

Abstract

We conduct a research study that particularly examines the effect of adopting IFRS on the magnitude of accruals-based earnings management among Indonesian non-financial firms that constitute the Main Board Index (MBX) of Indonesia Stock Exchange (IDX) from 2014 to 2019. The adoption of the international accounting standards itself took place in 2015. To measure the discretionary accruals, we employ the Extended Modified Jones model developed by Yoon et al. (2006). We use the absolute value of the discretionary accruals in this study as we want to focus on the size, not the direction of the accruals. Based on our regression test, we discover that IFRS does not leave a statistically significant impact on the value of absolute discretionary accruals. The value of discretionary accruals, however, shows a declining trend in the post-IFRS period which contradicts our hypothesis. Nevertheless, we cannot derive the conclusion that the decline is caused by IFRS as the regression analysis indicates insignificance. Furthermore, we also find that firm size and leverage have a positive and statistically significant association with discretionary accruals.

Keywords: earnings management, IFRS, discretionary accruals, firm size, leverage