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Accounting Standard, Corporate governance, and accounting quality

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Abstract. This paper investigates the effect of adopting IFRS-based convergent accounting standards on accounting quality using Indonesia data. This study also determines corporate governance's role as a moderating variable between adopting IFRS-based convergent accounting standard and accounting quality. Forty-seven manufacturing companies from a period of 2008 to 2017 participated in this study. The unit analysis of this study is an organization or company. Moderated regression analysis (MRA) is used to analyze the data. The result shows that there is a negative relationship between adoption of IFRS-based convergent accounting standard and accounting quality. Besides, corporate governance fails to play a moderating variable between adopting IFRS-based convergent accounting standards and accounting quality. Out of four control variables employed in this study, only three variables (company size, age and profitability) affect accounting quality in three models.

Keywords: *IFRS; Corporate Governance; Accounting Quality*

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INTRODUCTION

Investor preferred to invest in a company which has a higher accounting quality. However, thirty-five Indonesia's listed companies have a problem with their accounting-related aspects in 2018. It indicates that there is a weakness in accounting quality and poor corporate governance. This phenomenon is supported by La Porta, Lopez-De-Silanes, and Shleifer (1999) that state that Indonesia's company has a weak corporate governance external mechanism. Therefore, low accounting quality can be resolved by implementing IFRS convergent accounting standard. Barth, Landsman, and Lang (2008) argue that implementing IFRS-based accounting standards reduces the earning management practice and increases the value relevance of accounting information.

International Financial Reporting Standard (IFRS) has become immensely popular in academia, and the practice as a business organization is facing tight competition. IFRS refers to an extensive, substantial-quality set of accounting standard and explanations used in the production of financial statements (Gornik-Tomaszewski and Showerman 2010). IFRS has been adopted or adapted by companies from countries all over the world. Gornik-Tomaszewski and Showerman (2010) reported that there all over 100 countries around the globe that adopting or adapting the IFRS. Many scholars have documented the importance of IFRS adoption based accounting standard. Daske et al. (2008) add that adoption of IFRS could decrease the information asymmetry and increase the liquidity of the capital market. Also, agency cost and agency conflict would lower and improve accounting quality.

Further, the interaction between

accounting standard and corporate governance would more increase accounting quality. Previous studies report that 12.000 companies from more than 100 countries had adopted IFRS that are Australia (2005), Turkey (2006), Canada (2011), Singapore (2012), South Korea (2011) and Indonesia (2011). There are two opposing arguments regarding IFRS adoption. First, IFRS adoption could increase the information quality and improve the usefulness of financial statements (e.g. Daske et al., 2008). However, IFRS adoption is not suited to all countries. Therefore, IFRS-adoption accounting-based standards may not improve accounting information's value relevance due to different business and other characteristics from one country to another (Soderstrom and Sun, 2007).

Previous researchers from various countries have investigated the effect of the adoption of IFRS-based accounting standard on accounting quality (e.g., Bodle, Cybinski, and Monem 2016; Callao, Jarne, and La 2007; Chen, Tang, and Lin 2010; Dayanandan et al. 2016; Elias 2012; Ismail et al. 2013; Kabir, Laswad, and Islam 2010; Liu et al. 2011). Bodle, Cybinski, and Monem (2016) investigate the effect of international financial reporting standard (IFRS)-based data improve bankruptcy prediction using Australian data. They conclude that under AGAAP, Altman's bankruptcy model is more accurately for five years before the bankruptcy. Callao, Jarne, and La (2007) study the adoption of IFRS in Spain from comparability and relevancy. Both comparability and relevance are lower for local standard if compared to using the IFRS. Reference Chen, Tang, and Lin (2010) survey the accounting quality post-implementation of IFRS-based accounting standard in the European Union (EU). They find that there is a significant difference in accounting quality pre and post-implementation of IFRS. Liu et al. (2011) determine the effect of IFRS-based accounting standard on accounting quality in China. They note an increase in accounting quality by reducing earning management and rising value relevant accounting information after accounting standard implementation. Dayanandan et al. (2016) examine whether the accounting quality improves after implementing the IFRS-based accounting standard, and the IFRS based accounting standard has reduced the income smoothing and earning management. Elias (2012) study the impact of IFRS on accounting quality and reveals that there is accounting quality improving due to less earning management, early loss recognition and increased value relevance. Ismail et al. (2013) explore the accounting quality after implementing the IFRS-based accounting standard in Malaysia. They conclude that accounting quality is higher post implementing the IFRS-based accounting standard, which is indicated by low earing management and high-value relevance. Further, Kabir, Laswad, and Islam (2010) investigate the impact of IFRS in New Zealand on earning quality and find lower-earning quality under IFRS than under pre-IFRS.

Study of the effect of Adopting IFRS-based accounting standards on accounting quality has also been done using Indonesia's data. (Sirait and Siregar 2014) study the accounting quality and dividend policy. However, there is a lack of study investigating the IFRS-based accounting standard and accounting quality using Indonesia's data. From a corporate governance perspective, Indonesia follows the two-tiers board system (Darmadi 2013), the 16th-largest in the world and the largest economy in Southeast Asia (Darmadi 2016). However, Indonesia's company has a weak corporate governance external mechanism (La Porta, Lopez-De-Silanes, and Shleifer 1999). Therefore, it is essential to understand the impact of IFRS-based accounting standard on countries of the different political, institutional and economic environment, such as Indonesia (Liu et al. 2011).

Indonesia is also considered developing economics or countries that have undergone significant regulatory reforms and has an institutional environment that differs from other countries (Sirait and Siregar 2014). Accounting standard in developing countries is a difference compared to the developed market. Therefore, it is difficult for investors to judge a firm's actual performance and make a rational investment decision (Rashid and Islam, 2008). Only one study investigates the subject matter using Indonesia's data: Krismiaji, Aryani, and Suhardjanto (2016). However, Krismiaji, Aryani, and Suhardjanto (2016) use the discretionary accrual as a measurement of accounting quality from 2008 to 2011. This study employs the accounting conservatism to measure the accounting quality for 2008 to 2011 periods. Few studies investigate the role of corporate governance as moderating variables between the adoption of IFRS-based accounting standard and accounting quality. Therefore, there is a desire to examine corporate governance's role as a moderating variable between the adoption of IFRS-based accounting standard and accounting quality. Thus, this study investigates the effect of adopting IFRS-based accounting standards on accounting quality. Besides, this study also examines corporate governance's role as a moderating variable between the adoption of IFRS-based accounting standard and accounting quality. This study provides the empirical findings that contribute to the accounting quality literature and accounting standard development and corporate governance due to this study conducted in different business, economic and regulatory environments. This paper is organized into five sections. First, it is about the study's background and followed by a literature review and hypothesis development. The third and fourth section discusses research method and result. Finally, the conclusion and recommendation are in fifth sections.

LITERATURE REVIEW

Accounting quality

Agency theory Jensen and Meckling (1976) contended that there is a conflict between management (agent) and principal. This conflict brings into asymmetry information among them. Besides, Eisenhardt (1989) argues that one of agency theory's assumptions is information assumption, which brings asymmetry information. Thus, Principal need a higher quality of accounting information to reduce an information asymmetry (Krismiaji, Aryani, and Suhardjanto 2016). The accounting information should minimize the conflict between agent and principle (Watts and Zimmerman 1986). It can be concluded that accounting quality reduces the principle-agent friction by reducing the asymmetry information. Previous studies have documented the importance of accounting quality. For example, Boulton, Smart, and Zutter (2011) conclude that accounting quality measured by earning quality has a significant effect on IPO under-pricing. Further, Penman and Zhang (2002) argue that one of the aspects to consider when investing in a company is accounting quality. Accounting quality is useful for a firm's sustainability (Waroonkun and Ussahawanitchakit 2011).

Barth, Landsman, and Lang (2008) define the accounting quality as accounting measure ability to portray a firm performance and economic position. This definition emphasizes primarily on relevance of financial information (Verleun et al. 2011). Besides, Penman and Zhang (2002) provide us with accounting quality, which focused on financial information reliability. Higher reliability of the financial statement should protect the stockholders from management's opportunistic behaviour (Penman and Zhang 2002). Watts (2003) conclude that accounting quality links to benefit that stakeholders gained from the financial statement. Soderstrom and Sun (2007) provide us with a schematic framework of determinants of accounting quality. The accounting quality is determined by an accounting standard, legal and political system, and financial reporting incentives (Soderstrom and Sun 2007). Therefore, IFRS-based accounting standard is expected to have higher relevance and reliability of accounting information (Soderstrom and Sun 2007). However, there is an argument that a single set of the standard may not fit all settings and therefore, may not improve the financial statement relevancy and reliability (Soderstrom and Sun 2007).

There are several measures for accounting quality proposed by experts. For example, accounting quality is measured by earning management and value relevance (Liu et al. 2011). Besides, Callao, Jarne, and La (2007) use the financial statement comparability and value relevance to measure accounting quality. Further, Karampinis and Hevas (2011) apply the value relevance of accounting information and accounting conservatism to measure accounting quality. Therefore, it can be concluded that accounting quality could be measured by earning management, value relevance, comparability, and conservatism. There are a bundle of studies investigating factors affecting accounting quality. Several previous studies have identified several factors affecting the accounting quality: adoption of IFRS-based accounting standard (e.g., Bodle, Cybinski, and Monem 2016; Dayanandan et al. 2016; Krismiaji, Aryani, and Suhardjanto 2016), board governance (e.g., Krismiaji, Aryani, and Suhardjanto 2016), dividend policy (e.g., Sirait and Siregar 2014), corporate governance (e.g., Kwon, Lee, and Ki 2014), e-commerce competence (e.g., Chanawongse, Poonpol, and Poonpool 2011), private information and monitoring (e.g., Beatty, Scott Liao, and Weber 2010), female directors (e.g., Srinidhi, Gul, and Tsui 2011), Amortization and impairment of goodwill (e.g., Hulzen et al. 2011), audit committee (e.g., Inaam and Khamoussi 2016; Krishnan, Wen, and Zhao 2011), and audit quality (e.g., Inaam and Khamoussi 2016). In brief, accounting quality is determined by several factors and among them is the adoption of IFRS-based accounting standard and corporate governance.

IFRS-convergent based accounting standard

Accounting standards are critical for resolving agency conflict (Dayanandan et al., 2016). Besides, Dayanandan et al. (2016) add that the standards may influence management's opportunistic behaviour because the standard restricts institutive consideration and an alternative accounting range. One of the contentious issues of IFRS is its effect on accounting values (Dayanandan et al. 2016). Further, Krismiaji, Aryani, and Suhardjanto (2016) argue that adopting IFRS-based accounting standards is anticipated to lessen the discretion of announced values. Barth, Landsman, and Lang (2008) say that the quality of IFRS generally is higher than most national accounting standard. Ewert and Wagenhofer (2005) state that strict accounting standards lessen accounting quality, measured by earning management, and produced more value relevance. Callao, Jarne, and La (2007) conclude that adopting IFRS-based accounting standards in Spain has a significant effect on accounting quality. Chen, Tang, and Lin (2010) find a significant difference in accounting quality pre and post-adoption of IFRS in the European Union. Liu et al. (2011) state that accounting quality increased after implementing the adoption of IFRS-based accounting standard in China. Elias (2012) find that accounting quality is also higher after adopting the IFRS-based accounting standard.

Ismail et al. (2013) conclude that accounting quality increase after implementing the IFRS-based accounting standard in Malaysia. Dayanandan et al. (2016) find that the accounting quality improves using the IFRS-based accounting standard for French and Scandinavian Civil Law Countries, but not for Germany civil law and common law countries. Finally, Krismiaji, Aryani, and Suhardjanto (2016) also find an increase in accounting quality after implementing the IFRS-convergent accounting quality. Based on the theory and previous studies, we develop the first hypothesis as follow.

H1: Adoption of IFRS-convergent accounting standard has a positive effect on the accounting quality.

Corporate governance

The term corporate governance had been discussed by Berle and Means (1932). Corporate governance is a set of procedures to protect outside shareholders' interest from the company insiders (La Porta et al., 2000). Chiang and Lin (2007) also provide us with a definition of corporate governance as a set of policies that develop a better relationship between the Supervisory Board, Board of Directors, and other company stakeholders. Corporate governance consists of two mechanisms: internal and external mechanism. Denis (2001) argue that the internal mechanism could be a form of Board of Directors, management compensation, ownership, etc. Melón-izco, Ruiz-Cabestre, and Ruiz-Olalla (2020) argue that corporate governance mechanism, such as board director diversity, can improve the corporate reputation by being more open to stakeholders. Idris and Saridakis (2020) conclude that a woman director with network advice can improve SME's internationalization.

Meanwhile, the external mechanism is from takeover and product market competition (Denis 2001), and managerial labour market (Byrd, Parrino, and Pritsch 1998; Weir, Laing, and Mcknight 2002). The argumentation of Agency theory Jensen and Meckling (1976) believe that a better corporate governance mechanism is expected to impact the higher quality of financial information positively. Many previous studies document the effect of corporate governance concept on accounting quality. Kwon, Lee, and Ki (2014) find an impact of corporate governance on accounting quality.

Further, board governance, which is a part of the corporate governance concept, positively impacts Indonesia's accounting quality (Krismiaji, Aryani, and Suhardjanto, 2016). Finally, Srinidhi, Gul, and Tsui (2011) find that female directors' role (also corporate governance aspect) in determining the accounting quality. The relationship between the adoption of IFRS-based accounting standard and accounting quality may be moderated by corporate governance. Corporate governance internal mechanism through the audit committee has a role of monitoring the financial reporting process to produce a higher quality of accounting information. Therefore, we also develop the hypothesis as follow.

H2a: corporate governance has a positive effect on accounting quality

H2b: corporate governance moderated the relationship between adoption of IFRS-convergent accounting standard and accounting quality.

RESEARCH METHODS

This research is quantitated research investigating the effect of IFRS adoption on accounting quality. It determines the role of corporate governance moderated between Adopting IFRS-based accounting standards and accounting quality. Unit of analysis of this study is the company. The research object is consumer good industry companies listed in Indonesia Stock Exchange (IDX). This study is the disclosure in nature, and the purposive sampling method is applied. Secondary data from the annual report and other document are utilized to gather from IDX and the company's website and other electronic sources. The measurement of accounting quality in accounting conservatism. The variable is measured by conservatism based on accrued items (Givoly and Hayn 2000): current year operating profit plus depreciation expenses minus net cash flow from operating activities and times minus one and a dividend with the total asset. Adopting IFRS-based accounting standards is measured by the level of adoption of IFRS-convergent accounting standards (Krismiaji, Aryani, and Suhardjanto, 2016). They use the percentage of IFRS-based convergent accounting standard adopted by the company. The presentation is the ratio of the number of IFRS-based convergent accounting standard adopted by a company in a year to the sum of the standard should be adopted (Krismiaji, Aryani, and Suhardjanto, 2016). Corporate governance is measured by the structure of corporate governance index (Ananchotikul 2007) which is modified by (Krismiaji, Aryani, and Suhardjanto 2016) in order suited to Indonesia corporate governance environments and it is named as board governance (Krismiaji, Aryani, and Suhardjanto 2016). Therefore, this study applies the corporate governance index using 34 instruments and calculated by a dichotomous procedure (1 for good CG practice and otherwise 0). Moderated regression analysis is applied for analyzing technique. Panel data approach is used and testing whether the model is fixed or random (Hausman 1978). Standard multivariate regression procedures are followed, such as testing for normality, autocorrelation, multicollinearity, and heteroscedasticity (Gujarati 1995; Hair et al. 2014; Wooldridge 2003). The research model is demonstrated as follow

$$AQit = \alpha + \beta_1 A\_IFRSit + \beta_2 CSit + \beta_3 CAit + \beta_4 CPit + \beta_5 CLit + \varepsilon \text{.............}(1)$$

$$AQit = \alpha + \beta_1 A_{IFRSit} + \beta_2 CGit + \beta_3 CSit + \beta_4 CAit + \beta_5 CPit + \beta_6 CLit + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

$$AQit = \alpha + \beta_1 A_{IFRSit} + \beta_2 CGit + \beta_3 A - IFFRSit * CGit + \beta_4 CSit + \beta_5 CAit + \beta_6 CPit + \beta_7 CLit + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(3)$$

AQ is accounting quality using accounting conservatism as a proxy. Meanwhile, A_IFRS is the adoption of IFRS-based accounting standard. Further, CG stands for corporate governance, and the rest is control variables: company size (CS), company age (CA), company profitability (CP) and company leverage (CL).

RESULT AND DISCUSSION

The final sample for this study is 47 companies with year from 2008 to 2017. Sample distribution across sub-sectors are demonstrated in Table 1 below. Overall, 58.02% of populations become a research sample.

Table 1. Sample Distribution

Manufacture sub-sector	N	n	%
Food and Beverage	14	9	64.29
Tobacco Manufacturers	4	2	50
Pharmaceuticals	10	6	60
Cosmetic	4	2	50
Houseware	3	1	33.33
Automotive and it is component	13	11	84.62
Textile and Garment	22	10	45.45
Footwear	3	2	66.67
Cable	6	4	66.67
Total	81	47	58.02

Table 2 provides us with the descriptive statistic of the research variables. Means value of accounting conservation is -0.05, which means that, when we take zero as a neutral point, companies are on average, not conservative. Besides, IFRS adoption has a mean value of 0.56. However, there is a bit lower than the finding of Krismiaji, Aryani, and Suhardjanto (2016), which had a mean value of 3.264 (four Likert scales). Further, corporate governance variable has a mean value of 0.37. this mean value is also lower than a finding (Krismiaji, Aryani, and Suhardjanto, 2016). Thus, company size means value is 16.96. Meanwhile, means value of company profitability and company ages are 0.14 (14%) and 41.43 years, respectively. Regarding company profitability, this value is higher compared to the previous study (Ilona, 2015). The previous research identified the mean value of its company age is 26 years (Singh and Gaur, 2009). Finally, the mean value of company leverage is 0.60 (60%), and it is categorized as high leverage (Berger, Eli, and Yermack, 1997).

Table 2. Descriptive Analysis

Variable	Mean	Median	Min	Max
AC	-0.05	-0.02	-5.05	7.39
A-IFRS	0.56	0.58	0	1
CG	0.37	0.35	0.08	0.59
CS	16.96	15.35	11.38	29.07
CP	0.14	0.06	-0.42	6.81
CA	41.43	38	16	111
CL	0.6	0.5	0.09	3.21

Note: AC (Accounting conservatism), A-IFRS (Adoption of IFRS), CG (Corporate governance), CS (Company size), CA(Company age), CP (Company profitability), CL (Company leverage).

Before proceeding to multiple regression analysis, the model must be free from classical assumptions (Hair et al. 2014). The first assumption is normality. This study uses the univariate normality test (Kolmogorov-Smirnov test). Table 3 provides us with the result of the KS test, and it indicates that all variables are not normal due to its asym sig value is greater than 0.05. Next normality test is skewness per standard error, and if this value is not more than 2.59 (observation less than 300) or 3.59 (observation above 300). It can be concluded that the variable is normal (Manning and Munro, 2004). Therefore, three variables are said to be normal due to its Skewness/SE lesser than - or + 2.59: adoption IFRS, corporate governance and company leverage. The rest is transformed into Ln. By using the KS and Skewness/SE, all variable finally is normal.

Table 3. Normality Test

Variables	KS	Conclusion	Skew/Er	Transform to Ln		conc
				KS	Ske/SE	
AC	0	not normal	-	-	1.44	normal
A_IFRS	0	not normal	-3.22	-	-	normal
CG	0	not normal	-0.18	-	-	normal
CS	0	not normal	-	0.15	-	normal
CA	0	not normal	-	-	2.52	normal
CP	0	not normal	-	0.86	-	normal
CL	0	not normal	0.91	-	-	normal

Note: AC (Accounting conservatism), A-IFRS (Adoption of IFRS), CG (Corporate governance), CS (Company size), CA(Company age), CP (Company profitability), CL (Company leverage)

The second classical assumption is multicollinearity. If two or more independent variables in a multiple regression model are highly correlated, it is called "multicollinearity" (Gujarati 1995). In this case, the person correlation can be used to analyze whether any multicollinearity problem in the model. The person-correlation coefficient is greater than 0.60, indicating no multicollinearity problem (Anderson, Sweeney, and Williams 1996). Refers to Table 4, there is no multicollinearity problem in the model.

Table 4. Multicollinearity Test: Person correlation

Variable	AC	A_IFRS	CG	CS	CA	CP	CL
AC	1						
A-IFRS	-0.43	1					
CG	-0.26	-0.05	1				
CS	0.51	0.04	0.26**	1			
CP	0.14**	0.01	-0.04**	-0.15**	1		
CA	0.01	-0.02	0.12*	-0.17**	0.35**	1	
CL	0.05	-0.08	-0.09	0.07	-0.13*	-0.05**	1

Note: AC (Accounting conservatism), A-IFRS (Adoption of IFRS), CG (Corporate governance), CS (Company size), CA(Company age), CP (Company profitability), CL (Company leverage).

The third classical assumption is heteroscedasticity. Hair et al. (2014) argue that heteroscedasticity occurs when an unequal variance is present, and it is one of the most classical assumption violations (Hair et al., 2014). There are few techniques available testing the heteroscedasticity, such as White test (White, 1980). White general heteroscedasticity shows that all models have the heteroscedasticity problem due to its p-value lesser than 0.05 (see Table 5). The heteroscedasticity problem can be remedied with White heteroscedasticity consistent variance (Wooldridge, 2003). Besides, white heteroscedasticity constant variance is simple in term of execution and suitable to all statistical software, such as Eview (Gujarati, 1995).

Table 5. Result of Heteroscedasticity Test

	Model 1	Model 2	Model 3
Chi Square	46.90	60.94	64.65
white test P-value	0.00	0.00	0.00
Ho (null)	Rejected	Rejected	Rejected

Table 6 provides us with the result of the regression analysis. Since this study uses the moderating variable, the moderated regression analysis used to see the moderating variable's effect on the dependent variable. Therefore, there are three models in this study. The first model estimates the impact of the Adoption of IFRS and the control variables. The second model, all variable is included plus moderating variable (corporate governance). Finally, the third model estimates the dependent variable (accounting conservatism) based on all variables in the first and second model, add interaction between Adoption of IFRS and corporate governance. According to the model fit test, all models are fit because of all F statistic's significance, not more than 0.05. The model power is indicated by R square 10.8%, 10.3% and 10.9% for model 1, model 2 and model 3, respectively. The effect of Adoption of IFRS is shown in model 1, and the result show there is a negative relationship between the adoption of IFRS and CONACC. Thus, it means that the higher the adoption of IFRS, the lower the accounting conservatism. Therefore, the effect of corporate governance on accounting conservatism is not significant due to its significant value greater than 0.05. besides, corporate governance's role as a moderating variable between adopting IFRS and accounting conservatism is also not substantial. Further, two control variables (company profitability and company age) consistently have a significant relationship with accounting conservatism. However, company profitability has a negative effect, and company age has a positive relationship with accounting conservatism.

Table 6. Result of Regression

variable	Model 1		Model 2		Model 3	
	Coef	t-stat	Coef	t-stat	Coef	t-stat
Const	-0.05	-1.954*	-0.037	-1.349	-0.004	-0.07
A-IFRS	-0.045	-2.417**	-0.051	-2.756***	-0.112	-1.227
CS	0.001	1.722*	0.001	1.660*	0.002	1.880*
CA	0.001	2.122**	0.001	2.368**	0.001	2.268**
CP	-0.185	-4.821***	-0.178	-4.644***	-0.182	-4.707***
CL	0.015	1.568	0.013	1.331	0.014	1.527
CG			-0.036	-0.776	-0.126	-0.84
A-IFRS X CG					0.154	0.634
R-squared	0.108		0.103		0.109	
F(5, 417)	10.059		7.926		7.269	
P-value(F)	0.000***		0.000***		0.000***	

Note: accounting conservation (AC) as dependent variable, *, **, and *** indicated significant at 1%, 5%, and 10%.

This study finds that IFRS adoption has a negative relationship with accounting conservatism, the higher the adoption of IFRS, the lower the accounting conservatism as a proxy for accounting quality. This finding is a contrast to the result of (e.g., Barth, Landsman, and Lang 2008; Callao, Jarne, and La 2007; Chen, Tang, and Lin 2010; Dayanandan et al. 2016; Elias 2012; Ewert and Wagenhofer 2005; Ismail et al. 2013; Krismiaji, Aryani, and Suhardjanto 2016; Liu et al. 2011) who finds that there is a positive relationship between Adoption of IFRS and accounting quality. The possible explanation for why IFRS adoption decreases the accounting conservatism is that the means value of IFRS adoption is quite low (0.56). It may also be due to low-quality accounting standard, unfit legal and political system, and insufficient financial reporting incentives (Soderstrom and Sun, 2007).

CONCLUSION AND RECOMMENDATION

Accounting quality is an important aspect of accounting due to its economic consequences (e.g., cost of capital, capital allocation efficiency, and international capital mobility) as summarised by Soderstrom and Sun (2007). Several studies are investigating the effect of IFRS adoption on accounting quality from various countries. This paper determines the relationship between IFRS adoption and accounting quality (accounting conservatism as a proxy). Besides, this study also investigates corporate governance's role as a moderating variable between IFRS adoption and accounting quality. The result shows that there is a negative relationship between IFRS adoption and accounting quality. Also, corporate governance does not have a significant association with accounting quality.

Further, it can be concluded that there is no moderating role in corporate governance between IFRS adoption and accounting quality. The negative association between IFRS adoption and accounting quality imply that Indonesia's financial accounting standard Board has to review the quality of IFRS convergent based standard, Indonesia's legal and political system, and financial reporting incentives in Indonesia. Theoretically, this finding implies that Indonesia's financial accounting standard adopted from IFRS is not effective in improving accounting quality. Besides, accounting standard as an external corporate governance mechanism contended by agency theory (Jensen and Meckling 1976) has failed to increase the governance outcome (accounting quality). Internal corporate governance mechanism also does not play to improve the accounting quality. Finally, the number of important limitations need to be considered. First, this study only focused on a specific sector, the manufacturing industry. Thus, this study also uses a limited sample due to unavailability of non-financial data. Therefore, further investigation needs to be done to establish the positive effect of IFRS adoption on accounting quality using Indonesia's data. Future research also can be done using a large sample of study to gain a robust result.

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