The Impact of IFRS Convergence on Earnings Quality in Indonesia

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Abstract

The research examines the impact of IFRS convergence into PSAK on earnings quality in Indonesia. The research uses 558 samples that are taken from 93 companies that are listed in the Indonesia Stock Exchange (IDX) from 2005-2007 and 2012-2014, we exclude 3 years since 2008-2011 is the preparation process of the IFRS converging. Earnings quality is measured using earnings management which is measured using Chua et al. (2012) framework.

The result of the research is that there is a significant difference in earnings management between before and after the full implementation of IFRS convergence into PSAK in Indonesia with evidence from listed manufacturing companies.

Keywords: Earnings Quality; IFRS convergence; earnings management

A. INTRODUCTION

Research Background

Since 2008, The Indonesian Institute of Accountant (IAI) already declared the idea of converging the local accounting standard from PSAK to IFRS. Start from the beginning of 2012, PSAK were already fully converge to the IFRS as of 2009 which means there were still a 3 year gap. By the beginning of 2015 until now, the gap between PSAK and IFRS is only one year. Currently, Indonesia does not have any future plans on the full adoption (i.e., standardization) of international accounting standards. Indonesia's current commitment to international accounting standards is to harmonize by further minimizing differences with PSAK. IAI believes that IFRS would lead to better quality of financial reporting.

There are several benefits of implementing IFRS as international accounting standard into PSAK as our local accounting standard, which are up to rise of the level of accounting practices, reduce the cost of capital of multinational companies, and also enhance financial reports' quality such as its comparability and transparency. IFRS eliminate certain accounting alternatives thereby reducing managerial discretion which we expected lower the earnings management and thus improve earnings quality.

IFRS is a principle based standard which only regulate the principle not the detail. Therefore, the IFRS practices will need the professional judgment. An accountant should have the sufficient knowledge, skill and also the ethics to implement the IFRS in order to fulfilling the professional judgment, or in other hand, it may lead to more management discretion. IFRS also arrange the wider use of fair value, for instance the fair value of the biological assets, fixed assets, investment properties, and intangible assets. There are more estimations and judgment that should be made in IFRS practices. IFRS also regulate more disclosure so that users of financial reports will having more considerations about the financial information to make decisions. The agency relationship conflicts may arise due to information asymmetry and opportunistic behaviors which are result of the need of more professional judgment from the managers.

The information asymmetry and opportunistic behaviors were contrast with the expectation that the convergence of IFRS into PSAK will bring the better accounting information quality, more transparency, more reliable, more relevance and better comparability. This contradiction still remains debate. Thus, this research aims to provide more evidence on IFRS convergence in Indonesia would bring higher earnings quality than before.

This research will use the earnings management as our metrics to compare before and after the IFRS convergence into PSAK. By a higher quality standard we mean a standard that either reduces managerial discretion over accounting choices or inherently disallows smoothing or overstatement of earnings. Earnings quality and earnings management has a negative relation since the earnings management simply means the managerial discretion. Thus, the higher the earnings management will results in lower earnings quality. If IFRS are of higher quality than PSAK then we expect that adoption of IFRS to improve earnings quality, which also means that we expect the lower earnings management after the IFRS convergence than before IFRS convergence. To measure the earnings management as our proxy, this research will use the model from Chua et al. (2012) framework.

This research aims to determine whether IFRS adoption leads to higher earnings quality of listed manufacturing companies in Indonesia Stock Exchange (IDX). We will observe the relevance of the financial report from 3 years pre-IFRS convergence (2005-2007) and 3 years after IFRS full convergence (2012-2014). There is a 4-year-gap in between the sample period because this is the preparation of IFRS implementation period. Previous research in Indonesia that attempt to study the impacts of the IFRS convergence on earnings quality using the pre-IFRS convergence as year before 2008 and the post-IFRS as year after 2012 is relatively small in number. Most researches study the pre-IFRS period whether in year before 2011 as the final stage of IFRS implementation or before the year 2012 as the year of full IFRS convergence. We use the 3 years before 2008 as the pre IFRS convergence period because we assume that there is no company that voluntary implement the IFRS in reporting their financial statements in those years. Companies in manufacturing sectors are the sample of this research as this sector is the largest in population among other sectors.

Research Questions

This research will investigate whether there is a difference in earnings management level between before and after IFRS convergence into PSAK for listed manufacturing companies in IDX or not.

Research Objectives

This study aims to analyze and also to give empirical evidence whether there is a significant difference of earnings quality in the determined proxy which is earnings management between before IFRS convergence into PSAK and after IFRS convergence into PSAK for listed manufacturing companies on IDX.

Research Contributions

This study will show the investors and creditors about whether the earnings quality were better than before as they were the main users of the company financial reports and the earnings quality might show how deep the investors and creditors can rely on the numbers in financial reports. This study might also develop the knowledge about the impact of IFRS convergence on the earnings quality in Indonesia based on the earnings management. Hopefully this study can also give information for other researchers in the same field of research

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Financial Reporting

Financial report is a structured presentation of financial position and financial performance of an entity. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful for existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity (IASB 2010, paragraph OB2). Financial reports provide information about the reporting entity's economic resources, claims against the reporting entity, and the effects of transactions and other events and conditions that change those resources and claims (IASB 2010, paragraph QC2).

The types of information that are likely to be most useful to the existing and potential investors, lenders, and other creditors for making decisions about the reporting entity in its financial report (financial information) has been expressed in chapter 3 of Statement of Financial Accounting Concepts (SFAC) No. 8 (IASB 2010) as the qualitative characteristics of useful financial information which are divided into fundamental qualitative characteristics and enhancing qualitative characteristics. Fundamental qualitative characteristics consists of two main characteristics which are relevance and faithful representation. Enhancing qualitative characteristics are characteristics that enhance the usefulness of information that is relevant and faithfully represented which are consists of comparability, verifiability, timeliness and understandability.

International Financial Reporting Standard

High quality accounting standard can deliver the high quality of financial reporting. In order to achieve this global objective, the International Accounting Standards Board (IASB) was formed in 2001 to replace International Accounting Standards Committee (IASC) which is an independent standard setter for the private sector founded in 1973 by the organization of accounting professionals in nine countries. The IASB operates under the oversight of the IFRS Foundation.

In 2003, IASB published the first standard of International Financial Reporting Standards (IFRS), IFRS 1−First-time Adoption of IFRSs. IFRS is a single set of accounting standards developed and maintained by the IASB to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. IFRS issued with the intention of those standards being capable of being applied on a globally consistent basis—by developed, emerging and developing economies—thus providing investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers.

IFRS Convergence in Indonesia

Together with the aim of IASB is to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles (IASB, 2014), Ikatan Akuntan Indonesia (IAI) decided to use the IFRS instead of US GAAP as the basis for developing SAK. The public commitment to converge IFRS into PSAK was made on 8 December 2008. Consequently, SAK has been continuously developed and revised through several improvements and additions to fully harmonize and converge with IFRS.

According to Lestari (2011), the harmonization with IFRS has undergone two phases in Indonesia up to 2012; the first phase occurring before the issuance of new standards under IASB in which SAK issued and revised was mainly-based on IAS, and the second phase occurring afterwards when SAK is fully-based on the new set of IFRS.

The DSAK-IAI has currently finished working with a third IFRS convergence process with the objective to further minimize the differences between SAK and IFRS, from three years to one year. SAK effective as of 1 January 2012 is substantially harmonized with IFRS effective as of 1 January 2009. Currently, SAK effective as of 1 January 2015 is substantially harmonized with IFRS effective as of 1 January 2014, continuously until nowadays.

Earnings Quality and Measurements

Earnings quality is a tool to measure how relevance the reported income and the real situation. According to SFAC No. 8, the relevancy and faithful presentation might be enhance by comparability, verifiability, timeliness and understandability. Higher quality earnings provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker (SFAC No. 1).

Earnings quality attribute to characterize desirable features of earnings which include accrual quality, persistence, predictability, smoothness, value relevance, timeliness, and conservatism (Francis et al., 2004). In addition, Francis et al. (2004) identified two main categories for earnings quality measures, accounting based and market-based. Accounting-based attributes take cash or earnings as the reference construct and use only accounting information. Market-based attributes take market returns or market prices as the reference construct, and measures are based on the estimated relation between earnings and market information. Timeliness is one of the market-based attributes which measures the explanatory power of a reverse earnings-returns regression. A higher result coefficient implies more timely recognition of stock returns, which is affected by bad and good news, in earnings and thus higher earnings quality.

The measures of earnings quality summarized by Simarmata (2015) are persistence, predictability, magnitude of accrual, accrual quality, abnormal accruals, smoothness, value relevance, timeliness, conservatism (timely loss recognition), earnings response coefficients, benchmarks (target beating), and external indicators of earnings misstatements. As for this research, we will use the timeliness and conditional conservatism (timely loss recognition) as our measurements of earnings quality.

IFRS Convergence and Earnings Quality

By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide. Companies may also benefit by using IFRS if they wish to raise capital abroad to attract the foreign investors by reporting in the international standards.

IFRS might reduce the accounting alternatives, limit the management's opportunistic discretion, and demand broader disclosure. Before the IFRS convergence, managers have more flexibility to choose the accounting methods or change the accounting policies to increase, decrease, or smooth the income. This flexibility might lead to less relevance income number which might not describe the good news and bad news in a timely manner. Thus, we expect that IFRS as the global accounting standards might bring more relevance earnings in timelier manner.

Earnings Management as Proxy of Earnings Quality

Schipper (1989) defines earnings management as purposeful intervention in the external financial reporting process, with the extent of obtaining some private gain, as opposed to merely facilitating the neutral operation of the process. Earnings management is basically: (1) an attempt to provide misleading information about the company's economic performance to stakeholders, and (2) an effort to influence contractual outcomes that depend on accounting numbers reported (Healy and Wahlen, 1999). The lower the level of earnings management, the higher the quality of financial statements for company.

Even there are a lot of earnings management proxies, Zeghal et al. (2012) focus on four aspects of earnings management, which are earnings smoothing, managing toward small positive earnings, accruals quality and the magnitude of absolute of discretionary accruals. In this research, we will use the earnings smoothing as our proxy. As an indicator of earnings quality, smoothness reflects the extent to which accounting standards allow managers to reduce the variability of reported earnings by altering the accruals, presumably to obtain some capital market benefits associated with a smooth earnings stream (Leuz et al., 2003 in Zeghal et al., 2012). This measure also attempts to capture accrual quality (Francis et al., 2004). Under this view, smoother earnings would imply lower quality earnings.

Previous Research

Barth et al. (2008) provide international evidence that the voluntary adoption of International Accounting Standards (IAS) is associated with higher accounting quality, less earnings management, more (less) timely loss (gain) recognition, and more value-relevant accounting information. Barth et al. (2010) examine whether IFRS adoption has made the financial statements of non-U.S. firms more comparable to the financial statements of U.S. firms. They find some evidence that, compared to domestic GAAP, IFRS increases comparability with U.S. firms. Ahmed et al. (2013) investigate the mandatory adoption of IAS in a similar setting as Barth et al. (2008), but document the results in contrast to the findings of earlier studies. They document more earnings management, less timely loss recognition, and more earnings smoothing after the adoption of IAS.

Liu et al. (2011) examine the effect of IFRS-based accounting standards on earnings quality operationalized with earnings management, and value relevance measures. Results of these measures show consistency with Barth et al. (2008) that earnings quality improved with decreased earnings management and increased value relevance of accounting measures in China since 2007. Similar with Indonesia, China local accounting standards are also substantially converged with international standards. Their local standards are being continuously converged with international standards with no future plan of full adoption.

Claudya (2014) examine the earnings management with earnings smoothness by using the sample from LQ45 companies from year 2006 and 2007 as the pre-IFRS convergence and 2011-2012 as the post-IFRS convergence. Evidence suggests IFRS convergence does not generally improve earnings quality. Bangun (2014) suggests that there is a difference in earnings quality before and after IFRS convergence operationalized by discretionary accruals. Sianipar and Marsono (2013) provide evidence on the effect of the full implementation of IFRS convergence. Findings indicate that the full implementation of IFRS convergence does not result in a significant different in value relevance, timely loss recognition, and discretionary accruals. It is important to note that the time frame of this study is only two years long.

Hypothesis Development

There are series of empirical papers examining properties of earnings quality. Dechow and al. (2010) stated that researchers have used various measures as indications of earnings quality including persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and external indicators such as restatements and SEC enforcement releases. The empirical literature has developed several metrics to proxy earnings quality. These metrics are based on the qualitative characteristics in the conceptual framework. More explicitly, the IASB conceptual framework categorizes the qualitative characteristics of useful financial information into fundamental and enhancing qualitative characteristics. The fundamental qualitative characteristics are relevance and faithful representation while comparability, verifiability, timeliness, and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

In this research we will use earnings management as our proxy to measure the earnings quality. As an indicator of earnings quality, smoothness reflects the extent to which accounting standards allow managers to reduce the variability of reported earnings by altering the accruals, presumably to obtain some capital market benefits associated with a smooth earnings stream (Leuz et al., 2003 in Zeghal et al., 2012). This measure also attempts to capture accrual quality (Francis et al., 2004). Under this view, smoother earnings would imply lower quality earnings. Since IFRS convergence into PSAK believed will enhance the accounting quality, we also expect that IFRS convergence into PSAK will also enhance earnings quality.

In the other hand, IFRS as a principle based standard needs more professional judgment in the practices. This situation tends to encourage the accountant to do the earnings management as their opportunistic behavior. The extensive use of fair value is also a contradiction to the higher earnings quality. There are many methods to determine the fair value. Managers are sometimes tends to choose among the accounting alternatives to affect the earnings to pursue their objectives.

Ha: There is a difference in earnings management between before and after IFRS convergence.

C. RESEARCH METHODOLOGY

Sample

The population of this research are manufacturing companies listed in Indonesia Stock Exchange from 3 years pre-IFRS convergence (2005-2007) and 3 years after IFRS full convergence (2012-2014).

Method used in obtaining the data with purposive sampling with criteria:

1. Companies are listed in Indonesia Stock Exchange from 2005-2014.
2. Companies are manufacturing companies.
3. Companies with fiscal-year ending.
4. Companies provide financial statements in 2005-2014.
5. Companies' financial statements are stated in Indonesia Rupiah (IDR) currency.
6. Companies' yearly financial statements are available and audited from 2005-2014.

Data Collection

The data of this study is secondary data which are annual financial statement report of manufacturing companies listed in Indonesia Stock Exchange (IDX). The data are obtained from official website (www.idx.co.id), other supportive website and also from the archives of Kelompok Studi Pasar Modal (KSPM) in Universitas Atma Jaya Yogyakarta. The list of sample companies included in this research can be found in the Appendix.

Earnings Management

Schipper (1989) defines earnings management as purposeful intervention in the external financial reporting process, with the extent of obtaining some private gain, as opposed to merely facilitating the neural operation of the process. In this research we will use the model from Chua (2012). We use the Spearman correlation of accruals (ACC) and cash flows (CF) to proxy earnings management. We also attempt to minimize the influence of other factors on earnings management, by including several control variables that are identified by prior studies to be unrelated to the mandatory adoption of IFRS (Lang et al., 2006, Barth et al., 2008, Chua et al., 2012.

Model (1):

$$\mathbf{CF_i = \beta_0 + \beta_1\, SIZE_i + \beta_2\, GROWTH_i + \beta_3\, LEV_i + \beta_4\, TURN_i + \beta_5\, AUD_i + Error_{(CF)i}}$$

Model (2):

$$\mathbf{ACC_i = \beta_0 + \beta_1\, SIZE_i + \beta_2\, GROWTH_i + \beta_3\, LEV_i + \beta_4\, TURN_i + \beta_5\, AUD_i + Error_{(ACC)i}}$$

Where:

ACCi = Accrual scaled by total assets, net income minus operating cash flow

CFi = Operating cash flow scaled by total assets

To measure the earnings management, we conduct the Spearman's Rho correlation test as follow:

Model (3): $\mathbf{CORR\ (Error_{(CF)i}, Error_{(ACC)i})}$

While there is naturally a negative correlation between accruals (ACC) and cash flows (CF), prior studies argue that a larger magnitude of negative correlation between these variables is indicative of earnings smoothing, all else equal (Myers et al. 2007; Land and Lang 2002; Lang et al. 2003; Lang et al. 2006). After obtaining the Spearman correlations rho for the pre-adoption and the post-adoption periods respectively, the two Spearman correlations rho are then compared using a significance test to evaluate whether there is significant changes in the earnings management behavior after IFRS adoption.

Model (4): $\mathbf{Deviation} = \mathbf{|\ Error_{(CF)i} - Error_{(ACC)i}\ |}$

Control Variables

1. Company Size (SIZE):
   Ln (Total Assets)
2. Company Growth (GROWTH):
   $\frac{Sales_{(t)} - Sales_{(t-1)}}{Sales_{(t-1)}} \times 100\%$
3. Leverage (LEV):
   $\frac{Total\ liabilities}{Total\ Assets}$
4. Sales Turnover (TURN):
   $\frac{Sales}{Total\ Assets}$
5. Audit Quality (AUD):
   Dummy variable valued by 1 for big four auditor and 0 otherwise.

D. DATA ANALYSIS AND DISCUSSION

Descriptive Statistics

There are seven variables in this research are CF, ACC, SIZE, GROWTH, LEV, TURN, and AUD. The results of the descriptive statistics for each variable are shown below:

Table 4.1
Descriptive Statistics for Data before IFRS Convergence

	N	Minimum	Maximum	Mean	Std. Deviation
CF	279	-,63	1,33	,0605	,14547
ACC	279	-1,35	,91	-,0183	,14945
SIZE	279	12,09	30,32	24,3073	4,47100
GROWTH	279	-1,00	12,92	,2062	,87328
LEV	279	,03	2,34	,5596	,36151
TURN	279	,07	2,72	1,1346	,53139
AUD	279	0	1	.46	.499

(Sources: SPSS 17.0 Output)

Table 4.2
Descriptive Statistics for Data after IFRS Convergence

	N	Minimum	Maximum	Mean	Std. Deviation
CF	279	-,54	1,56	,0688	,14944
ACC	279	-,27	,60	-,0027	,09433
SIZE	279	12,11	30,79	23,4073	5,21772
GROWTH	279	-1,00	5,91	,1288	,58844
LEV	279	,00	2,55	,5157	,33756
TURN	279	,00	6,25	1,1206	,67144
AUD	279	0	1	.43	.496

(Sources: SPSS 17.0 Output)

Regression before IFRS Convergence

The result of CF and ACC regression towards control variables for the data before IFRS convergence (2005-2007) are shown below:

Table 4.3
CF Regression for Data before IFRS Convergence

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.048	.062		.779	.436
	SIZE	.000	.002	-.015	-.244	.807
	GROWTH	-.002	.010	-.013	-.223	.824
	LEV	-.062	.024	-.155	-2.611	.010
	TURN	.049	.016	.177	2.954	.003
	AUD	.010	.018	.035	.566	.572

(Sources: SPSS 17.0 Output)

Regression after IFRS Convergence

The result of CF and ACC regression towards control variables for the data after IFRS convergence (2012-2014) are shown below:

Table 4.5
CF Regression for Data before IFRS Convergence

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.002	.045		-.050	.960
	SIZE	-.002	.002	-.072	-1.318	.189
	GROWTH	-.011	.013	-.044	-.848	.397
	LEV	-.020	.023	-.044	-.847	.398
	TURN	.103	.012	.461	8.602	.000
	AUD	.037	.017	.124	2.193	.029

(Sources: SPSS 17.0 Output)

Table 4.6
ACC Regression for Data after IFRS Convergence

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.024	.033		.734	.463
	SIZE	.000	.001	.015	.244	.808
	GROWTH	-.010	.010	-.062	-1.045	.297
	LEV	-.040	.017	-.143	-2.382	.018
	TURN	.000	.009	.003	.041	.967
	AUD	-.027	.012	-.141	-2.173	.031

Spearman’s Rho Correlation Test

After acquiring the regression of CF towards control variables and regression of ACC towards control variables, we will correlate both regression by using the Spearman’s Rho correlation.

Table 4.7
Spearman’s Rho Correlations before IFRS Convergence

			Residual CF	Residual ACC
Spearman's rho	Residual CF	Correlation Coefficient	1.000	-.729**
		Sig. (2-tailed)	.	.000
		N	279	279
	Residual ACC	Correlation Coefficient	-.729**	1.000
		Sig. (2-tailed)	.000	.
		N	279	279

**. Correlation is significant at the 0.01 level (2-tailed).

(Sources: SPSS 17.0 Output)

Table 4.7 shown the Spearman's Rho Correlation between CF and ACC residuals before IFRS convergence which resulted in rho of -0.729. The correlation coefficient is < 0.05 (α), which means that both CF and ACC residual are negatively correlated. Which means that, if higher the accrual of the company then the operating cash flow will be lower.

Table 4.8
Spearman's Rho Correlations after IFRS Convergence

			Residual CF	Residual ACC
Spearman's rho	Residual CF	Correlation Coefficient	1.000	-.666**
		Sig. (2-tailed)	.	.000
		N	279	279
	Residual ACC	Correlation Coefficient	-.666**	1.000
		Sig. (2-tailed)	.000	.
		N	279	279
**. Correlation is significant at the 0.01 level (2-tailed).				

(Sources: SPSS 17.0 Output)

Table 4.8 shown the Spearman's Rho Correlation between CF and ACC residuals after IFRS convergence which resulted in rho of -0.666. The correlation coefficient is < 0.05 (α), which means that both CF and ACC residual are negatively correlated. Which means that, if higher the accrual of the company then the operating cash flow will be lower.

Hypothesis Testing

After conduct the Spearman's Rho correlation test, we will first compare the results as below:

Table 4.9
Summary of Spearman's Rho Correlations

	Pre IFRS Convergence	Post IFRS Convergence
Spearman's Rho	-0.729	-0.666

(Sources: SPSS 17.0 Output)

The results of Spearman's Rho for before and after IFRS convergence, the rho value is higher in the period before IFRS convergence where it shows the number of 0.729 compared to 0.666 for the period after IFRS convergence. The lower number of rho after IFRS convergence means that the earnings management after IFRS convergence is lower than before IFRS convergence, which means that IFRS convergence decreases the earnings management.

Next step is to test whether the differences is significant or not, we will conduct the paired difference test. The paired differences test is utilized to determine whether there is a significant difference between the deviation value of earnings management before IFRS convergence and the deviation value of earnings management after IFRS convergence. The paired difference test conducted in this research is the Paired Sample T test which is use to compare between before and after IFRS convergence of the accrual and operating cash flow deviations.

Table 4.10
Paired Sample T-test

		Mean	Std. Deviation	Std. Error Mean	t	df	Sig. (2-tailed)
Pair 1	Lg_DEV_PRE - Lg_DEV_POST	.06445	.62743	.03804	1.694	271	.091

(Sources: SPSS 17.0 Output)

As shown in table 4.10, the paired sample results in the significant level of 0.091 (9.1%) which is lower than $\alpha = 0.10$ (10%). According to this research data results, we concluded that our alternate hypothesis is accepted, which means that there is a significant difference in earnings management between before and after the full implementation of IFRS convergence in Indonesia manufacturing companies.

Discussion

The IFRS convergence into PSAK effective as of 1 January 2012 has resulted in a different level of earnings quality, especially the earnings management. By using the year 2005-2007 as pre-IFRS convergence period and 2012-2014 as post-IFRS convergence period, this research excluding the year 2008-2011 regarding to the IFRS convergence process.

Result from the hypothesis testing shows that our alternate hypothesis is supported. There is significant difference in earnings management between before and after the full implementation of IFRS convergence in Indonesian manufacturing companies. Lower results of the Spearman's Rho Correlation test after IFRS which is 0.666 than before IFRS which is 0.729, thus means that earnings management level is lower after IFRS convergence. Therefore, the earnings quality after IFRS convergence is better than before IFRS convergence.

IFRS is a principle based standard which only regulate the principle not the detail. Therefore, there is higher need of professional judgments. An accountant should have the sufficient knowledge, skill and also the ethics to implement the IFRS in order to fulfilling the professional judgment, or in other hand, it may lead to more management discretion. According to our result, the earnings management level decreases. The professional judgment, extensive use of fair value and the accounting method limitations are able to change the earnings management level in Indonesia. Managers are tend to use their professional judgment to choosing alternatives ethically, not opportunistically, thus it might reduce the earnings management level and enhance the earnings quality.The result of the data analysis on earnings management in this research is consistent with the evidence provided by some international researches. Chua et al. (2012) findings also indicate that the pervasiveness of earnings management by way of smoothing has reduced. Zeghal et al. (2012) conduct the research in European Union companies and find out that there has been some improvement in accounting quality between the pre- and post-IFRS adoption periods. Ahmed et al. (2013) find evidence of a significant increase in earnings management after the IFRS mandatory adoption. Capkun et al. (2016) provide same evidence.

Previous research of earnings management in Indonesia provides some mix evidences. Claudya (2014) provides the evidence that there is no significant difference in earnings management (income smoothing) after IFRS convergence in Indonesia with evidence from the LQ 45 companies. Simarmata (2015) and Dewa (2015), which using different model with this research, are still consistent with this research, they suggest that there is significant difference in earnings management after IFRS convergence in Indonesian manufacturing listed companies.

In summary, the result of this research showed there is a significant difference in earnings management level between before and after IFRS convergence into PSAK in Indonesia. The implementation of IFRS convergence in Indonesia significantly impact the quality of earnings.

E. CONCLUSION

The objective of this research is to analyze and give empirical evidence about whether the IFRS convergence in Indonesia enhance the earnings quality or not by using the earnings management as a proxy. The sample of this research is 93 companies that are listed in Indonesian Stock Exchange (IDX), which resulting in 558 observation samples, 227 companies for 3 years pre-IFRS convergence (2005-2007) and 227 companies for 3 years post-IFRS convergence (2012-2014). This research will eliminated those years regarding to the IFRS convergence process from year 2008-2011.

This research conclude that there is significant difference in earnings management between before and after the full implementation of IFRS convergence in manufacturing companies in Indonesia.

This research has several limitations, therefore, several suggestions are also made for any future research. The longer period of observations is expected to provide better evidence for the impact of IFRS convergence. The use of other market-based measures, accounting-based measures, more suited models, and a better data analysis methodology for examining the impact of IFRS convergence is expected to provide a broader and better scope of the analysis of earnings quality. The uses of other model of earnings management might bring the different results and insights of the impact of IFRS convergence in Indonesia

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