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A Study of International Financial Reporting Standards (IFRS) Implementation in Indonesia: The Preparers' Perspectives

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ABSTRACT

Objective – This study is intended to explore the factual information; cost of implementation; general impact of implementation; progress to date; operational and strategic decision taken by management; implementation and impact of individual standards; and general other related to IFRS implementation in Indonesia by comparing before and after IFRS implementation.
Methodology/Technique – Data were collected by using content analysis from annual reports of manufacturing companies listed in the Indonesian Stock Exchange and analysed by using SPSS.
Findings – Statistical analysis showed that in Indonesia, the average number of pages that reveal category of operational and strategic decision taken by management; implementation and impact of individual standard; and general other differ between before and after the implementation of IFRS, but not for factual information and general impact of information. In addition, there is a significant difference in the average of number of listed manufacturing companies report category of progress to date; operational and strategic decision taken by management; and general other between before and after the implementation of IFRS-based Financial Statements.
Novelty – Findings of this research can serve as a guideline for companies in Indonesia and other developing countries in implementing the IFRS. The findings will also contribute to the knowledge and application of Financial Accounting System and Accounting Theory.
Type of Paper: Empirical

Keywords: International Financial Reporting Standards; Indonesian Financial Accounting Standards; IFRS implementation; and Manufacturing Companies.
JEL Classification: M4, M49.

1. Introduction

Accounting has been long recognized as a language of business. As a language of business, accounting was challenged to be able to translate business reality into pieces of useful information for business decision making. Consequently, as business changed, accounting must demonstrate its ability to cope with that change and maintain its identity as credible reference for decision making. The move toward borderless economy and its cross-bordered transactions under continued process of globalization put comparability and integrity of financial reporting as stronger point of concern. The need to shift from diverse national standard toward single

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set of high quality accounting standard is an evitable consequence of the globalized economy and cross-bordered listing. The introduction of International Financial Reporting Standards (IFRS) is one of the most fundamental accounting regulatory changes recently.

The transition to IFRS has involved major changes for all companies as IFRS introduced significant new accounting and reporting recognition, measurement and disclosure requirements that had not been part of their previous national GAAPs. Greater transparency, understandability and, lower cost of capital, reduced national standards costs, improved comparability of financial data across jurisdiction and lower susceptibility to political pressure to national standard setters, among others, are perceived benefit of the implementation of IFRS (Odia & Ogiedu, 2013). Capital markets research findings show positive impact of IFRS adoption and technical issues such as fair value measurements and convergence of tax and IFRS reporting are the important topics of discussion for IFRS for SMEs (Balsari & Valan, 2014).

There are wide varieties of differences between the accounting practices adopted in different countries. The underlying reasons for these differences are essentially environmental because accounting is a product of its environment and a particular environment is unique to its time and locality (Perera, 1989). The accounting environment in one country can differ from that of another in terms of variety factors including political, economic, social and religious environments (Frank, 1996). These differences are particularly significant between develop and developing countries. Global harmonization may thus be difficult because countries may not agree to a change in accounting practices so long as the underlying environmental factors are significantly different. While the extent of harmonization has been low in some studies, others have identified significant progress in international harmonization (Ali, 2005).

The process of accounting convergence and the issues related to the implementation of IFRSs worldwide are topics of much interest recently for standard setters, researchers, practitioners and professional bodies (Albu & Albu, 2012). According to Papadatos & Bellas (2011), the existing literature regarding International Financial Reporting Standards (IFRS) is quite extensive. However, the majority of the studies focused on the assessment of the quality of financial statements from user's perspectives such as value relevant of accounting information, earning quality, the level of earnings management and the predictability of earnings by financial analysts, etc. Nevertheless, very few researches have investigated the perceptions of those directly affected by the accounting transition, i.e. the preparers of financial statements (Papadatos & Bellas, 2011).

The costs and benefits of IFRS adoption may vary from firm to firm and some may be prevalent to all firms across many countries (Fox et al., 2013). Some costs are obvious and easily quantified and others tend to be more opaque (Fox, Hannah, Helliar, & Veneziani, 2013). Just like other countries, especially developing countries that choose gradual strategy, the implementation of IFRS in Indonesia might create some similar features to that of other developing countries. However, each countries has its own unique characteristics and accounting practice, to large extent, is a reflection of country's characteristic. Indonesia is one of the emerging economies in Asia that is currently undertaking the convergence process of its national accounting standards towards IFRS. Therefore, the dynamics of the IFRS implementation in Indonesia needs to be separately assessed. This proposed study is intended to address issues surrounding the implementation of IFRS in Indonesia. The objective of this research is to explore the factual information, cost of implementation, general impact of implementation, progress to date, operational and strategic decision taken by management, implementation and impact of individual standards, and general other related to IFRS implementation. The specific objective for this research is to find out:

1. Whether there is a significant difference in the average of number of pages IFRS implementation disclosed in annual report of listed manufacturing companies on Indonesia Stock Exchange before and after there is a statutory to implement IFRS-based standard.
2. Whether there is a significant difference in the average of number of listed manufacturing companies on Indonesia Stock Exchange that disclosed IFRS implementation in annual report before and after there is a statutory to implement IFRS-based standard.

2. Literature Review

The authority to set accounting standards in Indonesia in the present day is mainly held by the Indonesian Financial Accounting Standards Board, an accounting standard setting body within the Indonesian Institutes of Accountants (IIA)called *DSAK*. Members of the DSAK come from various sectors within the Indonesian accounting environment, including the public accounting profession, the capital market authority, the central bank, accounting academics, and industries. In conducting its duties, the *DSAK* is advised by the Indonesian Financial Accounting Standards Advisory Council (called *DKSAK*), a consultative body that is also under the IIA. Although the IIA does not have a legal status as a standard-setting body (Kusuma, 2005), the regulatory framework in Indonesia requires companies to prepare financial statements based on accounting standards set by the accounting professional organization which is approved by the government.

There were many benefits after the implementation of IFRS in many countries. In Indonesia, after implementation of IFRS, there has been a decrease in the scope of earnings management and an increase in the value relevance of accounting information, but there was no increase in timely loss recognition (Diah, 2013).The main advantage of the adoption of IFRS is to improve the comparability of financial statements that enable multinational corporations transcend national boundaries (Saudagaran, 2001). Furthermore, according to Kusuma (2005), for foreign investors, the adoption of IFRS will provide them with better understanding of the company's financial statements so that they can take better decisions based on such information. This is not possible if the accounting standards used in financial statements are not familiar for potential investors. For multinational companies, IFRS adoption benefits can be viewed from two aspects: in terms of cost and in terms of cost of capital. In terms of cost efficiency, multinational companies do not need to create multiple reporting to meet the needs of investors in the country and abroad. IFRS, which has been recognized by many stock exchanges in the world, the company will be left with the simplest expedite of making one version only. In terms of cost of capital, the company will benefit from the low cost of capital as investor confidence becomes higher. High confidence cannot be separated from the more easily understood financial statements and the lower information asymmetry. Another advantage obtained by countries that do not have sufficient resources to develop qualified standards is that it will be less costly to adopt existing international standards rather than create its own. IFRS has long passed the stage of preparation convincingly.

For some companies, implementing IFRS requires some additional costs for them. They need extra resources such as hire extra staff or use sub contractors to implement IFRS. In addition, they need significant changes related to computing and other information systems (DeGeorge, et al. 2013). The mean level of audit costs of 23 percent in the year of IFRS transition. Empirical findings suggest that firms with greater exposure to audit complexity in compliance costs for the transition to IFRS. The Securities and Exchange omission estimates that US companies will spend between 12.5% and 13 % of their revenue on making the transition to IFRS from US GAAP in the first year of filing (Johnson and Leone, 2008).

Initially, the process to harmonize Indonesian Accounting Standard (called *SAK*) with International Accounting Standard (IAS) had been started since 1994. By end of 1994, *DSAK* had completed major revision to Indonesian Statement of Accounting Standard (called PSAK). At that time, there was a movement from US GAAP toward International Accounting Standard developed by IASB in developing Indonesian (local) GAAP. During that period of harmonization, 35 PASK had been harmonized with IAS developed by IASB. In 1995 major revision was conducted to support implementation of newly issued standards. Majority of PSAK at that time was based on IAS developed by IASB, some standards still adopt US GAAP and other standards were developed based on certain consideration among other such as Indonesian business, culture, law and other environment.

In addition to globalization of Indonesian economy, another strong incentive to the convergence process of PASK to IFRS comes from political pressure imposed by supranational institution. As full member of IFAC, Indonesia needs to conform to IFAC’s Statetment of Membership Obligation (SMO) with regard to IFRS implementation (Maradona & Chand, 2014). In the mid of 2004 IAI together with other stakeholders including public accounting firms, capital market authority discussed Indonesian readiness to implement IFRS. It was decided that PSAK will be developed based of IAS with several adjustment to Indonesian context (Muchlis, 2011).

Unlike developed countries which used big bang approach toward IFRS implementation, most developing countries including Indonesia choose gradual strategy to implement IFRS. This approach has been selected by the standard setters due to the importance of evaluating the impact of each newly adopted IFRS standard on the Indonesia's accounting practice, as well as to give regulators time to make adjustments with regard to specific regulations (Maradona & Chand, 2014). Several revisions and issuance of new standards were accomplished. It was noted that during 1995-2009, SAK had been revised for six time (1 October 1995, 1 June 1999, 1 April 2002, 1 October 2004, 1 June 2006, 1 September 2007, and 1 July 2009). In 2006, IAI targeted full convergence would be achieved by 2008 in which all standard shall be converged to IFRS. By end of 2008 there was only 10 standard out of 33 standards which had been convergent with IFRS. As of 1 January 2012, all IFRS has been converged into the local GAAP, with the exception of IFRS 1 First-time Adoption of International Financial Reporting Standards; IAS 41 Agriculture; and IFRIC 15, Agreements for the Construction of Real Estate. As of 1 December 2012, DSAK IAI has published 40 standards, 20 interpretations, and 11 revocations (DSAK, 2013). Based on analysis above, there are two hypothesis developed:

H1: There is a significant difference in the average of number of pages disclosed IFRS implementation in annual report of listed manufacturing companies on Indonesia Stock Exchange before and after there is a statutory to implement IFRS-based standard

H2: There is a significant difference in the average of number of listed manufacturing companies on Indonesia Stock Exchange that disclosed IFRS implementation in annual report before and after there is a statutory to implement IFRS-based standard.

3. Research Methodology

This research is a comparative study that examined the effect of IFRS implementation in Indonesia in terms of financial statements preparer, both before and after IFRS-based standard implementation. The data for this study were gathered from Indonesian Stock Exchange which involved all of manufacturing companies listed in the Indonesia Stock Exchange. IFRS convergence process in Indonesia began in 2010, however it was mandated to be implemented by IAI per January 1, 2012. Sample selection was conducted by using purposive sampling. There were 107 manufacturing companies finally fulfil the criteria. In this study, data collected about IFRS implementation in each company was measured using content analysis. Data collected can be in form of words, meaning of images, symbols, ideas, themes, and various messages that can be communicated and described about IFRS implementation. Analysis of that will be measured based on predefined categories.

Variable used in the study is the implementation of IFRS in Indonesia before and after mandatory to implement IFRS-based standard. This research follows categories used in Dunne et al (2008) study. According to them, there are seven categories can describe IFRS implementation in a company. They are Factual information; Cost of Implementation; the General Impact of the Implementation; Progress to Date, Operational and Strategic Decisions Taken by Management; Implementation and Impact of Individual Standards; and Other general.

First, Factual Information is information, concerning the harmonization process and the implementation of IFRS. It includes information that outlines where users can find IAS/ IFRS data in financial report. Second, Cost of Implementation deals with details regarding the cost of implementation of the IFRS reporting regime. The information must be very specific that mention amount spent for IFRS implementation. Third, General Impact of Implementation is information concerning the general impact/ implications of implementation of the IFRS reporting regime. The information could be positive/ negative/ neutral in orientation. The information could relate to general problems associated with implementation of IFRS or to the general impact of IFRS on the financial performance of the company. Disclosures regarding the impact of this implementation in the annual report can be detected through statements mentioned in the annual reports. Fourth, Progress to Date, is the information concerning the transition process phase. Fifth, Operational & Strategic Decisions Taken by Management is information about specific operational and strategic decisions taken by managers owing to the implementation of IFRS. Sixth, Implementation & Impact of Individual Standard, is information related specifically to the Group. There are two principal types of information: (i) information about the application of individual IFRS, and (ii) information about the effects of the application of individual IFRS. Seventh, General Other, is any other relevant disclosures related implementation of IFRS, such as disclosure about applied standards before IFRS convergence.

For seven categories above, authors examined each content of annual reports in two ways. First, it is based on number of pages of IFRS disclosure and percentage of annual report devoted to IFRS disclosure. To examine number of pages of IFRS disclosure, author used formula below:

$$Number\ of\ pages\ of\ IFRS\ disclosure\ =\ \frac{Total\ pages\ disclosed\ IFRS\ implementation}{Total\ pages\ of\ annual\ report} \quad (1)$$

Second, to examine percentage of annual report devoted to IFRS disclosure, we use the following formula:

$$\%\ =\ \frac{Number\ of\ sample\ \ disclosed\ IFRS\ implementation}{Total\ sample} \times\ 100\% \quad (2)$$

Both of the formulas will be applied for all categories assessed. Based on those formulas, author will know the value of each disclosure category. Thus, author can take comparative analysis between them by using a paired sample t test.

In the analysis process, firstly, author identified each page which indicates IFRS implementation by company and then counted their number of pages. It was conducted based on each category above. After that, total pages disclosed IFRS implementation for each category divided by total pages of annual report based on formula above. Then author determine the average of IFRS implementation disclosures for each category, both before and after there is a statutory to implement IFRS-based Financial Accounting Standards. Finally, the analysis is conducted by using a pair sample t test.

Pair sample t test is a method of data analysis used to compare whether there is difference or similarity of average between the two sample groups of data are interrelated / paired. This method is in accordance with the research objective to determine whether there is a difference in number of pages disclosed about implementation of accounting standards in Indonesia before and after there is a statutory to implement IFRS.

4. Research Result and Discussion

To determine the presence or absence of differences in the average number of pages used by the company to disclose IFRS (GAAP Convergence) in the annual report, researchers conducted a pair sample t test. The average value for the category of cost of implementation and progress to date cannot be calculated because the standard error of the difference between the average value before and after the implementation of the obligations of IFRS is 0. Thus, categories that can be compared in this study are factual information, general impact of implementation, operational and strategic decision taken by management, implementation and impact of individual standard, and general other.

To test the hypothesis, researchers compared the significance p-value contained in the column sig. (2 tailed) with 0.05. If the significance value p-value less than 0.05, then the hypothesis is accepted. The results of the comparison and hypotheses testing can be seen in the table 1.

Table 1: Number of Pages of IFRS Disclosure

Type of Disclosure	Pre IFRS	Post IFRS	P-Value	Hypothesis
Factual Information	0,0357	0,0357	0,9710	Rejected
General Impact of Implementations	0,0101	0,0088	0,2800	Rejected
Operational & Strategic Decision Taken by Management	0,0022	0,0039	0,0000	Accepted
Implementation & Impact of Individual Standards	0,0345	0,0409	0,0480	Accepted
General Other	0,0068	0,0038	0,0000	Accepted

Based on the table 1, only three hypotheses were accepted, operational and strategic decision taken by management, implementation and impact of individual standard, dan general other. It means that there is a different between before and after IFRS implementation in manufacturing companies in term of operational and strategic decision taken by management, implementation and impact of individual standard, and general other.

A pair sample t test was also conducted to determine the presence or absence of differences in the number of companies used by the company to disclose IFRS (GAAP Convergence) in the annual report. Based on the analysis, the average value for the category of cost of implementation and progress to date cannot be calculated because the standard error of the difference between the average value before and after the implementation of the obligations of IFRS is 0. In this data analysis, only six categories that can be compared: factual information, general impact of implementation, progress to date, operational and strategic decision taken by management, implementation and impact of individual standard, and general other. The results of the comparison and testing hypotheses can be seen in the table 2.

Table 2: Percentage of Annual Report Devoted to IFRS Disclosure

Type of Disclosure	Pre IFRS	Post IFRS	P-Value	Hipotesis
Factual Information	0.9439	0,9720	0,2590	Rejected
General Impact of Implementation	0.5327	0,5047	0,5660	Rejected
Progress to Date	0.5421	0,3832	0,0010	Accepted
Operational & Strategic Decision Taken by Management	0,2523	0,3738	0,0370	Accepted
Implementation & Impact of Individual Standards	0.8785	0,8785	1,0000	Rejected
General Other	0.4206	0,2897	0,0340	Accepted

Based on the analysis, it was found out that there is a significant difference in the average number of manufacturing sector companies listed on the Indonesia Stock Exchange that it does reveal the implementation of IFRS in the annual report before and after IFRS-based implementation. The categories are progress to date, operational and strategic decision taken by management, and general other.

5. Conclusion

As mention in the research objectives, this research is to find out whether there is a significant difference in the average of number of pages IFRS implementation disclosed in annual report of listed manufacturing companies on Indonesia Stock Exchange before and after there is a statutory to implement IFRS-based standard. The test were conducted toward six categories of variables. They are factual information, cost of implementation, the general impact of the implementation, progress to date, operational and strategic decisions taken by management, implementation and impact of individual standards , and other general. Statistical analysis showed that in Indonesia, the average number of pages that reveal category of operational and strategic decision taken by management, implementation and impact of individual standard, and general other differ between before and after the implementation of IFRS.

The data analysis related to whether there is a significant difference in the average of number of listed manufacturing companies on Indonesia Stock Exchange that disclosed IFRS implementation in annual report before and after there is a statutory to implement IFRS-based standard found out that in Indonesia, that the average number of companies report category of *progress to date, operational and strategic decision taken by management*, and *general other* between before and after the implementation of IFRS-based Financial Statements.

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