International Financial Reporting Standards (IFRS) convergence correlation towards increasing the value relevance of accounting information

Correlação da convergência das Normas Internacionais de Relatório Financeiro (IFRS) para aumentar o valor relevante das informações contábeis

ABSTRACT
This article aims to determine the correlation between the Convergence of International Financial Reporting Standards (IFRS) and increasing the value relevance of accounting information. This research uses a literature review survey or literature observation from various international and national journals. This research concludes that most of the articles discussing the influence of the Convergence of International Financial Reporting Standards (IFRS) can increase the value relevance of accounting information in Indonesia. This research will add in-depth insight into whether International Convergence of Financial Reporting Standards (IFRS) can increase the value relevance of accounting information.

Keywords: accounting standards, IFRS convergence, value relevance, accounting information.

RESUMO
Este artigo tem como objetivo determinar a correlação entre a Convergência das Normas Internacionais de Relatório Financeiro (IFRS) e o aumento do valor relevante das informações contábeis. Esta pesquisa utiliza um levantamento de revisão da literatura ou observação da literatura de vários periódicos internacionais e nacionais. A pesquisa
conclui que a maioria dos artigos que discutem a influência da Convergência das Normas Internacionais de Relatório Financeiro (IFRS) pode aumentar a relevância do valor das informações contábeis na Indonésia. Esta pesquisa acrescentará uma visão aprofundada sobre se a convergência internacional das normas de relatórios financeiros (IFRS) pode aumentar a relevância do valor das informações contábeis.

**Palavras-chave:** normas contábeis, convergência das IFRS, relevância do valor, informações contábeis.

### 1 INTRODUCTION

Countries throughout the world have become integrated market forces without state territorial boundaries which allows cross-border economic activities to occur. Companies in one country can carry out economic transactions with individuals or companies in other countries, including seeking funding from foreign individuals or companies. Before deciding to invest funds in a company, both individual investors and companies will review the company's financial reports to determine the company's financial condition. Financial reports are an important communication tool that connects companies with investors with the aim of providing an overview of the company's financial performance. Kieso, Weygandt & Warfield (2011) state that financial reports are the main means used by companies to communicate their financial information to parties outside the company. Through financial reports, investors as parties outside the company can make predictions about the company's financial condition in the future, this allows investors to make decisions about whether to invest and determine how much funds should be invested (Caroline, 2022).

Characteristics of financial reports as applied in financial accounting standards (IAI, 2017) include: relevant, reliable, comparable and understandable. Relevance is one of the characteristics that makes financial reports quality. According to Weygand, Kimmel, & Kieso (2013), relevance is financial information that is able to make an influence in decision making, so accounting has relevance if it will influence decision making, so accounting information has relevance if it will influence decision making. Value relevance is one aspect of measuring the quality of accounting information, namely the ability of information presented in financial reports to describe the value of a company (Kargin, 2013).

Companies must provide financial reports that comply with the accounting standards used by the country where the company seeks funding. Today, more than 166
countries around the world have made a public commitment to International Financial Reporting Standards (IFRS) as a set of global accounting standards (Prima, 2022). Indonesia began to converge International Financial Reporting Standards (IFRS) into financial accounting standards (SAK) since 2008 (Suprihatin and Tresnaningsih, 2013). The convergence of International Financial Reporting Standards (IFRS) is an effort to direct SAK and IFRS which originate from different starting points towards one standard that has common characteristics shared by both standards (Warsono, 2011: 67).

With the implementation of the convergence of International Financial Reporting Standards (IFRS) in Indonesia, it is hoped that it can provide support for stock market growth by providing high quality financial reports (Daulay, 2020). This will meet the information needs of investors and the entities involved. According to general Suprihatin and Tresnaningsih (2013), the International Financial Reporting Standards (IFRS) standard produces an impact, namely being able to increase the quality of accounting information itself, by using fair value which is better able to describe the economic condition of a company. According to IAI (2008), the convergence of International Financial Reporting Standards (IFRS) provides benefits for the comparability of financial reports and increased transparency because the financial reports of Indonesian companies will be able to be compared with the financial reports of companies from other countries, so it will be clearer which company's performance is better.

This research aims to analyze the relationship between the convergence of International Financial Reporting Standards (IFRS) and increasing the value relevance of accounting information. This research is expected to provide context and empirical evidence regarding the influence of the convergence of International Financial Reporting Standards (IFRS) on the value relevance of accounting information. Apart from that, this research is also expected to increase literature and knowledge about the influence of the convergence of International Financial Reporting Standards (IFRS) on the value relevance of accounting information.

2 LITERATURE REVIEW
2.1 FINANCIAL STATEMENTS

A financial report is a format that contains company financial information in a certain accounting period which can be used to describe the performance and situation of the business or company. Making financial reports aims to present useful information to users of financial reports with the aim of helping them understand the company's financial
condition and make better decisions (Safira, 2020). Financial reports have an important role as a basis for management in making strategic decisions that can provide benefits for company development (Maruta, 2018).

According to Shara and Mita (2018) financial reports can be used as a means of describing the financial condition of an entity to related parties, both internal and external. Apart from that, financial reports also aim to provide information about the condition of the company which is useful for users of the financial reports (Damayanti et al., 2020). Since the implementation of International Financial Reporting Standards (IFRS), the information contained in financial reports in the European Union has increased in terms of more focused income management and improved accrual quality (Damayanti et al., 2020). According to IAI (2013), financial reports are very important and have a vital role in making investment, credit and strategic management decisions within the company.

2.2 FINANCIAL ACCOUNTING STANDARDS

SAK is a statement of Financial Accounting Standards (PSAK) and Interpretations of Financial Accounting Standards (ISAK) issued by the Standards Board of the Indonesian Accountants Association (PSAK IAI) and the Sharia Standards Board of the Indonesian Accountants Association (DSAS IAI) as well as capital market regulator regulations for entities located in under it. Financial accounting standards regulate how accounts in financial statements are defined, measured and presented. By implementing Financial Accounting Standards, the presentation of financial reports between one entity and another will not deviate from each other.

The setting of financial accounting standards by each country leads to significant variations in accounting standards around the world. Each company uses accounting standards set by its own country when preparing financial reports (Tiosanna, 2020). This is not a problem when the company only relies on funding from domestic investors. However, as the company develops, it may require additional funding from foreign investors through listing on foreign stock exchanges. In this case, the company must present financial reports in accordance with the accounting standards applicable in the country where the company seeks funding. This raises problems related to the comparability and understandability of financial reports, so that there is a need for internationally applicable accounting standards in the preparation of financial reports.
2.3 VALUE RELEVANCE OF ACCOUNTING INFORMATION

According to Francis and Schipper (1999) state the value relevance of accounting information as nominal expertise in accounting to conclude the information that is the basis of stock prices, so that value relevance refers to a high statistical relationship between accounting information which is indicated by the existence of a strong relationship between prices, or stock returns and profits and book value of equity because these two accounting information reflect the company's economic condition (Barth et al, 2008).

Accounting information is said to be relevant if it has the ability to influence decision making. Relevant information must have predictive value, i.e. the ability to predict future events or outcomes, as well as confirmatory value, i.e. the ability to confirm or test previous expectations or predictions. The usefulness of financial information can be increased if the information can be compared with previous information, is true or correct by authorized parties, is presented in a timely manner, and can be understood by users. The value relevance of information can be defined as the ability of information to influence economic decisions.

The concept of value relevance of accounting information and the concept of decision-usefulness of accounting information are closely related. The concept of value relevance of accounting information emphasizes the value of the information for investors, while the concept of decision-usefulness of accounting information emphasizes how financial reports can be more useful for investors and managers. In the concept of value relevance of accounting information, the focus is on how accounting information can provide value or benefits for investors. Relevant information should be able to influence investors' decisions and help them form expectations for the future. Meanwhile, the concept of decision-use of accounting information is broader, covering the use of accounting information by investors and managers. The main objective is to ensure that financial reports provide information that is useful for economic decision making, both for investors and managers. Thus, these two concepts complement each other and contribute to the understanding of how accounting information can provide value and usefulness for information users.

According to Francis and Schipper (1999), there are four interpretations of the concept of value relevance, including:

1. The first interpretation states that accounting information, namely financial reports, shows stock prices by capturing the intrinsic value of shares in
relation to stock price movements. Value relevance is measured as the profit resulting from the application of accounting based on trading rules. This interpretation assumes that prices do not reflect intrinsic value, but accounting numbers do reflect intrinsic value. Tests carried out with this assumption require various adjustments to changes in risk over time.

2. The second interpretation states that financial information is of relevant value if it contains variables used in a valuation model or helps in predicting these variables.

3. The third interpretation states that the value of relevance is seen from the existence of a statistical relationship that measures whether investors actually use financial information in setting prices, so that the value of relevance is measured by the ability of financial report information to change stock prices because it causes investors to adjust their expectations.

4. The fourth interpretation states that value relevance is measured by the ability of financial report information to capture or summarize information, regardless of its source, that affects share value. This interpretation does not require that financial statements should be the earliest source of information.

Franciss and Schipper (1999) in pusptaningtyas (2012) state that, an approach like this shows that value relevance can be measured based on market reactions when there is new information, while the approach to measuring value relevance, namely measuring the relevance of the value contained in financial reports uses capabilities in collect or summarize information on the activities of a business.

2.4 CONVERGENCE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

International Accounting Standards Board (IASB) is an international organization responsible for issuing international accounting standards in the form of International Financial Reporting Standards (IFRS). IFRS is used as a guideline in preparing financial reports for public companies and is recognized as a global accounting standard. According to Warsono (2011:39), International Financial Reporting Standards (IFRS) is a standard known as principle based, where International Financial Reporting Standards (IFRS) do not provide rigid rules, but International Financial Reporting Standards (IFRS) provide principles that adherents must adhere to, so that there is room for alternatives in preparing financial reports to emerge. This can cause information asymmetry. Therefore,
International Financial Reporting Standards (IFRS) demands full disclosure, namely more complete and detailed disclosure, which has an impact on company financial reports that are increasingly transparent (Rohmah and Susilowati, 2013).

Based on the convergence of proposals issued by IAI in Marisi P. Purba (2010), the adoption process is divided into 3 stages, such as:

<table>
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<tr>
<th>NO</th>
<th>Stage</th>
<th>Information</th>
<th>Year</th>
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<tbody>
<tr>
<td>1</td>
<td>Implementation</td>
<td>Adopt all the latest IFRS into PSAK</td>
<td>2008-2010</td>
</tr>
<tr>
<td>2</td>
<td>Preparation phase</td>
<td>Bribery of all supporting infrastructure for the implementation of PSAK which has adopted all IFRS</td>
<td>2011</td>
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<tr>
<td>3</td>
<td>Implementation</td>
<td>Implementation of PSAK which has adopted all IFRS for companies that have public accountability</td>
<td>2012</td>
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Table 1. IFRS Adoption Process in Indonesia

Convergence Roadmap for the 2012 International Financial Reporting Standards (IFRS) Convergence according to Roy Iman Wirahardja (2010), such as:

1. Implementation stage (2008-2010)
   a. Adopt all IFRS to PSAK
   b. Preparation of necessary infrastructure
   c. Evaluation and management of the impact of implementation of applicable PSAK

2. Final preparation stage (2011)
   a. Completion of necessary infrastructure preparation
   b. Gradual implementation of several IFRS-based PSAK

3. Implementation stage (2012)
   a. Gradual implementation of IFRS-based PSAK
   b. Comprehensively evaluate the impact of implementing PSAK

The implementation of International Financial Reporting Standards (IFRS) which will be used as Indonesian accounting standards must go through various stages so that they can be accepted by users of Indonesian accounting standards. By fully implementing International Financial Reporting Standards (IFRS), it is hoped that the reports presented by companies can provide quality and relevant information for stakeholders. This is important so that information users can understand the actual conditions. According to Barth, Landasan & Lang (2008), in calculating a company's book value, using the fair value concept can increase the quality of accounting information and better reflect how
much net assets the shareholders own per share, so that the current total assets shareholders can know whether it is in accordance with the current fair value.

3 RESEARCH METHODS

This research uses a qualitative descriptive approach where previous literature regarding the convergence of International Financial Reporting Standards (IFRS) towards increasing the value relevance of accounting information is collected and analyzed.

The data source in this research is secondary data with the unit of analysis being articles relevant to the topic of discussion from various journals which can be accessed online. This research provides an illustration of whether the application of International Financial Reporting Standards (IFRS) can increase the value relevance of accounting information. Therefore, the methodology used is pure literature analysis, evaluation and drawing analytical conclusions from theoretical and discussion results, adding deeper insight to achieve a better understanding.

4 RESULTS AND DISCUSSION

One of the important requirements in financial reporting that is recognized globally is the International Financial Reporting Standards (IFRS). However, in Indonesia, accountants are required to follow PSAK guidelines in preparing financial reports. With the Convergence of International Financial Reporting Standards (IFRS), Indonesia is one of the countries that is responding to the latest financial changes. This is characterized by increasing globalization through the presence of multinational companies in various countries. With company operations in various countries, there will be variations in accounting practices. This situation occurs when companies from developed countries operate in other developed countries, as well as companies from developing countries that operate in developing countries or even developed countries.

Convergence of accounting standards also provides a consistent and relevant framework in corporate financial reporting, regardless of the country in which the company operates. Therefore, convergence standards will be applied in all corporate situations throughout the world, with the hope of increasing transparency and accountability in corporate financial reporting. Each country has a different accounting system according to their individual needs (P. Sari and Siregar 2021). The IASB and developed IFRS with the aim of reducing the cost and complexity of analyzing financial statements in each company, as well as reducing differences in reporting regulations.
between countries. International Reporting Standards (IFRS) were first adopted by companies listed on stock exchanges in Europe in 2005. Meanwhile in Indonesia, full adoption of International Financial Reporting Standards (IFRS) was carried out in 2012 after BAPEPAM required companies registered in The Indonesian stock exchange (BEI) uses this standard (Triandi, Suratno & Ahmar, 2015).

Before International Financial Reporting Standards (IFRS) were adopted as accounting standards in Indonesia, the accounting standards used were the United States General Accepted Accounting Principles (US GAAP). Long before Indonesia, many countries had adopted the convergence of Generally Accepted Accounting Principles (GAAP) standards to the Convergence of International Financial Reporting Standards (IFRS). So, more research is found outside Indonesia. However, there are still issues regarding whether the International Financial Reporting Standard (IFRS) can improve the quality of accounting information or not.

The convergence of International Financial Reporting Standards (IFRS) in Indonesia is expected to increase the growth of the equity market in Indonesia by providing high quality financial reports that can serve the needs of investors and other stakeholders (Wulandari & Adipati, 2015). The following are several research results that show that International Financial Reporting Standards (IFRS) can increase the value relevance of accounting information. The first research conducted by Anida Fauziah (2023) entitled the impact of the convergence of International Financial Reporting Standards (IFRS) on the value relevance of accounting information, the results obtained were that there was an increase in the relevance value after the International Financial Reporting Standards (IFRS) convergence process was carried out. This could be because the fair value characteristics of International Financial Reporting Standards (IFRS) are emphasized more, so that accounting information can better reflect the company's true value and transparency in financial reports will increase, so investors will have more confidence in the company. In line with research conducted by Jian Afrido Sinatra (2022). This research concludes that research related to the impact of implementing Convergence of International Financial Reporting Standards (IFRS) in Indonesia proves that the application of Convergence of International Financial Reporting Standards (IFRS) in Indonesia can have a positive impact in increasing the value relevance of accounting information.

After adopting the Convergence of International Financial Reporting Standards (IFRS), research from Djara (2020) also supports an increase in value relevance. In this
research, it was revealed that the application of International Financial Reporting Standards (IFRS) has increased the relevance of accounting values in 13 banking companies listed on the IDX in the period 2007 to 2016. The relevance of the value of earnings per share and book value of equity per share is a factor that is taken into consideration investors in making decisions. Outa et al, (2017) also conducted research on the application of International Financial Reporting Standards (IFRS) to value relevance in East Africa, a longitudinal design was used and data was collected for companies listed on the Nairobi Securities Exchange (NSE) for the period 2005 to 2014 (five years before the IFRS revision and five years after the IFRS revision) with available data. Fifty-two companies (520 observations) and 4 of these companies are cross-listed in Uganda, Tanzania, and Rwanda, this study uses the same companies before and after the implementation of the Convergence of International Financial Reporting Standards (IFRS) so that each company acts as a control separately, against sampling variation bias. This research uses the Ohlson price regression model (share price to EPS) and GLS in analyzing the data. The research results show that there is a positive and significant relationship between share prices and book value and profits as well as an increase in R² in the period after the implementation of International Financial Reporting Standards (IFRS), thus showing high value relevance.

The implementation of the IFRS convergence PSAK process is able to increase the level of relevance of the value of accounting information, if it is based on the price model method, which can be seen from the customized R2 value which increases after the implementation of the International Financial Reporting Standards (IFRS) convergence. Previous research that has appropriate results and also supports these results, namely research conducted by Rohmah & Susilowati (2013), Suprihatin & Tresnaningsih (2013), and Kargin (2013). Where according to Rohmah & Susilowati (2013), the Convergence of International Financial Reporting Standards (IFRS) has the characteristic that fair value is emphasized more, so that it can make accounting information more accurate in reflecting the value of the company with the actual conditions in the company. This will enable accounting information to predict the future of an entity and better confirm the expectations of users, which in turn will increase the ability of the information to represent the value of the entity as seen from the large share prices that appear after the information provided by accounting.
5 CONCLUSION

This research aims to examine the effect of implementing International Financial Reporting Standards (IFRS) on the value relevance of accounting information, using the value relevance of accounting information as a measuring tool. In preparing financial reports, the transparency of financial reports and the company's position depend on the accounting standards that regulate the preparation of financial reports. Earnings and book value figures provide a summary of the financial information available for a company. The information contained in financial reports often influences investors' decisions in making investments. Therefore, accounting standards can influence the value relevance of financial statements.

International Financial Reporting Standards (IFRS) itself is an international standard designed to improve the quality of an entity's financial reports. By implementing International Financial Reporting Standards (IFRS) as an international financial reporting standard, financial reports between entities can be compared globally. The convergence of International Financial Reporting Standards (IFRS) in Indonesia has a significant impact, especially in the preparation of financial reports by entities. The value relevance of accounting information is one aspect that influences the implementation of IFRS convergence in Indonesia. Therefore, studies regarding the convergence of international financial reporting standards (IFRS) can increase the value relevance of accounting information is very valuable.
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