CHAPTER V

CONCLUSION

5.1 Conclusion

This research aims to give empirical evidence regarding the value relevance of earnings, the book value of equity, and R&D in explaining the company's market value and observing the condition around the Covid-19 pandemic. This research found that earnings and R&D have no effect on stock price before and during the Covid-19 pandemic while the book value of equity has a positive relationship and significant effect on stock price in both observed periods. The book value of equity also shows an increase in the value relevance during the crisis period. This concludes that investors use information from the book value of equity in their investment decision-making.

Earnings per share in the period before the Covid-19 pandemic shows no impact on the stock price. This is due to the decline in earnings and some companies that report negative earnings throughout the year. When the Covid-19 pandemic disrupts the global economy, it causes the companies to have difficult times with their financial ability. The earnings continue to decrease and investors consider that information relating to earnings no longer gives them any benefits so they do not rely on this anymore. This resulted in the value relevance of earnings per share falling during the Covid-19 pandemic. Research and development expenditures can be the main factor as to why a company's earnings decrease over both periods. Under the regulation of Indonesian Accounting Standards (PSAK), all Indonesian companies have to record their R&D expenditures as expenses, capitalizing can only be accepted if they fulfilled the requirements listed in the regulations. From the samples collected by the researcher, the manufacturing companies recorded their R&D expenditures as expenses which can be seen under the operating expense in the Income statement. Because of this treatment, R&D will be detrimental in the short-term which caused a decline in the company's profit at the time. Expense R&D will ignore the future economic benefits it has and

that is why investors do not consider expense R&D to be value relevant hence does not change the company's stock price.

Book value of equity, on the other hand, shows a positive relationship and significant impact on the stock price in both periods. Previous studies conclude that the information can be used as a proxy to predict expected future earnings. When a company is having financial distress, investors still rely on information from the book value of equity due to the abandonment value it has. If a company suffers consecutive losses due to financial difficulties, the abandonment value will be liquidated to investors in form of cash or its equivalent. So even though the company does not seem to be discontinued, investors still consider the book value of equity to see the amount of abandonment value they could receive if bad things happen. In addition, when companies are generating losses, the value relevance of earnings will decrease and conversely, the value relevance of book value of equity will increase.

5.2 Limitation and Suggestion

The researcher realize that there are still limitations in this study. The limitation lies in the consideration of choosing April 30 as the measurement date of the dependent variables. It is suggested for future research to use different date from this research. For example, using a month or two weeks after the financial statements announcement date, the future researchers need to put a certain length of period after the publication date. The small number of samples used in this study which is also another limitation due to the lack of companies reporting R&D each year. In addition, the sample year for each period is quite short, two years in the non-crisis and during the crisis period. For future researchers, they can use samples with different sectors or expand the sample, especially in the period of the year to be observed. If the sample is changed or expanded, the results obtained from the study may be the same or different from the results of this study.

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