

# EFFECT OF CONSERVATISM TO VALUE RELEVANCE OF EARNINGS INFORMATION

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## Abstract

The aims of research to examine the influence application of accounting conservatism level to the value relevance of accounting earnings information on companies listed in Indonesia Stock Exchange during the period 2009-2012. The samples are choices using the purposive sampling method, the result that in order to obtain 63 sample firms. Data analysis was conducted in three stages using a regression model of cross-section data. The result show that the application of accounting conservatism has negative significant effect on the value relevance of accounting earnings information. Value relevance of accounting information increases when moving to companies classified as low conservatism to medium conservatism and again an increases when moving further to high conservatism, this research is using return model (1991) and Basu conservatism model (1997).

**Keywords:** *IFRS adoption, value relevance of accounting information, return model, price model.*

## I. Introduction

The investors and stock market analysts assess that one measure of a company's credibility is marked with the adequacy of the information presented in the financial statements (Panjaitan, 2009). The financial statements as a primary medium to deliver information to be published, as recognized in the report reflected management accountability for the powers that have been delegated to manage the resource owner and become a window of information to parties outside the management to assess whether the company is eligible to do investment, credit or other similar decision or not. This there under Indonesian Institute of Accountants (2009: 3), the objective of financial statements is to provide information regarding the financial position, performance and changes in financial position of an enterprise that is useful to a large number of users in making economic decisions.

Indonesian Institute of Accountants (2009: 5-8) also mentions that the financial statements are useful for users if comply the qualitative characteristics, that are understandability, relevant, reliability, and comparability. If all of these characteristics can be achieved, financial statements is "qualified." The Relevance of information is determines the quality of the financial statements, where relevant are information that could affect the decision of users in evaluating the past and predict the future then correcting the evaluation result in past. Thus, in order of accounting information useful for decision making, the information must have value relevance. One indicator of the value relevance is the reaction of investors to the information submitted, both earnings, book value, or dividend information.

According to Sinha and Watts (2001) and Dontoh et al. (2004), the low relevance of accounting information can't be used as the basis for economic decision-making by investors, potential investors, and other parties concerned, because the lower quality of financial statements. An important component in the financial statements that are frequently used as a tool to company's performance is earnings and book value (Kusuma, 2006). Both are often investigated for alleged relevance to the share price or stock returns.

However, this study focused only on the value relevance of accounting earnings, causing it to be one of the performance parameters for investors and creditors.

Accounting earnings are relevant whether the results information used by investors in decision-making, as reflected in changes in stock prices and stock returns in the stock market or in other words, accounting profit has information content (information content) which is useful for investors (Haryanto, 2012). The low relevance of accounting earnings shows low information content of earnings, so investors use other information, and that is low quality of financial statement. The low value relevance of earnings or vary its relevancy value of earnings, caused by other information used by investors other than earnings information itself.

In the last few decades of empirical research has proven that the accounting information has lack of relevance and likely to decline over time (Kousenidis et al. 2009). Several factors would influence the results. According to Lo and Lys (2000), Givoly and Hayn (2000), Watts (2003a), and Monahan (2005) in Darsono (2012) suggested that the cause of the low and the decline in the value relevance of accounting information are: (1) ignore the role of accounting information dynamic in research, and (2) the increasing of conservatism

Conservatism is one of the principles used in accounting. Basu (1997) states that "*conservatism has influenced accounting practice and theory for centuries.*" Meanwhile, Suwardjono (2010) defines conservatism as an attitude or stream (sect) in the face of uncertainty to take action or decisions based on a pop-up (outcome) to the worst of these uncertainties. Based on the principle of conservatism, if there is uncertainty about the losses, the management tends to record a loss. Conversely, if there is uncertainty about the gain, the management does not have to record. According to this principle, the management has tended to be pessimistic or rather more cautious in the uncertainty conditions.

Among accounting researchers, the principle of conservatism is still considered a controversial principle. On the one hand, conservatism is considered as constraints that will affect the quality of financial statement. But on the other hand, conservatism helpful to avoid opportunistic behavior of managers relating to contracts in which the use of financial statements as a media contract (Watts, 2003a). In his research, Kousenidis et al. (2009) states that the accounting information is relevant or not influenced by the principle of conservatism. They did not directly mention that the company is applying conservatism means the accounting information is irrelevant used in economic decision-making. However, they state that accounting information is more relevance and can help users if the company is not too excessive to apply conservatism. This does not mean that the company is relatively low conservatism or non-conservatism has value relevance of earnings are better. They assume that companies with conservatism mediocrity (in this case were classified as medium conservatism) that has value relevance of accounting information is best.

Based on the description above, the research on the value relevance of accounting information is important to do because the results of a study on the information value relevance of accounting earnings will continue to grow and is still relevant for further action. In addition, the practice of conservatism which has not yet gained strong empirical evidence about its influence on the value relevance of accounting information (Balachandran et al., 2011), but still has an important role in accounting practices. Therefore, it is necessary to study the relevance of earnings as measured by return models and applying conservatism in context of financial reporting in Indonesia.

## **II. Teoritical Framework**

### **Value Relevance of Accounting Information**

As known the role of the financial statements is to provide information useful for decision-making. That requires a guarantee that the quality of financial statements presented, with four qualitative characteristics regulated by the Financial Accounting Standards, namely: understandability, relevance, reliability and comparability. Then IASB elaborating relevant characteristics and reliability as a function of the quality: materiality and faithful representation, substance over form, neutrality, prudence, and completeness. But there is no a presentation of financial statements that accurately can indicates these qualities, because 1) the qualitative characteristics is a set of common principles and there is no clear instructions on how to apply it, and 2) the existence of trade-offs between qualitative characteristics, so that in the same period may not be able to achieve all of these qualities.

So how to assess the usefulness of accounting information. Much of the literature provide different techniques, one of the techniques used is the value relevance. The value relevance is a capital market-based accounting method, because it uses a stock market prices and returns as a proxy for fair value of financial position and performance of the company. The association between the accounting value (which is presented in the financial statements) and the fair value (which served the stock price and return), shows the value relevance of financial statements. Relevance values are proxies usefulness of the information, the close association between the accounting and market value, the more relevant information for investor and consequently the higher the usefulness of the information presented in the financial statements.

Value relevance is a useful information to measure investor appreciation on the usefulness of the information and is often used to assess the impact of certain accounting information (Wendt, 2010). Value relevance become the subject of many studies, since Ball and Brown (1968). Ball and Brown concluded that the company increased its earnings showed a positive abnormal returns. They claim that not only are an important signal direction (positive and negative) but also the magnitude of the increase or decline. They also examined the relationship between annual changes in operating cash flow and annual stock return, this relationship is significant but weaker than the relationship of earnings and return.

In addition, one of the company's accounting performance measures most often a major concern for users of financial statements (in this case the investor) is accounting earnings. Haryanto (2012) states that accounting earnings is relevant if the earnings is able to reflect changes in stock returns so it proves that the accounting earnings has useful information for investors. Stock prices or stock returns tend to rise when the reported earnings greater than the expected earnings. Likewise, stock prices or stock returns tend to fall when the reported income is smaller than the expected earnings.

### **Agency Theory**

Separation of owners and management in the accounting literature called the Theory Agency. The main principle of this theory is the existence of employment relationships (contractual) between the parties that the investor authorizes a party receiving authority that is the manager. In this case, the relationship between principals and agents may lead to unbalance information (asymmetrical information) for the agent in a position to have more information about the company compared with the principal.

Assuming that individuals act to maximize their own self-interest, then the information asymmetry that has will encourage agents to hide some information that is not known to the principal. Agent as manager in managing the company will tend above selfish interests, but as a manager should have sided with the interests of shareholders

because they are the ones who authorize managers to run the company. In conditions such asymmetry, managers can influence the accounting numbers presented in the financial statements, with the accounting policies chosen.

### **Accounting conservatism**

Conservatism is one of the principles used in accounting practices. Basu (1997) states that "conservatism has influenced accounting practice and theory for Centuries". According to Business Dictionary, conservatism is a concept that recognizes expenses and liabilities as soon as possible even though there is uncertainty about the outcome, but only recognizes income and assets when it is sure to be accepted. The formal definition of conservatism outlined in FASB Statement of Concepts No. 2 that conservatism described as a prudence management to face the uncertainty of the business environment, trying to ensure that the uncertainty and risk involved in business situations have been considered. Additionally, Suwardjono (2010) defined conservatism as an attitude or stream (sect) in the face of uncertainty to take action or decisions based on a pop-up (outcome) the ugliest of these uncertainties.

From the definition above it can be concluded that conservatism is an attitude or behavior management in the uncertainty conditions. Asset management will report at the lowest value and statement obligations at the highest value, and delay the recognition of revenue and accelerate the recognition of costs. Implications accounting practice is accounting recognizes expenses and losses that may occur, but do not immediately recognize revenue or profits that would come even though the possibility is great.

Conservatism is not a principle set out in the international accounting standards (IFRS). Hellman (2007) states that when compared to conventional accounting, IFRS focus on recording more relevant, causing ever-greater dependence on various estimates and judgment. International Accounting Standard Board reduced consistently conservative in financial statement (Hellman, 2007). Although not emphasized directly in the standard, does not mean that the principle of conservatism missing. While there is uncertainty, the management will tend to be conservative.

### **Hypothesis Formulation**

The value relevance of accounting information is the ability to explain (explanatory power) of accounting information in relation to the value of the company. More interesting relationship between conservatism and value relevance of earnings. This relationship has not been widely studied in the past. Lev and Zarowin (1999) found that companies that increase R & D, which means a more conservative unconditionally, showed a greater reduction in the value relevance. However, they do not use a comprehensive measure of conservatism in its research. On the other hand, Francis and Schipper (1999) concluded that companies active in the high-tech industry showed a greater reduction in the value relevance of companies in other industries. Just like Lev and Zarowin (1999) they did not use comprehensive size of conservatism. Lev and Zarowin only focus on certain business activities (R & D) while Francis and Schipper (1999) only focus on certain industries (high tech). This means that it is not possible to draw conclusions about the relationship between conservatism and value relevance.

Balachandran and Mohanram (2011) is the first to empirically test whether the accounting conservatism is responsible for impairment of relevance in the United States. With the use of comprehensive measures (Beaver and Ryan, approach (BR-Kon) and Penman and Zhang, Approach (C-SCORE)) and by focusing on the level and growth of conservatism. Their study concluded that unconditional conservatism is not responsible for the decline in value relevance. Their research uses existing active companies in the United States. Furthermore, Akhloufi, 2013 investigated the relationship between conditional conservatism to the value relevance of earnings at European companies. Europe is very

interesting to study because of public companies in the EU are obliged to report consolidated financial standards compliant International Financial Reporting Standards (IFRS) since 2005. IFRS is believed to be able to make the company's financial statements more understandable and comparable in different countries. Increasing the use of fair value under IFRS standards. This could have a major impact on the level of conservatism. Most likely level of conservatism will decrease under IFRS. The fair value requires timeliness profit symmetrical. Both losses and gains recognized at the same time. Fair value accounting leads to better recognize unrealized gains which in turn leads to less conservatism. Akhloufi, 2013, found that negative relationship conservatism and value relevance in Germany, after the adoption of IFRS.

According to Lo and Lys (2000), Watts (2003a), Monahan (2005) and Givoly and Hayn (2006) in Darsono (2012) suggested that the cause of the low and decreasing the value relevance of accounting information are: (1) ignore the role of accounting information dynamically in research and (2) the practice of increasing conservatism.

In the current Financial Accounting Standards provide the freedom to choose accounting methods used in the preparation of financial statements and the information asymmetry that owned by management, then manage their companies tend to be above selfish interests. With the opportunistic behavior of managers, managers act to achieve their own interests. In conditions like this, we need a control mechanism that can align differences in the interests between management and owners is to apply the principles of accounting conservatism.

In the world of accounting research, it turns out the principle of conservatism be talks validity undiscovered until now. There are some pros and cons. From his research, Watts (2003a) states that the principle of conservatism helpful to avoid opportunistic behavior of managers relating to contracts in which the use of the financial statements as a media contract. But criticism of this practice arises from Monahan (1999) in Kiryanto and Suprianto (2006) which states more conservative accounting, the book value of equity is reported to be increasingly biased. Such conditions indicate that the financial statements are totally useless because it can not reflect the company's value.

**Ha:** The level of conservatism negative effect on the value relevance of accounting earnings information.

### III. Research Methods

The object of this research is manufacturing companies listed in Indonesia Stock Exchange during the period of 2009-2012. The manufacturing company is a company that is more easily affected by economic conditions and have a high level of sensitivity to internal and external events. The study population as many as 137 manufacturing companies, using purposive sampling method, the sample is determined to 74 companies. However, a sample of 74 companies, 11 companies were not included in the data processing because outliers, it acquired 63 companies that could be incorporated into data processing, Table 1 (annex). Data collected from the financial statements of listed manufacturing companies and publicized by the Indonesia Stock Exchange (BEI) through the website of Indonesia Stock Exchange (BEI) for the 2009-2012 period. Sources of data in this study were obtained from <http://www.idx.co.id> and [www.yahoo-finance.com](http://www.yahoo-finance.com).

#### Variables Research and Measurement

##### *Accounting conservatism*

Measurement of accounting conservatism is done by using a model of conservatism Basu (1997), as follows:

$$\text{Earnings}_{i,t} = \beta_0 + \beta_1 \text{DT}_{i,t} + \beta_2 \text{Ret}_{i,t} + \beta_3 \text{RetDT}_{i,t} + \epsilon_{i,t}$$

Earn<sub>i,t</sub>: Earnings per share for the company i period t divided by the share price beginning of the fiscal year. DT<sub>i,t</sub>: Dummy variable in which the value of 1 if the stock return in year t is negative and the value 0 if the stock returns to year t is positive. Ret<sub>i,t</sub>: Return stock company i period t. RetDT<sub>i,t</sub>: The interaction between Ret with DT.

Conservatism measured by  $\beta_3$ . The Company is said to have a high degree of conservatism when  $\beta_3$  higher value. The value of  $\beta_3$  used as the cut-off to determine the company's conservatism is quite low, medium or high conservatism. The higher the coefficient  $\beta_3$ , the higher the level of conservatism.

#### *Value Relevance of Accounting Earnings Information*

Measurement of the value relevance of accounting information using the model of return (Easton and Harris, 1991), as follows:

$$Ret_{i,t} = \beta_0 + \beta_1 Earn_{i,t} + \beta_2 \Delta Earn_{i,t} + \beta_3 Con_{i,t} + \beta_4 Con \Delta Earn_{i,t} + \beta_5 Con Earn_{i,t}$$

Ret<sub>i,t</sub>: Return stock company i period t. Earn<sub>i,t</sub>: Earnings per share for firm i in period t divided by the share price beginning of the fiscal year.  $\Delta Earn_{i,t}$ : Changes in earnings per share for firm i in period t divided by the share price beginning of fiscal year.

#### **Data analysis technique**

Testing the influence of conservatism on the value relevance of accounting information is done in two stages. The first phase by comparing the value relevance of accounting information for the three levels/groups of conservatism (Top 30%, Middle 40%, and the Bottom 30%) (Balachandran, 2005). This grouping is based on measuring the financial performance of companies that use return on assets (ROA). Testing the return value relevance using a model developed by Easton and Harris (1991). In the second phase, testing the effect of the application of accounting conservatism and each level of the information value relevance of accounting earnings. Tests conducted by the following equation:

$$Ret_{i,t} = \beta_0 + \beta_1 Earn_{i,t} + \beta_2 \Delta Earn_{i,t} + \beta_3 Con_{i,t} + \beta_4 Con \Delta Earn_{i,t} + \beta_5 Con Earn_{i,t}$$

Con: accounting conservatism (value  $\beta_3$ )

#### **IV. Result And Discussion**

Table 2 (appendix) is descriptive statistics of research variables used in the model test the value relevance. The descriptive statistics show the distribution of raw data that is not normal. This is indicated by the value of the Jarque-Bera is greater than 2 (two) and the probability is smaller than the significance and value of skewness is far from 0 (zero), kurtosis the big three (3) and the average value is smaller rather than the standard deviation. The data were not normally distributed were then transformed into transformation Square (squares). It aims to obtain normal data, resulting in a regression model that is not free from bias and misleading notion. Thus, in table 3 (appendix) descriptive statistics obtained after transformation. The model used in this study has been through the classical assumption can be seen in Table 4 to Table 7 (appendix)

#### **Feasibility Test Model**

Adjusted R<sup>2</sup> value for the entire sample of 04,33 (table 8, appendix). This means the ability to earnings, earnings growth, conservatism, conservatism interaction with earnings and earnings growth interactions with conservatism in explaining stock returns of 43.3%, while 56.7% determines by other factors. For derivative of the regression model, each of which shows the percentage figure of 71.3% for the group of high conservatism, 55.6% for the medium group 49.7% for the medium and low groups conservatism.

According to the Table 8 (appendix) can be seen that the probability value of F-statistic 0,000, then the value of  $F < sig$  is  $0.000 < 0.1$ . It can be concluded that the regression equation obtained reliable. As for the derivatives of the regression model, each of which shows the numbers 0,003 to a group of high conservatism, 0,005 for medium group medium group and 0,070 for low conservatism.

### Data Analysis

Testing the level of conservatism can be seen in Panel A of Table 9 (Appendix), when seen from the coefficient  $\beta_3$ , all samples, of 0.83, while based on the level of corporate performance (ROA) indicates the coefficient  $\beta_3$ , respectively for low ROA (Bottom 30%) 1.29, middle ROA (Middle 40%) and for high ROA 0.16 (Top 30%) 0.14.

$\beta_3$  coefficients for all samples and low ROA groups (high cons) significant at 10%. The results show that companies with relatively low ROA at high conservatism, companies with medium ROA conservatism belong to the medium, and companies with high ROA belong to low conservatism.

Panel B, the results of testing the value relevance of accounting information by using return models. For all samples, the information value relevance of earnings and changes in income can be seen from adjusted  $R^2$  of 10%. However, based on the level of conservatism, shows the value relevance of earnings information for high conservatism decreased to 6%, for the middle conservatism 13% and the value relevance of accounting information (earnings) for low conservatism risen to 15%. This indicates that the information value relevance of earnings increased during low conservatism. Lower conservatism on earnings is higher quality than the earnings information is presented with a higher level of conservatism. So that the level of conservatism affect the value relevance of accounting information (earnings), the higher the conservatism the lower the value relevance of accounting information.

Panel C, shows the influence of conservatism on the value relevance of earnings per share and earnings per share of changes. The test is performed using a moderated regression, which demonstrates the ability to explain the conservatism of the relevance value of 38% (all samples). If the sample is based on the level of conservatism, demonstrate the ability to explain the conservatism of the relevance value increased to 60%, on a high level of conservatism, 44% at medium level of conservatism and decreased to 30% in low conservatism. This suggests that the interaction of conservatism with information relative earnings become more relevant in the category of high conservatism of financial statements of the financial statements that low conservatism.

The magnitude of the influence of conservatism on value relevance of earnings information (for All Sample) seen from the interaction coefficient value of profit and conservatism. Earnings coefficient ( $\beta_1$ ), 0.62, significant at 5%, and the interaction  $Cons * Earnings$  shows coefficient ( $\beta_4$ ) 1.01, thus the influence of conservatism increase the value of profits, whereas for changes in earnings ( $\beta_2$ ) with coefficients 2,07 significant 1%, and interaction with conservatism  $Cons * Earnings$  showed significance coefficient of -0.96 with 10%, thus weakening the value relevance conservatism profit changes.

In the next test results, by separating test based on the degree of conservatism of the company, look at the high conservatism, conservatism and ability to explain the magnitude of profit to the return value, an increase of 60%. All variables are significant at 1% and 5%, and the value of  $\beta_4$  and  $\beta_5$  amounted respectively -7.13 and -12.15 show conservatism in the financial statements, each weakened the value of the earnings information (Earnings) and the value of information changes in earnings ( $\beta_3$ ). This shows the relevance of the information in the absence conservatism profit of 11.76 with information encounters conservatism profit decreased -7.13 relevance of information so that it becomes 4.63, while the relevance of the information changes in earnings of 3.95 decreased by -12.15, so the

relevance it becomes negative. This condition indicates that the relevance of earnings and profit information are positive, but this value is affected by the high conservatism made by the company, so that investors are lowering the value of the acquired profit information. At companies that medium and low conservatism, found all the variables were not significant except in the medium 4 conservatism, significant at 1% but showed conservatism strengthen the information value of earnings (Earnings). Thus conservatism not affect the information value relevance of earnings, the company that his conservatism level of medium and low.

### **Discussion**

Of the two tests the influence of conservatism on value relevance of earnings information and changes in income shows that accounting conservatism affects the value relevance of accounting. Testing (Panel A) with Model Basu (1997) showed that in companies with lower profitability, have accounting conservatism is relatively higher than the company that is rated to have the level of profitability that medium and high (conservatism on the level of profitability was high and not significant, which means no conservatism). This indicates the companies that have lower profitability has a more conservative accounting policies. It showed that when the company's performance is low, tends more conservative accounting policies.

Conservative financial statements is one of the mechanisms to limit management to manipulate financial statements (Lafond and Watts, 2006). In terms of preventing the manager to present financial statements that overstatement so as to enhance corporate value and stock price. Watts (2003a) also states that conservatism was helpful to avoid opportunistic behavior of managers relating to contracts in which the use of financial statements as a media contract.

While testing the model of Easton and Harris (1991) shows for all samples relevance of the information value of earnings and changes in profit of 10%, the relevance of this value shows the difference when the sample is divided by the level of conservatism companies (Kausenidis, et al., 2009), the higher the conservatism accounting the company, the lower the relevance of the company's value. Thereby indicating that conservatism has a negative influence on the value relevance. Information earnings and earnings changes are presented with a more conservative, making the reaction of investors to the contrary. Along with the concept of fair value in the measurement and valuation in the IFRS accounting standards convergence, making conservatism does not have the value of better information for investors at this time.

Along with testing in Panel C (integration conservatism with profit and profit change) for all samples show the relevance of a value of 38%, and if testing is based on the level of conservatism demonstrated ability to explain the relevance of conservatism and conservatism values increase at a rate as high as 60%. While conservatism debilitating income information and changes in earnings. Thus the results of this study indicate that conservatism has a negative influence on the information value relevance of earnings and changes in income. In line with the research Akhloufi (2013) states that conservatism has a negative effect on the value relevance of earnings information after the application of IFRS in Germany.

However, these results differ from the results Kausenidis (2009) which states that the level of conservatism and value relevance of having a non-linear relationship. Relevance values increase with increasing degree of conservatism of low to moderate/medium, but the relevance of the value decreased from the level of conservatism medium/medium to high. While Wendt (2010) in her research was generally held conservatism does not have a negative correlation with the value relevance. Conservatism is the one characteristic that is very important in reducing agency costs and improve the quality of financial reporting

information that eventually will be able to increase the value of the company and the stock price (Watts, 2003a), but this study suggests otherwise.

## V. Conclusion

This study aims to determine whether the application of conservative accounting practices and their respective levels in the manufacturing companies listed in Indonesia Stock Exchange (BEI) in 2009-2012 affect the value relevance of accounting information which is measured using return models and models of conservatism Basu.

Accounting conservatism during the observation period, negatively affect the value relevance of earnings information and profit changes. This shows that the decline in the value of information that conservative earnings, the financial statements prepared by the accounting standard IFRS convergence. The use of the concept of measurement and valuation at fair value (current value), create optimism in the preparation of financial information. Thus the value of the company decreased when company earnings figures compiled using the principle of conservatism. With the reduction of investor reaction to the conservatism accounting, raises doubts, how to control the opportunistic behavior of management in the financial statements. As is known conservatism is one mechanism that can be used to control the opportunistic behavior of management. This research has not fully generalizable, there are several factors that have not been included in this study such as: stage of the life cycle of the company, industry conditions, investment opportunity set, risks, and many more. Suggested for subsequent researchers who want to investigate about the effect of conservatism on the value relevance of accounting earnings information in order to consider the variables mentioned above. It is also necessary to compare its results with using price models.

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## Appendix

**Table 1**  
**Research Samples**

Criteria	Sample
Listed companies in Indonesia stock exchange(2012)	449
Non-manufacturing companies	(312)
Manufacturing companies	137
Incomplete financial statement presented	(31)

<b>The currency not Rupiah in financial statement</b>	(20)
<b>Incomplete data associated with variables research</b>	(12)
<b>Total samples</b>	74

**Table 2**  
*Descriptive Statistic of regression model*

	RET	EA	DEA	CONS	CONS*EA	CONS*DEA
<i>Mean</i>	0.454116	0.124382	0.032815	0.143033	0.045696	0.013822
<i>Median</i>	0.462871	0.089917	0.013381	0.034442	0.002790	9.94E-05
<i>Maximum</i>	1.192891	0.808334	0.339705	2.483950	1.229053	0.599911
<i>Minimum</i>	-0.555371	-0.293483	-0.065109	-2.043825	-0.367411	-0.061162
<i>Std. Dev.</i>	0.312331	0.164055	0.072938	0.657731	0.195084	0.081493
<i>Skewness</i>	-0.318519	1.468511	2.632909	0.599603	3.671970	6.181743
<i>Kurtosis</i>	4.173697	7.820333	10.59859	8.056121	23.59261	44.18678
<i>Jarque-Bera</i>	4.681378	83.63698	224.3518	70.88144	1254.722	4854.168
<i>Probability</i>	0.096261	0.000000	0.000000	0.000000	0.000000	0.000000
<i>Observations</i>	63	63	63	63	63	63

**Table 3**  
*Transformation Descriptive Statistic of regression model*

	RET^2	EA^2	DEA	CONS	CONS*EA	CONS*DEA
<i>Mean</i>	0.302223	0.041957	0.032815	0.143033	0.045696	0.013822
<i>Median</i>	0.219957	0.009754	0.013381	0.034442	0.002790	9.94E-05
<i>Maximum</i>	1.422989	0.653404	0.339705	2.483950	1.229053	0.599911
<i>Minimum</i>	0.000659	2.97E-05	-0.065109	-2.043825	-0.367411	-0.061162
<i>Std. Dev.</i>	0.304471	0.098629	0.072938	0.657731	0.195084	0.081493
<i>Skewness</i>	1.798435	4.515131	2.632909	0.599603	3.671970	6.181743
<i>Kurtosis</i>	6.560916	25.93241	10.59859	8.056121	23.59261	44.18678
<i>Jarque-Bera</i>	67.24618	1594.533	224.3518	70.88144	1254.722	4854.168
<i>Probability</i>	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
<i>Observations</i>	63	63	63	63	63	63

**Table 4**  
**Normality**

Model	JB	Probability	
<i>all sample</i>	19.17183	0.00007	not normally distributed
<i>high conservatism</i>	1.50264	0.47174	normally distributed
<i>medium conservatism</i>	10.03831	0.00661	not normally distributed
<i>low conservatism</i>	0.87550	0.64550	normally distributed

**Table 5**  
**Autocorrelation**

Model	Prob. Obs*R-squared	
<i>all sample</i>	0,1289	no autocorrelationproblem
<i>high conservatism</i>	0,8771	no autocorrelationproblem
<i>medium conservatism</i>	0,0186	no autocorrelationproblem
<i>low conservatism</i>	0,1802	no autocorrelationproblem

**Table 6**  
**Multicollinearity**

<i>all sample</i>					
Independence variable	EA <sup>2</sup>	DEA	CONS	CONS*EA	CONS*DEA
EA <sup>2</sup>	1.000000	0.243376	0.115174	0.117873	0.029071
DEA	0.243376	1.000000	0.192703	0.099690	0.594631
CONS	0.115174	0.192703	1.000000	0.798351	0.529244
CONS*EA	0.117873	0.099690	0.798351	1.000000	0.412502
CONS*DEA	0.029071	0.594631	0.529244	0.412502	1.000000
<i>high conservatism</i>					
Independence variable	EA <sup>2</sup>	DEA	CONS	CONS*EA	CONS*DEA
EA <sup>2</sup>	1.000000	0.027057	-0.204934	0.390366	0.030226
DEA	0.027057	1.000000	-0.012607	-0.404219	0.768178
CONS	-0.204934	-0.012607	1.000000	0.451653	0.161394
CONS*EA	0.390366	-0.404219	0.451653	1.000000	-0.552496
CONS*DEA	0.030226	0.768178	0.161394	-0.552496	1.000000
<i>medium conservatism</i>					
Independence variable	EA <sup>2</sup>	DEA	CONS	CONS*EA	CONS*DEA
EA <sup>2</sup>	1.000000	0.153285	0.097698	0.017664	0.011257
DEA	0.153285	1.000000	0.436821	0.294626	0.825176
CONS	0.097698	0.436821	1.000000	0.810207	0.610095
CONS*EA	0.017664	0.294626	0.810207	1.000000	0.478980
CONS*DEA	0.011257	0.825176	0.610095	0.478980	1.000000
<i>low conservatism</i>					
Variabel Independen	EA <sup>2</sup>	DEA	CONS	CONS*EA	CONS*DEA
EA <sup>2</sup>	1.000000	0.631785	0.296205	0.443404	0.120604
DEA	0.631785	1.000000	0.051092	0.017612	0.591307
CONS	0.296205	0.051092	1.000000	0.948385	0.491351
CONS*EA	0.443404	0.017612	0.948385	1.000000	0.373108
CONS*DEA	0.120604	0.591307	0.491351	0.373108	1.000000

**Table 7**  
**Heteroskedasticity**

Model	Prob. Obs*R-squared	
<i>all sample</i>	0,0992	No heteroskedaticity problem
<i>high conservatism</i>	0,0300	No heteroskedaticity problem
<i>medium conservatism</i>	0,9824	No heteroskedaticity problem
<i>low conservatism</i>	0,4637	No heteroskedaticity problem