VALUE RELEVANCE OF MANDATORY DISCLOSURE

EMPIRICAL STUDY IN INDONESIAN PUBLIC COMPANIES

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ABSTRACT

The objective of this study is to investigate the value relevance effects of mandatory disclosure in measuring firm value in Indonesian public companies. This study uses price model, i.e. stock price as a firm value. Value relevance is measured by earnings per share and book values per share,while mandatory disclosure is measured by index disclosure. The value relevance effect of mandatory disclosure is measured by relating variable earnings per share and book values per share with index disclosure. Regression analysis on sample of 219 firm-years from 2011 to 2012 is employed to test the hypothesis. Those samples are taken from Indonesian Stock Exchange (IDX) in all sectors. The result of the present research shows that mandatory disclosure decreases the relevancies of earnings per share. Meanwhile, mandatory disclosure is increasing the relevancies of book value per share.

Keyword: Value relevance, earnings per share, book value per share, stock price, mandatory disclosure.

INTRODUCTION

Accounting information becomes value relevance when it can measure the market values of a company. Summarizing of accounting information, such as earnings per share, book value per share, etc, can help investors to measure the firm value. However, even if accounting number is useful for measuring firm value,what kind of accounting information to be used is still controversial. Other information sources such as analysts' forecasts might be timelier than the current accounting figures. In addition, non-accounting number might be more relevant for measuring firm value rather than accounting number. Another resource of information that should be taken a look by the investor is note to financial statements or disclosure. Disclosure is one part of financial statements that explain items in the main body of

financial statement that should bereported by the company in its financial report. So, accounting number is not the only factor that affects the investordecision making.

Disclosure itself can be viewed as incentives. Incentives here mean that good reputation to managers or companies will lead firms to disclose more information (Hassan&Saleh, 2010). Other empirical result finds that disclosure is generally consistent with finance-theory predictions, i.e. that more public information will enhance firm value by reducing the firm's cost of capital or increasing the cash flows that accrue to shareholders (Hassan *et. al*., 2009). Botosan andPlumlee suggest that the type of disclosure is crucial to any analysis as the market responds differently to different types of disclosure.Mandatory-disclosure requirements havevery complex effects, since companies can respondin different ways to the imposed costs. Research conducted by Bushee and Leuz (2005)emphasizes that disclosure regulation might mean both mandatory-reporting obligations and the enforcement of these obligations, so that companies can choose to comply with the mandatory regulations, trade in a different market, go private, or not seek a stock market listing. Another research conducted by Wulandari (2009) states that mandatory disclosure doesn't affect the cost of equity capital, different with voluntary disclosure which affects cost of equity capital in non liquid company but doesn't have effect toward liquid company.

The previous research about value relevance and also mandatory disclosure still becomes an interesting topic because there are very few topics discussing about relevancies of mandatory disclosure in order to determine firm value. The researcher uses earning per share and book value per share as independent variables which adopt clean surplus theory by Feltham and Ohlson (1995: Scott) in order to analyze the value relevance of mandatory disclosure. The independent variables i.e. earnings per share (EPS) and book value per share (BVS), will be related to index of mandatory disclosure as moderating variable in multiple linear regression models. Since this includes regression model, the objective is formulated as to investigate if mandatory disclosure categorized as accounting information with value relevance is the same as book value per share and earnings per share. The dependent variable use in this research is stock market price. This research uses guidelines for presentation and disclosure of financial statements in public company as stated by Stock Exchange Authority in KEP-347/BL/2012 to calculate the mandatory disclosure index. This research only uses mandatory disclosure requirement regulated only by one stock exchange authority (*BadanPengawasPasar Modal*). It doesn't include the voluntary disclosure as the previous research.

This study aims to examine the value relevance of mandatory disclosure in public company in Indonesia. Therefore, it is necessary to be investigated because it seesif mandatory disclosure becomes one of accounting information needed by investors to measure firm value in Indonesia. Besides, this research is also projected to see whether or not the public companies comply with the regulation made by Stock Exchange Authority about reporting annual financial report.

LITERATURE REVIEW AND HYPOTHESIS

Value Relevance

Value relevance is defined as a condition in which the accounting number or information from financial report can measure the value of a company. Some researchers haveconductedstudieson value relevance by using accounting variables in the financial information to see if those accounting variables are relevant in determining the company value. Then, it appears as the general formula to define the relevancies of accounting variable (Beisland, 2009):

$$MVE = f(AI)$$

The formula explains that the amount of accounting information such as book value or earnings per share is equal to the market value of equity such as stock price or return that can determine the value relevance. It becomesthe main question in value relevance research, to know the significance relation between accounting information with market value of equity (Beisland, 2009). In answering this question, usually a researcher use regression analysis model in order to test the relation between accounting information and market value equity.

Since a number of accounting research is developed from basic valuation model, the researcher prefers to choose value relevance valuation model from clean surplus theory which stated that firm value is reflected from accounting information in the financial report. This statement is supported by Feltham and Ohlson (Scott, 2009) with their founding Ohlson clean surplus theory or residual income model. Their clean surplus theory model expresses firm value in terms of current and predicting accounting numbers. Clean surplus theory shows that the market value of the firm can equally be expressed by seeing the relation between earnings and equity. This relation is called as clean surplus relation which means that any changes in equity transaction beside dividend payment and equity investment is affected by earnings of the firm itself. Thus, this theory is preferred to choose because not only earnings can measure stock price, but also equity can define stock price too by seeing the relation between earnings and equity. This theory also provides measurement

approach by showing that market value of the firm can be expressed by financial component such as balance sheet and income statement. Finally, this theory is successful in explaining and predicting actual value of the firm. The formula of residual income model is as follows:

$$P_t = \alpha + \beta_1 EPS_t + \beta_2 BV_t + e_t$$

In the model above, Prepresents market stock price of the company in the timeof period. EPS becomes as earnings per share of the firm.This information comes from income statement of the firm which contains surprise information and stale or anticipated component. BV symbolizes book value of the firm. This information comes from financial position statement which reflectspresent value of normal earnings. $\alpha$is constanta and β coefficient of variable (Watts and Zimmerman, 1986).

The previous research shows that the used of value relevance is one way to measure firm value. One of the models used in value relevance research is clean surplus theory or residual income model developed by Ohlson. Residual income model is used in this research to analyze the relevance of book value, earnings, and mandatory disclosure towards stock price of the firm. Mandatory disclosure will be discussed in the next sections. Since this model categorizes earnings and book value as value relevance, by including mandatory disclosure in the valuation model, the researcher hopes that the model can give better result which can show the relation mandatory disclosure towards stock price. Asupport on clean surplus theory comes from Bernard (as quoted by Kothari, 2001).He argues that the choice of accounting method does not affect the model's implementation. So it is not necessary to define accounting method of sample in this research. Meanwhile, price is used in this model because it reflects richer information set than the transaction-based, historical-cost earnings. And, current price contains information in the surprise as well as the anticipated components of the performance measuring earnings (Kothari and Zimmerman, 1995).

Disclosures

Efficient market theory believes that all information fully reflects the stock price of the firm. Financial report of the firm that has been published will be a reflection of their stock price as the quality of the financial information. The investment theory says that investors are so risk-averse that they want to trade off risk and expected return of securities in making investment decisions. To fulfill investors needs, the company has to provide the information by reporting not only accounting number but also explanation to understand the reading of financial report or disclosure.

Disclosure means supplying information in financial statements where it becomes the body of the statement itself.Notes to the statement and supplementary communications of the statement which means additional information to support other financial statements recognition. The reason disclosures become the element of financial statements is that because the company has to provide clear information in order to help the users understand when reading the financial statements. In providing disclosure information, there are four basics question to consider (Evans, 2003). The first question is 'for whom the disclosure is made?'.This means that the company has to target who will use the information.For example, they produce disclosure for the investors who have economic ability to read the disclosure. The second question is 'why the disclosures are made?' This is meant to ask the purpose the disclosures are made. For example, the company makes disclosure in order to clarify the reasons for changing inventory method from FIFO to average and the summary of calculation from the FIFO and average. The third question is 'how much information has to disclose?' This means the amount of information that company wants to share.For example, the company makes not only mandatory disclosure as stated by the regulator but also voluntary disclosure as additional information. The fourth question is 'when the information is disclosed?' It means the proper timing chosen by a company to share the information. These four questions refer as the reason and consideration by the company in producing disclosure information.

According to signaling theory, accounting reports can be used to signal information about the firm where earnings or book value trends are highlighted to predict future earnings. Managers provide additional information to investors in order to help their decision making. They have to dothis because they have comparative advantages in production and dissemination information. Also, they want to reduce monitoring cost and the cost of ex post settling up. By producing more information, the managers hope that accounting information can affect the value of the firm, viewed from information perspective. Under efficient contracting perspective, accounting information reflects the changes of cash flow by using them as monitor or confirm economic events and transaction that have occurred. Thus,signaling theory confirms that if managers expect high level of future growth by the firm, they would try to signal the investors via accounting report information. So, the logical consequence of signaling theory is that there are incentives for all managers to signal expectations of future profits.If investors believe the signals, share price will increase and shareholders will benefit.

In reporting disclosure, the company should consider many aspects and they need to comply with accounting standard report. For international guidance, usually

IFRS becomes one of the guidancesmade by FASB. Meanwhile, in Indonesia, Stock Exchange Authority becomes authorized committee in making guidance for preparing financial reporting disclosure. Public companies in Indonesia have to comply with that guidance when they publish their financial report. It is usually called as mandatory disclosures which refer to mandated information that should be disclose. Disclosure reporting is divided into two categories: mandatory and voluntary.Voluntary is additional disclosure information produced by the company with an expectation that the investor becomes more interested to invest. Also, voluntary disclosures become as improvement tools for the company to be successful.

Value Relevance of Mandatory Disclosure

Value relevance research that has been conducted not only use statement of financial positions, statement of income, and statement of cash flow to test relevancies of accounting information for investors to measure stock prices of the firm. Research using disclosures as topic of studies are not very popular because some researchers conduct a test whether or not the public company has complied with the requirements. Some research also want to know the relevance of disclosure information for investors to measure stock prices or making investment decisions. As stated earlier the company produces disclosure information to help investors read the financial statements by giving additional information, such as explaining another form of financial statement and detailed information about accounting policies that they use.

Then, the questions on relevancies of mandatory disclosure in accounting develop. Another research on relevancies of disclosure has been conducted by Hassan *et. al.* (2009) examines the value of voluntary and mandatory disclosure in Egypt market applied in International Accounting Standards (IAS) with limited penalties for non compliance. One of the research results is that when a company makes mandatory disclosure report, it chooses elements that are worth-reporting because of the lack of enforcement. The result also shows that mandatory disclosure has highly significant but negative relation with firm value after controlling such factors as profitability and asset size. Finally, the voluntary disclosure has the same result as mandatory disclosure.

Based on the previous research, the researcher is interested in testing the issue in Indonesia because some research inthe country is conducted to know if public companies have complied the regulation issued by Stock Exchange Authority and the effects of disclosure information on earnings quality and cost of equity capital. The objective of this study is to investigate if mandatory disclosure is of value relevance

as accounting information. Value relevance is defined as accounting information which is useful for decision making. Then, the researcher formulates the hypothesis as follow:

H1: mandatory disclosures are of value relevance in measuring firm value in Indonesian public companies.

H1a: earnings per share after the interaction with mandatory disclosure have positive value as value relevance information.

H1b: book values per share after the interaction with mandatory disclosure have positive value as value relevance information.

RESEARCH METHOD

Population and Sampling Procedures

The research timeline is over the period of year 2011-2012. The researcher wants to see such phenomenon in two years from 2011 up to 2012.Mandatory disclosure requirementsas regulated by Security Exchange Authority are useful for investors in Indonesia when measuring firm value. This study also wants to investigate the level of compliance of Indonesian public companies toward mandatory disclosure regulation. As stated in the title, the population of the research is Indonesian public companies listed in Indonesia Stock Exchange (IDX) from 2011 up to 2012, with the total 490 companies.

Slovin's formula is used in this research as sampling technique.It is used to measure total minimum sample of the research. The minimum sample got from Slovin's formula is 220 companies, with 5% of error term. After getting the minimum sample, the researcher calculates the total sample divided by the total population in order to get ratio of minimal sample for each group.Later, it will be times with total number of firms in each group to determine sample that is representative for each group.

Table 3.1

Minimum Sample from Slovin's Formula (error terms 5%)

No	Types of Industry	Total Companies	Ratio from Slovin *	Total Minimum Sample
1	Agriculture	20	0.45	9
2	Mining	40	0.45	18
3	Basic Industry and Chemicals	59	0.45	27
4	Miscellaneous Industry	43	0.45	19
5	Consumer Goods Industry	38	0.45	17
6	Property, Real Estate and Building Construction	57	0.45	26
7	Infrastructure, Utilities and Transportation	53	0.45	24
8	Finance	79	0.45	35
9	Trade, Services and Investment	101	0.45	45
	Total	490		220

*220/490

The objective of classifyingcompanies into group is to get fair sample in each industries. Classifying sample into a group in this research is based on IDX website. After determining the sample, the researcher uses some criteria in choosing the sample: 1) public companies publishing complete annual report (including disclosure information) in the period of 2011up to 2012; 2) public companies publishing financial statement on financial year ended on December 31 and using Rupiah as the currency. Subekti (2011) states that the reason for choosing the same financial year end and currency is to avoid bias due to accounting period and currencies.

Source and Type of Research Data

The type of this research is quantitative research.It uses secondary data collected from *Indonesian Stock Exchange (IDX)* database at *Pojok Bursa Efek Indonesia (BEI)* in University of Brawijaya and IDX website (www.idx.co.id). This research uses financial reportpublished from 2011 up to 2012 as a tool to conduct the research. The data used in this research is accounting number and mandatory

disclosures information got from annual report of the firm, as well as stock price of the firm got from *Indonesian Stock Exchange(IDX)* website. Then, the regulation used in this research is issued by Stock Exchange Authority regulation number VIII.G.7 about presentation and disclosure of financial statement for Indonesian public companies.

Measurement of Research Variable

The independent variable of this research is earnings per share and book value per share. The use of earnings, as statted before by Kothari and Zimmerman (1995), is driven by its coverage on information about expected future cash flow, surprise, and stale component, which is similar to price. Meanwhile book value per share is used because it contains reflection of earnings. Mandatory disclosure becomes moderating variable which later will interact with the independent variables. The researcher uses KEP-347/BL/2012, VIII.G.7 as guidance of reporting financial statement for public companies.The dependent variable of this research is the stock price issued three months after the annual report published. Three months is considered reasonable duration to get full information on stock price.

Test of Hypothesis

To test the hypothesis, the researcher uses multiple linear regression model as stated in residual income model by Feltham and Ohlson in 1995 (Scott, 2009). Then, the researcher develops the multiple linear regression from residual income model as follows:

$$P_t = \alpha + \beta_1 EPS_t + \beta_2 BV_t \, e \quad \text{..} \quad (1)$$

$$P_t = \alpha + \beta_1 ID + e \quad \text{..} \quad (2)$$

$$P_t = \alpha + \beta_1 EPS_t + \beta_2 BV_t + \beta_3 ID + \beta_4 EPS_t \times ID + \beta_6 BV_t \times ID + e \quad \text{..........} \quad (3)$$

Description:
P_t = Stock Price

α = Constanta

β = Regression Coefficient

EPS_t = Earnings per Share (EPS)

BV_t = Book value per Share (BV)

ID   = Index Disclosure (ID)

EPS_t x ID   = Interaction between earnings per share and index disclosure

BV_t x ID   = Interaction between book value per share and index disclosure

e   = Error term

Those multiple linear regression models are used to know whether or not mandatory disclosure has the same value with earnings and book value in affecting stock price. The test will compare the beta (β) value of EPS and BV in single model valuation with the beta value (β) of mandatory disclosure interacting with EPS and BV. The hypothesis is approved when the results of beta (β) from interaction between mandatory disclosure with EPS and BV are equal or higher than single valuation model of EPS and BV, and mandatory disclosure can be categorized as information which has value relevance. The hypothesis is rejected when the results of beta (β) from the interaction between mandatory disclosure with EPS and BV are lower than single valuation model of EPS and BV, and mandatory disclosure is categorized as lack of value relevance information. Earning and book value are used because those are of value relevance in measuring firm value.Then, the researcher investigates with this model in order to know if the mandatory disclosure has value relevance by interacting the moderating variable (mandatory disclosure) with the independent variables (earning per share and book value per share).

RESULT ANALYSIS

Table 4.1
Descriptive statistics

Research Variable	N	Minimum	Maximum	Mean	Standard Deviation
P	438	50	330000	5456.3	21626.75
EPS	438	-700	18949	375.32	1381.31
BVS	438	-2214	37357	1530.9	3874.64
ID	438	.34	.77	.57	.072
PLn	438	3.91	12.71	6.88	1.68

Descriptive Statistic

Descriptive stati

LnEPS	438	-6.55	9.85	3.64	2.84
LnBVS	438	-7.70	10.53	6.06	2.17
EPSxID	438	-4.01	5.27	2.11	1.66
BVSxID	438	-4.19	6.18	3.51	1.32

I nthis study, the data have a smaller average valuethan thestandarddeviation. So the researcher transforms the data into a Natural logarithm (Ln) form. Subekti (2011) states that the objective of transformation variable into natural logarithm form is to obtain normal data distribution. The variables which are transformed into the natural logarithm (Ln) are Price, Earnings per share (EPS) and Book value per share (BVS). Index disclosures are not transformed because it have been distributed normally. Furthermore, the interaction variable (EPS and BVS with the index disclosures) doesn't need to be transformed because the independent variables (EPS and BVS) have already been changed into Natural logarithm (Ln) form.

Statistics Result

Table 4.2
Multiple Regression Result of Value Relevance of Mandatory Disclosure

Variable	Model I	Model II	Model III
Constant	4.701**	5.283**	7.594**
t-value	(29.776)	(12.044)	(5.107)
LnEPS	.383**	.382**	1.014**
t-value	(16.310)	(16.299)	(4.917)
LnBVS	.129**	.132**	-.628*
t-value	(4.209)	(4.293)	(-2.230)
Index_Disclosure		-1.032	-5.306*
t-value		(-1.422)	(-1.982)
LnEPSxID			-1.124**
t-value			(-3.101)
LnBVSxID			1.376**
t-value			(2.704)
F-value	300.883**	201.735**	125.520**
R^2	.580	.582	.592
Adjusted R^2	.578	.579	.588

** Significant at 1% ; * Significant at 5% ;

Model I : $P_t = \alpha + \beta_1 EPS_t + \beta_2 BV_t + e$
Model II : $P_t = \alpha + \beta_1 ID + e$
Model III : $P_t = \alpha + \beta_1 EPS_t + \beta_2 BV_t + \beta_3 ID + \beta_4 EPS_t \times ID + \beta_5 BV_t \times ID + e$

Table4.2showsthevalueofthe variablecoefficients, t-values,F-values, and adjusted R2ofindependent variables,suchasEPS, BVS, ID, EPSxID, andBVSxID. In Model 3 the coefficient of variable earnings interacts with the index disclosure -1.124. This shows that the earnings variable interacts with the index disclosure included in the moderator variable as the variable has a significant level 1%. Negative value of the coefficient of earnings per share interacting the index disclosure indicates that the variable is categorized as a moderator variable. It means that theindependentvariablesmodify therelationshipearningspersharesandbook valuepershareatstock price, which is shownin thesignificancelevel ofthe coefficientofvariableearnings1%. But the negative value gives signal that earning per share after interacting with index disclosure losses its relevance with stock price. Similarly, thebookvalue of the previousvariablehas avalue of0.129 coefficientincreasing afterinteractingtheindex disclosure up to 1.376at thesignificantlevel of 1%. Both ofthese variableshave asignificant levelbelow 1%. In general, sucha variableiscalled aquasimoderatorvariable.

The resultsofthe statisticaltestshowthatmandatoryindex disclosurehas arelevancevalueto measurevalueof thecompany'sstock price. This is indicated bythe variablebook valuepershareinteractingwith index disclosurevariable whichhas asignificant levelbelow 1%. However, the coefficient of earnings appears as negative value, and theadjusted R2 valuesabove50% andthe value ofFindicatethatallvariablessimultaneouslyaffectthe dependentvariable. So hypothesis 1b is accepted because the coefficient of variable book value per share interacting with index disclosure has positive value and significant result of goodness of fit. Meanwhile thehypothesis 1a can't be accepted because the coefficient of earnings per share interacting with index disclosure is negative although it has significant result of goodness of fit.

Classical Assumption Test

Thecurves presented intheappendixof thisstudyindicatethat thestock price, earningsper share(EPS), book valueper share(BVS), index disclosures(ID), interactionwithearningsper shareindex disclosures(EPS xID) ,andinteractionwith thebook valueper shareindex disclosures(BVS xID) are in anormalcategory. It canbe seenfromthe pointsspreadcloser tothe normal line.

Patternsofnormal PPplotgraph in appendix of the study illustrate thatthe presence of heteroscedasticity by way of viewing points ofthe graphisscatteredabove and below the0line Y.It showsthatthe differencesin theregression modelvary. This means thatthe regressionmodel isfree ofhomoscedasitcity because there arepointsonthe graph belowscatteredabove and below the0line Y.

Collinearitystatisticshownin Table4.3meansthatthemodelsI andIIdonothave collinearity. This is indicated byVIF valueof lessthan10. In modelIII, the VIFvalueexceeds10andtolerancevalues arelessthan0.1. In this modelthe collinearityis not found in therelationship betweenvariablesthatcaninterfere theindependentanddependent variables.

Table 4.3
Multicollinearity Statistic test

Variable	Collinearity Statistics					
	Tolerance			VIF		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
EPS	.613	.613	.008	1.630	1.631	128.594
BVS	.613	.611	.007	1.630	1.636	140.172
ID		.996	.072		1.004	13.957
EPS x ID			.007			136.442
BVS x ID			.006			170.159

Where,
EPS   : Earnings per share
BVS   : Book value per share
ID   : Index disclosure
EPSxID   : Earnings per share in form Ln interacted with index disclosure
BVSxID   : Book value per share in form Ln interacted with index disclosure

Models I and II of this report are free from collinearity, while model III iscollinearity because VIF value greater than 10. Collinearity appears because the third model has two additional variables which are develop from the interaction between earnings and book value with index disclosure.

Autocorelationtestcan be seenfromthe results ofthe Durbin-Watson test. The valueof theDurbin-Watson is 1,946whichmeans that theregression modelisgood and it can be seen from the appendix. The value of dU is 1.820 in the table Durbin-Watson.

If dU< d < 4-dU, then 1.820 < 1.946 < 2.180, there is no autocorrelation problem. Thusautocorrelationbetween 'errors' in thetperiodwith theconfoundinginpreviousperiod (t-1) isdoesn't appearat thisregressionmodels.

ResultDiscussion

Based on theregression resultsabove,mandatory disclosurebecome thevaluerelevanceof accounting informationin assessingstock prices by using book value per share as variable interacted. As an integral partof financial statements, index disclosurehasinformationwhich canexplain the relationship book valuepershare withstock price. Therefore,it showsthat theindexinformationdisclosureof informationshallbe onewhichattracts the attentionof investorsinIndonesiain assessingstock prices, whenit is linked book valuepershare.But it has negative impact toward earnings per share, which makes the first sub hypothesis is rejected.

In themandatorydisclosure, earnings per shareitemscan be seenfromthe itemsearningsper shareandrevenue. Additionallyinvestorscanalsoseethe segmentinformationasadditionalinformationtoview the details ofthe company's revenue, while thevalue ofthe bookcan be seenfromthe informationcapitalstock, additionalpaid-in capital, dividends, retained earningsandnon-controlling interests(equity information). Informationonthe amount ofassetsmaybeadditionalinformationfor investorswhenassessing thecompany's book value. Mandatorydisclosures arepublishedin the gap forinvestorsin thecompanyto see detailed informationaboutthe two items.

But the surprising thing is that the coefficient of EPS after interacting with index disclosures, in which the coefficient value decreases from the first model presented from 0.383 becomes -1.124. This shows that the earnings per share after interacting with index disclosures lowers the level of relevancies. It indicates that earnings per share are variable that cannot be supported by mandatory disclosure. Index disclosures are not part of accounting information which can explain the relationship between earnings per share and stock price.

As Subekti (2011) said that earning has lowered its relevancies because there is a practice of earning management. Thus the degree of faith from investor is decreasing towards earnings item. Those things make what the company have publish become unfaithful such as mandatory disclosure which gives information about earnings. The investors, as risk-averse, prevent themselves with such information which has been manipulated by manager, and then they estimate that earning

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item,which cannot be trustful if they want to take investment decision. Slowly the degree of value relevance earnings per share as accounting information is decreasing. Another reason comes from negative value of earnings per share which means that public companies experience in loss per share. Negative value of earnings per share is it cannot be assumed as value relevance information since the investors are expected to get return, not to lose. As an investor, they will make an investment decision in order to get return, and to achieve, so that they cannot choose the company which loses. The companies which provide losses of information does not have ability to generate future cash flow. Then the investors do not need to take a look into their disclosure information because there is no necessity to analyze the company which loses when they want a return. Therefore, the value relevance association decreases because the sample used and public companies, which experiencing losses, are included in this research.

H1a: Rejected, mandatory disclosures interacting with earnings per share have negative value.

While BVS coefficients which have been interacted the index disclosures has increase. Earlier in the first model, the coefficient 0.129 BVS is increasing up to 1.376 after interacting with the index disclosures. This indicates that the index disclosures are included in the accounting information which can explain the relationship between the book value with stock price. As well as the information contained in the index disclosures is relevant information in explaining the book value, it contains the reflection present value of earnings. Thus, the hypothesis can be accepted because the index disclosures have a relevance value to clarify the relationship book value and stock price.

H1b: Accepted, mandatory disclosures interacting with book value per share have positive value.

The informationpresented in thedisclosureshallact asa complement tothe financial statements. The financial report isone componentwhich isconsidered by investorsand suppliersin making decisions. This makes thefinancial statementsbecome one of accounting informationwhich might affectinvestors'decisionsto be taken. Investorstake thedecisiontomake an investmentto the companyin hopes ofgettinga return. Investorswant areturnwhich is higher thanthe value oftheirinitialcapitalpurchaseorinvest. In gettingreturns, investorsneed informationtoprovide the basis fordecision making. Onethatcan be usefulinformationfor investorsisthe informationfromthe financial statements.Inreading thefinancial statements, the company providesnotesto the

financial statementspresentedas a reportindispensabletounderstand the contentsof thefinancial statements themselves. The managementwilldiscloserelevant informationat an affordable cost. This is in accordancewiththe principles ofthe disclosure, whichmanagement willrevealall thegood and badnews. Investorsmustfilterthe information,so they do not fail in making economic decision. Therefore,it isintendedtobenefitnotnaïveinvestors, becausethe informationpublishedis notconsumedraw.Therefore, the notes to thefinancial statementsaresupplementaryinformationtounderstand thefinancial statements. Notesto financialstatements arerelevant informationto the stock pricedue to its beingas the accounting informationthatcanexplain theasymmetryof informationcirculatedand reducing riskestimationfor investorstootherinformationwhich does not have clear resource or still doubtful. As stated by signaling theory, the companies can increase its value through financial reporting. These companies will disclose all available information to maximize their value. Financial statements and disclosure information itself have to publish by the companies in order to lower cost of capital.

CONCLUSION

The purpose of mandatory disclosure calculation by comparing with information complied is to find out how the range level of compliance Indonesian public companies with regulations have been made by stock exchange authority. The results show that the level of compliance by public companies at average value. In obtaininggoodqualitydisclosuretoexpressmore detailedinformation, the companyshould at leastpay more. Therefore,notall companies are beable todiscloseall theinformationin detail. The companywillpublishall theinformationeithergoodnewsorbadnewsifthe information disclosedis'free' orhasa lowcost.

The objective of this research is to investigate the value relevance effect of mandatory disclosure in measuring firm value in Indonesian public companies. This study present that earnings per share has negative value after interacting with index disclosure. There are several reasons in explaining negative value. First reason is the practice of earnings management. Thus the degree of faith from investor is decreasing towards the earning item. And then what the companies have published becomes unfaithful such as mandatory disclosures which give information about earnings. Slowly the degree of value relevance of earnings per share as accounting information is decreasing. Another reason comes from negative value of earnings per share which means that public companies experience in loss per share. The negative value of earnings per share is it cannot be assumed as value relevance information since the investors are expected to get return, not expecting losses. The companies which

provide information of does not have ability to generate future cash flow. Then the investors do not need to take a look into their disclosure information because there is no necessity to take a look at the company which gets losses. This research concludes that mandatory disclosure as accounting information does not support earnings per share as value relevance. Mandatory disclosures confirm earnings as bad news that does not include as accounting information which can predict stock price. Thus, the power of mandatory disclosure is only limited on explaining and cannot predict stock price if it interacts with earnings per share. Consequently, the result from hypothesis 1a is rejected, because the value of earnings per share interacting with mandatory disclosure variable has negative value.

However, regression result of book value per share interacting with mandatory disclosure gives positive value. This result shows that mandatory disclosure is information which supports book value per share in predicting stock price. It becomes one of accounting information analyzed by investor to confirm the amount of book value in financial statements. Book value itself contains reflection of present value of earnings which is relevant information to make current decision. But for make book value per share become as reliable, it needs management assertions and assumptions. Then mandatory disclosure becomes accounting information which has a role as complementary information for investor in order to analyze and confirm about the reliable of book value per share. Thus the book value per share interacting with mandatory disclosure becomes relevant information in predicting stock price. It makes hypothesis 1b is accepted, because book values per share after interacting with mandatory disclosure have positive value as value relevant information.

Research Limitations

This research has several limitations which become obstacle to get better result. The first limitation of this research is the data used only in two periods (2011-2012). This research has used all industries sectors as sample, but stills it has not represented all public companies in Indonesia because some of data sample which are eliminated because having expensive stock price, one millions rupiah.Therefore, it will disturb and affect another variable. Another limitation is this research only uses one general regulation of mandatory disclosure as comparison with note of financial statements of public companies.

Suggestion for Future Research

The first improvement can be done is increasing the length of time period in conducting research. By then it will make the result better and have strong impact. Also we can see the development mandatory disclosure and its usefulness in investor

view, whether the investor has or has not used mandatory disclosure as complimentary information in understanding the public companies. In future research, it is hoped the use of more specified regulation for comparison with information disclose by public company in note to financial statements. Another suggestion for future research is increasing another independent variable which can affect stock price such as information segment, statement of cash flow, and another ratio such as debt to equity. The increased independent variable aims to get more variance of conducting disclosure research.

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