



## THE ACCOUNTING VALUE RELEVANCE OF PSAK 71

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### *Abstract*

*This study is to test whether PSAK 71 increases value relevance of earnings, book value, and combination of earnings and book value for banking companies listed on the Indonesia Stock Exchange for the period 2019 and 2020. Sample of this study was 92 banking companies. Sampling method is used in this study by universal sampling with several criteria. Data analysis method used is multiple regression analysis.*

*The results of regression tests indicate that PSAK 71 has value relevance on corporate earning. PSAK 71 also has value relevance on book value, However, PSAK 71 does not increase relevance of earnings and book value, result is a decrease in value relevance from any increase in earnings and book value. PSAK 71 also does not increase the value relevance of control variable Allowance for Impairment Losses (CKPN).*

**Keywords:** *banking, earnings, book value, Value Relevance, PSAK 71*

### INTRODUCTION

Research about value relevance proposed by Barth, et al. (2001) concluded that value relevance research provides useful insights for setting financial accounting standards. They argue that despite simplified assumptions, existing valuation models can be used to empirically assess value relevance of accounting information (Okafor, et al. 2016). The value relevance of changes in accounting standards is very important because with new rules it is expected that investors can obtain information from financial statements that can reflect actual state of company. One of changes in accounting standards is PSAK 71. PSAK 71 adopts International Financial Reporting Standards (IFRS) 9 replacing PSAK 55 which was adopted from International Accounting Standard (IAS) 9. The most striking difference between PSAK 71 and PSAK 55 is calculation of Allowance for Impairment Loss Value. For banking companies, Allowance for Impairment Loss Value is a reserve prepared by bank to face risk of loss in value of assets such as credit and securities (ikatanbankir.or.id).



One of the main focuses of accounting studies is assessing when capital markets become aware of financial information, share prices move in response to and along with reported book values and earnings (Almujamed and Alfraih, 2019). In particular, information provided to users is considered to have a higher level of relevance. In accounting research, studies that investigate empirical relationship between market-based stock prices or returns and certain accounting information (mostly book value of equity, earnings, and dividends) specifically to assess extent of relationship between them are widely referred to as VR literature (Ahmadi and Bouri, 2018). IFRS is expected to provide investors with equity, with more useful information about actual financial position of company, which in turn will lead to higher coherence between reported accounting data and market value of listed companies.

The implementation of PSAK 71 has an impact on profits which becomes more conservative because measurement of impairment in PSAK 71 applies expected loss concept so that companies must allocate reserves based on expected credit losses. In 2019, Bank Tabungan Negara (BTN) only earned a net profit of 209 billion rupiahs smaller than 2018 profit of 2.2 trillion rupiahs or a decrease of 92.55%. Sahabat Sampoerna Bank also experienced same thing, in 2019 company's profit was only 25 billion, previously in 2018 it was 86 billion or decreased by 80.93%. This is because company must establish an allowance for impairment losses at beginning of year by taking into account increased risk of default on financial instruments (Suroso, 2017).

The relationship between conservatism and value relevance needs to be investigated further, especially in banking sector. The first relates to mandatory adoption of International Accounting Standard (IAS) 39, which establishes principles for recognizing and measuring financial assets and liabilities. Since introduction of a mixed measurement model requires both historical value and fair value, financial instruments are treated asymmetrically depending on their classification. In this way, measurement of price changes can affect value relevance of accounting information. At same time, IAS 39 introduces incurred loss model, in which losses are not recognized if they depend on future events, thereby limiting provision for timely loan losses (ie conservatism). Therefore, IAS 39 has a significant impact on quality of bank financial reporting, especially on value relevance and bank conservatism (Manganaris, et al. 2016)

Since studies of Ball and Brown (1968), Beaver (1986) many kinds of literatures have provided evidence that accounting value is relevance of book value, earnings, and cash flows. Other studies report that book value and earnings have significant positive information content (Ahmadi and Bouri, 2018; Almujamed and Alfraih, 2019; Alfraih, 2016; Badu and Appiah, 2018). Phillip and Raffournier (2016) studied value relevance of earnings on Bucharest Stock Exchange. They find that relationship between accounting earnings and stock returns is comparable to level reported by studies in strong markets and that it is higher for securities issued by small firms. However, several studies report that book value and earnings do not contain significant value relevance (El-Diftar and Elkalla, 2019; Isaboke and Chen, 2019; Kouki, 2018). In addition, research on value relevance of accounting information (Decho, 1994; Myers, 1977; Choi et al., 2006; Asthana and Chen, 2012),



and empirical evidence show that accounting information has value relevance. However, in case of Middle East and North Africa (MENA) region, there appears to be a lack of research in this regard. As an illustration, Desoky and Mousa (2014) argue that only a few studies have examined value relevance in context of Gulf States (GCC).

The research that has been carried out by Manganaris, et al. (2015) produces empirical evidence which refers that value relevance of accounting information increases significantly in post-IFRS era. A similar increase in value relevance is observed when considering conservative and non-conservative banks separately. One potential explanation is that application of fair value measurement has a positive impact on bank accounting numbers. However, whether a fair valuation is indeed responsible for increase in value relevance is beyond scope of this study.

To bring International Financial Accounting Standards (IFRS) in line with situation in Indonesia, DSAK approved PSAK 71 on Financial Instruments, derived from IFRS 9 Financial Instruments issued by International Accounting Standards Board (Suroso, 2017). Statement of Financial Accounting Standards 71 regarding financial instruments was originally scheduled to be effective on January 1, 2019. However, to consider including preparation and commitment of banking industry, DSAK finally decided to give leeway for implementation starting January 1, 2020.

According to Suroso (2017), PSAK 71 specifically contains changes to financial instruments, namely classification and measurement, impairment, and hedge accounting. Classification and measurement of financial instruments based on contractual cash flows and company's business model. PSAK 71 section on impairment uses concept of an expected loss model, namely impairment of financial instruments which refers to an expected credit loss that is different from PSAK 55. The concept of impairment used is a loss model that occurs, namely, impairment of financial assets. Only if it has objective evidence that there has been an impairment in value, then a financial instrument transaction is carried out. This study refers to Ohlson's (1995) research which is a proxy for value relevance using share prices. This research is different from previous research with adjustments to regulations that apply new PSAK, namely Statement of Financial Accounting Standards 71 which replaces Statement of Financial Accounting Standards 55 concerning financial instruments which will be effective starting in 2020.

## LITERATURE REVIEW

### Decision Usefulness Theory

According to SFAC No. 2 "Qualitative Characteristics of Accounting Information" describes characteristics that make accounting information useful for investors in making decisions, including relevance and reliability. Relevant accounting information must be able to make a difference in a decision. Reliability is defined as quality of providing assurance that information is rationally free from error and bias. Relevant information consists of 1) predictive value, namely quality of information that helps users make predictions about final outcome of past, present, and future events, 2) feedback value, namely quality of information that helps users to justify or correct past expectations, 3) timeliness, namely information available for decision making before information loses its capacity to



influence decisions taken (Kieso, et al. 2014). Information about a company will also be more useful if it can be compared with similar information regarding other companies (comparability) and with similar information from same company at different time periods (consistency).

The theory of decision usefulness provides a reference for creation of a conceptual framework by Financial Accounting Standards Board (FASB), namely Statement of Financial Accounting Concepts (SFAC) (Staubus, 2000). The usefulness of accounting information decision making contains parts that need to be considered by companies that make accounting information, so that it can contain needs of decision making by users. The level of investor interest in financial information must be evaluated in disclosure of accounting information.

### **Value Relevance**

Value relevance is relationship between value of accounting information and capital market reactions (Hindria, 2017). According to Rahmawati (2005), information available in capital market can be considered meaningful or valuable if existence of information causes investors to make transactions which are reflected in changes in stock prices. The value relevance study test is to see whether accounting information explains cross-sectional variations in stock prices (Badu, 2018). The information used by investors is said to be confiscated into a company's stock price, thus reflecting present value of company's future economic benefits. Value relevance studies have been carried out in various perspectives. Badu (2018) confirms that market value is related to book value and earnings per share using Ohlson's (1995) model.

### **PSAK 71 and PSAK 55**

The most striking difference between PSAK 71 and PSAK 55 is calculation of Allowance for Impairment Losses (CKPN). In PSAK 55, CKPN is calculated using incurred loss method which is backward-looking where CKPN is formed when there is objective evidence that debtor is experiencing an impairment, such as late paying credit installments. The evidence will later be calculated by bank as a basis for evaluating whether it is included in impairment loss that needs to be recognized. Each bank has a different evaluation policy in forming CKPN. In addition, because it is backward-looking, risk determination will be based on historical data (Indonesian Bankers Association, 2019).

In PSAK 71, CKPN will be calculated using a forward-looking expected loss. According to Indonesian Institute of Accountants (IAI), the expected loss method requires banks to estimate estimated risk of financial instruments since initial recognition using forward-looking information such as economic growth, inflation, unemployment rate, and commodity price index at each reporting date. Forward-looking applied to PSAK 71 uses Expected Credit Loss (ECL) 12 months method or ECL lifetime method using macroeconomic condition projections (forward-looking adjustment). Banks must also estimate probability weighted for possibility of a macroeconomic scenario (Indonesian Bankers Association, 2019). In paragraph 5.5.18 of PSAK 71, it is explained that when measuring expected credit losses, an entity does not have to identify all possible scenarios. However,



entity considers risk or probability of occurrence and non-occurrence of credit losses, even though probability is very low. Paragraph 5.5.18 of PSAK 71 indicates that banks must provide at least 2 macroeconomic scenarios, namely an increasing economy (upside) and a worsening economy (downside) in calculating CKPN, in particular to determine Probability of Default (PD) and Loss Given Default (LGD). Based on KPMG's real time IFRS 9, majority of banks use 3 macroeconomic scenarios, namely upside, baseline, and downside.

### **Book Value**

The information contained in capital section of a company's balance sheet is required by investors or potential investors and management as material for analysis. One of most important measuring tools in analyzing financial statements is "book value per share" (Jusup, 2001). Book value per share (book value per share) which shows net assets (net assets) owned by shareholders by owning one share. Net assets are equal to total equity of shareholders, so book value per share is total equity divided by number of shares outstanding (Indra and Syam, 2004). The book value used in this study is total equity divided by number of shares outstanding (Hartono, 2013).

### **Share Price**

The share price is a price formed from interaction of sellers and buyers of shares motivated by their expectations of company profits. Therefore, investors need information related to formation of stock prices in making decisions to sell or buy shares (Lorie, et al. In Sutrisno, et al. 2000). Stock prices on exchange are strongly influenced by market forces, which means they depend on forces of supply and demand. The supply and demand for shares fluctuates every day, so the stock price will also measure fluctuation pattern. In a condition where there is more demand for shares, share price will tend to increase, while in a condition where there are more shares offered, share price will tend to decrease.

### **Allowance for Impairment Losses**

In PSAK 71, impairment model aims to provide relevant and real-time information as a basis for decision making. So that in PSAK 71, calculation of financial asset losses such as credit in allowance for impairment losses no longer waits until there is objective evidence. However, risks of these assets will always be updated and recognized from initial recognition to last maturity, even if during that time period there are indications of impairment such as an increased risk of default by debtor (Indonesian Bankers Association, 2019).

Allowance for impairment losses in PSAK 71 has 3 stages based on level of risk from low to high. Credit risk that is classified as small will be classified as stage 1, but if credit risk shows a significant increase, bank will move it to stage 2. If debtor has difficulty fulfilling obligations and causes non-performing loans, including loans that are restructured, bank categorizes them as in stage 3 (Indonesian Bankers Association, 2019). The following is classification of allowance for impairment losses in PSAK 71: Stage 1 (performing) ie there is no increase in credit risk and financial assets. An example is a loan that is never late



in payment. Expected Credit Loss (ECL) is estimated within 12 months. Stage 2 (under-performing) where credit risk and financial assets increased significantly. An example is a loan that is more than 30 days late in payment, but has not yet entered stage 3 criteria. Stage 3 (non-performing) namely credit and financial assets that experienced a sharp decline in value accompanied by late payments. Expected Credit Loss (ECL) is recognized until last maturity date (lifetime).

## **HYPOTHESES**

### **Relevance Value of earnings on Share Price**

After PSAK 71 Investors tend to be selective and only look at certain types of information when making decisions. One of accounting information is company's profit (Tahat, et al. 2016). Based on decision usefulness theory, accounting information such as earnings will have value relevance for investors in decision making, and earnings must be able to predict final outcome of past, present, and future events (predictive value). Investors will expect dividends or capital gains from the announcement of earnings reported by entity (Iswanto, et al. 2017). According to SFAC. 1, profit can also be used as a predictor of future cash flow for the entity, because in general cash flow stems from other events and transactions that affect profit. If there is an announcement of an increase in profits or higher profits than investors expected, it is good news and some investors will revise their beliefs or expectations about strength of the entity's earnings in future (Scott, 2003).

Investors who have revised their beliefs about future earnings have a tendency to make buying decisions at current stock price. The action of investors in correcting past expectations is that earnings information has value relevance to stock prices, namely feedback value. Profits reported on a timely basis (timeliness) by entity also help investors in making decisions, because investors need a number of fundamental analyzes to increase their confidence to minimize investment risk (Easton, 1985). Even though criteria for predictive value, feedback value, and timeliness are met, if earnings information reported by the entity is not understandable by users of financial statements, namely understandability, then earnings information will not be useful to users. With implementation of PSAK 71 which replaces PSAK 55, causing company's profit to reflect real situation because it experienced an increase in allowance for impairment losses which resulted in a decreased profit position, so this situation could affect investors' reactions to investment decisions. Therefore, accounting information such as earnings is indicated to have value relevance to stock prices. The results of research conducted based on return model prove that there is a positive and significant correlation between earnings and returns on profitable companies. There are several studies based on price models that show a reduction in value relevance of earnings and an increase in value relevance of equity book value per share during periods of loss (Ghayoumi et al., 2011).

H1: PSAK 71 increases the value relevance of earnings on share price



### **Relevance Value of Book Value on Share Price**

Book value of equity has a positive relationship with share prices. If company suffers a loss, market seems to believe in book value of equity so that there is a decrease in slope of loss coefficient due to a shift in relevance of accounting profit value to the book value of equity (Indra and Syam, 2004). Based on decision usefulness theory, accounting information such as book value will have value relevance for investors in making decisions, if the book value is able to predict past, present, and future events (predictive value). Book value will be a predictive value for investors in making decisions, when earnings are not able to describe a good measurement of future earnings (Collins, et al. 1999).

Companies that lose money are sometimes not easy to make predictions regarding company's future prospects, so information in form of book value is needed that does not require positive profits for entity. If there is a positive earnings announcement, it is good news and some investors will revise their beliefs or expectations about strength of entity's earnings in future (Scott, 2003). So if earnings already reflect future earnings, investors will only see announced earnings, and book value per share is considered unimportant for investors (Pertiwi and Suhardianto, 2015).

H2: PSAK 71 increases the value relevance of book value on share prices

### **Relevance Value of Earnings and Book Value on Share Prices**

After PSAK 71 Referring to decision usefulness theory, the attitude of managers in implementing accounting standards is related to their interest in disclosing accounting information that interprets financial performance through disclosure in financial statements. Earnings and book value have an influence on reaction and decision making by investors. Ayzer and Cema (2013) used a simplified Ohlson (1995) model to examine value relevance of financial statement information on Turkish Stock Exchange covering period 1997-2011. They find that combined book value and earnings are significantly relevant in explaining stock prices in Turkish Stock Market. Book values and earnings are individually relevant, but book values have higher explanatory power than earnings. In Badu and Appiah's research (2018), which examines relevance of accounting value, it shows a positive relationship between combination of book value and earnings in Ghanaian capital market during the period 2005-2014.

H3: PSAK 71 increases the relevance value of earnings and book value on share prices.

## **RESEARCH METHOD**

The population of this study is banking companies listed on the Indonesia Stock Exchange in 2019-2020. Using non-probability sampling method to determine sample of companies in this study that refers to certain criteria. These criteria include the entity that is not a company that has been removed from the list of companies listed on the Indonesia Stock Exchange during the research period. This criterion can affect the results of the study because the delisted company is not able to meet the provisions of Indonesian stock exchange.



The types and sources of data applied in this study are secondary data. This research is sourced from data on financial statements of Banks in Indonesia for period 2019-2020 obtained from the Indonesia Stock Exchange. The data collection method in this study is documented from interim financial reports of banking publications. Data is also obtained through the Indonesia Stock Exchange page, namely <http://www.idx.co.id> and Bloomberg data. The analytical model applied in this study uses a multiple linear regression model. Earnings of entity are measured using Earning Per Share (EPS), book value using total equity divided outstanding shares, and share prices are measured by share price delta (share price  $t - t-1$  divided share price  $t-1$ ). The following is equation model in this study

$$\text{Equation 1 (Before PSAK 71)} \Delta P = \alpha_0 + \beta_1(\text{EPS})_{it} + \beta_2(\text{BV})_{it} + \beta_3(\text{EPS} + \text{BV})_{it} + \beta_4 \text{CKPN}_{it} + \varepsilon_t \dots (1)$$

$$\text{Equation 2 (After PSAK 71)} \Delta P = \alpha_0 + \beta_1(\text{EPS})_{it} + \beta_2(\text{BV})_{it} + \beta_3(\text{EPS} + \text{BV})_{it} + \beta_4 \text{CKPN}_{it} + \varepsilon_t \dots (2)$$

## RESULTS AND DISCUSSION

The following are results of normality test using Kolmogorov Smirnov, multicollinearity, autocorrelation, F test, coefficient of determination, and regression test.

Tabel 1. Normality test, multicollinearity, autocorrelation, F test, coefficient of determination, and regression test

Model 1 $\Delta$ Share Price = $\alpha_0 + 17.926 \text{ EPS} - 0.983 \text{ Nilai Buku} - 0.708 \text{ EPS dan Nilai Buku} - 0.000000003505 \text{ CKPN} + \varepsilon_t$ (Before PSAK 71)				
F Test		26.540		
Adj R <sup>2</sup>		0.694		
K-Smirnov		0.067		
D-W		2.048		
Variabel	Sig	t	Tolerance	VIF
EPS	.000*	5.208	.102	9.788
Book Value	.052	-2.002	.104	9.581
EPS + BV	.517	-6.53	.815	1.227
CKPN	.610	-5.14	.917	1.090
Model 2 $\Delta$ Share Price = $\alpha_0 + 23.562 \text{ EPS} + 0.765 \text{ Nilai Buku} - 0.624 \text{ EPS dan Nilai Buku} - 0.000000002630 \text{ CKPN} + \varepsilon_t$ (After PSAK 71)				
F Test		49.150		
Adj R <sup>2</sup>		0.811		
K-Smirnov		0.108		
D-W		1.681		
Variabel	Sig	t	Tolerance	VIF
EPS	.000*	6.674	.244	4.100
Book Value	.046*	2.060	.314	3.182
EPS + BV	.216	-1.257	.195	5.141
CKPN	.783	-2.77	.998	1.002

\*Significant at 0,05

Source: Secondary Data (2021)



Based on table 1, the results of Kolmogorov-Smirnov test in equation 1 show significant value of 0,067 whose value is above = 0,05. This means that all variables used in equation 1 of this study have been normally distributed. The results of Kolmogorov-Smirnov test in equation 2 also show significant value at 0,108. This means that all variables used in equation 2 have also been normally distributed. Table 1 also shows that variables Earning Per Share, Book Value, Total EPS + Book Value, Allowance for Impairment Losses in equations 1 and 2 have a tolerance value of more than 0,10 and VIF value of less than 10. This means that in variables in equation 1 and equation 2 in study there is no multicollinearity.

Based on table 1, Durbin-Watson value in equation 1 is 2,048, which is greater than dU 1,6677 and less than 2,3323 (4-dU), then this shows that there is no positive or negative autocorrelation in equation 1. Because the value of DW is  $1,6677 < 2,048 < 2,3323$ . Table 1 also shows the Durbin-Watson value of equation 2 is 1,681, while the dU value is 1,6677. The decision-making of the Durbin-Watson value is  $dU < DW < 4-dU$ . The value of  $4-dU = 2,3323$  and the value of dU is 1,6677, then this shows that there is no positive or negative autocorrelation in equation 2. Because the DW value is between the dU value and the 4-dU value or  $1,6677 < 1,681 < 2,3323$ .

Based on table 1, it shows that Adjusted value in equation 1 (before PSAK 71 implementation) is 0,694 or 69,4%, while the Adjusted value in equation 2 (after PSAK 71 implementation) is 0,811 or 81,1%. This means that there is an increase in adjusted value of 11.7%. Thus, it can be concluded that PSAK 71 implementation affects the relevance of accounting values.

In model 1 (before PSAK 71), the earnings variable as proxied by earnings per share has a positive effect on share price before implementation of PSAK 71 with a significance level of 0,000, which is below the p-value of 0,05, so it can be concluded that PSAK 71 implementation has a value relevance on earning is **acceptable**. Other variables such as book value, earnings per share + book value, and allowance for impairment losses have not positive effect on share price before PSAK 71 implementation, so hypothesis that there is a positive effect between book value, EPS + book value on share price before PSAK 71 implementation is **rejected**.

In model 2 (after PSAK 71), earnings variable as proxied by earnings per share also has a positive effect on share price after PSAK 71 implementation with a significance level of 0,000, which is below the p-value of 0,05. Therefore, hypothesis 1 which states that earnings have a positive effect on share price after PSAK 71 is **acceptable**. Accordance with the theory of decision usefulness which states that company profits can influence investor decision making. Investors tend to prefer companies with increasing profits from year to year. Investors will see profits of company and then invest in the company, which will increase level of



equity. The fact that underlies this argument is relevance of value, such as company profits, presenting performance that influences decision making by users. If accounting information such as company profits is useful and used by investors as a basis for making decisions, then investors' reactions are reflected in changes in volume or price of their shares. can be used in evaluating operating performance and profitability of company, therefore investors prefer companies that report value of earnings per share. In addition, an investor buys and holds shares in hope of obtaining dividends or capital gains. Profit is usually basis for determining dividend payments and future increases in value of shares. Thus, higher value of earnings per share, greater profit earned will increase stock market price. The results of this study support several previous studies which also give results that company profits have a positive effect on share prices, including research from Vijltha and Nimalathan (2014) and Ahmadi and Bouri (2018). However, this result is not in line with research conducted by Adaramola and Oyerinde (2014) which proves that value relevance of accounting information such as company profits does not follow any trend.

The book value variable also has a value relevance after PSAK 71 with a significance level of 0,046 which is below 0,05, so hypothesis 2 that book value has a positive effect on share price after PSAK 71 implementation is **acceptable**. Accordance with theory of decision usefulness, book value is influenced by earnings announcements which will cause changes in investor reactions. A high book value in a company can describe a situation where company has high resources in company activities. Book value is a financial indicator that represents maximum value of company's equity. Book value shows net equity after divided by outstanding shares. A high book value of equity illustrates welfare of shareholders because if low equity results in a large amount of debt, company's profit will be limited. So this will affect company's stock price. In addition, book value can be used to estimate lower limit of tolerable share price, because basis of this book value is considered a safe limit or a measure of safety plan for investors to invest. The results of this study support several previous studies which also give result that company's book value has a positive effect on stock prices, including research from Badu and Appiah (2018). However, this result is not in line with research conducted by Kouki (2018) which proves that it affects stock prices.

Other variables such as EPS + book value, and allowance for impairment losses have no positive effect after PSAK 71, so hypothesis that EPS + book value and allowance for impairment losses has a positive effect on share price after PSAK 71 implementation is **rejected**. The underlying reason for this argument is that financial markets show that investors in emerging markets tend to be functionally focused on earnings information rather than book value information (Hand, 1980; Almujaed and Alfraih, 2019). The results of this study are in line with



Almujamed and Alfraih (2019) which show book value and profit value reduce the relevance value. The results of this study contradict Ayzer and Cema (2013) using a simplified Ohlson (1995) model to test the value relevance of financial statement information on Turkish Stock Exchange. They find that combined book value and earnings are significantly relevant in explaining stock prices in Turkish Stock Market.

### Difference T-Test

Value relevance in this study was measured using stock prices based on Ohlson's (1995) model. To test whether there is a difference in stock prices before and after the implementation of PSAK 71, the difference test is presented in table 4.6 below.

Table 2. Test Difference t-Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Price Before PSAK 71 Price After PSAK 71	-1066,17391	2340,95459	345,15492	-1761,35162	-370,99621	-3,089	45	,003

Source: Secondary Data (2021)

From the SPSS output, it can be seen that statistically the p value is  $0.003 < 0.05$ , which means that there are differences share prices before and after PSAK 71. So it can be concluded that there are differences in value relevance before and after PSAK 71.

### CONCLUSION

Based on the results of hypothesis testing and discussion in previous, it can be concluded that 1) PSAK 71 has value relevance to earning. The beta coefficient proves that company's profit after PSAK 71 has more relevance than before implementation of PSAK 71. The reason is that companies with high profits when implementing PSAK 71, tend to be able to increase stock prices compared to companies that do not have high profits. Company's profit is basis for investor consideration because it describes company's good performance so that it has promising prospects in future. 2) PSAK 71 has value relevance to book value, but before PSAK 71 it did not have value relevance at book value. This is because PSAK 71 provides an allowance for impairment losses which makes book value of equity lower, so investors anticipate by looking at reported book value of company so that it affects stock prices. 3) PSAK 71 has no value relevance to earning and book value of the entity because financial markets show that investors in emerging markets tend to be functionally focused on earnings information rather than book value information.



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