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**THE PERCEPTION OF ACCOUNTING PROFESSIONALS IN  
PALEMBANG ON ADOPTION OF INTERNATIONAL FINANCIAL  
REPORTING STANDARD (IFRS)**



**NAME : FITRAH AINUN**

**STUDENT ID : 01053130076**

**To Fulfill Parts of Requirements**

**To Obtain Bachelor of Economics**

**EDUCATION CULTURAL MINISTRY**

**SRIWIJAYA UNIVERSITY**

**ECONOMIC FACULTY**

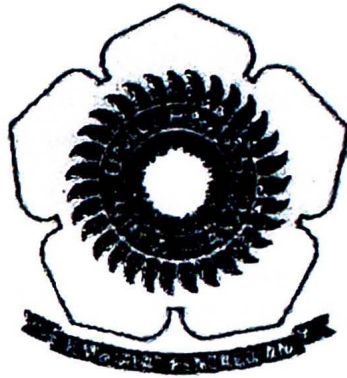
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INDRALAYA**

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EDUCATION AND CULTURAL MINISTRY  
SRIWIJAYA UNIVERSITY  
ECONOMICS FACULTY  
INDERALAYA

APPROVAL LETTER OF UNDERGRADUATE THESIS

NAME : FITRAH AINUN  
STUDENT ID NUMBER : 01053130076  
MAJOR : ACCOUNTING  
SUBJECT OF STUDY : ACCOUNTING THEORY  
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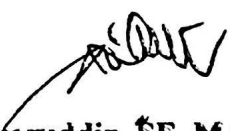
APPROVAL DATE

SUPERVISORS

Date 27 7 2012 Head

  
: Dra. Hj. Kencana Dewi, M.Sc, Ak.  
NIP. 195707081987032006

Date 27 / 07 / 2012 Member

  
: Mukhtaruddin, SE, M.Si, Ak.  
NIP. 196712101994021001

**DEPARTMENT OF NATIONAL EDUCATION  
SRIWIJAYA UNIVERSITY  
ECONOMICS FACULTY  
INDERALAYA**

**COMPREHENSIF EXAMINATION APPROVAL LETTER**

**NAME : FITRAH AINUN**  
**Student Id. No. : 01053130076**  
**MAJOR : ACCOUNTING**  
**SUBJECT : ACCOUNTING THEORY**  
**SCRIPT TITLE : "The Perception of Accounting Professionals in Palembang on Adoption of International Financial Reporting Standard".**

Have been done comprehensif examination on , July 10<sup>th</sup> 2012 and already fulfill the requirement to be accepted.

Comprehensif exam committee  
Inderalaya, July 10<sup>th</sup> 2012

Head

Member,

Member,

**Dra. Hj. Keucana Dewi, M.Sc, Ak  
NIP.195707081987032006**

**Mukhtaruddin, S.E., M.Si, Ak.  
NIP. 196712101994021001**

**Drs. Burhanuddin M.Acc, Ak.  
NIP. 195808281988101001**

To be aware of,  
Head of Accounting Department

**Ahmad Subeki, S.E, MM, Ak.  
NIP. 1965081619951210001**

## **MOTTO AND DEDICATION**

**“Turn not your cheek away from people in scorn and pride, and walk not on earth haughtily; for God does not love anyone who acts proudly and boastfully. Be modest in your bearing and lower your voice; for the ugliest sound is the donkey’s braying.”**

**(QS Luqman 31: 18-19)**

**Dedicated to :**

- **My Parents**
- **My Bestfriends**
- **My Faculty**
- **My Almamater**

## PREFACE

Praises and thanks to Allah for all His help and permit so the writer could finish this script. This script is one of the requirements in order to get the undergraduate degree in economics at Universitas Sriwijaya. The script titled The Perception of Accounting Professionals on Full Adoption of International Financial Reporting Standard (IFRS). The writer hope that this research would bring useful information for Related in general and especially for student while preparing the next research.

In this research, the writer divides it into five chapters so it would be easier for the reader to understand the whole information. The first chapter consists of background for this research and also the problem statement. In chapter two, the writer put all the literature review related with the underpricing. In chapter three, the reader will found the methodology used in this research and also the model for testing the hypothesis. Chapter four consists of the result of the test and analysis of the hypothesis. The last chapter consists of conclusion, limitation and suggestion.

Although this research is far from perfection and still lack of accuracy, the writer hopes that this research could give additional information for the reader and the next researcher to improve and fix all the mistakes made in this research. Critics and suggestion will be very welcomed for the writer so that the same mistakes will not be repeated. Thank you.

-Writer-

Fitrah Ainun

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The very first gratefulness is delivered to The Almighty Allah SWT. The Greatest Creator and The Best Motivator to the everlasting and mercy keeping me tough during my writing. Entitled The Perception of Accounting Professionals on Full Adoption of International Financial Reporting Standard (IFRS). Therefore, this script is finally completed.

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At the last writter hope this script will be usefull for others.

-Writer



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# THE PERCEPTION OF ACCOUNTING PROFESSIONALS ON ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

## ABSTRACT

The purpose of this study is to know the factors influencing the perception of accounting professionals on adoption of IFRS. The variable which are used in this research are the situation factor include: situation and environment and the factors on perceiver include: attitudes and motivation. This research was done using multiple regressions analysis with 5% significance level. Data collection was done using primary data by using questionnaire and also literature study. The sampling technique used in this research is purposive sampling.

This research used 24 selected samples from 8 available populations. The research concluded that from the 2 independent variables proposed, both variables shows significant influence to the perception of accounting professionals. The result reported that 94% of respondents have a positive perception on adoption of IFRS, while only 6% respondents have negative perception. It can therefore conclude that, the accounting professionals (Auditor) in Palembang have positive perception on adoption of IFRS in Indonesia.

Keywords : IFRS, perception of accounting professionals, situation, environment, attitudes, motivation

## STATEMENT OF SRICPT ORIGINALITY / NO PLAGIARISM

The Undersigned below the :

Name : FITRAH AINUN

NIM : 01053130076

Major : Accounting

Faculty : Economic

stating the fact that my script entitled :

### THE PERCEPTION OF ACCOUNTING PROFESSIONALS IN PALEMBANG ON ADOPTION OF IFRS

Advisor :

Head : Drs. Hj. Kencana Dewi, M.Sc., Ak.

Member : M. Nasai, S.E, MAFIS, Ak

Exam's date : July 10<sup>th</sup> 2012

that really my under the guidance of advisor team.

The content of this script, there is no other people's work that i copy the whole or part without mentioning the original sources.

So, I've created this statement to the true faith and if it turns out later in my statement is not true, then I am willing to accept regulatory sanctions, including the cancellation of my degree.

Inderalaya, July 10<sup>th</sup>2012

Statement maker

METERAI  
TEMPEL

PALEMBANG

EA836ABF059551509

ENAM RIBU RUPIAH

6000

EUR

FITRAH AINUN

NIM : 01053130076

# CHAPTER I

## INTRODUCTION



### 1.1 Background of Research Statement

Globalization is one of the biggest social processes which the humanity has facing since ever. That's why its impact in the global economy is huge. Since 2005 most listed companies located in the European Union, Australia, and New Zealand have prepared their consolidated financial statements in accordance with IFRS (Ali, 2005). According to the International Accounting Standards Board (IASB), about 150 countries have adopted IFRS. The year 2012 is when many countries in the Asian region will formally adopt IFRS, and their regulators and accounting standard setters will face the real challenges of adoption.

As investors and creditors require up-to-date financial statements and reports, the professional accounting practices such as ASEAN countries are being scrutinised. Indonesia as ASEAN member countries are also need to have a uniform set of accounting standards. Convergence of local accounting standards with International Financial Reporting Standards (IFRS) is now one of therising concerns among stakeholders with interests in Indonesia. Facing a global challenge financial information system has called for consistent financial information produced by accounting.

One of the main international accounting processes on the actual period is the harmonization of the national accounting systems. Besides that, the growth of the relationship between business and organization to be international relationship now days repeatedly compel the financial information to present the good information that

can be accessed globally. It's because there are so many related parties involved in the international business come from different places around the world.

Ball (2007) stated that financial reporting quality is stated in a very general terms as satisfying the demand for financial reporting. It's because high quality financial statements provide useful information to a variety of users, including investors. It requires:

- Accurate depiction of economic reality (for example: accurate allowance for bad debts; not ignoring an imperfect hedge);
- Low capacity for managerial manipulation;
- Timeliness (all economic value added gets recorded eventually; the question is how promptly); and
- Asymmetric timeliness (a form of conservatism): timelier incorporation of bad news, relative to good news, in the financial statements.

Financial statements are prepared and presented for external users by many enterprises around the world. Although such financial statements may appear similar from country to country, there are some differences which have probably been caused by variety of the social, economic and legal circumstances and by different countries having in mind the needs of financial statements when starting national requirements.

These different circumstances have led to the use of the elements of financial statements; that is for example, assets, liabilities, equity, income and expenses. These different circumstances have also resulted in the use of different criteria for recognition of items in financial statements and in a preference for different bases of measurement. The scope of the financial statements and the disclosures made in them also been affected.



The International Accounting Standard Committee (IASB) is committed to narrowing these differences by seeking to harmonize regulations, accounting standards and procedures relating to preparation and presentation of financial statements that are prepared for purpose of providing information that is useful in making economic decision (IAI; 2004).

There are the two main standards which are disputing the first stage of being the benchmark: GAAP and IFRS. The biggest difference between U.S. GAAP and IFRS is that IFRS provides more overall detail. Its guidance regarding revenue recognition, for example, is significantly less extensive than GAAP, and it contains relatively little industry-specific instructions. Each of them has his pluses and minuses on being the chorused one. Due to this fact the solution for a unique international accounting solution is needed.

PricewaterhouseCooper (2009) stated that Moving to a universal accounting language is a natural and necessary response to the globalization of business, finance, and investment. A single set of high-quality global standards will reduce the unnecessary complexity that exists with multiple reporting languages. It will also:

- help achieve greater global comparability of information, improving investors' ability to assess investment options across a full spectrum of globally available securities;
- broaden the accessibility of crossborder capital thereby increasing the competitiveness of capital markets; and
- generate process and cost efficiencies for multinational issuers over time as IFRS gains further acceptance for statutory and tax reporting purposes around the world.

IFRS provides a high-quality, comprehensive and robust set of accounting standards. IFRS continues to improve through the normal process of standard setting and the ongoing convergence efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). IFRS is currently used as the primary accounting framework, or is in the process of being adopted, in nearly all other significant capital markets worldwide (PricewaterhouseCooper, 2009).

Some advantages of adopting IFRS are enhanced comparability of the companies' financial information and improved quality of communication to their stockholders, decrease investor uncertainty, reduce risk, increases market efficiency and eventually minimizes the cost of capital. IFRS eliminates barriers to cross-border trading in securities, by ensuring that financial statements are more transparent. IFRS financial statements that are universally understood and comparable can both improve and initiate new relationships with customers and suppliers across national borders.

At a joint meeting in Norwalk, Connecticut, on September 18<sup>th</sup>, 2002, the FASB and the IASB both acknowledged their commitment to development of high quality, compatible standards that could be used for both domestic and cross border financial reporting (Schroender, Clark & Cathey 2009: 63). The two boards pledged to use their best effort to (1) make their existing financial reporting standard fully compatible as soon as is practicable and (2) to coordinate their future work programs to ensure that once achieved, compatibility is maintained.

More than 12,000 companies in approximately 113 nations have adopted IFRS, including listed companies in the European Union. Other countries, including Canada and India, are expected to transition to IFRS by 2011 (IASB: 2006). Mexico plans to adopt IFRS for all listed companies starting in 2012. Some estimate that the number of countries requiring or accepting IFRS could grow to 150 in the next few years

(IASB: 2006). Other countries, such as Japan and Mexico, have plans to converge (eliminate significant differences) their national standards. And Indonesia plan to have Indonesian GAAP fully converged with the International Financial Reporting Standards (IFRS) by the 1<sup>st</sup> January 2012 (IAI; 2008).

Indonesia needs to adopt international financial reporting standard to make easier for foreign firms or business entities to do transaction with the local firms or business entities and for the investors to invest their money in Indonesia. But adopting international financial reporting standard is not a simple decision because it needs a serious high commitment and full responsibility from many related parties to change the reporting and disclosure standard that has been settled in that country.

The Indonesian Institute of Accountants (IAI) is the only professional accountancy body in Indonesia acknowledged by the Ministry of Finance. The IAI is also a founder of ASEAN Federation of Accountants and a full member of the International Federation of Accountants (IFAC). As a self-funded accountants' professional body, IAI is responsible for setting up a code of ethics, accounting and auditing standards, conducting exams for certified public accountants (CPA), and running programs for professional education. Statements of Financial Accounting Standards (PSAKs) is the term used to indicate the whole body of authoritative accounting literature, including the Framework for the Preparation and Presentation of Financial Statements, which is promulgated by the Indonesian Accounting Standards Board (DSAK), which is a body designated by the Indonesian Institute of Accountants (IAI) to establish authoritative accounting pronouncements.

PSAKs do not provide a specific overriding requirement for financial statements to give a global presentation. Nevertheless, this concept is embedded in the Indonesian Auditing Standards. AU section 508 states that circumstances not

affecting the auditor's unqualified opinion include the situation where in order to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle established by IAI. The overriding requirement of IFRS is for the financial statements to give a fair presentation (or true and fair view).

In Indonesia the adoption of IFRS have been done since 1960s with harmonization. Harmonization is the step of adoption process which is adopt IFRS and making that to be appropriate with the condition in that country. The harmonization of IFRS is used to adjust the differences in assembling the accounting standard and to increase the compatibility in accounting practise. The process of harmonization should be free from conflict so the financial information will easy to be understood.

Then the harmonization process of international accounting standard in Indonesia increase together with the increasing of Indonesian corporate and business firm that try to raise capital abroad. As the consequences the investors and other shareholders will compare the ability of each firm. Investors will allocate their capital based on global opportunities. Globalization of capital markets has helped fuel demand for a common worldwide accounting framework. The using of different accounting standards makes it more difficult and costly for an investor to compare opportunities and make informed financial decisions.

Beside that, the differences in accounting standards also impose additional costs on companies that must prepare financial information based on multiple reporting models in order to get fund from different markets. This condition will make the investors confuse to read the financial information, so the investors will be reluctant to invest their money.

During 1990s the effort of harmonization of international accounting standard is increase to strengthen the financial architecture in global market and also in Indonesia. To find the long term solution *International Accounting Standards Boards* (IASB) accelerate the harmonization process of international accounting standard to be full adoption specially for *International Financial Reporting Standards* (IFRS) which is settled by IASB and *Financial Accounting Standards Boards* (FASB).

On December 23<sup>th</sup>, 2008 The Indonesian Institute of Accountants as the professional body in Indonesia mandated with promulgation of accounting standards issued a formal statement announcing its plan to have Indonesian GAAP fully converged with the International Financial Reporting Standards (“IFRS”) by the 1<sup>st</sup> January 2012 (IAI: 2008).

Being fully aware that implementation of a set of high quality standard such as the IFRS will facilitate comparability and increase transparency in the business environment, IAI embarked on the journey to convergence with IFRS by adopting, back in 1994, IASC’s Framework for the Preparation and Presentation of Financial Statements as the conceptual framework for Indonesian Standard.

Since that time, and especially since the late 1990s, an increasing number of IFRS have been adopted with little or no modification so that most of our standards are now based on the IFRS, and as mentioned earlier, by 2012 IAI hope that companies in Indonesia (in particular those with public accountability) will apply the IFRS in its entirety. IAI wish to share this development with the international community so that our commitment to a single set of high quality global accounting standards will be well understood.

Despite a general consensus of the inevitability of the global acceptance of IFRS, many people also believe that U.S. GAAP is the gold standard, and that something will be lost with full acceptance of IFRS. Further, certain U.S. issuers without significant customers or operations outside the United States may resist IFRS because they may not have a market incentive to prepare IFRS financial statements. Some other U.S. issuers may have to stick with U.S. GAAP because it is required for filings with other regulators and authorities, thus resulting in extra costs than currently incurred by following only U.S. General Accepted Accounting Principles (GAAP).

Another concern is that many countries that claim to be converting to international standards may never get to 100 percent compliance. Most reserve the right to carve out selectively or modify standards they do not consider in their national interest, an action that could lead to incomparability. Beside that full adoption of IFRS is not easy to do because there are differences of the social, economic and legal circumstances and it need good understanding and high cost to socialize.

Persons (2005) stated that there are some weaknesses of U.S. GAAP: First. U.S. GAAP is rule-based with many details which are difficult to understand by investors without accounting expertise; Second. Regardless of its thoroughness rule-based features, companies can still manage earnings within the guidelines of the standards; Third. Rule-based standards may prevent firms from selecting accounting policies that accurately convey the economic substance of their transactions.

Beside that a country's intention to adopt IFRS or converge with IFRS is highly admirable and to be applauded. However, the accounting profession, governments, regulators, national accounting standard setters, accounting students and other constituents must continue to work together to eliminate differences between national

and international standards. The principal actions needed to support full adoption of IFRS.

The actions above are identified against certain bodies. However, every one requires all capital market participants to join forces and work together at both a national and international level. Only with a joint effort will a common accounting framework that is interpreted and applied consistently be achieved. Although until now there are still pros and cons in assembling the international accounting standard.

The success of IFRS adoption in achieving as the global standard is not assured and ultimately depend on support from those affected by the act and compliance with its provisions. Compliance of the provisions of IFRS adoption requires knowledge and understanding of IFRS. Accounting professionals represent a large portion of those who likely will be affected by IFRS adoption. Thus, accounting professionals must learn about IFRS and its provisions and understand the implication of the IFRS adoption while completing their study..

Accounting professionals (auditors and accountant) have to be familiar with the direction business is going and also must be aware of IFRS adoption. Accounting professionals should know that there are now two global accounting standard, IFRS and GAAP. Further, accounting professionals should know they will encounter IFRS in the future and have sufficient knowledge of the history, status, benefits, and disadvantages of IFRS is important. At appropriate points, accounting professionals should plan to mention the major areas where IFRS differs from GAAP.

Accounting professionals who have an understanding of IFRS will distinguish themselves in the hiring process and will likely have increased career and mobility opportunities. Learning IFRS requires students to build more critical-thinking skills to better understand the substance of transactions, which should make them better

accountants. Knowledge of IFRS could increase accounting professional's marketability and become an opportunity for accounting professionals it is going to impact their career in the future.

Based on the aforementioned explanation, the perception of accounting professionals as one of constituent and as accountant to be in response full adoption of IFRS is very important. So, this study will focus on "*The Perception of Accounting Professional in Palembang on Full Adoption International Financial Reporting Standards (IFRS)*".

## **1.2 Statement of The Research Problem**

Accounting harmonization is a very important issue and is highly debatable in terms of how the harmonization should take shape in many countries such as in Indonesia. On December 23<sup>th</sup> 2008, The Indonesian Institute of Accountants plan to have Indonesian GAAP fully converged with the International Financial Reporting Standards (IFRS) by January 1<sup>th</sup>, 2012.

The process of harmonization should be free from conflict so the financial information will easy to be understood. Because of that, the accounting profession, governments, regulators, national accounting standard setters, accounting students and other constituents must continue to work together to eliminate differences between national and international standards. Although to full converge with the International Financial Reporting Standards (IFRS) is not easy, the principal actions needed to support full adoption of IFRS.

To meet these challenges, accounting professionals needs to have sufficient knowledge and potential skill in order to support full adoption of IFRS. If they are



unfamiliar with IFRS or have the negatif perception of IFRS adoption, it would lead they not support full adoption of IFRS.

Based on the explanation above, the problem statement could be taken is what the perception of accounting professionals in Palembang on full adoption of international financial reporting standard (IFRS) is?

### **1.3 Research Objectives**

This research purposes are to understand the accounting professionals' perception on the international financial reporting standard (IFRS) adoption. Beside that, this research is trying to find out to what such extent the accounting students have sufficient knowledge on the adoption of international financial reporting standard (IFRS). It also helps the accounting professionals develop skill by requiring them to take a perspective of international financial reporting standard (IFRS) with their own preference.

### **1.4 Research Benefit**

The benefits of this research are:

1. To increase the student's knowledge on the international financial reporting standard.
2. To increase their knowledge why Full Adoption of International Financial Reporting Standards (IFRS) is important.

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