AN EMPIRICAL INVESTIGATION
ON THE EXTENT OF CONDITIONAL CONSERVATISM:
EVIDENCE FROM INDONESIA

THESIS

Proposed as a requirement for obtaining
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by

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ABSTRACT

Objectives
This paper aims to examine the extent of conditional conservatism in the pre- and post-crisis period. Moreover, it endeavours to investigate whether the accounting practice had been more conservative after the crisis and to assess whether earning-returns association had grown relatively stronger after the crisis, relative to cash flows-returns association.

Method
Using 125 samples obtained from the IDX, i.e. firms that manage to survive the crisis and at least have existed since 1996 until 2001, the author utilised the piecewise-linear regressions model developed by Basu (1997). By adopting this method, the author was able to investigate whether stock returns could lead earnings, whether stocks with negative returns had higher magnitudes compared to the positive ones, and whether accruals more promptly in reflecting bad news after the crisis relative to cash flows.

Results and Conclusions
The study provides empirical evidence where in general, prior to the monetary crisis, share returns could not lead the earnings. In addition, the level of conditional conservatism had declined in Indonesia after the crisis. Though more variations in earnings can be explained by the stock returns, earnings reflected good news more promptly than bad news. The asymmetric recognition of bad news was more prominent before the crisis, and vice versa. Furthermore, during the post-crisis period, positive returns were reflected more promptly in cash flows than earnings. The strong association between earnings and returns had decreased, being there were higher magnitudes in the positive return samples than negative return samples.
Earnings conservatism, asymmetric timeliness, earning-returns association, post-crisis
PREFACE

This thesis, entitled “An Empirical Investigation on the Extent of Conditional Conservatism: Evidence from Indonesia”, is intended to serve as the author’s final project upon the completion of her undergraduate study at BINUS University International. In addition, the paper also represents the author’s implementation of some of the knowledge gained over the past four years.

First and foremost, the author would like to express her deepest gratitude and gratefulness to the Lord, Almighty God, for deluging her with blessings, strength, and courage to finalise the thesis.

Furthermore, with this opportunity, the author would also like to confer her appreciation as well as acknowledgement to a number of people who have been very supportive and have kindly provided generous assistance for the author. Distinctly, they are:

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Last, but not least, the author would like to bestow her sincerest gratitude for her parents. Without them, the author would not become who she is right now. Additionally, the author realises this thesis is nowhere from perfect. Thus, any comments or suggestions are greatly appreciated. Hopefully this thesis would bring benefits and provide additional information for the readers.

Jakarta, 12 June 2008

Vina Vionita
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