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IFRS Adoption and the Value Relevance of Other Comprehensive Income (OCI) in Indonesia

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Abstract: This study focuses on the impact of IFRS adoption in Indonesia which brings a new look of the Statement of Profit or Loss. The purpose of the study is to test the value relevance of other comprehensive income (OCI) and its components after the adoption of IAS 1 to the Indonesian Accounting Standard, PSAK No. 1 (2009): Presentation of Financial Statements. The revised PSAK No. 1 require other comprehensive income previously presented in the Statement of Changes in Equity, now must be presented in the Comprehensive Income Statement, together with profit or loss for the period. Prior research showed that the location where the financial information is presented, have value relevance to investors. Comprehensive income that is presented as bottom line in the Comprehensive Income Statement makes it easier for investors to understand the combined impact of all transactions that led to the change of capital that comes from company's performance. The research was conducted using a sample of companies listed in Indonesia Stock Exchange, which report other comprehensive income (OCI). The result is consistent with prior research which shows that OCI and its components have value relevance. However, the result indicates weak evidence that the value relevance of OCI and its components has increased after the revision of PSAK No. 1 (2009).

Keywords: Comprehensive income, other comprehensive income, profit or loss, value relevance, stock return.

1. INTRODUCTION

This Research is Motivated by the Revision of PSAK No. 1 (2009)

Presentation of Financial Statements that effectively applied since January 1, 2011. According to PSAK No. 1 (2009) the components of financial statements, consists of

- (i) Statement of Financial Position,
- (ii) Comprehensive Income Statement,

- (iii) Statement of Changes in Equity,
- (iv) Statement of Cash Flow, and
- (v) Notes to Financial Statements.

Compared to previous version (*i.e.* PSAK No. 1 (1998)), there is a significant difference in terms of the presentation of income statement. PSAK No. 1 (2009) requires all non-owner changes in equity (*i.e.* comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

The Statement of Comprehensive Income contains information that consists of

- (i) profit or loss for the period, and
- (ii) other comprehensive income (OCI).

The information of profit or loss for the period is all revenues deducted by all expenses that was usually presented in the Income Statement. While OCI is the income and expenses that are not recognized in profit or loss, and before revision, it is reported in the Statement of Changes in Equity.

Revised PSAK No. 1 was part of the process of IFRS convergence and was adopted from IAS 1 about Presentation of Financial Statements as of January 1, 2009. The changes is related to the presentation of Comprehensive Income Statement that aims that users can get all information related to changes of owners equity which did not come from the contribution or distribution to owners in one single report, namely The Statement of Comprehensive Income.

The view of efficient market semi-strong form stated that as long as the information is disclosed to the public, regardless of where the information is presented, the information will be reflected in the stock price. But it can only be true if the information processin cost is assumed to be zero or very minimal and there is no systematic bias that investors timely process the disclosed information. But in fact, the cost of information processing is not zero (Barth *et al.*, 2003) and there is a systematic bias in the processing of information, e.g. due to limited investor attention (Hirshleifer and Teoh, 2003). Thus, the revision of the presentation of the income statement should be aimed to improve the understanding of investors in better evaluate the performance of the company. Prior to the revision, information on company's performance is presented in a separate location. The profit or loss information is reported in the Income Statement and OCI is reported in the Statement of Changes in Equity. The information of OCI which is presented in the Comprehensive Income Statement after revised PSAK No. 1, should be able to improve the usefulness of the information for investors because the investors more easily understand the information about the company's performance in a single report. The bottom line of the Comprehensive Income Statement will make it easier for investors to understand the combined impact of all the transactions that led to the change of the capital comes from the company's performance.

Previous research regarding the usefulness of OCI showed mixed results. Chambers *et al.*, (2007); Kanagaretnam *et al.*, (2009); and Biddle and Choi (2006) suggest that OCI is useful to investors. While Dhaliwal *et al.*, (1999); Cahan *et al.*, (2000); Hanlon and Pope (1999); Cheng *et al.*, (1993) found that OCI has not value relevance to investors. Research of Chambers *et al.*, (2007) found that OCI after SFAS No. 130 has a value relevance for investors. Chambers *et al.*, (2007) also examine the value relevance of the two

components of OCI *i.e.* translation gain/loss related to foreign operation and the unrealized gain/loss from available for sale investments. In his research, Chambers *et al.* (2007) used return model in measuring the value relevance of OCI.

Research on the impact of the location/place where the OCI reported had been examined several times with mixed results. Hirst and Hopkins (1998) through the experimental method found that individual investors were able to estimate better price when OCI information is reported in the Income Statement rather than in the Statement of Changes in Equity. While Chambers *et al.* (2007) found that the investors give more attention to information of OCI that are reported in the Statement of Changes in Equity than in the Income Statement, because it was more familiar with the format that had previously been governed by previous version of the accounting standards.

The revised PSAK No. 1 (2009) was conducted as part of a series of programs of IFRS convergence that main objective is to improve the quality of financial reporting information. The revised PSAK No. 1 aims to improve the quality of information through the structure, content and presentation of the financial statements that is more comprehensive and useful to investors. Accounting information is considered valuable for investors if such information has value relevance, *i.e.* give enough information to investors as a basis for assessing a stock's price. Whether these objectives have been achieved, it should be examined. Specifically in Indonesia, which recently started doing the convergence of IFRS extensively since year 2011, then this research will become one of the empirical evidence on the impact of the application of PSAK revision as a feedback to the Financial Accounting Standards Board in Indonesia.

This research is different with previous research, that this will examine the value relevance of presentation of OCI before and after revised PSAK No. 1, which is different from Chambers *et al.* (2007), since PSAK No. 1 require to present OCI only in Comprehensive Income Statement. While SFAS No. 130 as researched by Chambers *et al.*, (2007) provide an alternative to present the OCI in the Statement of Changes in Equity or in the Comprehensive Income Statement. Most of previous research examining the value relevance of OCI prior to SFAS No. 130, calculate OCI as the difference between the balances of retained earnings of two periods. This is because there is no requirement to present OCI prior to SFAS No. 130. Research of Chambers *et al.* (2007) showed the existence of measurement errors of OCI that occurs in previous research. This research evaluates the value relevance and also focuses on the difference in location/place of presentation of OCI information that are readily available to be processed, before and after the revised PSAK No. 1, both of which are free from potential risk of measurement errors.

Based on the background described earlier, the purpose of this research is:

1. to examine the value relevance of OCI and its components, and
2. to examine whether OCI and its components have the higher value relevance when presented in the Comprehensive Income Statement after the revised PSAK No. 1.

This research is carried out through two steps. The first step, this research will prove the earlier research on the value relevance of net income/net loss, total comprehensive income, OCI and its components using the return model. The results showed that net income has positive association to return and net loss negatively associated with return. Total OCI also positively associated with return. The result support the hypotheses that the value relevance of OCI component showed that the unrealised gain or loss on available for sale investments positively associated with return, while the translation gain or loss from foreign operation

negatively associated with return, as expected. Thus, it can be concluded that the net income and OCI have value relevance to investors.

The second step, is to test the difference of value relevance of comprehensive income, particularly in OCI and each of its components before and after the revised PSAK No. 1 (2009). Regression results using the indicator variable before or after revision showed that the total OCI does not have higher value relevance after the revised PSAK. Further testing shows that only the components of unrealised gain or loss on available for sale investments have higher value relevance after the revised PSAK, while other components are not. Thus it proved weak evidence to an increase in value relevance of the revised PSAK No. 1 (2009), in particular regarding the presentation of comprehensive income in one statement.

This research is expected to contribute to the some parties, first, The Indonesian Financial Accounting Standard Board as the standard setter, as feedback to the revised PSAK No. 1 (2009). In addition, the results of this research suggest one of evidence of the effect of IFRS convergence. Second, For academicians, this research is expected to benefit in terms of:

- (a) Examine the value relevance of OCI which is known as transitory item. According to the Ohlson (1999), a transitory income items such as OCI, are not predictable and not relevant in estimating future profits so as not to have value relevance. But on the other hand, OCI is one of items that determine the book value at the end of period and has value relevance. This research will hopefully add to the literature about the value relevance of comprehensive income concept. The results of previous research demonstrating inconclusive results whether other components of comprehensive income have value relevance to investors.

This research takes the momentum of the revised PSAK No. 1 which provides an opportunity to test the value relevance of OCI and to compare the impact of mandatory settings regarding the presentation of OCI location without any potential risk of measurement errors;

- (b) Unlike the previous research (Dhaliwal *et al.*, 1999) which measures the difference in value relevance by comparing the R^2 between the model, which test the association of net profit with return and OCI with return. In the model of Dhaliwal *et al.*, (1999) net income and OCI treated as one variable with one coefficient. This research treats net income and comprehensive income as two different independent variables that allow both to have a different coefficient to return. This research is also different with Dhaliwal *et al.* (1999) because Dhaliwal *et al.* (1999) examine the value relevance of each OCI components in a separate model, whereas this research examines components of OCI simultaneously in one model. This is done with reason that components of OCI are elements that together determine the magnitude of the comprehensive income, which consists of net income plus OCI;
- (c) Provide empirical evidence in response to the IFRS convergence programme in Indonesia that still in progress. Third, for investors, the research is expected to benefit as the basis for investment decision making regarding the usefulness of the information the company's performance based on the concept of comprehensive income.

This paper consists of the following parts:

Part 1, the introduction, describes the background and motivation for research, research question, research objectives and research contributions; part 2, literature review, discusses the theory, previous

research and hypothesis development; part 3, research methodology, research design, data and samples; part 4, discussion and analysis; part 5, conclusions, limitations and suggestions for further research.

2. LITERATURE REVIEW

2.1. Value Relevance of the Accounting Information

Market value of company's shares reflects the consensus of investors' belief about the value of the company. Accounting information has value relevance if investors use it in determining the market price (Francis and Schipper, 1999) then the market will react. Preliminary study on the value relevance research initiated by Ball and Brown (1968) and Beaver (1968). Ball and Brown (1968) measured market reaction using return, while Beaver (1968), using the trading volume.

Research from Ball and Brown (1968) and Beaver (1968) is the first empirical research on value relevance of accounting information. Their argument that the accounting information is a measure of company's performance, which is supposed to be reflected in the stock price, which means that it is useful information for investors. Ball and Brown (1968) investigated the effects on the stock market against any unexpected earnings derived from information disclosure of profit in the annual report. Ball and Brown also see if there is a relationship between profit for the year and stock return. Ball and Brown (1968) using random walk models in measuring the unexpected earnings to see whether unexpected earning was followed by abnormal return. Whereas Beaver (1968) focuses on changes in the trading volume that is associated with the earnings announcement. Beaver (1968) found that trading volume and volatility of earnings increases at the time of the earnings announcement.

2.2. The Concept of Comprehensive Income in Measuring The Company's Performance

According to PSAK No. 1 (2009), Total Comprehensive Income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. Reporting corporate earnings has been subjected to evolution. Articles from Keating (1999) stated that AICPA gives more support to "current operating concept" or "dirty surplus concept" which means that the net profit supposed to reflect regular information (recurring item). Non-regular and not recurring items should not included in net profit because it does not reflect the underlying corporate strength to earn profit in the future. Hence, this information should be directly reported in retained earnings as a specific item. Meanwhile, according to the American Accounting Association (AAA) in Keating (1999) support the concept of "all inclusive income statement concept" or "clean surplus concept." All earnings items, whether regular or non-regular, directly or indirectly contribute to the company's long-term profitability. This concept shows that all earnings items, including non-regular items are required to be presented in single statement of comprehensive income.

Thus, reporting comprehensive income is consistent with the concept of "all inclusive income," which shows a fundamental achievement of the company's objectives to create profit. The concept of "all inclusive" has increasingly grown since the number of new items in the financial statements, which came from more complex business transactions and require mark-to-market measurement. For example, unrealized gain/loss from available for sale investments as a result of the fair value measurement and gain or loss from foreign currency translation operation as a result of the increasing global nature of company's operations. Accounting standards in some countries such as the United Kingdom (FRS No. 3, 1992) and

New Zealand (FRS No. 2, 1994) require income presentation based on the concept “all inclusive” (Cahan *et al.*, 2000). This was followed by the United States (SFAS) No. 130 about Reporting Comprehensive Income (1997). Since then, there was a shift in the concept of income to “all inclusive income”

From the user side, the profit or loss information in the financial statements is the most important information in the accounting report. So all the important financial data relating to the profit or loss should be seen in the single statement. So according to the concept of “all inclusive income,” it requires to report income in a comprehensive manner. Thus, reporting comprehensive income will increase understanding of the users of the financial statements because it will be presented more formally in single statement, *i.e.* The Comprehensive Income Statement.

Disclosing the comprehensive income will give users the ability to assess the estimated future cash flows of the company. Unrealized gain/loss might ultimately be realized later, for example at a time when its assets were sold, so it will increase or decrease the company’s future cash flow. Without reporting the comprehensive income, then this information is not directly available and ready to be processed.

2.3. Revised PSAK No. 1 (2009): Presentation of Financial Statement

PSAK No. 1 (1994): The Presentation of Financial Statements has been revised to PSAK No. 1 (2009). This revision is one of series of IFRS convergence programmes that carried out gradually in Indonesia since 2007 to 2012. The major content of PSAK No. 1 (2009) fully refers to the IAS No. 1 about the Presentation of the Financial Statements as per 1 January 2009.

One of significant changes in PSAK No. 1 is the requirement to prepare the Comprehensive Income Statement, as one of the components of the financial statements. Comprehensive Income Statement comprises information of profit or loss and OCI. Before revision, information of profit or loss was presented in the Income Statement and component of OCI was presented in the Statement of Changes in Owners’ Equity. The revised PSAK No. 1 requires both informations are reported in single statement, *i.e.* Comprehensive Income Statement. This revision is consistent with the concept of “all inclusive income.” It is expected that through the presentation of Comprehensive Income Statement, the users of the financial statements can quickly and easily capture the information about the company’s performance, whether regular or non-regular, *i.e.* the total change in equity during a period, resulting from transactions other than those changes resulting from transactions with owners in their capacity as owners.

The components of Other Comprehensive Income according to PSAK No. 1 (2009) are:

- Changes in revaluation surplus.
- Actuarial gains and losses on defined benefit plans.
- Gains and losses arising from translating the financial statements of a foreign operation.
- Gains and losses on remeasuring available-for-sale financial assets.
- The effective portion of gains and losses on hedging instruments in a cash flow hedge.

2.4 Prior Research

There are two conflicting arguments over whether comprehensive income value to investors. One of arguments said that a transaction which result an unrealized profits or losses is part of the impact of

market volatility, so as the management may not be able to manage this. This argument also does not provide views on where the comprehensive income should be reported, because the issue of market volatility is not associated with a location/place where this information is reported. Other argument said that the OCI is not associated with the company's performance so that it should not be included in the Comprehensive Income Statement (Keating, 1999).

Proponent of reporting comprehensive income argued that the OCI is related to performance. For example, gain or loss on hedging suggests an indicators of the effectiveness of management in managing the owner's resources, thereby associated with a performance and should be reported in the Comprehensive Income Statement (Keating, 1999). Argument in favor of reporting comprehensive income, is the reason that comprehensive income is the only source of information that can measure the entire value creation of the company and appropriately differentiated value distribution to owners (Chambers *et al.*, 2007).

2.4.1 Research that supports the value relevance of other comprehensive income

Chambers *et al.* (2007) examined the OCI and its components with the samples in the United States for a long period after the issuance of SFAS No. 130 (1997) about "Reporting Comprehensive Income". Chambers *et al.* (2007) also evaluate alternative presentation allowed by SFAS No. 130 to report the OCI components, whether in the Income Statement or in the Statement of Changes in Equity. The results of his research showed that OCI has value relevance, which is consistent with research from Ohlson (1999). Components that have value relevance are gains and losses from translation of financial statements from foreign operation and gains and losses from available-for-sale investment valuation. Chambers *et al.* (2007) also found that investors are more concerned if OCI is presented in the Statement of Changes in Equity than in the Income Statement.

Kanagaretnam *et al.* (2009) researched the Canadian company listed in the U.S. stock market and affected by SFAS No. 130. The period covered by this study is the same as the study conducted by Chambers *et al.* (2007), from 1998 to 2003. His research found that the component gains and losses on available for sale investments and cash flow hedges components are significantly associated with stock prices and returns. Research Kanagaretnam *et al.* (2009) also showed evidence that total comprehensive income has more strong associations with price and stock returns compared to net income, although they also found that net income is a good predictor of the future net income.

Research Biddle and Choi (2006) also supports the disclosure of components of comprehensive income. His research explained that the different definitions of income will have different usage information for users of financial statements. Reporting of comprehensive income and the increase in the content of information disclosure of comprehensive income components separately would increase the usefulness of the information in decision-making by investors.

The experiment research-based method is conducted by Hirst and Hopkins (1998). In his research, Hirst and Hopkins (1998) stated that the information will not be used if it is not available and is not ready to be processed (not clear). Participants of the research were 96 financial analysts. The results showed income statement and OCI disclosures are useful in increasing the transparency of earnings management activities undertaken by management to be more visible, thus reducing analysts' judgement, which is equivalent to the level of judgement in the non-earnings-management companies. Research results also showed that the disclosure of OCI more effectively presented in the Comprehensive Income Statement.

2.4.2 Research does not support the value relevance of comprehensive income

Research Dhaliwal *et al.* (1999) did not find that the comprehensive income has stronger relation to return than to net income. Besides, the comprehensive income is less strongly linked to the market value of equity and not better in predicting the future operating cash flow and net income than the prediction of net income. Research Dhaliwal *et al.* (1999) like many other research also evaluates the application of SFAS No. 130 in the United States. Furthermore, Dhaliwal *et al.* (1999) showed that the component of fair value adjustments to marketable securities is the only component of OCI that enhances the association between income and return.

While Cahan *et al.* (2000) conducted research in New Zealand to test the value relevance of the mandatory disclosure in the presentation of OCI in the Statements of Changes in Equity. Although OCI information already contained in the notes to the financial statements and are included in the valuation in the balance sheet, but the user (investors and analysts) can better assess the company if the information is presented specifically on the Statement of Changes in Equity. The results of his research showed that there is no empirical evidence that the information in the Statement of Changes in Equity has value relevance and useful for investors.

The research that did not find value relevance of comprehensive income also came from O'Hanlon and Pope (1999) and Cheng *et al.* (1993). O'Hanlon and Pope (1999) examine specific components of comprehensive income, which is called the revaluation surplus. The result did not found the value relevance of revaluation surplus. Research O'Hanlon and Pope (1999) take a sample of firms in the UK with a 20-year observation period. While Cheng *et al.* (1993) use U.S. companies data before the enactment of SFAS No. 130. In those days, there was no arrangement in which components of comprehensive income should be reported in financial statements. So the information OCI should be estimated with a weak level of accuracy based on figures reported in the balance sheet. The results showed no difference between the information content of net income to comprehensive income. Cheng *et al.* (1993) test the hypothesis by comparing the R^2 model of research that indicates the information content of each component of earnings.

2.5 Hypotheses Development

2.5.1 The value relevance of OCI and its components

Comprehensive income has value relevance for investors, because it measures the performance of the company as a whole, including all transactions that increase the equity excluding transactions with owners as their capacity as owners. Comprehensive income consists of components that not only comes from profit or loss for the current period, but also from other comprehensive income. Thus, according to Chambers *et al.* (2007) and Keating (1999) that the other comprehensive income also has a value relevance to investors and the value relevance is measured using return models, therefore the first hypothesis proposed is

H1: Other comprehensive income has positive association with stock return.

The value relevance of the OCI should be resulted from the value relevance of the several components of OCI. Thus, this study also examined whether components of OCI are individually has value relevance to investors. Components of OCI are translation gain or loss from foreign exchange and the unrealised gain or loss from available for sale investments (supporting data described in Section 4).

Unrealized gains or losses from available for sale (AFS) investments come from fair value adjustment at the end of period, as required by PSAK No. 55 (2006) about Financial Instruments. Several previous studies have investigated the value relevance of unrealised gains or losses from AFS are commonly reported by banks and insurance companies. Barth (1994) and Nelson (1996) found that there was no significant association between stock returns and unrealised gain or loss from AFS that is reported by the bank. Whereas Ahmed and Takeda (1995), Petroni and Whalen (1995), and Carroll, Linsmeier, and Petroni (2003) reported evidence of a positive association between unrealised gain or loss from AFS and stock return for banks, insurance companies, and mutual funds. Therefore, the next hypothesis that can be raised is:

H2a: Unrealized gain or loss from available-for-sale investments has positive association with stock return.

Translation gains or losses from the foreign operations derived from the consolidation of one or more subsidiaries with the reporting currency that is different from the parent company. Gains or losses are a result of changes in exchange rates between the currency of the parent company and its foreign subsidiaries (PSAK No. 11 (2007): Translation of Financial Statements Subsidiary, later revised to PSAK No. 10 (2009): The Effects of Changes Foreign Exchange Rates). The nature of these gains or losses does not imply any direct cash flow impact will be realized in future periods. If the market also saw translation gains or losses consistent to that view, then the translation has no value relevance. However, if the exchange rate changes reflect changes in economic conditions in terms of interest rates and inflation in the country concerned, the translational gains or losses can be informative and may contain information that valued by the market.

Research from the Soo and Soo (1994) and Bartov (1997) found no effect of translation gains/losses to stock return for certain conditions, *i.e.* at the value of net income that is much larger than the foreign currency translation adjustment, so the market reaction on translation adjustments foreign currency 'covered' by the fluctuations in net income. While Louis (2003) has argued from the view of economic theory and empirical evidence consistently shows that the translation gains or losses of manufacturing firms has a negative influence on stock returns. This study proves the opposite effect between accounting and economic perspective, due to the rigidity of the production costs, especially wages expense. Local currencies appreciation has made the company more difficult to sell their products to the market, as the domestic products become more expensive or foreign products become relatively cheaper. To remain competitive, companies must lower prices. However this is not necessarily be accompanied by a reduction in costs as input prices tend to be sticky, in particular labor costs due to contracts with workers and trade unions. As a result, the appreciation of the local currency and a drop in operating margins high competition with other foreign companies, which in turn lowers the value of the company.

In Indonesia, Purba (2009) found consistent results with Louis (2003) that the negative effects of translation gains or losses to stock returns. This result proves the opposite effect between accounting perspective and economic perspective, where a positive amount in the foreign currency translation adjustment will have negative impact to stock returns. Study of Purba (2009) was conducted in 2004-2008 using a sample of all companies listed on the Stock Exchange (except for service companies). Thus, the following hypothesis is

H2b: Translation gain or loss from foreign exchange currencies is negatively associated with stock return.

2.5.2 The value relevance of OCI and its components after PSAK No. 1 (2009)

The revised PSAK No. 1, which require presentation of OCI in the Comprehensive Income Statement, aims to improve the quality of information to investors. Some previous research has shown the difference in value relevance of how or where the financial information is presented. In accordance with Hirst and Hopkins (1998) who did research with experimental method, they found that users of financial statements (in this case the analyst) prefer the information of OCI are presented in the Comprehensive Income Statement than presented in the Statement of Changes in Equity, because it is more quickly and readily available to be processed. So it can be expected that the value relevance of OCI after PSAK No. 1 (revision) is higher than before the revision.

H3: Other comprehensive income after PSAK No. 1 (revision) has more positive association with stock returns than before revision.

In accordance with hypothesis 2, the value relevance of OCI should be due to the value relevance of one or several components of OCI. Consistent with hypothesis 3, the presentation of OCI component in the Comprehensive Income Statement as required by PSAK No. 1 (revision) will have higher value relevance than before the revision of PSAK No. 1. Thus the following hypothesis is:

H4a: Unrealized gain or loss from the available-for-sale-investments after PSAK No. 1 (revision) has more positive association with stock return than before revision.

H4b: Translation gain or loss from foreign currency after PSAK No. 1 (revision) has more negative association with stock returns than before revision.

3. RESEARCH METHOD

3.1 Data and Sample

The samples are listed company in the Indonesia Stock Exchange for year 2010 (before the revision of PSAK No. 1 applies) and in 2011 (after the revision of PSAK No.1 applies). The sample selection criteria are as follows:

- Publish the audited annual Financial Statements as of December 31, 2010 and December 31, 2011.
- Report Other Comprehensive Income for the period 2010 or 2011
- Daily stock price data are available for the full year 2010 to March 2012

3.2 Research Model

Research model to test Hypotheses 1:

$$R_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 DLOSS + \alpha_3 DLOSS \times NI_{it} + \alpha_4 OCI_{it} + \varepsilon_{it} \quad \dots(1)$$

Where R: stock return; NI: net income; and OCI: other comprehensive income. To control the different association of companies that are experiencing loss according to Hayn (1995), then variable *DLOSS* is included in the model as an indicator variable. *DLOSS* = 1 if the company report loss for the period and 0 otherwise. The expected sign is $\alpha_4 > 0$.

Research Model to test the Hypotheses 2a and 2b:

$$R_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 DLOSS + \alpha_3 DLOSS \times NI_{it} + \alpha_4 AFS_{it} + \alpha_5 TRANS_{it} + \alpha_6 OTHER_{it} + \epsilon_{it} \dots(2)$$

Where *AFS*: components of unrealized gain or loss from available for sale investments; *TRANS*: components of gain or loss from foreign currency translation; While the control variable *OTHER*: other components of *OCI*, including effective portion of cash flow hedge, the revaluation surplus, and the rest of the others. The expected sign of H2a is $\alpha_4 > 0$ and H2b is $\alpha_5 > 0$.

Research model to test the Hypotheses 3 which tests the value relevance of OCI after the revision of PSAK No. 1:

Where *POST* is an indicator variable for year 2011, that is the period after revision of PSAK No. 1. Hence, *POST* = 1 for observation in the year 2011, and 0 for the year 2010 (before revision of PSAK No. 1). Expected sign to test H3 is $\alpha_6 > 0$.

$$R_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 DLOSS + \alpha_3 DLOSS \times NI_{it} + \alpha_4 POST + \alpha_5 POST * NI_{it} + \alpha_6 POST * OCI_{it} + \alpha_7 POST \times OCI_{it} + \epsilon_{it} \dots(3)$$

Research model to test the hypothesis 4a and 4b, which test the value relevance of OCI component after the revision of PSAK No. 1:

$$R_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 DLOSS + \alpha_3 DLOSS \times NI_{it} + \alpha_4 POST + \alpha_5 POST \times NI_{it} + \alpha_6 AFS_{it} + \alpha_7 POST \times AFS_{it} + \alpha_8 TRANS_{it} + \alpha_9 POST * TRANS_{it} + \alpha_{10} OTHER_{it} + \alpha_{11} POST \times OTHER_{it} + \epsilon_{it} \dots(4)$$

The expected sign to test H4a is $\alpha_7 > 0$, and H4b is $\alpha_9 > 0$.

4. RESULT AND ANALYSIS

4.1 Sample

Based on sample selection criteria, the sample selected is as shown in table 1 below:

Table 1
Sample

<i>Description</i>	<i>Total</i>
The number of companies that reported other comprehensive income	195
Number of observations (firm years) for two years (2010 and 2012)	390
Less:	
Incomplete Data	110
Number of samples (firm years)	280

We winsorized the observations at the extreme value of 3 times the standard deviation to keep the number of samples. Winsorised number of observations by 12 observations or only by 4.2%.

4.2 Descriptive Statistic

Following this is the portion of the number of observations which reported earnings comprehensive other and its components:

Tabel 2
Number of Observations

	<i>OCI</i>	<i>AFS</i>	<i>Trans</i>	<i>Other</i>
Number of Observations	280	144	121	91

Note: The total number of OCI does not equal the number of components of OCI (AFS TRANS OTHER) because the company can report more than 1 components of OCI.

OTHER consists of several types of components, such as profit losses from the effective cash flow hedges, the differences between entities under common control, the revaluation surplus of fixed assets, and other statements that are not included. However, for each component of the number of firms reporting each component is very small. Therefore, in the model used to study examines this hypothesis, OTHER components are not broken down and used as a control variable.

The following table shows the descriptive statistics of the variables examined.

Tabel 3a
Descriptive Statistic

	<i>Return</i>	<i>Post</i>	<i>DLOSS</i>	<i>NI</i>	<i>OCI</i>	<i>AFS</i>	<i>Trans</i>	<i>Other</i>
Mean	0.3742	0.5000	0.0964	0.1139	0.0291	0.0092	0.0156	0.0290
Median	0.2844	0.5000	0.0000	0.0821	0.00066	0.0000	0.0000	0.0000
Maximum	1.9411	1.0000	1.0000	3.8371	1.8875	1.8875	4.4364	3.3441
Minimum	-0.5322	0.0000	0.0000	-3.5171	-0.6285	-0.6285	-0.1575	-0.2136
Std. Dev.	0.4949	0.5008	0.2957	0.5363	0.2030	0.1284	0.2654	0.2673

Where *R* : Stock Return; *NI*: Net Income; and *OCI*: Other Comprehensive Income; *DLOSS*: 1 for firms reporting losses for the period and 0, otherwise ; *AFS*: unrealized gain or loss from available for sale of investments; *TRANS*: unrealised gain or loss from foreign currency translation; variable control *OTHER*: other components of OCI, including effective portion of cash flow hedge, the revaluation surplus; *POST*: 1 for the year 2011 (after the revision of PSAK No. 1) and 0 for year 2010 (before the revision of PSAK No. 1).

Table 3a. indicates there are 9,64% observation that reported net loss for the period of observation. The median and average value of OCI approaches zero, whereas the median and average value of net income does not. This indicates the portion of the comprehensive income that is less than net income as core earning. The median value of AFS, TRANS and OTHER are zero indicates that the majority of observations did not report all these three components of OCI in one period.

Where *R*: Stock Return; *NI*: Net Income; and *OCI*: Other Comprehensive Income; *DLOSS*: 1 for firms reporting losses for the period and 0, otherwise; *AFS*: unrealized gain or loss from available for sale of investments; *TRANS*: unrealised gain or loss from foreign currency translation; variable control *OTHER*:

Tabel 3b
Mean difference 2010 and 2011

<i>Variable</i>	<i>Period</i>	<i>Average</i>	<i>Std. Deviation</i>	<i>Prob Stat</i>
Return	2010	0.4215	0.50886	0.110
	2011	0.3270	0.47771	
NI	2010	0.1018	0.54021	0.705
	2011	0.1261	0.53413	
OCI	2010	0.0536	0.25694	0.044**
	2011	0.0047	0.12478	
AFS	2010	0.0224	0.16933	0.086*
	2011	-0.0039	0.06410	
Trans	2010	0.0307	0.37545	0.345
	2011	0.0006	0.00675	
Other	2010	0.0409	0.31241	0.459
	2011	0.0172	0.21347	

* *significant at level 5%; *significant at level 10%

other components of OCI, including effective portion of cash flow hedge, the revaluation surplus; POST: 1 for the year 2011 (after the revision of PSAK No. 1) and 0 for year 2010 (before the revision of PSAK No. 1).

Average return in 2011 is lower than 2010, but not statistically significant. This shows the average decrease of the stock price in 2011. This result is consistent with the average AFS in 2011 is negative, lower than 2010 (statistically significant at 10%). As we know that AFS is derived from gain/loss of fair value adjustment from available for sale investments (market price at the end of period). The average net income for the year 2010 and 2011 showed that the average is not much different (not statistically significant). Average OCI is significantly lower in 2011 than 2010 (statistically significant at 5%) that is consistent with the average difference of AFS, TRANS and OTHER are lower in 2011 than 2010.

4.4 Correlation

Refer to table 4, positive stock return is significantly correlated with net income (NI), net income after revised PSAK (NI_POST), other comprehensive income (OCI) and the gain/loss of AFS (AFS). The sign of the correlation is consistent with the hypothesis. Almost all the components of OCI are positively significantly correlated with total OCI. This is according to the nature of the components which are the elements of OCI.

Where R: Stock Return; NI: Net Income; and OCI: Other Comprehensive Income; DLOSS: 1 for firms reporting losses for the period and 0, otherwise; AFS: unrealized gain or loss from available for sale of investments; TRANS: unrealised gain or loss from foreign currency translation; variable control OTHER: other components of OCI, including effective portion of cash flow hedge, the revaluation surplus; POST: 1 for the year 2011 (after the revision of PSAK No. 1) and 0 for year 2010 (before the revision of PSAK No. 1).

Table 4
Pearson Correlation

Return	NI	NI_Dloss	Ni_Post	Oci	Oci_Post	Afs	Afs_Post	Trans	Trans_Post	Other	Other_Post
1	.180*	-0.005	.149*	.132*	-0.008	.100*	0.021	-0.034	-0.037	0.035	-0.028
NI	.180*	.708**	.697**	-0.048	-0.187**	-0.007	-.347**	-0.164**	0.076	0.037	-0.018
NI_Dloss	0.001	1	0	0.213	0.001	0.455	0	0.003	0.101	0.267	0.383
Ni_Post	-0.005	.708**	1	.232**	-0.075	0.01	-0.018	-0.222**	0.041	0.009	0
Oci	0.465	0	0	0.104	0.462	0.436	0.381	0	0.247	0.44	0.498
Oci_Post	.149**	.232**	1	-.134*	-.259**	-.188**	-.492**	-0.007	.116*	-0.022	-0.017
Afs	0.006	0	0	0.012	0	0.001	0	0.45	0.026	0.354	0.386
Afs_Post	.132*	-0.048	-.134*	1	.430**	.621**	.228**	.360**	0.003	.628**	.362**
Trans	0.013	0.104	0.012	0	0	0	0	0	0.479	0	0
Trans_Post	-0.008	-0.006	-.259**	.430**	1	.179**	.513**	-0.001	0.027	.479**	.853**
Other	0.448	0.462	0	0	0	0.001	0	0.493	0.326	0	0
Other_Post	.100*	-0.007	-.188**	.621**	.430**	1	.356**	-0.003	-0.005	-0.012	-0.005
Other_Post	0.047	0.436	0.001	0	0.001	0	0	0.478	0.465	0.418	0.469
Other_Post	0.021	-0.018	-.492**	.228**	.513**	.356**	1	0.003	0.001	0.004	0.001
Other_Post	0.362	0	0.381	0	0	0	0	0.483	0.491	0.475	0.494
Other_Post	-0.034	-.164**	-0.007	.360**	-0.001	-0.003	0.003	1	0.014	-0.006	-0.003
Other_Post	0.285	0.003	0.45	0	0.493	0.478	0.483	1	0.406	0.458	0.477
Other_Post	-0.037	0.041	.116*	0.003	0.027	-0.005	0.001	0.014	1	-0.011	-0.01
Other_Post	0.267	0.101	0.026	0.479	0.326	0.465	0.491	0.406	0.43	0.43	0.435
Other_Post	0.035	0.009	-0.022	.628**	.479**	-0.012	0.004	-0.006	-0.011	1	.560**
Other_Post	0.281	0.44	0.354	0	0	0.418	0.475	0.458	0.43	0	0
Other_Post	-0.028	0	-0.017	.362**	.853**	-0.005	0.001	-0.003	-0.01	.560**	1
Other_Post	0.32	0.383	0.386	0	0	0.469	0.494	0.477	0.435	0	0

**Significant at level 1% ; *Significant at level 5%

4.5 Result

The result of hypotheses testing for H1 and H2 can be seen from Table 5.

Table 5
Regression result Model 1 and 2

<i>Dependent Variable: Return</i>							
		<i>Model 1</i>			<i>Model 2</i>		
<i>Independent Variable</i>	<i>Expected Sign</i>	<i>Coefficient</i>	<i>t-stat</i>	<i>Prob.</i>	<i>Coefficient</i>	<i>t-stat</i>	<i>Prob.</i>
NI	+	0.3259	5.699	0.002**	0.3316	5.850	0.001**
NI_DLOSS	-	-0.4046	-6.171	0.001**	-0.4192	-6.469	0.000**
OCI	H1: +	0.3500	3.186	0.056*			
AFS	H2a: +				0.4004	4.538	0.012*
Trans	H2b: -				-0.0543	-4.205	0.018*
Other					0.0635	0.726	0.358
DLoss		-0.1551	-2.406	0.115	-0.1112	-1.614	0.210
C		0.3195	19.436	0	0.3193	19.497	0
R-squared			9.14%		8.41%		
Adjusted R-squared			7.82%		6.40%		
Prob (F-statistic)			0.00002		0.0004		

**significant at level 1%; *significant at level 5%

Where R: Stock Return; NI: Net Income; and OCI: Other Comprehensive Income; DLOSS: 1 for firms reporting losses for the period and 0, otherwise; AFS: unrealized gain or loss from available for sale of investments; TRANS: unrealised gain or loss from foreign currency translation; variable control OTHER: other components of OCI, including effective portion of cash flow hedge, the revaluation surplus; POST: 1 for the year 2011 (after the revision of PSAK No. 1) and 0 for year 2010 (before the revision of PSAK No. 1).

The result of regression showed that model 1 is statistically significant with prob *f*-stat at 0.00002 and adjusted R² of 7.82%. The result of model 1 indicates that the variable of OCI significantly has positive association with RETURN (level 5%), which means OCI has value relevance for investors. These results are consistent with previous research (Chambers *et al.*, 2007; Kanagaretnam *et al.*, 2009, and Biddle and Choi, 2006) who also find the value relevance of OCI. Different from previous research, this research uses the measurement of OCI that are available on the Financial Statements, so it does not have the risk of measurement error. Thus, this study also reinforces the findings of Chambers, *et al.* (2007) which said that the non-value-relevance of OCI due to the possibility of measurement error variables. Thus Hypothesis 1 (H1) is supported.

Regression results also showed consistency with previous research on the value relevance of net income to the stock price determination by investors as indicated by the significant positive association (1% level) between NI and RETURN. There is a negative association of stock returns for firms that

reports a net loss in the current period, as indicated by a significant negative association (1% level) between NI_DLOSS and stock returns. These results are consistent with Hayn (1995).

Hypothesis testing model 2 is shown from the results of the regression model 2. Overall models are statistically significant as indicated by F-stat 0.0004 and adjusted R² of 6.4%. Regression results indicate that the components of OCI that have value relevance are TRANS and AFS. AFS variables is significantly positively associated with (1% level) stock returns, which are consistent with the hypothesis 2a. TRANS variables is significantly negatively associated with stock returns (1% level). This result is also consistent with the hypothesis 2b. Thus Hypotheses H2a and H2b are supported. NI and NI_DLOSS consistently has significant association with return as expected.

This evidence suggests that the unrealised gains/losses from fair value adjustment of available for sale investments are valued by investors. This evidence is consistent with previous research of Ahmed and Takeda (1995), Petroni and Whalen (1995), and Carroll, Linsmeier, and Petroni (2003).

Gains/losses from foreign currency translation showed consistent results with Louis (2003) and Purba (2009) that there is an inverse effect between foreign currency translation impact on the financial statement with the investor valuation which reflected in stock prices. Evidence suggests an inverse economic impact of the financial statement adjustment. Translation gains were reported as the impact of foreign currency translation (a positive impact on the Financial Statements) will be valued negatively by investors, and vice versa.

Hypotheses testing regarding the value relevance of the location of OCI, is shown from the results of the regression models 3 and 4 in Table 6.

Where R: Stock Return; NI: Net Income; and OCI: Other Comprehensive Income; DLOSS: 1 for firms reporting losses for the period and 0, otherwise; AFS: unrealized gain or loss from available for sale of investments; TRANS: unrealised gain or loss from foreign currency translation; variable control OTHER: other components of OCI, including effective portion of cash flow hedge, the revaluation surplus; POST: 1 for the year 2011 (after the revision of PSAK No. 1) and 0 for year 2010 (before the revision of PSAK No. 1).

Refer to Table 6 in the column of Model 3 shows the results that the model is statistically significant with prob *f*-stat value of 0.0002 and an adjusted R² of 7.43%. Variable of NI and NI_DLOSS consistently associated with stock returns and the sign is in line with the expectations. Table 6 shows the results that there is no difference in value relevance of OCI, before and after the revision of PSAK No. 1 (2009). The result of model 3 showed that variable OCI_POST is not significantly associated with stock return. Thus, hypothesis H3 is not supported.

Model 4 also shows the overall model was statistically significant with F-stat of 0.0007 and adjusted R² value of 7.4%. In model 4, Variable NI and NI_DLOSS consistently associated with stock return, and the sign is in line with expectations.

The next test in model 4 suggests that one of the components of OCI, *i.e.* unrealised gains/losses from AFS after revision of PSAK No.1, has more value relevance than before revision of PSAK No.1. While the gain/loss from foreign currency translation after revision of SFAS No.1 does not have different value relevance than before the revision. This is indicated by the positive and significant coefficient of

Table 6. Regression result Model 3 and 4

<i>Dependent Variable: Return</i>							
<i>Independent Variable</i>	<i>Expected Sign</i>	<i>Model 3</i>			<i>Model 4</i>		
		<i>Coefficient</i>	<i>t-stat</i>	<i>Prob.</i>	<i>Coefficient</i>	<i>t-stat</i>	<i>Prob.</i>
NI	+	0.3885	4.363	0.015*	0.4355	5.096	0.005**
NI_DLoss	-	-0.4472	-4.893	0.007**	-0.5100	-6.061	0.001**
NI_Post	?	-0.0762	-0.889	0.328	-0.0025	-0,033	0.493
OCI	+	0.2970	2.259	0.129			
OCI_Post	H3:+	0.0847	0.341	0.432			
AFS					0.1548	1.897	0.171
AFS_Post	H4a:+				17.693	6.566	0.000**
Trans					-0.0578	-4.754	0.009**
Trans_Post	H4b:+				-5.8445	-1.326	0.253
Other					0.0761	0,556	0.390
Other_Post					-0.1004	-0,693	0.364
DLoss		-0.1468	-2.231	0.132	-0.0918	-1.333	0.252
Post		-0.0608	-2.102	0.147	-0.0678	-2.285	0.127
C		0.3458	15.095	0	0.3428	15.269	0
R-squared			9.75%			11.05%	
Adjusted R-squared			7.43%			7.40%	
Prob(F-statistic)			0.0002**			0.0007**	

**significant at level 1%; *significant at level 5%

AFS_POST (1% level). Furthermore TRANS_POST variables has no significant association with stock returns, despite having a negative sign as expected in the hypothesis. However, TRANS variable in the period before revision of PSAK No.1 consistently has negative association (1% level) with the stock returns, in accordance with the results of Purba (2009). Thus hypothesis 4a is supported, while Hypothesis 4b is not supported.

These results indicate limited evidence (mixed results) in support of efforts to improve the quality of accounting information relevance through revision of PSAK No. 1 (2009). Only components of gain/loss from available for sale investments after revision of PSAK No. 1 which has higher value relevance than before revision. While total OCI, and other components have no different value relevance . With the enactment of the revised PSAK No. 1, the standard requires that information of OCI is presented in the Statement of Comprehensive Income (previously Statement of Changes in Equity). These results provide weak support for research Hirst and Hopkins (1998) that investors will pay greater attention to financial information prepared in accordance with the location that they expect to be served. This research indicates that the information of OCI (only for unrealised gains/losses from available for sale investments) are presented in the Statement of Comprehensive Income is more relevant to investor than presented in the Statement of Changes in Equity before revision of PSAK No. 1.

4.6. Sensitivity Analysis

Sensitivity test is conducted for 2 items:

1. To test whether the results are influenced by differences in the calculation of return. This is done by changing the proxy to market adjusted returns, instead of using raw returns as dependent variable. The result (not shown) showed consistent results with raw return.
2. To indicate whether the results are not affected by the inclusion of industry classifications, by conducting separate regressions for firms in the financial sector (Banks, Insurance and Finance) with 86 observations over 2 years of observations. Companies in the financial sector is thought to have similar characteristics in OCI generating transactions. Results of regression model 1 (not shown), OCI variable is not associated with return, but in model 2, showing the consistency of the value relevance of OCI components in the variable OTHER. Based on a review of observation, OTHER component consists of gain or loss of the effective portion of cash flow hedges. This is an obvious reason why this component has a value relevance than other components, because these transactions are transactions that mostly performed by financial sector. Model 3 is consistent with the hypothesis that the value relevance of the total comprehensive income is not different than before revision. Model 4 shows that the model is not statistically significant, so it can not be concluded. This is likely due to the fewer number of observations that many independent variables in model 4, resulting in variations in the relationship between the independent variables and the dependent variable was not patterned.

5. CONCLUSIONS

5.1. Conclusion

Revision of PSAK No.1 (2009), presentation of Financial Statements raises questions about the value relevance of OCI, whether the location / place where the financial information presented in the financial statements have a different effect on stock returns. Previous research shows that the results have not been conclusive. This research takes place value relevance differences in OCI, which have arisen from the mandatory requirement to present the OCI, that were previously presented in the Statement of Changes in Equity, now should be presented as part of “all inclusive” in single report, the Statement of Comprehensive Income. Changes in the requirement to present the OCI, is expected to show a higher value relevance than before revision.

This research is different from previous research because it uses data that is free from the possibility of measurement error. This research not only test the value relevance of OCI in total, but also the relevance of the value of the components of OCI that most of companies have, *i.e.* the unrealised gain/loss in fair value adjustment of available-for-sale investments and gain/loss from foreign currency translation.

In addition to re-examine the value relevance of comprehensive income and its components, this research compares the value relevance of OCI in the first year of the implementation of PSAK No.1 (2009) with one year period before the application of PSAK No.1 (2009). The results showed that the net income and net loss have value relevance for investors. Total OCI also has a value relevance for investors. Unrealised gain/loss in fair value adjustment of available-for-sale investment has a positive association to

stock returns, in accordance with previous research, and gain/loss from foreign currency translation showed the opposite effect between accounting adjustments and economic impact.

Regarding the impact of the revision of PSAK No. 1 (2009), it is found that OCI has no different value relevance between before and after revision of PSAK. Only components of unrealised gain/loss in fair value adjustment from available-for-sale investments that have higher value relevance when presented in the Statement of Comprehensive Income compared to the previous presentation in the Statements of Changes in Equity. This evidence provides weak support for the value relevance of OCI after revision of PSAK No.1.

5.2. Limitations and Recommendation for Further Research

This research has several limitations, this research only cover short period of observation (2010 and 2011), that may lead to a different pattern when using the longer observation period. This research is a preliminary study for the first year of the implementation of PSAK No. 1 (2009). Further research may use a longer period of time. This research does not include the possibility of differences in the value relevance of patterns in different industry classifications. Further research can take into account a wider range of industrial classification. As we know, the components of OCI are usually associated with the characteristics of a particular industry, such as manufacturing industries are more exposed to the possibility of opposite effects from gains/losses of foreign currency translation due to a rigid wages cost. This research only cover components of OCI, which is limited to gain/loss from fair value adjustment on available for sale investments and gain/loss from foreign currency translation. There are other components that have not been studied, such as gain/loss of the effective portion of the cash flow hedge and revaluation surplus from fixed assets. Further research could examine the different influences of the value relevance for each component of OCI by increasing the number of observations. The limited number of observations is still an obstacle in testing sub-sample of companies in the finance and banking industry as presented in the sensitivity test.

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