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THE IMPACT OF IFRS IMPLEMENTATION, LEVERAGE, AUDIT QUALITY, INSTITUTIONAL OWNERSHIP, AND MANAGERIAL OWNERSHIP TOWARDS EARNINGS QUALITY OF INDONESIAN LISTED COMPANIES IN LQ-45 INDEX

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Abstract: *This research mainly aims to observe the impact of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership towards the earning quality subsequent to the issuance of Indonesian Institute of Accountants (IAI) formal statement regarding full convergence of IFRS by 1 January 2012. Through this research, the financial data of 2012 is compared to 2008 data when Indonesia Accounting Standard Board just decided to firstly start the IFRS adoption phase. This research is carried out against the companies listed in stock exchanges of Indonesia, particularly LQ-45 Index 2012 companies. It involves 76 companies that have data availability in both pre-IFRS and post-IFRS full implementation as the sample. The earnings quality is measured by using Modified Dechow-Dichev Model that focuses on earnings mapping closeness to cash flows. The method that will be used by the researcher to conduct this study is quantitative method.This research found that there is significant influence of IFRS implementation, leverage ratio, and institutional ownership towards the earnings quality. On the other hand, there is no significant influence of audit size and managerial ownership towards the earnings quality. In the context of increasingly high demand for accounting standards convergence to IFRS, this study reveals the negative side of IFRS implementation in raising the accruals which results in lower earnings quality of companies. From the statistic results, there is an implication for accounting information users are not able to benefit from the IFRS implementation in terms of higher earnings quality.*

Keywords: *audit quality, earnings quality, IFRS, leverage, ownership structure.*

1. INTRODUCTION

In 2012, Indonesia formalized the decision to adopt International Financial Reporting Standards (hereinafter referred to IFRS), standards that have been developed by International Accounting Standard Board (IASB), effectively as of January 1, 2012. Prior the adoption of IFRS, Indonesia referred to United States Generally Accepted

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Accounting Principles (US GAAP) developed by Financial Accounting Standard Board (FASB). There have been several studies discussing the harmonization and convergence in global accounting standards including the impacts. According to Cameran, *et al.* (2011), in overall IFRS does not improve the financial reporting quality through earnings quality among private companies in Italy. On the other hand, another research proves IFRS adoption can decrease the income smoothing practice in Indonesia, Singapore, and China firms (Rohaeni and Aryati, 2012). Nevertheless, there is an implication that accounting information users cannot benefit from the IFRS adoption in terms of higher earnings quality (Sun and Liu, 2012).

Basically, earnings quality can be affected by other variables such as leverage, audit quality, institutional ownership, and managerial ownership. There have been some discussions regarding leverage as an influential factor that may influence the earnings quality. The arguments say when dealing with the creditors, usually a company will be agreed upon some debt covenants. Debt covenants are agreements between a company and a creditor usually stating limits or threshold for certain financial ratios that the company must obey.

The quality of audit is also considered influencing the earnings quality. The company's management is inherently in necessity of third party assurance of its financial information. Therefore, the trust of external parties including principal towards the company's responsibility can be enhanced. This may lead to more confident decision making process. Public accountant as known as external auditor is considered relatively more independent than the internal auditor who gets paid by the company. Public accounting firm staffs are believed to minimize the earning management that leads to better earnings quality since they have the ability to raise the credibility of financial report.

In this research, we are going to investigate this question that earnings quality would be better in post IFRS implementation periodin relation with IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership of Indonesian listed companies in LQ-45 Index.

2. PREVIOUS RESEARCH

Based on the prior research conducted by other researchers, there are different implications, results, and conclusions. Liu and Sun (2013) compares 487 Canadian firms that have the data availability between pre-IFRS and post-IFRS implementation periods. They find that the earnings quality of those firms has not been improved by the IFRS adoption. There is one implication to accounting information user is that they cannot benefit from the IFRS adoption in terms of higher earnings quality. Another implication to the accounting standards setter is that increasing earnings quality by IFRS adoption cannot be considered as an incentive to adopt IFRS.

Another study by Houqe (2010) results in earnings quality increases for mandatory IFRS adoption only when a country's investor protection regime provides stronger protection. On the other hand, a study of Chua *et al.* (2012) shows that by using four years of IFRS adoption experience since the mandate was first made effective in Australia for a wide range of accounting-based metrics and market-based information, they find that the mandatory adoption of IFRS has resulted in better accounting quality than previously under Australian generally accepted accounting principles (GAAP). Besides that, a research conducted by Situmorang (2011) finds that transition to IFRS has a significant impact on gearing and it has the same impact to company that audited by Big Four or non-Big Four public accounting firms.

Basically, there are fewer prior studies regarding the impact of leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality than their impact towards earnings management. Nevertheless, earnings quality and earnings management have such close positive relationship. It is evidenced from one the studies involved in Accounting National Symposium IX Padang, Pudjiastuti and Mardiyah (2006) find that there is significant influence of earnings management on earnings quality. In another words, it means that higher earnings management will be followed by higher earnings quality.

Besides IFRS convergence, leverage is also proved to affect the earnings. Widyaningdyah (2001) finds that there is a positive relationship between leverage and earnings management. Along with the debt covenant hypothesis, the companies that have high level of leverage become more motivated in committing earnings management in order to avoid debt covenants violation. This result is also supported by Iguna and Herawaty (2010) who show that leverage has significant influence towards earnings management.

Another study provides evidence that ownership structure has significant impact towards the earnings management. However, the public accounting firm size does not have significant influence (Palestin, 2009). A study of Meutia (2004) concludes that the bigger public accounting firm is, the better accounting quality will be. Rusmini and Ginting (2010) also prove that audit quality that has proxy of public accounting firm has positive but not significant impact towards the earnings management.

In relevance with corporate governance, some of its mechanisms have been proved to have significant impact on earnings quality. A study of Puspita (2013) shows that corporate governance as a moderating variable strengthen the relation between degree of convergence to IFRS and earning quality. This is also endorsed by Muid (2009) who finds that managerial ownership has significant influence towards earnings quality but institutional ownership has no significant influence.

On another hand, in accordance with Rachmawati and Triatmoko (2007) study regarding earnings quality, managerial ownership and institutional ownership do not have significant influence to earnings quality. Nevertheless, Rusmini and Ginting (2010) find that institutional ownership and managerial ownership have negative significant influence towards the earnings management. Therefore, it can be concluded that institutional ownership and managerial ownership will affect the earnings quality negatively.

3. HYPOTHESES

For studying the significant impact of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality of Indonesian listed companies in LQ-45 Index prior and post IFRS implementation, we test the following hypotheses :

H1: There is no significant influence of IFRS implementation,leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality.

H2: There is a significant influence of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality.

4. RESEARCH METHOD

The researcher used quantitative method since the earnings quality, proxy of IFRS implementation, leverage, institutional ownership, and managerial ownership of the companies need statistical calculation to support the results. The analysis will be supported by quantitative analysis in relationship with the problem statements that has been discussed partially in Introduction and Literature Review. The quantitative data will be analyzed through the application of Statistical Package for Social Science version 21 or renowned as SPSS version 21. The significance of impact of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality would be crucial variables that need to be proved. Therefore, the results, conclusion, suggestions, and recommendation will be merely composed of the outcome of the quantitative method. The research will analyze the IFRS implementation of 2012's performance compared to 2008's performance. The observed companies are only limited to the ones that listed in Indonesia Stock Exchange (IDX) categorized in LQ-45 at the end of year 2012.Year 2008 data retrieved from listed companies will also refer to the companies that categorized in LQ-45 Index 2012. If there is one or more companies listed in LQ-45 Index 2012 but had not been publicly offered on December 31, 2008, they will be automatically disqualified from the sample list both 2012 and 2008 data. Equally important, the impact of IFRS implementation will be analyzed

through the comparison of Other Comprehensive Income and Total Comprehensive Income.

4.1. Hypotheses Testing

Except audit size, all of the variables' data is derived from the audited financial report of the companies in LQ-45 Index 2012, the audit size is analyzed by using dummy variable to accommodate the audit quality that influencing the earnings qualities among years and companies. The regression that will be used in this study is multiple linear regression analysis. Another analysis will be taken are adjusted R square analysis to analyze how far independent variables can describe the dependent variables, F-test to evaluate whether all of the independent variables simultaneously affect the dependent variable, and t-test to analyze how great the extent of each independent variables impact towards the dependent variable.

4.1.2. Earnings Quality

The proxy will be used within this study is based on Accrual Quality Model. The model that developed by Dechow-Dichev focuses on the earnings mapping closeness to the cash flows. Theoretically, when the earnings is mapping closely into the cash flows, the earnings quality is high. Otherwise, the earnings quality is considerably low when it is not mapping closely into cash flows. This study will observe the cash flows from operating activities since a study of Oktarina and Hutagaol (2009) find that companies manipulate their real activities through operating cash flows and it has impact on market performance. Earnings quality within this study will be measured as follows:

$$EQT_t = \frac{NI_t - CFO_t}{\bar{x}\ TA} \qquad (1)$$

Where:

EQT_t : Earnings quality in year $_t$.

NI_t : Net income in year $_t$.

CFO_t : Cash flows from operating activities in year $_t$.

TA : Average of beginning and ending total assets in year $_t$.

4.1.3. IFRS Implementation

Referring to PricewaterhouseCoopers blog (2009) regarding other comprehensive income, there are items that IFRS either permits or requires to be presented as OCI:

(a) Foreign currency translation adjustments on foreign subsidiaries (IAS 21),
(b) Changes in the fair value of available-for-sale financial assets (IAS 39),
(c) Actuarial gains and losses arising on a defined benefit pension plan (IAS 19),
(d) Revaluations of property, plant and equipment (IAS 16 and IAS 38), and
(e) Changes in the fair value of a financial instrument in cash flow hedge (IAS 39).

Theoretically, other comprehensive income represents certain gains and losses that are unrecognized by the entities in profit and loss account. Since in 2008 there is no policy regarding other comprehensive income yet, the IFRS data in 2008 is zero. The IFRS implementation will be measured as follows:

$$IFRS_t = \frac{OCI_t}{TCI_t} \quad (2)$$

Where:

$IFRS_t$: IFRS implementation in year $_t$.

OCI_t : Other comprehensive income in year $_t$.

TCI_t : Total comprehensive income in year $_t$.

4.1.4. Leverage

In this study, leverage will be defined as a ratio that measures how far a company funding its activities through debts (Martono and Harjito, 2005). It will be measured by debt to equity ratio which term is used interchangeably as financial leverage ratio (Bowman, 1980). The measurement of leverage ratio will be calculated as follows:

$$LEV_t = \frac{DEBT_t}{EQUITY_t} \quad (3)$$

Where:

LEV_t : Leverage ratio in year $_t$.

$DEBT_t$: Total liabilities in year $_t$.

$EQUITY_t$: Total equity in year $_t$.

4.1.5. Audit Quality

Within this study, audit quality refers to the excellence of public accounting firms' performance as independent auditors in assuring the quality of financial

information provided by the company. The have been some institutions attempt to rank the rank of public accounting firms in the global scope; one of the most prestige and reliable ones is Accounting Today. Hence, the audit quality will be measured by dummy variable based on the rank of public accounting firms in 2012 version Accounting Today.

4.1.6. Institutional Ownership

The institutional ownership will be measured through the accumulated percentage of ownership by institutions, such as by private entities, mutual funds, pension funds, hedge funds, and government, provided in the audited financial report. It can be found in section notes of financial statements that elaborating the share capital ownership by the shareholders.

4.1.7. Managerial Ownership

The managerial ownership will be measured through the accumulated percentage of ownership by the management, such as Board of Director and Board of Commissioner members. The data will be derived from the audited financial report in section notes of financial statements that elaborating the share capital ownership by the shareholders.

4.1.8. Model Development

This research will develop the model of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership impact towards the earnings quality through the following model:

$$EQT_{it} = \beta_o + \beta_1 IFRS_{it} + \beta_2 LEV_{it} + \beta_3 AUD_{it} + \beta_4 INS_{it} + \beta_5 MGR_{it} + \varepsilon_{it} \quad (4)$$

Where:

EQT_{it} : Earnings quality in year t.

$IFRS_{it}$: IFRS implementation in year t.

LEV_{it} : Leverage ratio in year t.

AUD_{it} : Audit quality in year t.

INS_{it} : Institutional ownership in year t.

MGR_{it} : Managerial ownership in year t.

β_0 : Constanta.

$\beta_1 - \beta_4$: Regression coefficients.

ε_{it} : Error.

4.2. Sampling Design

There are 76 companies as the sample of year 2008 and 2012 in total. This observation considers unavailability of data and outlier. The companies that have insufficient data in one of two years will be eliminated automatically for both years' data.

The companies that meet the criteria will be defined as the population. Based on sample selection procedures, it is obtained 76 companies as the sample of this study after excluding unavailable data and outliers.

5. THE RESULT OF HYPOTHESES TESTING

The hypothesis testing decision will be shown by the following t-test outcome in Table 1. Generally, t-test is conducted to analyze how great the extent of each independent variables influence towards the dependent variable, in this study is earnings quality.

Table 1
The Result of t-test

	Coefficients[a]					
	Model	*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	-6.358	1.627		-3.908	.000
	IFRS	1.611	.506	.317	3.182	.002
	LEV	.011	.003	.319	3.174	.002
	AUD	.435	.707	.060	.616	.540
	INO	.064	.024	.259	2.689	.009
	MGO	.052	.178	.028	.294	.770

a. Dependent Variable: EQT

Firstly, Table 1 yields 1.611 as IFRS implementation coefficient with the significance of 0.002. That shows that Ha_1 is significant at á=5%. Therefore, the first hypothesis Ha_1 is accepted since it indicates that IFRS implementation has a positive and significant impact on earnings quality statistically. Due to the positive outcome, it indicates that IFRS implementation, measured by other comprehensive income over the total comprehensive income, yields influence upon the earnings quality change prior and post-IFRS compulsory implementation as of January 1, 2012. Every 1 increase of IFRS implementation measurement, it will cause 1.611 increase in earnings quality. Conceptually, the further earnings quality goes away from zero, the worse the quality will be. Therefore, it concludes that IFRS implementation basically has negative impact on the earnings quality.

For the moment, there have not been many researchers studying the impact of IFRS implementation in Indonesia since the compulsory convergence was just

started as of January 1, 2012. Nevertheless, the result supports the prior research conducted by Liu and Sun (2013) who observe the Canadian companies. They find that the earnings quality of those firms has not been improved by the IFRS adoption. One implication to accounting information users is that they cannot benefit from the IFRS adoption in terms of higher earnings quality. Another implication to the accounting standards setter is that increasing earnings quality by IFRS adoption cannot be considered as an incentive to adopt IFRS in the future.

Since the proxy used within this study is based on Accrual Quality Model by Dechow-Dichev, it focuses on the earnings mapping closeness to the cash flows (Herly, 2012). Theoretically, when the earnings is mapping closely to the cash flows, the earnings quality is high. Otherwise, the earnings quality is considerably low since it implies high accruals in the statement of comprehensive income. More importantly, within this study IFRS is measured through the other comprehensive income since one of IFRS differences from GAAP is the changing from historical cost method to fair value method. It brings about more unrealized gains and losses that recorded in statement of other comprehensive income or as a part of statement of comprehensive income.

Stated differently, above result leaks the negative side of IFRS implementation since the unrealized gains of losses have the same manner as accrual that indicating non-cash earnings in each respective period. They are predicted to bear income in the future with certain judgment and valuation of the professionals. Supporting the previous arguments, another difference of IFRS from GAAP as stated by IASB is the shift from rule-based to principle-based. The principle-based requires much more professionals' judgment with adequate competences, many experiences, high integrity, but less objectivity. In another words, more accounting components will be based on the professional subjectivity (Iswahyudi, 2012). However, Indonesian human resources still need time and enhancement to yield good quality financial information.

Secondly, the table yields 0.011 as the leverage coefficient at the significance of 0.002. That shows that Ha_2 is significant at $\alpha = 5\%$. Therefore, the second hypothesis Ha_2 is accepted. Due to the positive outcome, it indicates that leveragegives significant influence upon the earnings quality change prior and post-IFRS compulsory implementation. Every increase of 1 leverage ratio, it will cause 0.011 increases in earnings quality. Conceptually, the further earnings quality goes away from zero, the worse the quality will be. Therefore, it can be concluded that the higher leverage ratio is, the worse the earnings quality will be. Up to this point, there are fewer prior studies regarding the impact of leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality than their impact towards earnings management. Nevertheless, earnings quality and earnings management have such close positive relationship evidenced from the studies of Pudjiastuti and Mardiyah (2006) and Dechow and Schrand (2004) who

find that there is significant influence of earnings management on earnings quality. Derived from their results, it can be concluded that more earnings management will make the earnings quality even worse.

The result from that hypothesis testing supports the previous research of Widyaningdyah (2001) who finds a positive relationship between leverage and earnings management. In addition, it also results in the same outcome of Iguna and Herawaty (2010) which show that leverage has significant influence towards earnings management. Equally important, it goes align with the debt covenant hypothesis arguing the companies that have high level of leverage become more motivated in committing earnings maximization in order to avoid debt covenants violation (Scott, 2009). It leads to better earnings since it has been manipulated. Additionally, it is aiming to report higher earnings so as bear higher bonus for management although the earning is declining at respective year. If the company violates the debt covenants, it may result in a default on the loan being declared, penalties being applied, or the loan being called. Some researches regarding debt covenant violations proof that there is low earning quality in the companies that breach the covenants. There is an evidence of companies that violate the debt covenants will significantly increase their earnings so that debt to equity ratio and interest coverage level are secured (Sulistyanto, 2008).

Thirdly, the table results in 0.435 as the audit quality coefficient at the significance of 0.540. That shows that Ha_3 is not significant at $\alpha = 5\%$. Therefore, the third hypothesis Ha_3 is rejected and Ho_3 is accepted since it indicates that audit quality has no significant impact on earnings quality statistically. This result supports the prior research belongs to Palestin (2009) that proves public accounting firm size does not have significant influence towards earning management (Palestin, 2009). Rusmini and Ginting (2010) also end up in the same result that audit quality has no significant impact towards the earnings management. Thus, indirectly they implicate that audit quality does not have significant impact towards earnings quality.

For most of the time, the ranking of Big Four or Big Ten public accounting firms is conducted by other financial institutions outside Indonesia, for instance Unites States of America or United Kingdom, where most of the firms are headquartered in. The ranking itself is merely based on the financial performance of the public accounting firm as an entity. Rather than evaluate their quality in auditing, the committee judges based on the annual revenue, number of offices in the world, number of partners, number of employees, and fee split. Essentially, their existence in Indonesia as multinational branding does not guarantee their audit quality. The quantity of their financial performance, number of offices, number of employees, and fee policy cannot simply determine their quality in terms of auditing.

Supporting the previous arguments, another difference of IFRS from GAAP as stated by IASB is the shift from rule-based to principle-based. The principle-based requires much more professionals' judgment with adequate competences, many experiences, high integrity, but less objectivity. The professionalism of personnel conducting the external audit does not depend solely on the rank of the firms they work on. The competences are also based on their eagerness in passing certification, accomplishing trainings, and other developing activities for sharpening their capabilities in auditing world.

Fourthly, the table presents 0.064 as the institutional ownership coefficient at the significance of 0.009. That shows that Ha_4 is significant at $\alpha = 5\%$. Therefore, Ha_4 is accepted since it indicates that institutional ownership has a positive and significant impact on earnings quality statistically. Due to the positive outcome, it indicates that institutional ownership of the companies gives significant influence upon the earnings quality change prior and post-IFRS compulsory implementation as of January 1, 2012.Every increase of 1% institutional ownership will cause 0.064 increase in earnings quality. Conceptually, the further earnings quality goes away from zero, the worse the quality will be. Therefore, it can be interpreted that the higher institutional ownership is, the worse the earnings quality will be.This result supports the prior study by Puspita (2013) that shows corporate governance, including institutional ownership, can strengthen the relationship between degree of convergence to IFRS and earning quality as a moderating variable. Moreover, it also results in the similar outcome of Rusmini and Ginting (2010) that institutional ownership has significant influence towards the earnings management. Hence, the earnings quality will be significantly influenced as well.

Partial or full ownership of a company's stocks by separated institutions outside of the company such as domestic or international companies, mutual funds, pension funds, and government can assist the management in controlling the business activities and performance. Since the descriptive statistics show more than 50% of the ownership possessed by institutions, they somehow have the power to control the management through monitoring process in effective way.In accordance with Lee *et al.* (1992) in Fidyati (2004), there are two different opinions regarding institutional investors. The first is based on the point of view that the institutional investors are only temporary owners and it seems just like ownership transfer. From the result it can be interpreted that as the major stockholders, this type of institutions would like to monitor the management performance then maximize their wealth through the current earnings for the sake of their interest. Therefore, institutionstend to use their force in pushing the management to manage the earnings in such a way so their wealth can be maximized through some accruals. As a consequence, the earnings quality will decrease. Overall, the argument goes align with The Agency Theory.

The second opinion according to Lee (1992) is the overview of the institutional investors as experienced and sophisticated investors. The institutions will focus on future earning that is relatively higher than current earnings. Thus, they show tendencies to maintain the company's financial performance in purpose to be stable or increase gradually in order to maintain the stock price for attracting more potential investors. As a result, they will set pressure on management to do earnings management; thus, there will be no sudden increase or decrease that will ruin the company's future. As stated previously, the earnings management will lead to lower earnings quality.

Fifthly, it yields 0.052 as the managerial ownership coefficient at the significance of 0.770. That shows that Ha_5 is not significant at $\alpha = 5\%$. Therefore, Ha_5 is rejected and Ho_5 is accepted since it indicates that managerial ownership has no significant impact on earnings quality statistically. The result supports previous research by Rachmawati and Triatmoko (2007) who find managerial ownership does not have significant influence to earnings quality. From the researcher analysis, the insignificant impact is due to the small portion of managerial ownership in listed companies of LQ-45 Index 2012. From descriptive statistics, the average of managerial ownership is only 1.0538%. It can be concluded that such little amount of ownership is powerless to impact the earnings quality.

Despite of the insignificance, the table shows 0.052 as the positive result of managerial ownership coefficient. Due to the positive outcome, it indicates that IFRS managerial ownership yields impact upon the earnings quality change prior and post-IFRS compulsory implementation as of January 1, 2012. Every 1% increase of managerial ownership will cause 0.052 increase in earnings quality. Conceptually, the further earnings quality goes away from zero, the worse the earnings quality will be. Therefore, it concludes that managerial ownership basically has negative impact on the earnings quality even though it is insignificant.

As what Watts and Zimmerman (1986) explain through Positive Accounting Theory in The Bonus Plan Hypothesis, managers will tend to apply accounting methods that can shift future earnings to current one therefore they will gain more bonus. If the earning lies under bogey or beyond cap, managers tend to lower earnings in order to grab more bonuses in subsequent periods. On the contrary, the managers will tend to raise the earnings only if the earning lies between bogey and cap. In addition, The Political Cost Hypothesis presents that in large companies with a high political cost, the managers will tend to defer current reported earnings to future periods so as the earnings can be minimized. The managers act such opportunists by utilizing the weaknesses of accounting that has accrual basis to do earnings management. If the managers have more ownership of the company's stock, they will have more power to realize what The Bonus Plan Hypothesis and The Political Cost Hypothesis state in order to satisfy their economics and

psychological needs. Hence, the earnings quality will be low since the management tends to manage the earnings as they plan to.

5.1. Result of F-test

F-test is essential to evaluate whether all of the independent variables simultaneously affect the dependent variable. From Table 2., the model of IFRS implementation, leverage, institutional ownership, and managerial ownership towards earnings quality can be stated as follows:

$$EQT = -6.358 + 1.611\ IFRS + 0.011\ LEV + 0.435\ AUD + 0.064\ INS + 0.052\ MGR$$

That equation model interprets if all of independent variables are constant, the average earnings quality will be -6.358. Every 1 increase of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership, it will cause 1.611, 0.011, 0.435, 0.064, 0.052 increase in earnings quality respectively. The result of F-test is presented by the following table.

Table 2
The Result of F-test

ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	1095.542	5	219.108	8.911	.000[b]
	Residual	1721.113	70	24.587		
	Total	2816.655	75			

a. Dependent Variable: EQT
b. Predictors: (Constant), MGO, INO, IFRS, AUD, LEV

From the result of statistical F-test, it can be concluded that IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership simultaneously contribute significant impact towards the earnings quality.

5.2. Result of Coefficient of Multiple Determination (R^2)

The table below provides the result of coefficient of multiple determination (R^2) of the multiple linear regression model.

Table 3
Coefficient of Multiple Determination Model Summary[b]

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.624[a]	.389	.345	4.9585609

a. Predictors: (Constant), MGO, INO, IFRS, AUD, LEV
b. Dependent Variable: EQT

Basically, the coefficient of multiple determination result is analyzed to have understanding of the how great the extent of independent variables can describe the dependent variable. From Table 3 above, it is presented that adjusted R square is positive 0.345. In another words, it means that the IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership are able to describe the earnings quality change up to 34.50%. The rest of 65.5% is determined by other variables outside of the variables used within this research.

6. SUMMARY AND CONCLUDING REMARKS

It can be concluded that the IFRS implementation, leverage, and institution ownership of listed companies in LQ-45 Index 2012 have significant influence towards earnings quality. On the other hand, audit quality and managerial ownership of listed companies in LQ-45 Index 2012 do not show significant influence towards earnings quality. Through this research, IFRS implementation, leverage, and institutional ownership are statistically proved to bring about negative and significant influence upon earnings quality. Limitations of the research are: (1) Sample is only limited to Indonesia listed companies in LQ-45 Index 2012 of Indonesia Stock Exchange, (2) The time horizon used is limited to only two cross sectional point of time, 2008 data for pre-IFRS implementation and 2012 data for post-IFRS implementation, (3) Corporate governance instruments used as independent variables are only institutional ownership and managerial ownership.

There is an implication for accounting information users are not able to benefit from the IFRS implementation in terms of higher earnings quality since it turns out that IFRS implementation bears negative and significant impact upon earnings quality. Another implication to the accounting standards setter is the assumption of increasing earnings quality by IFRS adoption cannot be considered as an incentive to adopt IFRS the future since the result of this research evidences the other way around.

It is recommended to involve more companies to be analyzed as the sample. Furthermore, more relevant independent variables such as corporate government instruments can be added in order to get better picture of earnings quality change. The IFRS implementation impact would better be observed in longer period of time horizon.

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