

A Comparative Study on Financial Performance of Registered Companies in the Jakarta Islamic Index (JII) Before and After the Implementation of IFRS in Accounting Standards

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ABSTRACT

International Financial Reporting Standard (IFRS) is one of the changes in accounting standard regulations that affect the environment of international accounting information. In increasing capital market activities, IFRS provides a series of uniformity of accounting standards which is adopted by various countries in the world that have the purpose to improve the international comparability and the quality of financial reporting. The financial accounting standard in Indonesia is applied to companies which have responsibility to the public. The purpose of this research was to analyze the differences of financial performance that were measured by the ratio of liquidity, solvability, and profitability, before and after the companies had converted to IFRS. This was comparative research, that compared the financial reporting by using purposive sampling technique on three companies which were continuously registered in the Jakarta Islamic Index for the period 2006-2018. Data was analyzed by using Wilcoxon test, because the normality test result was abnormal. The results of this research showed that liquidity ratio, which was measured by using Current Ratio (CR), and solvability ratio, which was measured by using DER and DAR, had no significant differences before and after the conversion to IFRS.

Keywords: *IFRS; Liquidity; Solvability; Profitability; Jakarta Islamic Indeks*

1. INTRODUCTION

Global economy brings a new challenge for an accountant who arranges financial report, because accounting information's user needs international financial report and it must have a certain quality (Procházka, 2016). Every country has its own accounting standard, which is only appropriated to the country's needs.

To increase the quality of financial report, every country needs the accounting standard based on international standard for reporting regulation and to decrease the cost of financial reporting by multinational companies (Yurisandi & Puspitasari, 2015).

Nowadays, there are two kinds of standard that are available or adopted for arranging financial reports, that are IFRS (International Financial Reporting Standard) by International Accounting Standard Board and Generally Accepted Accounting Principles by FASB (Financial Accounting Standard Board). Because of the desire of applying one international accounting standard and having a certain quality, many countries have fully adopted IFRS (Dewi, Sofia Prima; Sugiarto, Elizabeth; Susanti, 2017). The implementation of IFRS accounting standard in Indonesia is mandatory for a company or an institution who has been registered in Indonesia Stock Exchange and also business entity that has full responsibility to the community (Bahri, 2016).

The implementation of IFRS in Indonesia is expected to provide benefits such as the increase of financial reporting quality, as what mostly happens in European countries. Moreover, many stakeholders in Indonesia were still fear about the unpreparedness of Financial Accounting Standard Board, because the financial accounting standard in Indonesia was not related yet with IFRS, and also because of the lack of skillful human resources (Sholahuddin et al, 2019).

The fear of this negative impact will influence the quality of accounting reports, which is able to indicate an increase of stagnancy or even the decrease of quality after the adoption of IFRS (Hariyani, 2015). The comparative studies discussing about the quality of financial reports before and after the adoption of IFRS had been conducted by few researchers, which provided different research results. From the research entitled Accounting Quality Differences Before and After IFRS Adoption in Europe (Sondagh, 2011), it can be known that during the period before IFRS adoption, the quality of accounting in code-law countries was significantly different from that in common law countries. Although the significant difference was not available for every measure, from this point of view it means that after the IFRS adoption, the quality of financial reports is in the same level among the two types of country being observed.

Furthermore, the research conducted in Romania about the impact of IFRS adoption (Munteanu, Brad, Ciobanu & Dobre, 2014), revealed that there was no significant

differences about the median and the mean among the variables observed. The relevance of reported earnings value can be identified by the variance of the solvency ratio and return on equity (Dewi and Sholahuddin, 2018).

This research focused on the differences among the company's financial performance, which were measured by liquidity ratio, solvability ratio, and profitability ratio, before and after the companies converted to IFRS accounting standard, especially for those that were continuously registered in Jakarta Islamic Index during the years 2006-2018.

2. METHOD

This research compared financial reports from year to year in absolute numbers (rupiahs) and in percentages, while the trend was used for longer periods of time (Prastowo & Juliaty, 2008). Data in this research includes the secondary data, which is financial reports in form of ICMD (Indonesia Capital Market Directory) from the companies that were listed on Indonesia Stock Exchange (IDX) during 2006-2018, which were obtained from the IDX official website (www.idx.co.id).

This research used a quantitative approach, because the primary data was financial reports in the form of numbers.

The purposive sampling technique was used in this research in form of companies which were continuously registered in the Jakarta Islamic Index (JII) during the period 2006-2018 and had issued the complete financial reports.

Based on the predetermined criteria, the companies that matched the criteria and can be sampled were as many as three companies namely KLBF, TLKM, and UNVR among 94 companies that do not.

Wilcoxon test was used in data analysis, that is a non-parametric statistical test used to determine the significance of differences among two groups of data pair, either in ordinal or interval scale, in which the data does not have normal distribution (Hariyani & Martini, 2015).

3. RESULT AND DISCUSSION

3.1 Statistical Test

The following table is a descriptive statistical test results from the sample consisting of three companies observed in this study:

Table 1: The Result of Statistical Test

Ratio		Before IFRS	After IFRS
		Mean	Mean
Liquidity	CR	211.1260	143.5183
Solvability	DAR	0.3707	0.4813
	DER	0.7160	1.0977
Profitability	ROA	19.7463	25.0260
	ROE	36.6280	56.0633

Source: ICMD 2006-2018 and data analysis using SPSS, 2019

3.1.1 Liquidity Ratio

The mean of Current Ratio (CR) before IFRS conversion shows higher value compared to after IFRS conversion ($211.1260 > 143.5183$). Liquidity ratio was measured by using CR variable.

3.1.2 Solvability Ratio

The mean of Debt-to-Assets Ratio (DAR) before and after IFRS conversion were relatively low, which were below 1.00 (0.3707 and 0.4813) while the mean of Debt-to-Equity Ratio (DER) before and after IFRS conversion also generated a low average value, which were low than 1.00 (0.7160 and 1.0977). This means that the solvability ratio measured by DAR before and after IFRS conversion showed that the company's financial performance was in good condition, while the measure by DER showed that the company's capital sources did not depend on creditors.

3.1.3 Profitability Ratio

The average ROA before IFRS conversion had lower value than that after IFRS conversion ($19.7463 < 25.0260$), which means that the efficiency of company's asset management was better after IFRS conversion than before.

In addition, the average ROE also showed better results after IFRS conversion compared to before conversion. It showed the measure of profit generation for shareholders.

3.2 Normality Test

The main requirements before conducting a paired sample t-test is that the data must be normal due to the paired sample t-tests includes parametric statistics. To know whether the data is normally distributed or not, we used the normality tests. The results from Shapiro-Wilk test by using SPSS can be seen as follow.

Table 2: The Result of Shapiro-Wilk Test

		Statistics	df	Sig.
Before	Current Ratio	.824	30	.000
	DAR	.900	30	.008
	DER	.917	30	.022
	ROA	.687	30	.000
	ROE	.705	30	.000
After	Current Ratio	.698	30	.000
	DAR	.892	30	.005
	DER	.917	30	.022
	ROA	.782	30	.000
	ROE	.808	30	.000

Source: Analysed with Shapiro-Wilk Test using SPSS, 2019

The normality test results for Current Ratio had the ‘sig. (2-tailed)’ value less than 0.050. It means that the data was not normally distributed. For DAR, the value was less than 0.050, which means that the data was not normally distributed. For DER, the value was less than 0.050, which means that the data was not normally distributed. For ROA, the value was less than 0.050, which means that the data is not normally distributed. Similarly, for ROE the value was also less than 0.050, which means that the data was not normally distributed either. So, it can be concluded that all data used in this study is not normally distributed.

3.3 Wilcoxon Test

Because the results of normality test showed that the data distribution was not normal, the paired-sample t-test in parametric statistics could not be used. So, it’s better to use the Wilcoxon test in non-parametric statistics.

Table 3: The Result of Wilcoxon Test

	Post				
	Current Ratio – Pre	Post – Pre	Post – Pre	Post – Pre	Post – Pre
	DAR	DER	ROA	ROE	
Z	-2,067	-	-	-	-
	3.169	2.870	1.573	2.972	
Asymp. Sig. (2-tailed)	.039	.002	.004	.116	.003

Source: Wilcoxon Test using SPSS, 2019.

Note:

Pre - Before conversion to IFRS
 Post - After conversion to IFRS

The results of Wilcoxon test are:

(1) For Current Ratio, Asymp. Sig. (2-tailed) 0.039 < 0.050, means that the Current Ratio had significant difference before and after IFRS conversion (H₁ was accepted).

(2) For DAR, Asymp. Sig. (2-tailed) 0.002 > 0.050, means that DAR had significant difference before and after IFRS conversion (H₂ was accepted).

(3) For DER, Asymp. Sig. (2-tailed) 0.004 > 0.050, means that DER had significant difference before and after IFRS conversion (H₃ was accepted).

(4) For ROA, Asymp. Sig. (2-tailed) 0.116 < 0.050, means that ROA did not have significant difference before and after IFRS conversion (H₄ was rejected).

(5) For ROE, Asymp. Sig. (2-tailed) 0.03 < 0.050, means that ROE had significant difference before and after IFRS conversion (H₅ was accepted).

3.4 Discussion

3.4.1 The Difference in Liquidity Ratios Before and After the Conversion to IFRS

This hypothesis test aimed to prove the difference in liquidity ratios before and after the conversion to IFRS. The liquidity ratio used in this study was the Current Ratio (CR). Table 1 shows that the mean value of CR before and after conversion decreased from 211.1260 to 143.5183. From the Wilcoxon test results (Table 3), the significance value was 0.039 (< 0.050), which means that there was a significant difference among the liquidity ratios before and after the conversion to IFRS.

The company’s performance in financial statements can be measured from the level of liquidity, because higher liquidity value reflects better financial performance. It can be analyzed that the company’s ability to meet all its maturity obligations could be fulfilled in the period before and after the conversion of IFRS (Hariyani & Martini, 2015). So, there was a significant difference in financial performance as measured by the Current Ratio.

This study showed different results from the one conducted by Hariyani and Martini (2015), whereas their study on comparative analysis of information quality and financial performance before and after the implementation of IFRS generated no statistical difference among the Current Ratios.

3.4.2 The Difference in Solvability Ratios Before and After the Conversion to IFRS

This hypothesis test aimed to prove the difference in solvability ratios before and after the conversion to IFRS. The solvability ratios used in this study were the DAR and DER. Table 1 shows that the mean value of DAR before and after the conversion increased from 0.3707 to 0.4813. For DER, the mean value increased from 0.7160 to 1.0977. From the Wilcoxon test results (Table 3), the significance value was 0.002 (< 0.050) for DAR, and 0.004 (< 0.050) for

DER, which means there were significant differences among the solvability ratios before and after the conversion to IFRS.

According to Sirait (2017), the solvability ratio reflects the financial stability of a company from all corporate debts. If the company is able to repay all the debts, it is called solvable. So, it can be concluded that the ability of companies to pay all debts were good. So, in financial performance aspects as measured by DAR and DER, there were significant differences.

This study showed the same results as the one conducted by Hidayat (2015), whereas his study on comparative analysis of financial performance before and after the implementation of IFRS (PSAK) generated significant differences among the results between the period of 2011 (before IFRS conversion) and 2012 (after IFRS conversion).

3.4.3 The Differences in Profitability Ratios Before and After the Conversion to IFRS

This hypothesis test aimed to prove the difference in profitability ratios before and after the conversion to IFRS. The profitability ratios used in this study were ROA and ROE. Table 1 shows that the mean value of ROA before and after conversion increased from 19.7463 to 25.0260. For ROE, the mean value increased from 36.6280 to 56.0633. From the Wilcoxon test results (Table 3) the significance value was 0.116 (> 0.050) for ROA and 0.003 (< 0.050) for ROE, which means that there was no significant difference before and after conversion to IFRS for ROA, while ROE showed a significant difference before and after the conversion.

This study showed the same results as the one conducted by Ghani (2012), whereas his study on the comparison of profitability ratios as measured by ROA, ROE, and NPM generated significant differences before and after the implementation of IFRS.

This study also showed the same results as the one conducted by Yurisandi and Puspitasari (2015), in which their study on improving the performance and quality of financial reporting after the adoption of IFRS generated the results that such performance and quality increased after the adoption of IFRS.

4. CONCLUSIONS

Based on this study that tested the differences of financial performance among the companies registered in JII between 2006 - 2018 period by using data analysis of Wilcoxon test as non-parametric statistics, it can be concluded that:

- 1) Liquidity ratio as measured by Current Ratio, did not have significant difference before and after the conversion to IFRS.
- 2) Solvability ratio as measured by DER and DAR, didn't have significantly differences before and after the conversion to IFRS.

- 3) Profitability ratio as measured by ROA and ROE, indicated significant difference in ROE before and after the conversion to IFRS, of which this result corresponds with the study conducted by Ghani (2012).

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