Abstract

Objectives The primary aim of this research is to study the level of conditional conservatism that is practiced by IPO firms which contributes to the quality of earnings reported for wide range of users. The observation period for this study will be at Pre-IPO period (T-1) and Post-IPO period (T).

Method The research sample used is the 115 Indonesian IPO firms excluding financial sector from the years of 2000-2009. The data is collected from respective prospectus for the Pre-IPO observation period (T-1) and from the first annual financial statements for the Post-IPO observation period (T). Two hypotheses are developed in this research. The data is then analysed using piecewise linear accrual regression model developed by Ball and Shivakumar (2005, 2006) to indicate the conditional conservatism employed by IPO firms through the use of accrual accounting.

Results The results show that Indonesian IPO firms do not utilise the role of accruals that is to recognise losses earlier than gains that is to be conservative in both of the observation periods. Indonesian IPO firms only utilise the role of accruals to reduce the noise of cash flows transactions.

Conclusion This study founds that Indonesian IPO firms reported poor quality of earnings both in the Pre-IPO period (T-1) and Post-IPO period (T). This is caused by the insufficient conditional conservatism that is employed by Indonesian IPO firms in reporting their earnings.

Key Words
Initial public offerings, earnings quality, conservatism, accrual, cash flows from operations, Indonesia