The 13th Malaysia-Indonesia International Conference on Economics Management and Accounting (MIICEMA) 2012

"ASIA EMERGING ECONOMY TOWARD GLOBAL ECONOMIC INTEGRATION"

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Co Organizer:

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Greetings from Dean of Faculty of Economics, Sriwijaya University

Dear participants of the Miicema 13th - 2012 Conference,

On behalf of the Faculty of Economics, Sriwijaya University, we would like to welcome you to Palembang, Indonesia for the Miicema 13th Conference, 18th-20th October 2012.

We are excited organize our thirteeth Miicema conference in Palembang at Sriwijaya University. Sriwijaya University is States University in South Sumatera, has 10 faculties and 2 campuses. One is located at Bukit Besar in Palembang and another campus is located on 712 ha area of Indralaya, Ogan Ilir. This conference is really support us to be a "world class university".

The conference bring together scolars and practitioners who interested to present theirs papers in area of economics, management and accounting. Participants found an excellent opportunity for presenting new research, exchanging information and discussing current issues. We believe that this conferences will improve further the development of knowledge in our fields. This opportunity could be used as a way to broadening their international networks.

We regret that we were unable to accept more paper than we have. In this conference, 163 papers were presented. In addition, based on the contribution of the paper to the field, the Miicema Committee has selected three papers for the best paper award.

Finally, I would like to thank our sponsors for their generous financial support and valuable collaboration. I would also thank all of the presenters, participant, board members, and keynote spreakers.

I hope you enjoy the conference and wish a pleasant and memorable stay in Palembang.

Best Regards,
Dean of Economic Faculty,
Sriwijaya University

Prof. Syamsurijal AK, Ph.D

MESSAGE FROM CONFERENCE CHAIR

Welcome to The 13th Malaysia-Indonesia International Conference on Economics, Management and Accounting (MIICEMA) 2012

The Malaysia-Indonesia International Conference on Economics, Management and Accounting (MIICEMA) aims to stimulate interest in economics, management and accounting research and to encourage discussion on those related issues with special reference to ASEAN countries. The conference has been held for 13 times in this year. As time goes on, the number of MIICEMA members increase and it also tries to broaden the scope of collaboration to include academic matters amongst others.

The 13th MIICEMA 2012 is hosted by Faculty of Economics, Sriwijaya University in collaboration with UKM, IPB, UNPAD, UNSYIAH, UNIB, UMS, UNJ, UNILA, UPI (YAI) AND STIE (YAI). of MIICEMA and. The association aims to play supportive role in promoting Palembang as an international city.

MIICEMA has been successfully organizing annual conferences in collaboration with those higher learning institutions mentioned. The support from academicians, researchers and business practicioners is clearly evident from the increasing numberof papers received by organizers this year. This year a total of more than 220 abstract and 163 full papers were received and most of them will be presented.

I would like to thank and congratulate the Rector of Sriwijaya University, Dean of Faculty of Economics for their support, Ministry of Finance of Republic of Indonesia for their support financially, South Sumatera Government, Palembang City Municipal and other sponsors i.e PT. BUKIT ASAM, PT. SEMEN BATURAJA, PT. PUSRI, BANK MANDIRI, BANK SUMSELBABEL, BANK BNI, MITRA ADIGUNA, AJB BUMIPUTERA, for their finance support. Last but not least I would like to thank to paper writers, participants and organizing commitee for your support.

Isnurhadi, Ph.D
Conference Chair
October, 2012

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VALUE RELEVANCE OF ALTERNATIVE ACCOUNTING PERFORMANCE MEASURES: EMPIRICAL STUDY IN INDONESIA

Felicia Julita
Nikmah
Sriwidharmanely

Accounting Departement of Economics Faculty, Bengkulu University
Jl. W. R. Supratman, Kandang Limun, Kota Bengkulu, Indonesia
Phone/Faks: +62736-344196; E-mail: annafeejul@yahoo.com

Abstract

Published financial statements are an important source of information needed by the company internally and externally. Investors were external user of accounting information in financial statements to support the investment decision. The quality of financial reports will be higher if there is the value relevance of accounting information. The objective of this study was to test the value relevance of alternative accounting performance measures including total revenue, sub-item of accounting profit (gross profit, operating income, earning before tax, net income), total cash flow and book value of equity to the shares return in the Indonesia Stock Exchange (BEI).

This study was conducted at the manufacturing companies listed on the Stock Exchange in the period of 2006-2010. Sampling technique based on purposive sampling to obtain a sample of 58 companies. Analytical model used is adjusted R-Square to determine the ability of information in explaining the variability of stock returns or explanatory power of accounting information. This study showed that earning before tax had the greatest explanatory power, or was said the most relevant, followed by the net income, operating income, gross profit, total cash flow total revenues. Book value of equity had the smallest explanatory power than other information.

Key words : Financial Statements, Accounting Information, Value Relevance, Return.

1. INTRODUCTION

Financial statements are presented as a statement made of information concerning the company's financial position and cash flow statements that are beneficial to the users, especially investors and creditors in making decisions (Budiman, 2010). Financial statements would be expected by the user is able to provide quality information so the financial statements produced can also have good quality. Relevant information is one of the criteria which indicate that information can have high quality and useful. Statement of accounting standards in IAI (2009) paragraph 26, states that in order to be useful, information must be relevant to meet the needs of users in decision-making process. Relevant accounting information is very useful for investors. The

investor will always see the relevance of the accounting information contained in each period of financial statements as a basis for decision making (Linda and Fazli, 2005).

During the development of accounting and the strengthening of the usability of the information in the financial statements, earnings information is often used in decision making. Income information is considered useful in decision making and can give confidence to investors as one of the primary and essential component in informing the company's performance (Linda and Fazli, 2005; Lako, 2006; Susanto and Ekawati, 2006; and Simbolon, 2010). Previous study conducted by Ball and Brown (1968), followed by Beaver (1968), Beaver et al (1979) found that the publication of financial statements in particular earnings numbers had information content. In addition, a number of empirical research in Indonesia was also reported that the stock market reaction to the publication of earnings (Setiawati, 1995; Purba, 1997; Pradhono and Christiawan, 2004; Linda and Fazli, 2005; Daraghma, 2009; Alfathimiy, 2011). Not only income item that has value and relevance of information content, but the subitem of income, such as gross profit, operating profit is also shown to have relevance and value to influence decision making (Febrianto, 2005, and Habib, 2010).

The amount of evidence to show a profit was the relevant information; futhermore several different researchers provided evidence that stated that the earnings had information content and relevance of a low value (Lev, 1989: Lev and Zarowin, 1999). While in Indonesia, also stated that the profits were not able to show the relevance of showing its relationship to stock returns (Linda and Fazli, 2005; Hilal, 2009). This evidence demonstrate that the relevance of such low value that could lead to investor perceptions of earnings was reduced and the likelihood investors would choose to use other information in decision making. Proven to be true that in some countries was generally stated that the low relevance of the low profit caused investors tend to use other information. Like, Chandra and T.Ro (2004) and Habib (2010) considered that the relevance of the low income causing the focus of investors will use the information to another form of accounting earnings information as an alternative accounting performance measures.

In addition to income, other information that was used when the investor profits can not demonstrate its role in decision-making is the information of the book value. Simbolon (2010) also stated that the book value is one important component in the financial statements which are often used as a tool to inform the company's performance than earnings. In fact, in Indonesia based on excerpts from the article presented by a team of BEI (2008) in www.okezone.com stated book value of investments can be used as a guide. The book value is judged to have value and relevance of information content. This is evidenced by several studies such as Linda and Fazli (2005) and Keener (2010) which stated that the book value remained relevant over time and when the company's loss, then the book value of the information relied upon in making decisions.

More information that was sometimes considered equivalent to the value relevance of earnings information was the cash flow information. Cash flow was also considered a major concern of investors and creditors as the company's performance parameters other than earnings (Linda and Fazli, 2005; Febrianto 2005; Hilal 2009). Sometimes cash flow and earnings provided information contrary, the increase in profit can be followed by a decline in cash flow and vice versa. This would be the case where the information that should be used by investors. When the cash flow information was believed to represent the company's more information than earnings, the more investors should use this cash flow.

Based on these studies we can conclude that rill profits were recognized as having explanatory power, the largest to the interests of investors, especially in explaining stock returns. The results of the empirical evidence were strengthened by the existence of a permanent investor confidence in the information reported earnings despite profits negative. Based on this assumption, this study tried to look at the explanatory power of earnings information content when it compared to other information in the form of income, cash flow and book value as an alternative measure of performance.

This research refered to research of Habib (2010) that reviewed the value relevance of alternative accounting performance measures. Habib (2010) considered whether the information can be used as a revenue alternative information to investors in measuring the performance of the company after the earnings information in relation to stock returns. Not much different from the research Habib, this study also proved whether the stock return in profit with eksplanatory subitemnya also had the greatest power that can be used as the information was still considered the most relevant in the decision-making. Differences of research Habib (2010) was an alternative approach and consideration accounting performance measures data were used. Habib (2010) only used two approaches, namely income and subitem accounting income. While in this study, the approach added information that was considered to have value and can be used as relevant information in an alternative accounting measure of performance than earnings in the form of equity book value of information approach and the approach of cash flow information was referenced from the research of Linda and Fazli (2005).

With fourth approaches, this study considered the seven information as an alternative information in measuring the performance of companies consisting of information such as Total Revenue (income approach), information gross profit, operating profit, profit before tax and net income (Income Accounting Approach subitem) Information Total cash flow (Cash Flow Approach), and shares information perlembar book value (book value approach). The purpose of this study was to determine the size of the performance of accounting information which had the most value relevant in explaining stock returns.

2. Related Literature
2.1 Value Relevance

In the accounting literature, the relevance of accounting numbers defined value if the numbers are statistically significantly associated with market value of equity (Barth et al, 2001). According to Barth et al (2001), a figure said to be relevant accounting, which has a significant relationship with harga-harga/return stock, if the figures reflect the information relevant to investors in assessing firm and measured with sufficient reliably reflected in the prices or returns stock.

During its development, studies of the relevance value is directed to investigate the empirical relationship between stock market values (stock market values) with a variety of accounting numbers, which are intended to assess the usefulness of accounting numbers in equity valuation (Pinasti 2004). Meanwhile, Beaver (1979) and Easton (1999) also stated that the research aims to examine the relevance of the association between the dependent variable based on the price (return) securities with a variable number of accounting.

2.2 The Importance of Financial Statements and Accounting Information

According to SFAC NO. 1 (FASB, 1978), the financial statements are the company's main tool to convey information to the outside accounting firm. Items recognized in financial statements is the representation of an entity's resources or assets, claims on those resources, and influence of the transactions and other events and the events that lead to changes in resource or claims against those resources.

According to Schroeder and Clark (1995), the announcement of financial statements, particularly the balance sheet and profit and loss, highly anticipated by market participants because of the information contained in their financial statements to determine the development of an issuer's financial performance. Consequences of financial reporting for investors is the accounting information presented in financial statements can affect: 1) the distribution of wealth among investors, 2) an acceptable level of risk the company, and 3) the level of capital formation in the economy.

A number of empirical studies that test the market reaction to the publication of financial reports provided evidence that the market responds to the publication of those statements. Empirical evidence suggests that the proficiency level in addition to the publication of financial statements contain information and anticipated by market participants, also has the explanatory power of the behavior of investors in purchasing decisions, holding tau sells a security (Lako, 2006) Attention investors generally view that earnings can reflect the performance companies and have more valuable information than other information. In addition to earnings information, the information also be a concern of investors in addition to earnings information is information of income, equity book value and cash flow. Information is considered to contain information and be the focus of investors in decision making. the importance of information and its third earnings information will be outlined as follows:

2.2.1 Information of Income

The concept of profit in this study is that accounting income consists of gross profit, operating profit, profit before tax and net profit. Gross profit is the excess of net proceeds above the cost of goods sold. Gross profit is often referred to as profit from the sale. Operating profit is the excess of gross profit to operating expenses. Operating costs consist of cost of sales and general and administrative expenses. Net income before tax operating profit is the difference in income / other expenses before taxes. Net income is total income and sales costs have been cut or reduced by taxation. (Kieso, 2001).

Lako (2006) states that the profit is considered to have a strategic role to influence the perception and confidence of investors in analyzing financial statements both in terms of its performance and its effect on firm value. The statements indicate that earnings have a major and important role in its use for decision making. The statement also confirmed by many empirical studies that do documentation of the publication of earnings as accounting information that can provide a response to the stock market.

Other studies to test the performance of earnings come from capital markets based accounting research (mbar). Throughout the years from 1960s to late 1980s, this research has always focused on testing the income information, especially to see the issue of profit relationship with stock returns. Brown (2003) in Lako (2006) mentions several reasons why the focus of research information mbar is the profit information. One reason that is considered most responsible is that the earnings and its components as the main objective of financial statements by the FASB in SFAC No. 1 (1978).

According to the Securities and Exchange Commission rules about the number VIII.G.2 (*www.bapepam.go.id*) Annual Report indicates that the information in both item and subitem profit of profit itself also plays a role in informing these figures into an annual report. Information return and its components should be reported as comparative information in measuring the performance of the company. This proves that the income information is considered very helpful in evaluating the performance of the company during the specified period.

2.2.2 Information of Revenue

Revenue is the net income of the company's main operating activities (Kieso, 2001). Many terms are used for revenue accounts such as revenue, sales, and gain. In general, the income listed in the financial statements of many termed the revenue. Habib (2010), more use of the term in the revenue accounted for revenue accounts. This is because research Habib (2010) using all types of industry in research so that the term revenue is considered to meet the assumption of the statement of income accounts.

However, for this study is insutri used industrial manufacturing. In terms of manufacturing industry revenue in the financial statements, especially in Indonesia are more inclined to use sales, given the revenue in manufacturing companies is revenue derived from the company's main activity is further referred to as net sales. To adjust the terms of the account in the financial statements in Indonesia, especially for the manufacturing companies in this study uses the term revenues over the term describe the sales in terms of Net Sales.

Revenue is the information contained in the profit centers. Revenue is the first line item in the income statement arising in the process of business activity. Above assumptions can be said that the information likely to have incomes over eksplanatory power compared to other measures (Habib, 2010). Indonesia's income information is sometimes used by investors as a consideration in measuring the value of the company. Www.bapepam.go.id Securities and Exchange Commission rules in its claims against the income information that is considered vital information and a comparison of information from year to year. Income information must be disclosed by the company's Securities and Exchange Commission in the summary financial data in annual report aims to determine the movement of information from year to year in supporting the company's performance measures.

2.2.3 Information of Cash Flow

In addition to income, cash flow is also considered a major concern of investors and creditors as the company's performance parameters other than earnings (Linda and Fazli, 2005). Febrianto (2005) concluded that there are two accounting information in informing the company's performance, which is total accounting profit and cash flow. Although it provides a measure of long-term earnings related to the success or failure of the company, but cash is the lifeblood of a company. Without cash, a company will not survive. It must be realized that even profitable companies can go bankrupt. This indicates that the bankruptcy could occur due to lack of cash availability at the time although the reported positive earnings (Kieso, 2001). Bandi and Gunawan (2000) stated that cash flow statement presents cash flow in and out during a period. This report is explicitly required to be one of the elements of financial statements that came into effect for financial reporting, which began on January 1, 1995 (SAK. 1994). Companies should prepare a cash flow statement in accordance with the requirements in Statement

No. 2 on the GAAP cash flow statement, and should present the report as an integral part (integral) of the financial statements for each period financial statement presentation.

If used in conjunction with other financial statements, cash flow statement can provide information that allows the users to evaluate the changes in net assets, financial structure including liquidity and solvency, the ability to influence the amount and timing of cash flows in order to adapt to changing circumstances and opportunity. Cash flow information allows the pamakai develop models to assess and compare the present value of future cash flows (future cash flow) and a variety of companies. Such information also increases the comparability of reporting the operating performance of firms because it can negate the effect of using different accounting treatments for similar transactions and events.

2.2.4 Information of Book Value

Based on excerpts from the article presented by a team of BEI (2008) in *www.okezone.com* of information to guide investments, book value is considered as the information is often used as investment guidelines. Fundamental analysis of stocks can be done by studying the book value. Book value is derived from the balance sheet provides information about the net worth of company resources. The book value of a company's worth to be known by stock investors because the investors know the value of this book to find out if the stock price is undervalued market established or overvalued, so that in determining the investment option investor always has the guidelines and will not be swayed by market conditions. This proves that the book sometimes can inform decisions affecting the performance of the company or its investors.

Simbolon (2010) in his study of the relevance value that an important component in the financial statements which are often used as a tool to inform the company's performance is earnings and book value. Book value of shares shows net assets (net assets) owned by the shareholders by owning one share. The investors in general are also many see the book as a measure of performance. When a company incurs a loss, the book value is very useful information in decision making by the investor (Linda and Fazli, 2005).

2.3 Stock Return

Testing the relationship between accounting information to value the shares requires an assessment model. There are two types of assessment models are commonly used to investigate the relationship, which is the model price (price model) and models of return (return a model)) (Pinasti, 2004). Alternative model specifications in the value relevance of accounting literature is as follows:

$$\text{Price Model: } P_{it} = \beta_0 + + \beta_1 X_{it}\ \varepsilon_{it}$$
$$\text{Returns Model: } P_{it}/P_{it-1} = \beta_0 + + \beta_1 X_{it}/P_{it-1}\ \varepsilon_{it}$$

R_{it} = Return on stock during the period of t
P_{t-1} = Share price at period t-1
P_t = price of shares of period t
β_0 = constant coefficient
β_1 = regression coefficient of independent variables

Xit   = *accounting data such as total revenue, gross profit, operating income, income before income taxes, net income, total cash flow and book value per share for the company during the period of observation t.*

Eit   = *error term*

The focus in this research relevance value associated with the connection to the stock return. Stock returns are very sensitive to fundamental factors and expectations of the investor. Return the results obtained from the investment. Each investment both short and long term have a principal purpose for the benefit referred to as either a direct return maunpun indirect (Ang, 1997). In simple investing can be defined as an activity to put the funds in one or more of the assets (assets) during a certain period in the hope of obtaining income or increase in value of investments (Husnan, 1998). Return to the realization that a return or return expectations have occurred that have not occurred but is expected to occur in the future. Return realization (realized return) is the return that has been calculated based on historical data and serves as one measure of corporate performance. Return realization is also important as a basis for determining the expected return (Jogiyanto, 2008).

2.4 Research Older and Development Hypothesis

A number of empirical studies in various countries have seen a lot of explanatory power (eksplanatory power) of the income information that is very influential in the decision making process. Investors, creditors, and others have considered that the information is very important and useful earnings to help evaluate the performance of the company. Accounting profit earnings, especially as the information contained in financial statements is obscene corporate performance parameter that gets the major attention of investors (Linda and Fazli, 2005). Ball and Brown (1968) was the first researcher to investigate useful for predicting the return of income. Unexpected earnings in their thinking should be linked to stock price changes to be communicated to market participants. Assumptions contained in their study are that the stock price movement indicates the usefulness of the information. Companies with profit increases (decreases) will also be followed by an increase (decrease) in share prices. The results show that there is a close relationship between changes in earnings information to stock returns.

Beaver (1968) also examined the effect of earnings announcements on trading volume. By using a sample of 143 firms listed companies during 1961-1965, Beaver reported that there was a drastic increase in activity and trading volume of securities in the week return variablilitas earnings announcement. Beaver overall findings support the findings of Ball and Brown (1968) which states that the announcement of accounting earnings have information content. Beaver et al (1979) and then re-examine the research Beaver (1968). This study examined the correlation between large (magnitude) and sign (sign) with a large change in earnings surprises and signs of abnormal returns in the period before the annual earnings announcement. The results show that both positive relationship exists.

In addition, a number of empirical research done by researchers such as Setiawati Indonesia (1995) examined the effect of profit publication of the volume of transactions of ordinary shares of common stock transactions 41 companies listed on the JSE during 1 April 1993-31 March 1994. Reported that the market reaction to the publication of earnings that is reflected from the surge in stock trading volume on

announcement hri. Ancient (1997) examine stock returns around the announcement of financial statements using the 157 common shares have been listed and traded on the JSE from late 1994-mid 1997. Reported that the market reaction to the announcement of earnings caused by the increased visibility of abnormal return and a statistically significant relationship on the day after the announcement of financial statements. The study also found that investors overreact to the decline in corporate profits.

Alfathimiy (2011) re-examine the effect of earnings information and components of stock returns. The results showed that the information return and its components have an influence on market value. Febrianto (2005) in his study that examined rates of gross profit, operating profit and net income by the investor and the strong direaksi concluded that all the earnings figures have a strong relationship to the performance of the stock. The most powerful figured in the form of profit gross was profit rate than the other. Gross profit is more capable of providing a better picture of the relationship of profit and stock prices are a very close relationship with stock returns. Gross profit is more controllable by management due to cost of goods sold account to determine the competitiveness of the market. This is in line with research by Habib (2010) who see the value relevance of accounting earnings multiple accounts subitem of earnings before interest, depreciation, and amortization (EBITDA), earnings before interest and tax (EBIT), earnings before tax (EBT), net profit after tax but before abnormal items (NPATEXABN) and net profit after tax (NPAT) of stock returns. The results prove that all the subitem account earnings have value relevance in explaining stock returns.

However, when certain conditions or a decline in earnings over time, profits can be said to have relevance to a low value or even lose its relevance. As noted by Lev (1989) stated that the profit contribution of accounting information in particular, to explain the variation in stock returns was very small. From the evidence Lako (2006) stated that the low profit contribution is one of them was caused by poor quality or information content of reported earnings. The weak earnings information content proved by Lev and Zarowin (1999) through their study of the earnings relevance in the USA. The results of these studies provide strong evidence that accounting earnings have low value relevance in the USA. The low quality of earnings can lead to the possibility that earnings information is no longer the main focus again in the decision. Investors will tend to use the information in its use as an alternative decision-making. Evidence of the use of alternative information has been mostly done by several empirical studies. Chandra and T.Ro (2004) examined the role of information in corporate earnings. This study tested whether the income has the additional ability to explain stock returns beyond earnings. The results showed that the income information is useful both as a measure of corporate performance and valuation for purposes of delivering information to the market after earnings information.

The study is in line with research Habib (2010) that use income as an alternative information. Income approach is used Habib (2010) as an alternative when a profit can not be showed its relevance in companies in Australia. According to Habib (2010) the income approach is considered to have more power eksplanatory largest or most relevant than earnings despite having significantly higher earnings on stock returns. The results Habib (2010) did not support the assumption of Habib stated income statement is more relevant. The results Habib (2010) proved that the return remains more relevant than earnings despite profits using subitem earnings account. Profit before tax and profit

after tax has the highest R2-adjusted value compared to other information, including income.

Empirical evidence in Indonesia stated that the profit could lose its relevance in certain circumstances. When the company experienced financial difficulties (losing) the book value of equity information can be used as an alternative in assessing the company. Linda and Fazli (2005) looked at the relationship information of accounting earnings, book value, and total cash flow to market value. Simultaneous testing of return models indicate R2 values are not significantly decreased. The accounting profit variables have a positive relationship with stock returns, which means investors believe earnings is more permanent, and as one of the fundamental factors that are relevant. While the response coefficient of book value changes that decreased the negative direction of the book in 1998 and 2002 while in 1999, 2000, and 2001 the direction was positive. For total cash flow in 1999, 2000, 2001, has a positive direction according to predictions. 1998 and 2002 the negative direction does not match the predictions.

Wedari (2006) in her study of the value relevance of dividends, book value and return on market value proves that the book has the greatest value relevance than others. With a sample of 78 companies and the observation period 2000-2004 concluded that the book value is the dominant information to the market value compared with earnings and dividend information. However, research and Sulistyawati Almilia (2007) proved that at any given moment eksplanatory earnings have low power when the company experienced financial difficulties (loss). Information equity book value is considered to have the biggest or the most power eksplanatory relevant than earnings at the time of loss firms. Based on the value of the coefficient of R2, that at the time of non-crisis period and post-crisis value relevance of earnings is greater than the operating cash flow and book value of equity. At the time of crisis relevance gain value is smaller than the operating cash flow and book value of equity. Partial regression analysis results in non-crisis period and post-crisis earnings and operating cash flow significantly to the stock price variable, while the book value of equity was more significant when the current crisis.

Hilal (2009) states that other approaches are often used in determining the value of corporate investors in addition to earnings in the form of cash flow information. Investors use cash flow information is more likely to see the importance of the information. Sometimes cash flow and earnings provide information to the contrary, the increase in profit can be followed by a decline in cash flow and vice versa. this would be the case where the information that should be used by investors. When the cash flow information is believed to represent the company's more information than earnings, the more investors should use this cash flow.

Rahmatia (2010) review the relevance of the value of earnings, operating cash flow and book value of equity to the income shares. The results show that earnings and book value has relevance in explaining the stock returns while operating cash flow does not have relevance in explaining the stock returns. Other hand, continued testing to see which information has the greatest power eksplanatory or most relevant in explaining stock returns. In this case, income was found to be the largest power eksplanatory most relevant or followed the book value of equity, while operating cash flow has the power eksplanatory smallest among the three measures of stock returns. The ability of earnings information proves that the earnings are considered to have the greatest ability to explain, especially in and as the information is relevant in assessing the company.

Many studies have shown that information revenues, profits, cash flow and book value has relevance perihalnya value especially in explaining stock returns. However, from various studies that look at where the information is best able to explain stock returns and investors often use as the information is relevant in assessing the company, profit remains the information that has the greatest power eksplanatory compared to other information. Based on the literature review of previous research, the hypothesis for this study can be formulated as follows:

H1: the size of the performance of fixed income information most relevant information compared to the performance measures of income, cash flow and book value in explaining stock returns.

3. RESEARCH METHODS
3.1 Dependent Variables
In this study the dependent variable is the stock return. Return here is the realization of the return of the difference between the current period's stock price to stock price in the previous period divided by the share price the previous period by the formula:

$$Rit = \frac{(Pit - Pit\text{-}1)}{Pit\text{-}1}$$

Rit = Rate of return the stock i in period t.
Pit = The closing price of stock i in period t
Pit-1 = Closing price of stock i in the previous period.

3.2. Independent Variables
In this study the independent variables in the form of alternative accounting performance measures that can be seen in the table below:

> **Insert Table 3.1**

3.3 Population and Sample
The populations in this study are all listed manufacturing companies (listed) in Indonesia Stock Exchange (BEI). This is done because the structure is relatively similar keragamanan operations, in addition to the portion of manufacturing companies listed on the stock nearly half of listed companies (listing) in the BEI. Samples were selected using the purposive sampling with consideration of (judgment sampling). The criteria were used as follows:

1. The company publishes financial statements with the observation period of 2006 to 2010.
2. The company publishes financial statements are expressed in dollars in annual financial reporting ending period on December 31.
3. Company's financial statements are audited.

Description of the sample in this study can be seen in Table 3.3 below:

> **Insert Table 3.2**

3.4. Method of Data Analysis
        Data collected in this study were analyzed with statistical tools as follows:
3.4.1 Statistics Descriptive
        Descriptive statistics are used to provide an overview of the research variables, so it can be the benchmark further analysis of the minimum value, maximum value, mean, and standard deviation.
3.4.2 Model Equations
        Proxy for the value relevance of performance measures (performance measure) is a regression analysis of each independent variable separately with the dependent variable to calculate the value of adjusted R^2. The purpose of this second model to determine the ability of performance measures in explaining the variability of stock returns. Independent variables that showed the greatest value later adjusted R^2 can be concluded that the most relevant information than other information.

Model equation: RIT = β0 + β1 (*Performance Measure j*) + it εit

Rit	: Return the realization of shares in the period of observation i
Performance Measure Jit	: Total revenue, gross profit, operating income, income before income taxes, net income, total cash flow and book value per share for the company during the period of observation t.
B	: Constants
Eit	: error term

        Assuming that markets are semi strong in Indonesia, and shareholder value can be represented by stock market value, then it can be concluded that an increase in stock prices can be reflected by the increase in stock returns.

4.   ANALYSIS OF RESULT

4.1 Descriptive Statistics
        Descriptive statistics are part of data analysis provide a preliminary description of each variable used in the study. This study has eight (8) variable, composed of seven (7) the independent variable and one (1) the dependent variable. Independent variables in this study is in the form of total revenue (NS), gross profit (GP), operating profit (OPINC), profit before tax (EBT), net income (NI), total cash flow (TCF), and the book value of shares perlembar (BVPS), while the dependent variable is the stock return (RIT). Descriptive variables in this study can be seen in table 4.4 below:

Insert Table 4.1

        Based on table 4.1 above can be seen that the average value of each variable is smaller than the standard deviation values for each variable. Standard deviations greater than the average value suggests that either a variable rate of independent variables and the dependent variable is the sample firms in this study varied. This variation is evident from the maximum and minimum values of each variable. The maximum value is high indicates the company's ability to generate value from each respective variable. While

the minimum value that reflects the positive and negative values have alleged that the increase / decrease in the independent variable in line / is not in line with the increase / decrease in the dependent variable. Reflected in table 4.1 shows the total income variable (NS) is positive and the stock return variable (RIT) is negative. This implies that an increase / decrease in total revenue is in line with the increase / decrease in stock returns. Unlike the GP variable, OPIN, EBT, NI, TCF, and BVPS are negative indicate that the increase / decrease in these variables increase / decrease in stock returns.

4.2. Correlation Analysis

Insert Table 4.2

Correlation matrix above can be seen that the entire performance measurement is positively correlated with stock returns. NI correlation is highest, followed by the EBT, OPINC, GP, TCF, NS, and BVPS. By conducting further analysis of the regression results, it can be assumed that profits remain the most superior in comparison with other measures in explaining stock returns while using subitem earnings account.

4.3. Model Testing Results

Statistical test for the regression equation model in this study to test the variables indicative of performance measures that are considered most relevant to the pressing is still the most relevant profit measure than others, although profits were tested with subitem income account itself. Results of analysis by comparing the adjusted R^2 of each equation, with the acquisition of the following results:

Insert Table 4.3

From the above regression results reported that all accounting subitem of gross profit, operating profit, profit before tax and net income was stated to have eksplanatory power remains high compared with other measures such as total revenues, total cash flow and book value persaham. The relevance of the value of the size of the EBT have eksplanatory highest power of 14.4%, while the size of the book has the lowest R2 adj. The magnitude of R^2 adj values of explanatory power to earnings than the total size of the revenue to support the results of research Habib (2010) where it is stated that the revenue account subitem tested the relevance of accounting earnings, accounting earnings yield that has remained more revenue than the largest power eksplanatory although earnings test in test using the subitem earnings account.

In research Habib (2010), sub item accounting income account with the highest value of adj R 2 is profit before tax and profit after tax (in this case net income), while in this study also showed profit before tax also has the highest value of adj R^2 then followed by net income. This indicates that investors believe in full against profit before tax of information presented to inform the company, especially in the company's performance. In addition, the low cash flow compared to the size of the total profit is also in line with research by Linda and Fazli (2005). Hilal (2009) states that the cash flow of data outside of the accounting profit only provide weak support for the investor, this indicates that the data do not have the cash flow of information content when seen its influence on stock returns.

In table 4.3 above are considered the most crucial is the low explanatory power of book value. These results do not support the research of Linda and Fazli (2005), Wedari (2006), and Almilia and Sulistyawati (2007). Conclusions from the results of some studies were not in accordance with the conditions in this study where the book value is more relevant than earnings when the company suffered a loss. It is a thought being given to whether the book can not fully represent the information to inform investors when the company's corporate performance loss. The answer was cannot, this is because although there are some companies that suffered losses does not mean that the quality of low-income declared. In other words, negative or not the profit it can cause the market reacts to earnings figures themselves. The emphasis is important is the book value of information allows investors to use in decision making, when earnings do not show their relevance rather than when earnings are negative. Proven from the results stated that the relevance of high-value stated income, so that when the profit loss profit tetaplebih the relevant information. The high quality of earnings could lead to the possibility that earnings information remains the primary focus of investors in making of decision.

5. CONCLUSIONS AND IMPLICATIONS

This study aims to obtain empirical evidence regarding the value relevance of alternative accounting performance measures. This study uses 58 companies listed on the Indonesia Stock Exchange from 2006 until 2010. Based on the results obtained concluded that the profit before tax had the greatest power eksplanatory. All subitems accounting income had the greatest power eksplanatory than other performance measures, namely the book value, earnings, and cash flow. Ekspalanatory high power of earnings indicated that earnings had a high relevance value of this claim and the investor was still full of information on earnings, especially in decision-making role. These results supported the research of Habib (2010) in which the profit shown by subitem account proved to be more relevant than earnings.

However, these results did not support the research of Linda and Fazli (2005) where book value was more relevant than earnings. Relevance of the low income according to Linda and Fazli (2005) explained that the company was losing money at that time. However, in this study provided evidence that different, that although the company suffered a loss. Earnings were still showing strength in explaining stock returns, or had a relevance value. Evidence of income was also more relevant; it showed that the market was still full of reacting or responding to information permanently good profit return was positive or negative. The results showed that the gross profit with a negative coefficient significant effected on stock return, while the total revenue, operating earnings, and book value of stocks with positive coefficients significantly influenced stock returns. Total net income and cash flow showed no significant effect. It could be taken into consideration for investors to see which information will be used in decision making. Suggestions for Further Research that were: a. taking a sample of firms that are not restricted to manufacturing firms only. A company listed on the Indonesia Stock Exchange can be considered in testing the value relevance of accounting information for the entire testing companies allow others to give conclusions about the most relevant information; b. Extend the observation period of study to acquire Shares Return calculations are more accurate so that employees are better explained on the Stock Return; c. Relevance of the measurement should also see its effect on stock prices, so that more extensive research so that it can detect the power of

accounting information in explaining stock prices and stock returns. Because stock prices and stock returns are the two assessment models commonly used in studies of the value relevance of accounting data. According to Kothari and Zimmerman (1995) in the Linda and Fazli (2005) use valuation models stock returns and stock prices are useful in detecting relevant information; d. The relevance of the measurement values in this study using only six variables information. Further research should use other information variables such as cash flow component that can be researched on the study of relevance. Increase in accounting information which is used as a variable in this study in order to sharpen the explanatory power of other information and view other information variability ability in explaining the value relevance of accounting studies; e. Relevance of the measurement should also be measured by considering the characteristic of the company. To increase the accuracy and power users sometimes get the relevant information of the elements characteristic of visits to different companies. As consideration of the life cycle of a company, firm size, and other considerations can be used for further research in the show which is more relevant information.

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Table 3.1 Measurement of Independent Variables

No.	Approach to Information	Alternative Accounting Performance Measures	Measurement	Basedd of Measurement
1.	Revenues	Net Income (NS)	Net sales of the company's main operating activities	Measure is based on research Habib (2010)
2.	Profit	Gross Profit (GP)	Net Income minus cost of goods sold	Based on research Habib (2010)
		Operating Income (OPINC)	Gross Profit reduced operating expenses	Based on research Habib (2010)
		Earning Before Tax (EBT)	Operating income or net income plus other expenses	Based on research Habib (2010)
		Net Income (NI)	Income before taxes minus Income Tax	Based on research Habib (2010)
3.	Cash Flow	Total Cash Flow (TCF)	Net cash end of the accounting period	Based on research Linda & Fazli (2005)
4.	Book Value	Book Value Per Share (BVPS)	Total Equity / Total Shares Outstanding	Based on research Linda & Fazli (2005)

Table 3.2 Sample Of Study

Population	201 Company	
Number of Observations	1005 observations	100 %
- Companies that have delisted (2006-2010)	265 observations	26,36%
- Data not available (eg, financial statements or incomplete information to the variable does not exist)	400 observations	39,80%
- Companies that do not consistently use the Rupiah	25 observations	2,5%
- The financial statements are not ended December 31	25 observations	2,5%
Observations used in this study	290 observations	28,84%
Sample of research company	58 Company	

Table 4.1 Descriptive Statistics

VARIABEL	Minimum	Maksimum	Mean	Deviasi Standar
RIT NS	-.93651508 6674763	26.33333333 63811493669	.5256121390 4578599365.	1.90931885950 8322918912.312

GP	-799933880	11474295604	27 825802742.57	1617637260.051
OPINC	-1490190735	5499130769	284059783.63	692622027.616
EBT	-2006531399	6064823810	230738051.64	698617134.712
NI	-1505066440	4311095238	147490540.54	487734977.972
TCF	-34084685	4917395604	341041829.46	707221720.549
BVPS	-36.26789407	40.66037847	1.5981783735	5.90205810742

Table 4.2 Correlation analysis

	RIT	NS	GP	OPINC	EBT	NI	TCF	BVPS
RIT	1							
NS	.478**	1						
GP	.234**	.750**	1					
OPINC	.318**	.668**	.862**	1				
EBT	.275**	.557**	.755**	.881**	1			
NI	.273**	.498**	.683**	.810**	.965**	1		
TCF	.227**	.689**	.849**	.781**	.704**	.619**	1	
BVPS	.392**	.238**	.084	.130*	.110	.113	.177	1

Table 4.3 Measurement results Adj R2

Model	Variabel	CONSTANTA	COEFFICIENT	PROBABILITAS	Adj R^2
I	NS	1.82E+08	0.020406	0.0001	0.047212
	GP	1.70E+08	0.128114	0.0000	0.071997
	OPINC	1.62E+08	0.401004	0.0000	0.132080
	EBT	1.80E+08	0.414267	0.0000	0.143710
	NI	1.91E+08	0.572515	0.0000	0.133540
	TCF	1.82E+08	0.275247	0.0000	0.06311
	BVPS	2.18E+08	0.049765	0.0740	0.007606