



How the Mandatory IFRS Coverage and Conservatism Determine the Value Relevance of Accounting Information: Empirical Evidence from Indonesia

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Abstract

This paper analyzes the effects of conditional and unconditional conservatism and IFRS adoption on the value relevance of accounting information in Indonesia. Using the pooled-cross sectional analysis for 429 publicly listed industrial firms between 2003 and 2014, we found that the value relevance tends to increase following IFRS implementation. When we group the sample based on various accounting conservatism levels, we found that IFRS increases the value relevance of earnings while decreases value relevance of book value for firms with medium level of conservatism. However, when we measure the conservatism as continuous variables, we found the negative (positive) relationship between conservatism and value relevance of earnings (book value). Our three way interaction models indicate that earnings and book value numbers of the firms that are timelier in reflecting losses are less relevant in the post IFRS adoption. Further analysis also hinted the presence of inverse U-shaped relationship between conditional conservatism and value relevance of earnings, and U-shaped relationship between conditional conservatism and value relevance of book value.