CHAPTER I

INTRODUCTION

1.1. Background of the Research

Investors as one of the company's fund source are reserve the right to get all information related to the condition of the company especially the company's financial condition. Information they get can be the consideration for them whether to invest their money on that or continuing investing on that company or even pull back their money from them. So that's why it's needed a media of information which could help the investors to get useful information about the company's financial condition. That information media is the financial report. So many things which are disclosed by the company in the financial report. SFAC no.8 stated that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit. Moreover, firms that disclose more accounting information would tend to be positively greeted by the stock market as they would be perceived as good and honest companies (Apostolou and Nanopulous, 2009, Goncharov *et al.,* 2006).

The thing that make it different from one to another financial report is the standard of the accounting standard which is applied in the country where

the company stands. There are two big international accounting standard which applied in almost all over the world, they are US GAAP and IFRS. US GAAP and IFRS have some differences, and one of the difference is that the US GAAP is an accounting standard with Rule-Based principle while IFRS is Principle-Based principle. Principle of Rule-Based itself is a principle which involves high levels of standardization, while principle-based involves flexibility in financial reporting and judgment.

There are two ways to adopt IFRS into national accounting standard. The first one is by adopting all of the regulation inside IFRS to become national accounting standard, which is usually called by full adoption. The second one is by adopting not all of the regulation or only some parts inside IFRS to be translated into national accounting with some adjustment, which is usually called by convergence process.

In Indonesia there was a transition of the accounting standard which refer from US GAAP to IFRS which was converge into PSAK, so that not all regulation exist in IFRS was adopted. There are still some regulation like IFRS 1, IAS 41, and IFRC 15 which are excluded from the translation of IFRS into PSAK.

The transition of accounting standard from US GAAP to IFRS reference is because of the fact that Indonesia is one of the G-20 member where all of the G-20 members had make an agreement and one of the agreement is by synchronize or harmonized the accounting standard in each member country with the international accounting standard which can be

accepted in all over the world and the accounting standard what is meant is the IFRS based accounting standard.

Ikatan Akuntan Indonesia (IAI, 2012) cited from their book that the purpose of the IFRS convergence into PSAK is to minimize the different of the financial report based on SAK and IFRS. The benefit get from this convergence are to help the users of the financial report to understand the financial report appropriate with the financial accounting standard which is internationally applicable and make the financial report forming become more efficient, increase the investment flow by transparency enhancement, and decrease the cost of capital.

History of the Indonesian accounting standard transition was begin from the adoption of the U.S. GAAP which had been translated into the "old" PSAK. It had been used from 1974 until 1999. In 1999, IAI decided to make changes on that standard which was matched to the market condition in Indonesia that time. In 2008, the IFRS standard was announced in Indonesia. Moreover Indonesia is one of the G-20 member and should apply the accounting standard with IFRS standard. It has been announced in the agreement of G-20 Summit. Why they told all of the members to use the same accounting standard, it is because with the same accounting standard each of the country can traded easier. Moreover, the same accounting standard that will apply by the countries which are members of G-20 will help the investors to compare the financial statements in Indonesian companies and other countries companies. So, to fulfill the commitment of G-20 Indonesia had make changes in the accounting standard used with made a

convergence in accounting standard in IFRS into PSAK gradually from 2009, while the first introduction of the IFRS concept in Indonesia had already declared in 2008 and it has been fully adopted since 2012. The transition from U.S. GAAP referred into IFRS referred gave some changes on the characteristic of the accounting standard itself. The U.S. GAAP is rule-based while IFRS is principle based. Rule based involves high level of standardization while IFRS which is principle based only regulate the primary things on the standard while the procedure and policy are depend on the user (Indrawati, 2014). The implementation of IFRS in Indonesia is expected to give difference impact on the extent of voluntary disclosure, especially it is expected to increase the extent of voluntary disclosure.

This research uses voluntary disclosure checklist with certain weighting score for each item disclosed. The total mean of the score get by the company will be used to determine whether there is an increase in the voluntary disclosure's extent after the IFRS convergencce. As the sample, this research uses the manufacturing companies listed in Indonesian Stock Exchange with two periods which are two years before IFRS convergence (2010-2011) and two years after the adoption (2012-2013).

1.2. Research Question

Based on the explanation on the background, then the research problem can be formulated as follows: Does the extent of voluntary disclosure increased after IFRS convergence on manufacturing companies listed in Indonesian Stock Exchange (IDX)?

1.3. Objective of the Research

The objective of this research is to obtain empirical evidence that there is an increase on the extent of the voluntary disclosure after IFRS convergence into Indonesian GAAP (PSAK), using the manufacturing companies listed in Indonesian Stock Exchange as the sample.

1.4. Research Contribution

This research may contribute for several parties, such as:

1. For investors, this research will give information that the more company disclose corporate information whether it is mandatory or voluntary, the lesser information asymmetry, and the better the investors will make decision because they will have sufficient information related to the company they want to invest.

2. For academic affairs, the benefit of this research is to give an empirical result about the increase of the extent of the voluntary disclosure's after IFRS convergence in Indonesia and also this research can be the reference for the next research.

1.5. Systematic of Writing

Chapter I : Introduction

Chapter I consist of background, formulation of the problem, research objectives, research contribution, and systematic of writing.

Chapter II : Theoretical Review and Hypothesis Development

Chapter II consists of the basic theoretical of disclosure, voluntary disclosure, IFRS, IFRS Convergence, and also the previous research and hypothesis development.

Chapter III : Research Methodology

Chapter III consist of discussion about population and sample choosing, data collection method, variable definition and variable measurement, data analysis method, and hypothesis testing.

Chapter IV : Data Analysis and Discussion

Chapter IV contains the results of processing and data analysis, whether the result will be able to meet and prove the proposed hypothesis or not. The discussion of the results will be provided in theoretical and statistical form.

Chapter V : Conclusion

Chapter V contains the final conclusion to answer research questions. Disclosing the limitations of the research as well as suggestions given for further research.