

IFRS Adoption and Cost of Capital

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Abstract: *The paper aims to clarify role of firm size, inflation, accounting disclosure and leverage to the cost of capital and examined the existence of moderating effects of IFRS adoption on the relationship of the variables. Data used in this study is a secondary data which is quantitative. Data of countries that have adopted IFRS and haven't adopted is sourced from iasplus. Data on the annual financial statements published by each company was obtained from the New York Stock Exchange. The method of analysis used in this study is panel data regression analysis of sampled firms from 2007 to 2011. The regression technique is flexible enough to test the relationship between variables which are dependent and has several variants so that researchers can have the model that best fits the situation at hand. The development of role of firm size model, the rate of inflation, extensive accounting disclosure and leverage against the cost of capital and the development of moderating model using IFRS adoption event as international financial reporting standards*

Keywords: firm size, inflation, disclosure, cost of capital

1. Introduction

Capital is one of important aspects for the company in developing its business. Companies must be able to determine how much capital is needed to finance the company's operations. Capital of the company can be obtained from inside and outside of the company (source of internal and external funds). Capital from internal funds sources as an example, obtained from retained profits, while external funding sources, for example comes from loans from the creditors and investment funds from investors.

Funding structure decisions have a significant role in the financial management of the company because it may result in a rate of return and borne risks (Kumaladewi, 2011). The funding decision is a decision that minimizes capital costs that must be borne by the company. Companies which have the need for external financing will face obstacles regarding the high cost of capital required by investors as a form of borne future risks due to market uncertainty (Kumaladewi, 2011).

The capital cost which is incurred as a result of the funding decision is a direct consequence arising from decisions made by manager. Funding decisions which are not made carefully will lead to fixed costs in the form of high capital costs, so it will have an impact on the profitability of the company.

Saudagaran (2001) suggests the adoption of IFRS to improve comparability of financial statements, thus allowing multinational corporations transcend national boundaries. This indicates that with a better quality of financial reporting, it will give more options for investors to invest their funds transcend cross-border. The financial statements which are easy to understand and the ease of access to investors in understanding the company's financial statements that transcend national boundaries will ease the companies to obtain external funding sources.

The adoption of IFRS will lower costs for investors in comparing a company's financial statements between the other companies for investment decisions. More accountable financial statements are and with higher comparability will reduce the information asymmetry between investors and

companies. This is in line with a research conducted by Leuz and Verrecchia (2000) which states the adoption of IFRS will affect the quality of accounting. Some international literature provide evidence that the quality of accounting have economic consequences by using variables which are used by market liquidity, cost of capital, and Tobin's q (Daske, et al., 2008), the efficiency of capital allocation (Sun, 2006), and the cost of equity (Li, 2010).

Capital requirements between large companies and small companies are different, because it depends on the operating activities of the company. The company which is listed on the New York Stock Exchange (NYSE) is a company that has been at the top level. In meaning, higher total assets, using international auditors as the audit teams of financial statements, and also the preparation of the financial statements at least it uses the standard which is based on American local standards (U.S. GAAP). However, even though all the companies on the NYSE are big companies, there are differences in total assets they have. The difference between the total assets of large companies and companies which have smaller size or smaller assets is possible to have different capital requirements and also different appeal in the eyes of investors, so this will have an impact on the capital cost incurred.

Botosan (1997) who states that large companies need more capital, so that more disclosure of information will attract investors more, besides that, it also can improve stock liquidity and lower the cost of capital as well as to facilitate financing. This indicates that the company requires higher quality and systematic forms of disclosures.

Grouping of companies on the basis of the scale of operation can be used by investors as one of the factors that determine investment decisions. A large company generally has a large total asset so that it can attract investors to invest in the company. This is because in large companies the expectation of returns and risks is getting bigger. In addition to investors, creditors also have more confidence to lend their capital to large companies because the risk of failure of the credit will be smaller.

Capital markets play an important role for companies to obtain investment capital and also for investors in choosing

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their investments. Macroeconomic conditions in a country closely related to the pattern of investment flows, one of which is the rate of inflation. The inflation rate which was high and rising in the USA during the 1970s prompted economists to examine the effect of inflation on household consumption decisions and business decisions on household saving and business investment (Darby, 1975; Feldstein, 1976; Feldstein, et.al, 1978; Auerbach, 1981; Gordon, 1984; Cohen, et.al., 1999). One of the results of such research suggests that there is a positive relationship between inflation and the cost of capital and a negative relationship between inflation and share capital investment (Cohen et al., 1999).

Samuelson and Nordhaus (1994) revealed that inflation would be detrimental to the creditors, fixed income groups, and investors who are not willing to take the risk. The impact is large companies will be more difficult to obtain capital from investors. Moreover, high inflation conditions will be positively related to interest rates, investors are more likely to save their money to the bank because it is perceived to be more profitable. This led the researchers to examine the effect of inflation on the cost of capital.

The effect of disclosure on the cost of capital is one of the interesting topics to be studied. Demzet (1978) followed by Copeland and Galai (1983), Aimhud and Medelson (1986), Botosan (1997), and Diamond and Verrecchia (1991) states that the level of disclosure has a negative influence to the cost of capital because the increase of disclosure will encourage market prices liquidity which at the end will lower the cost of equity capital .

Clients and Bawa(1976) and supported by Barry and Brown (1985) in Botosan (1997),also Coles and Loewenstein (1988) concluded the opposite. According to them, the increase of disclosure will reduce the risk of estimation so that return on asset rises. The rise of return on assets encourages an increase in the cost of equity capital .

Financial leverage is the use of debt at a fixed interest rate to increase return for shareholders (Horngren. et al,1999:558). It also means that financial leverage is the use of financial resources which has the fixed burden with the expectation that it would provide an additional benefit which is greater than its fixed burden so that it will increase available profits for shareholders.

The definition above shows that company financing through the debt is aimed to increase returns for shareholders, but financial leverage is also a potential to the amount of the risks faced by investors if the fixed load which need to be paid over the company's debts is greater than the profit earned. As the consequence, companies will experience financial distress which can lead to bankruptcy. Damodoran (2001:542) says that the financing through debt illustrates the company is in the default position if the cash flow from operations is insufficient to cover the interest cost.

This study examines the role of IFRS as an international standard which is already widely used by multinational corporations on the relationship between firm size and the

level of inflation with the cost of capital using a sample of firms from 31 countries in the world which are listed on the New York Stock Exchange.

Researchers' motivation is that there are many companies that listed in New York Stock Exchange (NYSE), some of which have adopted IFRS. The companies which are listed in NYSE are already at a high level and the reporting standard which they use is already qualified. Sun, et.al, (2011) revealed that the local standard of U.S.A (GAAP) is high quality so that the role of IFRS adoption on profits quality improvement is not statistically proven significant in the firms listed in the U.S. capital markets. However, many previous studies such as which was carried out by Li (2010) which states that by adopting IFRS compulsorily it's able to lower the company's cost of capital significantly in the amount of 47 basis points. While research results conducted by Daske, Hail and Leuz (2008) which examined the effect of mandatory IFRS adoption in 26 countries against the economic consequences, that was the effect on market liquidity, Tobin's Q, and the cost of capital obtained an evidence that market liquidity increased after IFRS was applied, however, the findings did not obtain strong evidence that the adoption of IFRS could lower the cost of capital and increased capital assessment. This indicates that the role of IFRS still needs to be tested back its benefits.

2. Literature Review

According to Brigham and Houston (2001), a rapidly growing company must rely more on external capital. Brigham and Houston (2001) also revealed that the factors which generally affect the capital decision are size of the company, business risks, asset growth, profitability (profitability), and ownership structure. The companies which are listed on the NYSE are those that have strong capital structure. Sources of external fundings are very reliable for developing their business. Although all companies listed on the NYSE are big companies, but the total assets owned by each company is different, there are companies that have very high assets and those that may have much lower assets, so this indicates that companies listed on the NYSE can be classified as large companies and companies which have smaller size or assets.

Big companies can finance capital expenditures from the internal resources, the issuance of equity or debt, but on the contrary, smaller companies are limited in their internal rate and the potential to issue shares (Franks and Mayer, 1990). Dhawan (1999) concluded that smaller companies indicates higher rate of profit, lower survival profitability, and has difficulty in accessing capital markets. This indicates that the capital structure between large companies and companies which has less total assets are different. As expressed by Banz (1981) that small firms have a higher rate of return when compared with large companies, because smaller companies have a higher risk when compared with large firms, so that investors will demand higher return rate from small firms.

Bhojraj and Sengupta (2003) states that the larger the company, it will have a higher bond rating because of low market risk, thereby decreasing the yield. In line with

Khurana and Raman (2003) who got evidence that there is a significant negative relationship between firm size and bond yields. The bigger the company then the tendency of using external funds or the debt will also be greater. This is because large companies have large funding needs and the alternative of available funds fulfillment can use external funding in the form of loans or debt or investments from investors. If the company decides to fund the company's operations with debt, then the company must pay interest on the loan. Interest rates are one of the external factors which affect the company's profitability. Theoretically, interest rates are associated with the investment. So, if interest rates are high then investors will be more interested in saving their money in the bank than allocating their funds to invest. On the contrary, if the interest rates are low, investors will prefer to invest in the stock market or buy securities.

When inflation happens, the financial statements become irrelevant. Both large companies and companies that have smaller assets can record the profit figure become larger so that it will increase the asymmetry of information. A lot of historical figures in the financial statements are economically irrelevant due to price changes. *Holding gains* and *losses* due to inflation should be eliminated from the profits, and assets used as the divisor for calculating ROA should also be adjusted for inflation.

Furthermore, the investment countries with high inflation will be greater. This will affect large companies and companies which have smaller size or assets to obtain external funding sources that will be more difficult because of the greater investments risks experienced by investors.

The hypotheses are:

- H1 = firm size have an influence on the changes in cost of capital;
- H2 = A company located in a country with a high inflation rate issue a greater capital cost than the company which is in a country with a low rate of inflation;
- H3 = Leverage affect the change of capital cost;
- H4 = Accounting disclosures affect the changes on the company's capital cost.

3. Adoption of IFRS and Cost of Capital

The research conducted by Leuz and Verrecchia(2000), Barth (2008), and Li (2010) obtained evidence that the adoption of IFRS could voluntarily lower the cost of capital

The decrease in capital costs is due to the lack of information asymmetry between investors and companies. Botosan (1997) states that large companies need much more capital, so that more information disclosure would attract investors more, in addition it also could improve stock liquidity and lower the cost of capital as well as to ease financing. Diamond and Verrecchia (1991) also argues that the better disclosure of financial reporting, it would reduce the information asymmetry and lowered the cost of capital.

Based on this study, the adoption of IFRS brings a positive influence to the quality of company financial reporting, so it

is possible that companies which have adopted IFRS will have a better quality of reporting to reassure investors. The enhancement of investor's belief will ease large companies to raise capital that will lower the cost of capital. Kusuma (2007) said that only multinational companies would receive the benefits of international standards, and the most worrying thing was the adoption of international standards would cause *standards overload* for smaller companies and not multinational, so for companies with smaller assets and adopted IFRS would not experience a significant reduction in capital costs compared with the reduction in capital costs experienced by large companies.

Inflation is one of factors which contribute to the price changes, so often there is an incompatibility between the price at the time the goods or services were first obtained by the price of the goods or services at this time. The impact is it will cause difficulties if the measurement is based on the *historical cost* because it cannot describe the actual financial position of the company, meaning that the financial statements are irrelevant, so it will affect the company's performance assessment done by investors and creditors. The weaknesses of the *historical cost* were one of the reasons the IASB issued IFRS which are applied internationally to change the *historical cost* concept becomes fair value.

Almost all countries around the world have inflation. Inflation which happens in a country is one of the causes of *historical cost* are no longer relevant for use in the financial statements.

According to Gao and Gaichune (2009) the reason for the application of fair value is the desire of the Securities Exchange Commission (SEC) to increase the information transparency about investment, enhance the comparability of the foreign companies listed on U.S. exchange, the European Union requires the use of international standards that apply present value accounting.

In addition to the inflation factors, thing that might happen is the amount of company's leverage factors will affect the capital costs issued. Researchers argue that the greater the resources obtained from the debt to other parties will increase capital costs incurred. By the implementation of the IFRS which gives more complete and transparent financial information to minimize the asymmetry of information, so the cost of capital will get smaller due to the adoption of IFRS for companies which have greater leverage rate.

Armstrong (2010) revealed that the investors expect adoption of IFRS would result in higher quality of financial reporting information, therefore would lower information asymmetry among companies, investors, risk of information, and the cost of capital, and also they would get the convergence benefits, such as lowering the cost for the comparison of the company's financial position and performance between countries, and the adoption of IFRS allows the European capital markets become more globally competitive with the consequent of liquidity enhancement for European companies. However, the reaction of investors would be otherwise if the investor believes that IFRS would result in lower quality of financial reporting information

then the adoption of IFRS would have an impact on the behavior of opportunistic managerial discretion, so investors would spend a lot of costs rather than the benefits gained.

Therefore, in this study the researchers expect that the adoption of IFRS will result in a increase in accounting disclosure to the cost of capital. The hypothesis are:

- H5 = The adoption of IFRS moderate the relationship between firm size and the cost of capital;
- H6 = The adoption of IFRS moderate the relationship between the rate of inflation and the cost of capital;
- H7 = The adoption of IFRS moderate the relationship between leverage and the cost of capital;
- H8 = The adoptions of IFRS moderate relationship between accounting disclosures and the cost of capital.

Data and Methods

Data used in this study is a secondary data which is quantitative. Data of countries that have adopted IFRS and haven't adopted is sourced from www.iasplus.com and from previous studies (Daske Hail, and Leuz: 2008). Data on the annual financial statements published by each company was obtained from the New York Stock Exchange (www.nyse.com). Inflation data was obtained from www.tradingeconomic.com. The data taken from the period 2007 to 2011 including the total assets of the company, countries inflation rate, the company returns and market returns in the period 2007-2011, the company's stock beta, and data of companies which have adopted IFRS on a mandatory basis in 2007 and not yet adopted IFRS until 2011.

4. Results and Discussion

Empirical Results

Samples collected in this study were 826 observations. Based on the test results of the regression model we can see all the variables, which are firm size has a negative effect that is statistically significant to the cost of capital at level $\alpha = 5\%$ ($t = -2,238$, $p\text{-value} = 0,026$). Size coefficient value of $-0,033$ indicates when there is an increase of the value of the company size per-unit, and then the cost of capital will decrease by $0,033$. This indicates that hypothesis 1 is supported.

The inflation rate has a positive effect that is statistically significant to the cost of capital at level $\alpha = 5\%$ ($t = 3,583$, $p\text{-value} = 0,0000$). The coefficient of the inflation rate at $3,647$ indicates that if there is an increase in inflation, it will increase the cost of capital as big as $3,647$. This shows that the second hypothesis is also supported, because when there is an increase in the inflation, it will lead to the increase in the company's cost of capital.

Based on the test results of the regression model we can see all the variables, which are the level of earnings management made by the company has a negative effect that is not statistically significant to the cost of capital at the level of $\alpha = 5\%$ ($t = -0,9$, $p\text{-value} = 0,368$). These results indicate that hypothesis 3 is not supported, there is no influence of the magnitude of the disclosures made by the

company with an indicator that earnings management will lower the cost of capital.

The leverage level of the company has a positive effect which is statistically significant on the cost of capital at level $\alpha = 5\%$ ($t = 2.954$, $p\text{-value} = 0.003$). Rate of inflation coefficient value of $0,61$ indicates that if there is a rise in inflation, it will increase the cost of capital as big as $0,61$. These results are in line with the expectations of researchers that an increase in leverage will be accompanied by an increase on the company's cost of capital so it can be said that hypothesis 4 is supported.

Based on the results of the regression testing after being moderated by the adoption of IFRS, then we can see that the firm size has a negative effect which is statistically significant to the cost of capital at level $\alpha = 5\%$ ($t = -3.542$, $p\text{-value} = 0.000$). These results are consistent with the hypothesis 5 which states that IFRS will have an impact on the strengthening of the negative relationship between firm size and capital costs.

The inflation level has a positive effect that is statistically significant to the cost of capital at level $\alpha = 5\%$ ($t = 4.020$, $p\text{-value} = 0.0000$). The coefficient value of the inflation level is of 2.975 , this indicates that there is a decline in the value of the coefficient when compared with the company's condition before using the IFRS. This coefficient decline indicates when there is a rise in inflation it will only increase the capital cost at $2,975$ while before using IFRS, the rise was at $3,647$, but this result is not supported by the evidence which is statistically significant, thus hypothesis 6 is not supported.

Based on the test results of the regression model we can see all the variables, which are the level of earnings management of the company has a negative effect that is not statistically significant to the cost of capital at level $\alpha = 5\%$ ($t = -1.087$, $p\text{-value} = 0.278$), although the country has adopted IFRS. This indicates that the IFRS brings no effects on the decrease in earnings management because before the adoption of IFRS was made by the company, the level of company's earnings management was also very low, so it doesn't impact too significantly on lowering the cost of capital, and thus hypothesis 7 is not supported.

The company's leverage level has a positive effect which is statistically significant on the cost of capital at level $\alpha = 5\%$ ($t = 3.008$, $p\text{-value} = 0.003$). Rate of inflation coefficient value of 0.37 indicates that if there is a rise in inflation, it will increase the cost of capital by $0,37$. A decrease in the coefficient indicates if there is an increase in company leverage or an increase in company's debt by one unit then it will experience an increase in the cost of capital by $0,37$, the increase is smaller than the increase in the cost of capital before the adoption of IFRS was made. These results indicate that the hypothesis 8 is supported that IFRS will weaken the positive relationship between capital costs and leverage, so if the company which adopts IFRS has high leverage, the cost of capital will be lower compared to companies which do not or have not adopted IFRS.

5. Discussion

Based on the results of the statistic test, found evidence that hypothesis 1 is supported ($t = -2,238$ with $p\text{-value} = 0,026$). These results indicate that firms with larger assets have less risks than companies with smaller assets. The level of risks which the company has, will affect the company in issuing the cost of capital, either in the form of interest expense or dividend payments to investors. If the company has a lower risk, from the side of investors, it will be seen that the company has more definite prospects in the future. Hartono (2010) revealed that the expected returns and the expected risks has a positive relationship (*high risk high return*).

Banz (1981) that small firms have a higher rate of return when compared with larger companies, because smaller companies have a higher risk when compared with large firms, so investors will also demand a higher rate of return on small firms. the ease of investors in accessing corporate information is also another reason that investors feel the ease more in accessing the company which has greater total assets than companies with smaller assets, so investors will tend to invest their funds in the companies.

The results of this study also support the results of research conducted by Bhojraj and Sengupta (2003) which states that the larger the company, it will have a higher bond rating because of its low market risk thereby decreasing the yield. Khurana and Raman (2003) also obtained evidence that there is a significant negative relationship between firm size and bond yields. These results indicate that the company which has greater total assets will offer yield or interest on the bonds which is low or small, because large-scale firms have small risks compared with small firms.

Based on the results of the statistic test, found evidence that hypothesis 2 is also supported ($t = 3,583$ with $p\text{-value} = 0,000$). These results show that the results of this study fit the research conducted by Cohen, Hassett, and Hubbart (1999) who obtained evidence that an increase in the cost of capital when inflation rises, and a decline in the cost of capital when the rate of inflation decreases.

At the time of high inflation, investors tend to be more cautious in allocating their investment capital. Countries which have inflation fluctuations in the range of high inflation will experience rapid changes in price levels anyway, and this will affect the purchasing power in general, so it will affect in the increase of the price of goods and services. The increase in the price of goods and services will be followed by a decline in purchasing power. This condition is highly undesired by companies that rely heavily on trading activities of the community, as it will affect the company's sales and profit. If the purchasing power decreases, then the sales will go down and eventually company's profits are decreasing as well. The decline in company's profits will lead to a decrease in stock price and it will be responded negatively by investors. Negative response given by the investors will result in the difficulty in obtaining capital, whereas on the other hand, the company should continue to maintain their business and continue to improve the quality of its production.

Therefore, investors expect higher returns on companies that have a higher risk. This expected return is the capital cost which must be borne by the company to be given to investors who invest in the company. The greater the risk of the result of this inflation will lead to higher capital costs as well.

Similarly, for the creditors, at the time of high inflation, the central bank will raise interest rates on deposits. Conditions of high inflation will give the option to the investors whether to invest their capital in a company or keep their money in the bank. When inflation is high, interest rates are seen as more profitable, investors will tend to save their money in banks because the interest rates they earn will be higher than the capital invested in an enterprise.

Based on the results of the statistic test that the completeness of the disclosure by company's internal party to the investors and the creditors does not cause a decrease in capital costs incurred. It can be said that hypothesis 3 is not supported. This research expects that the more complete the information provided then level of company's earnings management will be smaller. However, this study did not find that the company has a high level of earnings management so that it is not affected by the change in the cost of capital. According to Gao and Gaichune (2009) reason for the application of fair value is the desire of the Securities Exchange Commission (SEC) to increase the transparency of information regarding investment, enhance the comparability of the foreign companies listed on U.S. markets, the European Union requires the use of international standards that apply present value accounting. This indicates that when companies has already provided more informative and better disclosure then the space for the manager in doing earnings management actions will be smaller. In addition, the samples in this study are the companies listed on U.S. stock markets (New York Stock Exchange), it means the companies which are listed on the NYSE with the standard preparation of financial statements at least using U.S. GAAP, so that the financial statements that they stack have already had a very high standard.

The results of the statistics test indicate that the greater the leverage ratio of the company will further increase the cost of capital issued by the company, so that hypothesis 4 is supported. Investors and lenders will perceive that companies which have a large leverage ratio will also have greater risk of return, so it is feared that the company would be more difficult to repay the loan to the lender and give back the return to investors compared to companies with lower leverage ratios. This is because higher leverage indicates that the increase in total debt is larger than the increase in total assets. The greater the debt means the total financial risk or the risk of company's failure to return the debt is also higher.

Martono and Harjito (2007:300) states that changes in leverage or in the use of debt result in a change in the amount of profit per share (EPS) which is expected by firm as well as the level of risk after the profits, and the rate of profit and risk will result in a change in the stock price. This is similar to research done by Sandhiko (2009) that the greater the company's leverage ratio will result in increasing

lower share price. This indicates that the lower the value of the company which is reflected in the company's stock price would result in the company finding difficulty to obtain capital from investors, which the impact will increase the cost of capital.

This study hypothesizes when IFRS is applied, it can strengthen the relationship between firm size and cost of capital with statistically significant significance. That is, large companies or companies with large assets and have adopted IFRS, there is a decline in capital costs incurred by the company.

These results indicate that the impact of IFRS provide a significant reduction in the cost of capital in large firms (with large total assets). This can happen for several reasons, companies with large sizes will have access or greater opportunities for obtaining funding from various sources, so that it will be easier to obtain a loan from the lender because for companies which have large size have greater profitability for winning industry competition.

The results of the study by Bhojraj and Sengupta (2003) states that the larger the company will have a higher bond rating because of low market risk thereby decreasing the yield. In line with Khurana and Raman (2003) who found evidence that there is a significantly negative relationship between firm size and bond yields. Based on these descriptions, the company which has greater total assets will offer a low or small yield, because large-scale firms have a small risk compared with smaller companies. In addition, the company which has greater total assets own good prospects in a relatively long period of time, more stable and more capable of generating profits than firms with lower total assets.

The results of the statistic test found evidence that IFRS has a role to further reduce the cost of capital issued by the company amid the higher inflation conditions. The results of the statistics test have not found statistically significant evidence that after the adoption of IFRS can lower the cost of capital.

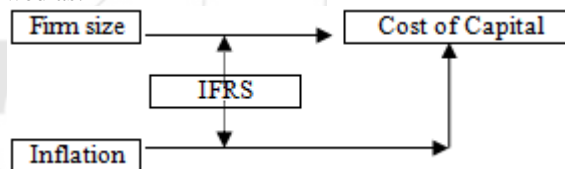
This indicates that IFRS has not yet had a significant impact on lowering the cost of capital. It can also occur, due to several reasons such as which was disclosed in the research by Daske, Hail, and Leuz (2008) and Li (2010) that the role of the adoption of IFRS can be felt by countries which have a strong law enforcement (*strong legal enforcement*). So, there is a possibility that from the sample countries used in this study most of them have weak law enforcement, so it affects the results which is statistically proven insignificant that IFRS does not provide a positive role in lowering the cost of capital.

American global financial crisis also impacts on the inflation in other countries. for example Indonesia currency weakens against the USD due to the crisis, so it also impacts on the increase of prices. For companies which are in the process of production rely on imported raw materials from other countries, will have a negative impact for the company, because the purchase price of raw materials will soar.

Another reason that causes IFRS has not been instrumental in lowering the cost of capital amid the conditions of high inflation is that accounting standard is not a major factor that affects the value relevance of financial statement information. Ball et al (2003) explain that these results highlight the importance of institutional factors such as shareholder protection plays an important role in explaining differences in value relevance of accounting information in cross country (Ball et al, 2003).

Researchers argue that IFRS can actually help companies in overcoming the problem of inflation. However, as noted in the previous reasons, that the impact of IFRS on the cost of capital in the midst of high inflation and continues to fluctuate can not be found within a short period and the standard is not the main determinant which can role positively to lower the cost of capital. Thus, according to the research conducted by Cohen, Hassett, and Hubbard (1999) that the increase in inflation will be accompanied by an increase in the cost of capital. However, it has not found evidence that IFRS could weaken the positive relationship between the inflation rate and the cost of capital.

Researchers' expectations on the presence of a decrease in the cost of capital in the broader disclosure with an indicator diskresionary accruals made by company that it is not proven to be statistically significant. This is shown by the results of the statistical value of $t = 0.9$ with a significance value of 0.368. This is due to the small level of earnings management of companies listed on U.S. stock markets, so this does not affect in the changes of the company's cost of capital. In the model, the influence of IFRS adoption showed as:



In the econometric model,

$$COC = 0,684 \text{ Inf} + 0,030 \text{ FS} - 0,128\text{FS} \cdot \text{IFRS} + 0,423\text{Inf} \cdot \text{IFRS} + e$$

- if,
 COC = cost of capital
 Inf = inflation
 FS = firm size
 IFRS = IFRS adoption

It turns out that the adoption of IFRS brings impact on the decrease of cost of capital in companies that have high earnings management. This is caused by adopting IFRS, the company will be more transparent in disclosing all financial information so that even if the company has a high level of leverage, investors and creditors assume that the risk which will be borne less than companies which disclose financial information to what is just.

6. Conclusion and Limitations

6.1 Conclusions

Adoption of IFRS provides benefits to a reduction in the capital cost of large companies and companies which have

high leverage levels. This is because the risk of a large company will be lower compared to smaller companies. Moreover, large companies in making the financial reports will also be better, systematic, and relevant and complete, so that the information asymmetry between firms and investors will be lower. This will give investors the ease and confidence to invest in the company.

The decrease in cost of capital does not happen to companies which are in a high inflation rate. In addition, the adoption of IFRS has not been seen its benefits on lowering the cost of capital in companies which have a high level of earnings management. This is due to the low earnings management that occurred in companies listed on the NYSE, so although these companies have not been using IFRS, the companies have implemented qualified standard financial statements (U.S. GAAP).

It's no doubt that many American local standards are used as reference for local standards of other countries. In addition, the positive impact of the adoption of IFRS cannot be seen in a short period, as companies also need to pay the replacement (switching cost) when changing their local standards into IFRS. As expressed by Ball et al (2000) who states that the quality of information is determined by several complex factors that include business models and the underlying environment, managerial incentives, limiting the options of financial reporting for managers that include standards accounting, auditing, monitoring by bosses and investors, the mechanism of implementation and also investor protection laws, so this indicates that there is synergy between the standards and applicable law in a country.

6.2 Suggestions and Limitations

This study has the following limitations. First, financial statement of any companies cannot be found to be complete. This reduces the representativeness of the sample. Also, data was including outlier in the study. The data is samples of the companies that have unique characteristics, which differ much from other observations because of the extreme values, are not normally distributed in the study. Future studies are expected to be the expansion of the sample to the period of the study used much longer in order to better provide a more representative result. Given the results of investment decisions can be seen in the longer term.

Some variables have any proxy that does everything tested in this study. It could be a different measurement devices provide different conclusions. Future studies are expected to add to the proxy measurement. This can be done onsidering the number of factors that need to be studied more about the impact on cost of capital.

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