRS Adjustments**

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$$MV_{i,t} + \delta = \alpha_0 + \alpha_1 BVE^{IFRS}_{TOTALADJ_{i,t}} + \alpha_3 TOTALADJ_{i,t-1} + \alpha_5 NI^{IFRS}_{i,t} + \varepsilon(1)$$

$$M_{i,t} + \delta = \alpha_0 + \alpha_1 BVE^{IFRS}_{TOTALADJ_{i,t}} + \alpha_3 ABVE + \alpha_6 ANI_1 + \alpha_5 NI^{IFRS}_{i,t} + \varepsilon(2)$$


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**Panel A: Equation (1)**

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Variable	Unstandardized Coefficients		Standardized Coefficients	t-Statistic	Prob.
	B	Std. Error			
<i>Constant</i>	-0.014	0.032		-0,440	0,659
<i>BVE<sup>IFRS</sup><sub>TOTALADJ</sub></i>	1,272	0,171	0,630	7,422	0,000
<i>TOTALADJ</i>	2,705	0,874	0,393	3,095	0,003
<i>NI<sup>IFRS</sup></i>	4,056	0,763	0,592	5,317	0,000
F-statistic					79,762
Prob (F-statistic)					0,000

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**Panel B: Equation (2)**

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Variable	Unstandardized Coefficients		Standardized Coefficients	t-Statistic	Prob.
	B	Std. Error			
<i>Constant</i>	0.690	0.334		2,069	0,040
<i>BVE<sup>IFRS</sup><sub>TOTALADJ</sub></i>	0,625	0,120	0,310	5,224	0,000
<i>ABVE</i>	0,803	0,845	0,064	0,950	0,345
<i>ANI</i>	4,109	1,229	0,287	3,343	0,001
<i>NI<sup>IFRS</sup></i>	2,985	0,517	0,436	5,774	0,000
F-statistic					162,671
Prob (F-statistic)					0,000

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react if investors are unable to process this information.

This empirical evidence supports the previous conclusions that, at least for some companies, IFRS reconciliations convey some new information that was not available under INDONESIA GAAP. On the other hand, it appears that the IASB has had at least some success in achieving its objective of providing information that is useful because it is relevant to the decision making needs of users that use this information.

Overall, the evidence suggests that IFRS reconciliations seem to be of the greatest importance for the valuation of firms in code law countries, like Indonesia. However, this effect is not equally distributed given that interestingly the results are more significant for larger firms.

#### **CONCLUSION, LIMITATION AND CONTRIBUTION**

This research is devoted to IFRS value relevance for two reasons. It appears to be a



**Table 4**  
**Summary Statistics from Regression of Share Price on Book Value of Equity, Net Income and IFRS Adjustments, with Firm-Specific Factors**

$$MV_{i,t} + \epsilon = \alpha_0 + \alpha_1 BVE^{IFRS}_{TOTALADJ_{i,t}} + \alpha_2 TOTALADJ_{i,t-1} + \alpha_3 NI^{IFRS}_{i,t} + \alpha_4 MARKET\_CAP_{i,t} + \epsilon$$


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**Panel A: IFRS adoption for larger companies (LQ 45 firms)**

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Variable	Unstandardized Coefficients		Standardized Coefficients	t-Statistic	Prob.
	B	Std. Error	Beta		
<i>Constant</i>	-0.022	0.023		-0,911	0,333
<i>BVE<sup>IFRS</sup>_TOTALADJ</i>	1,230	0,198	0,643	6,198	0,000
<i>TOTALADJ</i>	5,123	1,169	0,916	4,381	0,001
<i>NI<sup>IFRS</sup></i>	6,667	1,062	1,198	6,279	0,000
<i>MARKET_CAP</i>	1,543	0.001	0.127	1.986	0.048
F-statistic					52,540
Prob (F-statistic)					0,000

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**Panel B: IFRS adoption for smaller firms (non LQ 45 firms)**

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Variable	Unstandardized Coefficients		Standardized Coefficients	t-Statistic	Prob.
	B	Std. Error	Beta		
<i>Constant</i>	0.006	0.002		2.256	0,025
<i>BVE<sup>IFRS</sup>_TOTALADJ</i>	0,631	0,187	0,555	3,369	0,002
<i>TOTALADJ</i>	0,283	0,669	0,044	0,424	0,675
<i>NI<sup>IFRS</sup></i>	1,586	0,898	0,295	1,767	0,187
<i>MARKET_CAP</i>	0.000	0.001	0.027	0.415	0.679
F-statistic					16,018
Prob (F-statistic)					0,000

Source: Summarized by the author from the results of the linear regression model.

relevant accounting issue to study the recent reform and changes in accounting rules and IFRS adoption and, it is also an issue that has been generating much controversy among the several agents of the accounting scene. Beside, it is far from being closed. On the other hand, our research design provides us with an ideal opportunity in which it examines the relative power of two different accounting regimes by holding constant the firms, the financial period and the institutional setting. Thus it overcomes some of the limitations of the previous literature in this area, which tends to vary not only the ac-

counting standards but also some of the other factors simultaneously.

This paper uses the IFRS adjustments to evaluate the value relevance of IFRS compliance relative to firms' previous INDONESIA GAAP regime. It also investigates whether they provide information that is relevant to investors in making investment decisions and so they also may affect the company's market value. The results suggest that IFRS and INDONESIA GAAP earnings are very different and are highly variable, whereas the IFRS and INDONESIA GAAP shareholders' equity appear to be very simi-

lar. Although, our results suggest that the market places a high value on the earnings reconciliation adjustments, it seems that for some companies, IFRS reconciliations convey some new information that was not available under INDONESIA GAAP. Mandatory adoption of IFRS increases the perceived quality of financial statements and IFRS reconciliations seem to be of the greatest importance for the valuation, however this effect is not equally distributed because for relatively small firms the value relevance are not significant. Consequently, it appears that the IASB has had at least some success in achieving its objective of providing information that is relevant because it has the capacity to make a difference in investors' decisions.

However, a number of limitations attached to the research should be considered when interpreting the results of this study. One first concern is related to the generalization of our inferences beyond our sample and the transition period. Another caveat has to do with the level of perceived compliance with IFRS which was not investigated and could well have had some effect on the weight the market places on the information and hence its value. Consequently, even where the reconciliation adjustments are found to be highly associated with market value, this may be simply because they reflect previously known information disclosed in the notes.

In spite of these limitations, this research contributes to the research on mandatory use of IFRS. As concluded, this paper provides empirical contribution that the IFRS implementation can increase the quality of financial report. For further research, it could be investigated if it is the same in other countries. It could also be interesting to measure the impact of implementation IFRS to decrease earnings management. Future research also can explore the phenomenon of value relevance in large firms in more depth and to determine the extent to which the findings generalize to firms in larger samples.

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