The Effect of IFRS Implementation on Earnings Quality in Indonesia

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Abstract

The purpose of this paper is to examine the impact of IFRS adoption on earnings quality of Indonesian companies in the convergence process. The examination is focused on the persistence and accrual quality model. High-quality financial reports provide investors with the information and confidence necessary to invest in the global capital markets. A high-quality set of accounting standards enables investors to receive suitable information while considering the reasonable costs of implementing those standards. The contribution of this paper is to give some implications for the accounting standard setters. Therefore, we investigate the effect of IFRS implementation on earnings quality with Indonesian sample use accounting-based measures: persistence, and accrual quality. We first consider the accounting standard's incremental effect on persistence (the interaction of prior period's earnings and the accounting standard variable). Second, we examine the changes in accrual quality. There are some implications shown by the results. Indonesian cases by persistence and accrual quality models indicate each of significant results: (1) the estimated coefficient for the incremental persistence for each of the twelve accounting standards and (2) eight of the estimated coefficients for the accounting standard effect; five of which are positive.

Keywords: IFRS, Indonesian Accounting Standards (PSAK), Earnings Quality, Convergence

1. Introduction

High-quality financial reports provide investors with the information and confidence necessary to invest in the global capital markets. A high-quality set of accounting

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standards enables investors to receive suitable information while considering the reasonable costs of implementing those standards. Recent initiatives on convergence to a single set of high-quality global accounting standards have been well received by regulators, standard setters, the accounting profession, and business and academic communities worldwide. Companies in more than 100 countries have adopted a variation of International Financial Reporting Standards (IFRS) for their financial reporting purposes. Accounting has been regarded as "the language of business" and the question that has been recently raised is: "Can all accountants worldwide speak the same language?" In other words: "Is a set of globally accepted accounting standards feasible?" Is convergence to IFRS a real solution? *1 This study attempts to provide answers to these questions by obtaining opinions and insights from a sample of academicians regarding the relevance, benefits, and ways of possible convergence in accounting standards *2.

A recent survey conducted by the International Federation of Accountants (IFAC) reveals that convergence to a single set of international accounting standards is key to economic development as the majority of respondents (89 percent) find compliance with IFRS as very important (IFAC, 2007). The AICPA also supports the current move toward convergence to a single set of global accounting standards and the use of IFRS for financial reporting, while recognizing that "changes need to occur in the U.S. auditing, regulatory, and legal environments" (AICPA, 2007). Securities and Exchange Commission chairman Christopher Cox, while promoting convergence by stating that "IFRS is coming" warned that "U.S. generally accepted accounting principles (GAAP) aren't going away anytime soon".

Prior research of accounting standards has considered the accounting quality of one standard. Suppose that a manager or firm chooses a single set of two and more several accounting standards, for example, IFRS and U.S.GAAP. There are race to the bottom for the quality (Dye and Sunder, 2001). The competitive standards setters, IASB and FASB, try to decline the number of accounting standards, since they make an effort to attract the company and manager better than the other standard. As a result, the possibility for a bad profit manipulation increases. Does the convergence toward IFRS keep higher-quality earnings? This study examines the impact of adoption of IFRS on

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* 1 Convergence refers to the process of minimizing differences between the national accounting standards (e.g., U.S. GAAP converges on IFRS).

* 2 We are also in the process of expanding our sample to practitioners (e.g., CPAs, CFOs) and will present the comparative results of both samples in the next draft of this paper.

earnings quality of Indonesian firms toward the convergence process. The contribution of this paper, especially for policy maker, is to give the policy maker for the future direction in standard setting.

2. Theory and Hypotheses Development

2.1 Prior Studies

Several studies have addressed harmonization and convergence in global accounting standards. Anderson (1993) discusses the advantages of convergence to a common set of global accounting system. Belkoui (1994) and Choi et al. (1999) present the factors that influence the development of an international accounting system and the harmonization process. Saudagaran (2001), Dunn (2002) and Mednick (1991) 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. 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.

And also prior studies pertaining to convergence towards IFRS either investigates 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 IFRS reporting

are mixed and inconclusive. Comprix, Muller, & Standford-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.

2.2 Convergence to a Single Set of High Quality Reporting Standards

Accounting standards vary significantly worldwide, with the exception of a trend toward requiring greater reliability, transparency in financial reporting, and more accountability to investors. The real goal of convergence should be to benefit global investors and make global accounting standards more cost-effective and efficient. As the corporate governance measures of majority-owned corporations in Europe are different from those of dispersed ownership structures of U.S. corporations, the financial reporting standards could also be different.

Financial reporting irregularities and manipulations of majority-owned corporations differ from those of U.S. corporations in several respects. First, managers of majority-owned corporations are motivated by short-terms and earnings guidance because they rarely sell shares. Second, financial manipulations are done through misappropriation of the private benefits of controls. In dispersed-ownership corporations, significant portions of management compensation in terms of stock options or stock ownership are tied into stock price performance which provides adequate incentives to focus on short-term earnings manipulations. Thus, the ownership structure significantly affects the corporate governance and financial reporting processes. The U.S. GAAP is more rules-based, designed to minimize incentives and opportunities for self-serving interests of management, to focus on earnings management.

2.3 Trend for IFRS Implementation

Some challenges that need to be addressed to facilitate convergence toward IFRS are: (1) consistent interpretation and application of IFRS cross jurisdictions; (2) the feasibility of adoption of IFRS by U.S. multinational companies in general and U.S. companies in particular; (3) educating market participants regarding the differences between U.S. GAAP and IFRS; and (4) effects of switching from national accounting standards to IFRS for regulatory filing purposes and auditing. Both leaders of the IASB and FASB have predicted that by 2011 significant progress towards convergence in the global financial reporting process will be made *[3].

The SEC confirmed the equivalence between IFRS and U.S GAAP on 12 December 2008(EC, 2008), but now they need to improve the differences among them. U.S. GAAP and IFRS have yet to be converged despite continuing efforts by the FASB, IASB, and SEC rules. There are still substantial differences between U.S. GAAP and IFRS in several areas of revenue recognition, equity valuation, and industry specification, and both need significant improvements. One way to resolve these differences is to move U.S. financial reporting to IFRS by setting a timetable toward ultimate adoption of IFRS by all public companies worldwide, including U.S. companies.

KPMG surveys show that about 76 percent (60 percent) of financial analysts reported a fair amount or a great deal of knowledge about IFRS in 2006 (2005) with the best informed being those who follow companies on a global basis and have received IFRS training (KPMG, 2007). Responding analysts admitted that their understanding of the possible impact of IFRS on mergers and acquisitions was poor, whereas they had a better understanding of IFRS's effects on share options, financial instruments, and pensions, and good understanding of the presentation of the income statement.

We should expect significant changes in financial reporting. The SEC is promoting the idea of giving U.S. listing companies the choice between U.S. GAAP and IFRS compliance in their filings with the SEC and announced the "road map" for U.S. companies to apply the mandatory IFRS on November 2008. In the plan, the SEC would permit the companies to fill certain requirements to apply IFRS on financial statements after 2010 financial year, and decide whether all the U.S. companies to apply the IFRS by 2011. Both the FASB and IASB are moving toward convergence in their standards and it is also expected that U.S. companies that are interested in adopting IFRS are those that have overseen subsidiaries that already use IFRS. Smaller U.S. companies

* 3 AccountingWeb. 2006. IASB Chairman Calls for Accounting Standards Convergence by 2011 (June 20). Available at: http://www.accountingweb.com.

whose global competitors are using IFRS in their financial reporting may also be good candidates for IFRS adoption.

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 (New Zealand and Australia) (Rezaee, 2008).

In Indonesia, there was Indonesian accounting standards (PSAKs) which has been issued by the Indonesian Accounting Standards Board of the Indonesian Institute of Accountants. Many of the older standards were developed with reference to US GAAP but newer standards are being developed based on IFRS. The Indonesian Institute of Accountants is currently considering the timing for the adoption of IAS 30, Recognition and Measurement of Financial Instruments. This is likely to have a significant impact that goes well beyond the obvious consequences in the financial statements of volatility earnings. The main areas affected by this area: risk management, systems, processes and products. The Indonesian Institute of Accountants announced plans to convergence Indonesian Accounting Standards with International Financial Reporting Standards (IFRS) with the new standards effective for accounting periods beginning on 2012.

Table 1 Standards that have adopted IFRS

No.	Accounting Standards
1	IAS 2. Inventories
2	IAS 10. Events after the Reporting Period
3	IAS 11. Construction Contracts
4	IAS 16. Property, Plant and Equipment
5	IAS 17. Leases
6	IAS 18. Revenue
7	IAS 19. Employee Benefits
8	IAS 23. Borrowing Costs
9	IAS 32. Financial Instruments: Presentation
10	IAS 39. Financial Instruments: Recognition and Measurement
11	IAS 40. Investment Property

There were several standards that have adopted IFRS up to 2008 as shown in Table below:

In 2009 and 2010 Indonesian Accounting Standards Board converged 29 accounting standards into IFRS. Here are Indonesian Accounting Standards that convergenced in 2009-2010:

Table 2 Indonesian Accounting Standards Convergence Program 2009-2010

No.	Accounting Standards
1	IFRS 2. Share-Based Payment
2	IAS 21. The Effects of Changes in Foreign Exchange Rates
3	IAS 27. Consolidated and Separate Financial Statements
4	IFRS 5. Non-current Assets Held for Sale and Discontinued Operations
5	IAS 28. Investments in Associates
6	IFRS 7. Financial Instruments: Disclosures
7	IFRS 8. Operating Segments
8	IAS 31. Interests in Joint Ventures
9	IAS 1. Presentation of Financial Statements
10	IAS 36. Impairment of Assets
11	IAS 37. Provisions, Contingent Liabilities and Contingent Asset
12	IAS 8. Accounting Policies, Changes in Accounting Estimates and Errors
13	IAS 7. Statement of Cash Flows
14	IAS 41. Agriculture
15	IAS 20. Accounting for Government Grants and Disclosure of Government Assistance
16	IAS 29. Financial Reporting in Hyperinflationary Economies
17	IAS 24. Related Party Disclosures
18	IAS 38. Intangible Assets
19	IFRS 3. Business Combinations
20	IFRS 4. Insurance Contracts
21	IAS 33. Earnings per Share
22	IAS 19. Employee Benefits
23	IAS 34. Interim Financial Reporting
24	IAS 10. Events after the Reporting Period
25	IAS 11. Construction Contracts
26	IAS 18. Revenue
27	IAS 12. Income Taxes
28	IFRS 6. Exploration for and Evaluation of Mineral Resources
29	IAS 26. Accounting and Reporting by Retirement Benefit Plans

2.4 Accounting Standards and Accounting Quality

Despite pressure for companies to use common standards, some issues relating to their requirements and enforcement are still to be resolved. The collapse of ENRON and the subsequent demise of its audit firm Arthur Andersen have drawn attention to standard setting and regulation. Any change made in US can be expected to influence the international environment. Considering the institutional framework in each country, predictions can be made about companies' use of IFRS and choice between U.S. GAAP and IFRS. Japanese and Indonesia accounting has been influenced by U.S. accounting practices (McKinnon, 1986). Since 1970s, several Japanese firms have prepared consolidated accounts according to U.S. GAAP. However, Japanese standard setters refer to IFRS in setting standards and have announced a greater role for IFRS in their process so firms may also use IFRS.

The purpose of SEC reconciliation was to improve the quality and comparability of financial reporting of foreign listing companies, but several discussions criticized the SEC policy for re-labeling regulation in the reason why companies felt the heavy duties such strict disclosure regulations to listed in the U.S. market. Biddle and Saudagaran (1991) reported the foreign companies prefer to list on the other Stock Exchange with easier regulations than the U.S. market. And the research restated that it spend for Japanese firms listing on U.S financial market to need at least $ 100 million a year to reconcile their financial statements on the SEC force. The earlier study on the relation of the value of reconciliation (Meek, 1983; Amir, Harris and Venuti, 1993) found that the evidence that the stock price reaction to the disclosure of the reconciliation was not immediately available. Herrmann, Inoue and Wayne (1996) states the only available to U.S. GAAP does not guarantee the comparability of financial data of Japanese companies and U.S. companies based on U.S. GAAP were restated to conform to the formal U.S.

It is expected that using IFRS can improve accounting quality. If Japan accepts IFRS as well as Japanese and U.S.GAAP, SEC rule companies might start for discussing about the introduction of IFRS, particularly companies financing in the big 3 markets, Japanese, U.S. and EU. And then they could disclose of their financial statements based on IFRS, a single set of accounting standards worldwide. Indeed, is it can achieve high-quality accounting? Webster and Thornton (2004) compares earnings quality between the US and Canada and attribute enhanced earnings quality in Canada to its principle-based accounting standards. IFRS and Japanese GAAP are principle-based in the difference with U.S.GAAP, a rule-based.

3. Research Design

3.1 Measurements

First, we use Earnings persistence to measure earnings quality (Francis et al., 2005). Earnings persistence captures the permanence of earnings from one period to the next and it is estimated by regressing current period earnings on prior period earnings. Higher earnings persistence is considered a characteristic of higher earnings quality. Our review of the prior research suggests that persistence is expected to be increasing in growth (Collins and Kothari, 1989 and Francis et al., 2002). The persistence model is as follows:

$$EARN_{i,t} = \alpha_0 + \alpha_1 EARN_{i,t-1} + \alpha_2 MB_{i,t} + \alpha_3 (EARN_{i,t-1} * MB_{i,t}) + \alpha_4 STANDARD_t + \alpha_5 (EARN_{i,t-1} * STANDARD_t) + \varepsilon_{i,t} \quad \cdots\cdots(1)$$

Where:

EARN is income before extraordinary items scaled by average total assets.

MB is the market to book ratio.

STANDARD is an indicator variable equal to one if a company prepares the financial statements based on the SEC rule or IFRS (response to the single set has already been effective) and zero otherwise.

Second, we use accrual measurement to measure accrual quality. We follow Dechow and Dichev (2002) and Francis et al. (2005) to estimate a proxy for accrual quality that is commonly used in the literature. The total current accrual model is as follow:

$$TCA = \alpha_0 + \alpha_1 CFO_{i,t+1} + \alpha_2 CFO_{i,t} + \alpha_3 CFO_{i,t-1} + \alpha_4 \Delta SALES_{i,t} + \alpha_5 PPE_{i,t} + \varepsilon_{i,t} \quad \cdots\cdots(2)$$

Where:

TCA is total accrual and can measure with the equation as follow:

ΔCURRENT ASSET$_{i,t}$-ΔCURRENT LIABILITIES$_{i,t}$-ΔCASH$_{i,t}$+ΔSHORT TERM DEBT$_{i,t}$

CFO is operating cash flow.

ΔSALES is the year to year change in sales.

PPE is gross level of property, plant and equipment.

All variables are scaled by average assets in year t.

Equation (2) is then estimated annually on a cross sectional basis for each of Fama and French's (1997). The firm specifc variable that capture the effect of accounting standard is included. residuals from the estimation are used to form the accrual quality metric. Specifically, the firm specific accrual quality metric equals the standard deviation of the residuals for each firm.

Following Dechow and Dichev (2002) and Francis et.al. (2005), we expect that accrual quality is negatively associated with smaller firms, greater cash flow variability, longer operating cycles and reporting of losses. Finally, an indicator

Our accrual quality model is as follows:

$$SD\_AQ_{i,t} = \alpha_0 + \alpha_1 LNASSETS_{i,t} + \alpha_2 SD\_CFO_{i,t} + \alpha_3 SD\_SALES_{i,t} + \alpha_4 LOSS_{i,t} + \alpha_5 STANDARD_t + \varepsilon_{i,t} \quad \cdots\cdots (3)$$

Where:

SD_AQ is the standard deviation of the residual from the annual estimation of equation (2) for each industry.

LNASSETS is the natural log of total assets.

SD_CFO is the standard deviation of cash flow operations.

SD_SALES is the standard deviation of sales.

LOSS is an indicator variable equal to one if earnings before extraordinary items is negative and zero ottherwise.

STANDARD is an indocator variable equal to one if the year identified standard is effective and zero otherwise.

4. Sample Data

4.1 Sample Data

For Indonesia sample we use Non-Financial Public companies that has listed in LQ 45 from 2002 to 2008. We prefer to use LQ 45 firms because they have good market performance and their stock is liquid. We first eliminate observations that lack lagged data and non-December year-ends to simplify identification of when specific standards. Then, we exclude 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. We also eliminate the firms which not consistently in LQ 45 during observation period (2002-2008). There were 36 firms in Indonesia prepared for this research as below. We got this sample numerically equivalent in numbers as that of Japanese firms that prepare their financial statements based on U.S. GAAP in 2009, because in the next we prepare to compare samples of Japan with of Indonesia.

Table 3 Indonesian Samples

No.	Security Code	Companies name	Industry
1	AALI	Astra Agro Lestari	Agriculture
2	ANTM	Aneka Tambang	Mining
3	ASII	Astra International	Automotive
4	BLTA	Berlian Laju Tanker	Transportation
5	BNBR	Bakrie & Brothers	Investment
6	BTEL	Bakrie Telecom	Telecomunication
7	BUMI	Bumi Resources	Mining
8	CPIN	Charoen Phokpand	Basic Industry
9	CPRO	Central Proteinaprima	Basic Industry
10	ELTY	Bakrieland Development	Property
11	ENRG	Energi Mega Persada	Mining
12	INCO	International Nickel Indonesia	Mining
13	INDF	Indofood Sukses Makmur	Consumer Goods
14	INKP	Indah Kiat Pulp & Paper	Basic Industry
15	ISAT	Indosat	Telecommunication
16	KIJA	Kawasan Industri Jababeka	Property
17	MEDC	Medco Energi International	Mining
18	PGAS	Perusahaan Gas Negara	Mining
19	PTBA	Tambang Batubara Bukit Asam	Mining
20	SMCB	Holcim	Basic Industry
21	TBLA	Tunas Baru Lampung	Agriculture
22	TINS	TIMAH	Mining
23	TLKM	Telekomunikasi Indonesia	Telecommunication
24	TRUB	Truba Alam Manunggal Engineering	Infrastructure
25	UNSP	Bakrie Sumatra Plantations	Agriculture
26	UNTR	United Tractors	Services
27	ITMG	Indo Tambangraya Megah	Mining
28	LPKR	Lippo Karawaci	Property
29	LSIP	PP London Sumatera	Agriculture
30	AKRA	AKR Corporindo	Trade
31	BISI	Bisi International	Agriculture
32	DEWA	Darma Henwa	Infrastructure
33	MIRA	Mitra Rajasa	Transportation
34	MNCN	Media Nusantara Citra	Media
35	SMGR	Semen Gresik	Basic Industry
36	SGRO	Sampoerna Agro	Agriculture

4.2 Hypotheses

We want to know the effect of several standards that has align with IFRS on earnings quality. So, we investigate the effect of each standard on persistence and accruals quality for Indonesian samples. The first hypothesis verifies what effect of convergence process for IFRS brings the quality of earnings by IFRS implementation. The following hypothesis (1) consists. That is,

H1: The persistence of earnings keeps by high-quality standards of accounting.

To verify this, we use a multiple regression model composed by five independent variables (STANDARD, a dummy variable contained). If the effect of $EARN_t$ extends to $EARN_{t+1}$, it means the higher quality of earnings continues. In addition, it is expected that the higher quality of accounting standards advance, the more the market valuation will improve. The difference of earnings quality by the choice of accounting standards would get smaller. The second hypothesis concerns the quality of accrual. It is assumed that the operating cash flow (CFO) would influence the quality of accrual, if the persistence of earnings quality remains. Hypothesis (2) is:

H2: The operating cash flow improves the quality of accrual by higher-quality of accounting standards.

Table 4 Persistence Model

$$EARN_{i,t} = \alpha_0 + \alpha_1 EARN_{i,t-1} + \alpha_2 MB_{i,t} + \alpha_3 (EARN_{i,t-1} * MB_{i,t}) + \alpha_4 STANDARD_t + \alpha_5 (EARN_{i,t-1} * STANDARD_t) + \varepsilon_{i,t}$$

Standard (s)	Persistence Coefficient
PSAK 13, 30	0.1194 ***
PSAK 14, 26	0.1173 ***
PSAK 16, 51, 58	0.0467 ***
PSAK 19, 46, 55	0.0578 ***
PSAK 24, 38	−0.0531 ***
Mean accounting standard coefficients	0.0133
Mean adjusted R^2	45.5%
Number of Standards with Significant Positive Coefficients	6

* / ** / *** significant at the 0.10 / 0.05 / 0.01 level.

Table 5 Accrual Quality Model

$$SD\_AQ_{i,t} = \alpha_0 + \alpha_1 LNASSETS_{i,t} + \alpha_2 SD\_CFO_{i,t} + \alpha_3 SD\_SALES_{i,t} + \alpha_4 LOSS_{i,t} + \alpha_5 STANDARD_t + \varepsilon_{i,t}$$

Standard (s)	Accrual Quality
PSAK 13, 30	6.1209 ***
PSAK 14, 26	1.2278
PSAK 16, 51, 58	2.4909
PSAK 19, 46, 55	13.3731 *
PSAK 24, 38	−23.5200 ***
Mean accounting standard coefficients	1.9279 *
Mean adjusted R^2	42.5%
Number of Standards with	
Significant Positive Coefficients	8
Significant Negative Coefficients	3

* / ** / *** significant at the 0.10 / 0.05 / 0.01 level.

5. Results and Implications

The results for Indonesia sample show in Table 4 and 5. We identified twelve accounting standards for our study for Indonesian samples and focus on the period before and after each accounting standard. However, more than one standard became effective in certain years. In this situation, we jointly consider all accounting standards implemented during a year as one event. We therefore investigates the effect of IFRS implementation on earnings quality with Indonesian sample use accounting-based measures: persistence, and accrual quality. We first consider the accounting standard's incremental effect on persistence (the interaction of prior period's earnings and the accounting standard variable). Equation (1) is estimated for each accounting standard and we report the results in Table 4. The mean adjusted R^2 for the persistence model is 45.5%. The estimated coefficient for the incremental persistence is significant for each of the twelve accounting standards. However, there is no consistency as to direction; the overall mean is not significant.

Second, we examine changes in accrual quality. We estimate equation (2) and report our results in Table 5. The mean adjusted R^2 is 42.5%. Eight of all the estimated coefficients for the accounting standard effect are significant; five of which are positive. Overall, the mean effect is significant and positive (1.9279, p-value < 0.10) indicating

decreasing quality. Combined, the overall evidence is that the accounting standards are associated with decreasing accounting quality (lower accrual quality). We have some limitations in this paper. First, these results do not always support our hyphoteses but consistent with the FASB's increased focus on the balance sheet where more variability may then be introduced to the income statement. Next, we need to investigate some countries that prepare toward IFRS adoption such as Japan compared with this research.

Appendix:

The Indonesian Accounting Standards (PSAK) harmonized with IFRS.

Standards' Name	Revision made
2002 1. PSAK 19 2. PSAK 46 3. PSAK 55	 Intangible Assets (adopting IAS 38) Accounting for income tax (Adopting IAS 12) Accounting for Derivatives and Hedging Activities (Adopting IAS 39)
2004 1. PSAK 51 2. PSAK 58 3. PSAK 16	 Accounting for Quasi Reorganizations. It replace accounting treatment for quasi reorganizations as regulated in paragraph 43 of PSAK 21 Discountinuing Operations. The revision is limited to paragraph 40 on presentation of disclosures Fixed and Other Assets. The accounting treatment for fixed assets is harmonised with other PSAKs. This standard referred to IAS 16.
2005. 1. PSAK 38 2. PSAK 24	 Accounting for Restructuring under Common Control Entities. Employee Benefits. Cost and covers not only accounting for retirement benefit costs, but also others employee benefits as follows: a. short term employee benefits, such as: wages, salaries, contribution for social security, paid annual and sick leave, profit sharing and bonus (if payable in 12 months at the end of reporting period), and other non-monetary benefits.

	b. post employment benefits, such as: retirement benefits (pension), other retirement benefits, post-employment life insurance, and post-employment medical benefits; c. other long term employee benefits, including long term leave, profit sharing, bonus and deferred compensation (f payable more than 12 months at the end of reporting period); d. Termination benefits e. Equity compensation benefits
2006 1. PSAK 13 2. PSAK 30	 Investment Property (revised 2006), The standard will replace PSAK 13 Investment (1994) and particulary will address the topic of investment properties. In the preparation of this exposure draft, DSAK referred to IAS 40 Investment Property. This standard is a revision to PSAK 30 Accounting for Leases (1994) and will address the Accounting policies and proper disclosure, either for lessee or lessor, in leasing transaction. This standard was developed based on IAS 17, Leases.
2008 1. PSAK 14 2. PSAK 26	 Inventory (adoption of IAS 2) Borrowing Cost (adoption of IAS 23)

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