

ABSTRACT

The Association of Accounting Conservatism, Macro-Risk Factors, and Residual Income Model Valuation Error A Study in Indonesian Stock Exchange

This study examines the association of accounting conservatism, growth and macro-economic risk factors and valuation error of residual income model in Indonesian Stock Exchange. We use beta, book to market ratio, and size as proxies for macro-economic risk.

Using the sample of 186 companies taken from LQ-45 for the year of 2001 – 2005, we find that accounting conservatism and growth, have no significant influence toward residual income model valuation error. B/M has significant influence toward valuation error and has consistent sign as predicted by theory. Beta and Size has no significant influence toward valuation error. Overall, macro-economic risk factors can explain the valuation error better than accounting-based factors.

Future research is expected to find accounting variables that can represent macro-economic risk and test their ability in explaining valuation error. Also, future research need to confirm the relevance of accounting conservatism in stock valuation after implementation of IFRS in Indonesia.

Key words: Residual Income model, valuation error, accounting conservatism, growth, beta, book to market ratio, size.