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The Quality of Operating Profit and Other Comprehensive Income: Evidence from Indonesia Stock Exchange

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ABSTRACT

The aim of this study is to investigate the quality of earnings in terms of relevance and reliability of the company's performance and the market performance of the investors' perception is that trigger reactions on market capitalization of going to public companies in Indonesia Stock Exchange. The company's performance can be seen from the operating profit (OP) while the market performance can be seen in other comprehensive income (OCI). The market capitalization (MC) is used to describe the annual reaction of investors. Referring to the international financial reporting standard (IFRS) this study was conducted to provide an overview on the Indonesian investor reaction to earning figures that the results are often inconsistent. Hypotheses were tested by time series and cross section and sample include 50 companies with the largest market capitalization on the Indonesia Stock Exchange during 2010 to 2014. The test results showed that there was a significant positive association between operating profit (OP) with market capitalization (MC) both in cross section test and time series test. But, there is not a significant positive association between other comprehensive income (OCI) with a market capitalization (MC). Wilcoxon sign test between OP and MC and between OCI to MC showed a significant difference, therefore, investors pay more attention on the company's operating profit (OP) than other comprehensive income (OCI). Thus the usefulness of IFRS adoption in IAS still need to be socialized to investors so, investors' decision can accommodates the economic realities in the market performance that contained OCI.

JEL Classification: L31; L33; M10.

Keywords: Operating Profit; Comprehensive Income; Market Capitalization; Indonesia.

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1. INTRODUCTION

Earnings quality indicates how earnings presented in the statement of profit/loss and other comprehensive income against the actual values. The main qualitative characteristics of financial statement presentation is relevant and reliable. Relevance indicates predictive power profit figures used for decision-making, while reliability showed management's performance in generating profit figures as a form of accountability to investors. Various arguments are often made profit figures presented in the financial statements to be less trusted by users, partly due to the arbitrary allocation which is mostly done in the calculation of the profit. Arbitrary allocation occurs in the calculation of cost of goods sold in the form of allocation of common costs of the service department to the production department and factory allocation of depreciation of fixed assets recorded as indirect production costs (add unit cost) when they are sold then they will be the cost of goods sold.

Arbitrary allocation also occurs in the calculation of operating expenses both in selling and marketing expenses and in general and administrative expenses. Related to the immediate recognition as advertising expenses and research & development expenses also affect the quality of earnings. Various things contained in the calculation of earnings the company should be considered carefully before used as a reference for decision making. Financial analysts must understand where the profit figures obtained. Hans Hoogervorst (IASB Chairman) (2014) suggested that a systematic relegation of unrealized profits or losses to OCI is extremely problematical. Moreover, where OCI is used to capture short-term 'market volatility' of long-term assets or liabilities, the information should not be ignored.

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While income in OCI may be less certain nature than income captured in Profit or loss, OCI may contain indicators of risk that may materialize earlier than you expect. Clearly, ignoring unrealized elements of income may be hazardous to your financial health. The needs of other comprehensive income calculation driven by global economic recession is just because of volatility of commodity market price. It is important to presented in financial statements so that users can see a complete picture of the condition of the company at the financial reporting date. Users of financial statements have been properly capture a complete picture of the quality of the operating profit figure or other comprehensive income. Decisions of investors in response to the financial statements information reflected in market capitalization. Indonesia Stock Exchange team in December 27, 2010 (www.economy.okezone.com) suggests that:

Actually, market capitalization is the value of the company's shares in the market. Please understand that the value of the company is different from the value of the company's assets, so, the market capitalization of a company does not represent the value of company assets. The market capitalization is quite possible value which is greater or less than the value of corporate assets. For public companies, the market capitalization is important because it also reflects the company's total value. The way that market capitalization can be calculated is multiplying the number of outstanding shares in the share price in the market. The market capitalization value is determined by two factors, the number of outstanding shares and prices in the market. Therefore, market capitalization of the company can change from time to time, either up or down. Institute of Indonesia chartered accountants (IAI) (2015) under Indonesia statement of financial accounting standards (PSAK) suggests that other comprehensive income items contain income and expense (including reclassification adjustments) that are not recognized in profit/loss or permitted by IFRSs, consist:

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(1) Changes in revaluation surplus (of PSAK 1 - Property and Equipment and PSAK 19 - Intangible Assets), (2) the re-measurement defined benefit plan (from PSAK 24 - Employee Benefit), (3) gains and losses arising from the translation of financial statements of the business activities abroad (from PSAK 10 - The Effects of changes in Foreign Exchange Rates), (4) gains and losses from the re-measurement of financial assets which are 'available for sale' (of PSAK 55 - Instrument financial: Recognition and measurement), and (5) effective part of the advantages and disadvantages of hedging instruments in order to hedge cash flow (on PSAK 55). The purpose of this study specifically investigated the benefit of other comprehensive income and operating profit, with regard to the reaction of investors reflected in the market capitalization on Indonesia Stock Exchange. Therefore, this study was conducted to see the reaction of investors through their investment decisions with a fundamental analysis on the expected earnings that can seen on the relevance and reliability. Generally, this research is expected to provide an overview of applications of decision makers over financial reporting presented in accordance with PSAK no.1.

2. LITERATURE REVIEW

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Studies generally focused the role of financial and capital markets in the countries (Dalgin et al., 2012; Elmas, 2009; Hachicha, 2008; Kalim et al., 2012; Gokgoz, 2007; Sodeyfi, 2016; Katircioglu & Taspinar, 2017; Sodeyfi & Katircioglu, 2016; Shaeri et al., 2016; Bayram, 2007a; 2007b; Karacaer & Kapusuzoglu, 2010; Kaushal & Pathak, 2015; Khakimov et al., 2010; Kuryanov, 2008; Michailidis, 2008; Nazlioglu et al., 2009; Rjoub, 2011; Roy, 2012; Saqib & Waheed, 2011; Tanasie et al., 2008; Waheed & Younus, 2010; Agu, 2008; Barisik & Tay, 2010; Berument & Dogan, 2011; Ehyuksalvarci & Abdioğlu, 2010; Chandio, 2014; Chimobi, 2010; Siddiqui, 2008; Soukhakian, 2007a; 2007b; Fethi & Katircioglu, 2015; Katircioglu et al., 2015; 2007; Gungor et al., 2014; Heidari et al., 2013; Fethi et al., 2013a; 2013b; Katircioglu, 2012; Katircioglu & Feridun, 2011; Gungor & Katircioglu, 2010; Jenkins & Katircioglu, 2010; Adaoglu & Katircioglu, 2010). But, there is also a need for studies focusing on micro level financial issues. Thus, this section will review the related literature in the field.

2.1 Market Capitalization

The reaction of investors may impact on capital markets and the stimulation of the nation's economy. Godfrey et al (2010) explained signaling theory which is assumption that managers of all firms have incentives (albeit different) to maintain their credibility with the market through reporting the firm's performance. Therefore, signalling theory predicts that firms will disclose more information than is demanded. Signalling theory goes to predict what information firms will signal, how and when. Godfrey et al (2010) also argued that the qualitative characteristics contained in the IASB framework are understandability, relevance, reliability and comparability. The relevance is related to the quality of financial reporting where investors can signal (signal) as a reference for decision-making. Besides, other major qualitative characteristics of reliability that is converted into faithful representation and follow relevance. Godfrey et al (2010) argued that relevant financial information helps users to

make predictions about future situation or confirms the past predictions of users. Reliable financial information faithfully represents transactions and events without bias or undue error. Relevance and faithful presentation get more attention from users of financial statements to make predictions and measure the performance of companies that eventually use it as a reference for decision-making. The impact of the decisions of users of financial statements will be seen on the share price and the amount of shares outstanding. The market capitalization describes the reaction of investors in share prices and shares outstanding. It can provide an overall view on the investor reaction.

2.2 Operating Profit

In the multiple steps of income statement there are different profit figures that need to be observed for users of financial statements to evaluate the company's performance in more detail from gross profit, operating profit, profit before tax, profit after tax, net income and comprehensive income.

Kieso et al (2014) examined that income from operations highlights items effect on regular business activities and it used by analysts to helping to predict the amount, timing, and uncertainty of future cash flows. The calculation of operating earnings derived from the deduction of gross profit from operating expenses that are classified by nature or by function. Classification by nature based on properties described as salaries expense, advertising expense, depreciation expense, utilities expense and ect, whereas the classification by function is divided into two major groups, selling & marketing expenses and general & administrative expenses. Kieso (2014) explains that profit classified by nature is easy (simple) to be applied while the advantages of classification by function is more relevant because it can identify the main cost drivers (major cost drivers) and helps users to calculate the total costs eligible to generate revenue. On the other hand, there is a disadvantage of classification based on the function because it requires the arbitrary allocation of costs that can give a less precise measurement of the performance of the department. Hendriksen and Van Breda (1992) suggests that the classification of operating and non operating in a multiple step income statement is used to measure the efficiency of management.

Unfortunately, there are misguided stating that operating performance is often considered to be recurring but not necessarily recurring, such as overtime. On the other hand, non-operating classification is not considered recurring, but there are recurring such as losses due to annual flooding. Therefore, classifying multiple step income statement should be considered in accordance with its purpose. For the urposes of prediction, it should be made a classification based on the recurring and non-recurring whereas for the purpose of measuring the performance of the management efficiency must have made by classification based on operational and non operational, because of the emphasis on operations tend to be more controllable by management than non-operational.

2.3 Other Comprehensive Income

Kieso et al (2014) argues that in the calculation of comprehensive income includes all changes in equity during the period except those derived from owners' investment and distributions to owners. Thus the calculation of comprehensive income consists of all revenues and expenses including profit/loss reported in net income and total profits/losses not included in net income but reported in equity. Items that change in equity, they will not change through the income statement of other comprehensive income (OCI). Companies can expose OCI component in two ways: (1) a single continuous statement (one statement approach) and (2) two separate but consecutive statements of net income and other comprehensive income (two-statement approach). Ahalik (2015) reveals that financial reporting under IFRS has the following characteristics: (1) principal based, (2) many fair value uses, (3) use a lot of professional judgment, (4) many disclosures in the notes to the financial statements, (5) there is a change in the name of the financial statements, and (6) the emergence of other comprehensive income to estimates (OCI). Calculation of OCI arising from the number of transactions relating to the valuation of such revaluation of fixed assets (PSAK 16), translation of financial statements foreign currency to reporting currency (PSAK 10), changes in actuarial for benefits of employee (PSAK 24), changes in fair value in available investments for sale (PSAK 55), and changes in the fair value of cash flow hedges (PSAK 55).

2.4 Research Accomplished

There have been many studies that tested the relevance of accounting numbers in decision making. Inconsistencies in research is partly due to accounting included in the social sciences are more associated with the deal than regularity. Agreement between the times may change and the agreement between users may be different, the agreement between the presenter's financial statements to comply with the financial accounting standards (IFRSs) is also undergoing changes by following the development of the international financial reporting standard (IFRS).

Choi et al., (2007) found that the OCI reported under SFAS 130 is gradually useful for predicting net income over the next year. It was also found that when the markets really see the impact of the current net income to net income coming period, it does not reflect the impact of OCI to future net income. Research results also showed that based on the disclosure requirements of SFAS 130, the level of mispricing is smaller after the adoption of SFAS 130 than the period prior to the adoption of SFAS 130, this may be due to the effectiveness of the disclosure of the result of the adoption of SFAS 130.

Lin & Ramond (2007) suggested that (1) the value relevance of comprehensive income is less than the bottom-line and figures of operating earnings in all countries sampled, (2) the total value of OCI has a relevance value and provide additional value relevance of information exceed net income in most countries, (3) there is increased transparency in reporting OCI to ensure the association which is statistically stronger among company's stock return with comprehensive income. Kanagaretnam et al., (2009) argued that there is evidence that the components of OCI and cash flow hedges significantly associated with the price and the market return. It was also found that the total comprehensive income become stronger (in the context of the explanation power) with stock prices and stock returns compared to net income. Net income relative is a good predictor for the future net income compared to comprehensive income. Zulch & Pronobis (2010) suggested that comprehensive income has not superior predictive power of the company's operating performance in the future compared to net income. Noted that their study failed to find significant additional predictive power of both total and per component of OCI for the company's operating performance in the specific period. Profit/loss on defined benefit actuarial pension obligations can not predict the future net income and comprehensive income.

Ringstrom & Ekstrom (2012) suggested that stock prices are statistically associated with the components of comprehensive income from change in fair value of cash flow hedges. This can also be interpreted as change in fair value of cash flow hedges that have some relevancy score. Also found some evidence that the stock price is significantly related to the position of cash flow hedges, and found no link between the stock price with some other component of OCI. Jones and Smith (2012) compared profit/loss presented in OCI and presented in special items (special items / SI). Research results reveal that both (profit / loss of well presented in OCI or in SI) has a relevance value, and profit/loss of SI that has more powerful predictive value to forecast net profit of the future and future cash flows, while the profit/loss of OCI that has weaker predictive value. Iriana (2013) suggested that sales and net income have a significant effect on stock returns and has a relevance value, it has been found that there is no significant effect between EBITDA with stock returns.

Based on the literature total comprehensive income has negative correlation impact on stock returns. Turktaş, Georgakopoulos et al., (2013) showed that there was no significant association between the reporting of the company's selection and stock-based incentives, job security, volatility and leverage of the company. It was found that price earning ratio and stock returns related to accounting choices but opposite direction than expected. There is a significant association between the total compensation for the CEO and the volatility and the reporting of the company's choice on the other side. Suprihatin and Tresnaningsih (2013) investigated that in the early stages of convergence of IFRS, there is an increase in the value relevance on corporate profits, but did not find any increase in the value relevance of book value of equity. In the advanced stage of implementation of IFRS, there was an increase in the value relevance of book value of equity and profit, but the increase in the value relevance of earnings found in advanced stages of the period profit IFRS implementation

Kusumo & Subekti (2014) studied that the adoption of standards-based IFRS in Indonesia has not been able to improve the quality of accounting information, but, increased the book value of equity, while the relevance of accounting income with investment decisions that reflected in the share price did not increase significantly in the period of the adoption of IFRS. Sinarto & Christiawan (2014) suggested that increase in the value relevance after the implementation of IFRS earnings and comprehensive income have a higher value relevance of net income. Black (2014) found that the volatility of the unrealized gain/loss on AFS securities and cash flow related to hedge negative (positive) with return volatility. It was also found that the link between the volatility of unrealized gain / loss and return volatility is negative (stronger) when the OCI is presented in the performance report. These results indicate that the volatility of the unrealized gain / loss is generally beyond the control of management negatively associated with risk, while the volatility of the profit / loss that are recurring relatively controlled by management has positively associated with the risk. Aldheimer & Huynh (2014) showed that there is no link between the OCI with stock prices, indicating low benefits compared with net income

Gunther (2015) argues that the value of relevance comprehensive income is more than the value of net income. The component of OCI are adjustment foreign currency translation, gains and losses on financial assets available for sale, effective part of the profit and loss of cash flow hedges that prove to be value-relevant and powerful to the pricing model and the model returns. Instead, based on the forecasting ability can not be established that the comprehensive income is a superior predictor of future net income or operating cash flow future compared to net income. The effective portion of gains and losses on cash flow hedges and gains/losses on defined benefit plans actuarial prove relevant for forecasting net income. Khairina (2015) tested the relevance of total comprehensive income and net income after the revision of IAS 1 as a consequence of the convergence of IFRS in Indonesia. The results showed that the net profit and total comprehensive income has a relevance value, but the value relevance of net income is higher than the total value relevance of comprehensive income. Operating profit as a measure of performance management of operational activities that are generally considered to be recurrent (regular) by financial statement users outside the company is expected to give a good news or bad news sign (signal), thus responded to the investment decisions as reflected in the value of market capitalization of listed companies. If the operating profit exceeded the expectations of investors then it can be considered as good news which is expected to increase the market capitalization, on the contrary, if the operating profit can not meet the expectations of investors, it is considered bad news that could reduce market capitalization. Therefore, the first hypothesis of this study is as follows:

H1: Operating profit has significant positive relation with the value of the company's market capitalization.

Table 1. Operational Variables

No.	Variable	Dimension	Indicator	Scale	Data Source
11.	Market Capitalization (MC)	Investor Reaction	Stock Price X Outstanding Shares	Ratio	Fact Book
22.	Operating Profit (OP)	Managerial Performance	Sales – COGS – Operating Expenses	Ratio	Annual Report
33.	Other Comprehensive Income (OCI)	Market Performance	Asset Revaluation + Foreign Currency Translation + Actuarial Δ in Define Benefit Plan + Fair Value Δ in AFS investment + Fair Value Δ in CF Hedge	Ratio	Annual Report

Other comprehensive income as the proxy of markets performance in which the rising prices of the company's assets more beyond the control of management is expected to give a good news or bad news sign (signal) to users of financial statements, thus is responded to make investment decisions as reflected in the value of market capitalization. If other comprehensive income exceeded investor expectations as a good news is expected to increase the market capitalization, otherwise if other comprehensive income can not meet the expectations of investors, it is considered as a bad news that could reduce market capitalization. Therefore, the second hypothesis of this study is as follows:

H2: Other comprehensive income has a significant positive relation with the value of the company's market capitalization.

Operating profit illustrates the company's operational performance which is expected to be widely read to investment decision-making compared to other comprehensive income that describe the performance of the market beyond the control of management. Rationality of the accountability on operating performance is expected to be read by investor in making investment decision that is reflected in the market capitalization of the company. On the other hand, other comprehensive income as a measure of risk management on the performance of the market, expected to be less read by investors in making investment decisions, although the presentation can better provide a full picture of economic realities. Therefore, the third hypothesis is as follows:

H3: There is a significant difference between the coefficient correlation of operating profit and other comprehensive income to the value of the company's market capitalization.

In the following section, we will present testing of these hypotheses.

3. METHODOLOGY

The population of this research is all the companies that going to public on Indonesia Stock Exchange in 2010 to 2014. All data provided are in time series and cross section. Data were taken from the annual financial statements (annual report) and Fact Book. The research sample is selected by non-random purposive criteria which are: (1) the company were included in the 50 companies with the largest market capitalization according to the Fact Book since the year 2010 to 2014 which presents the annual financial statements with the financial year ended on December,31; and (2) companies presenting financial statements in Indonesian Rupiah currency. The variables of study are presenting in Table 1.

Related to the first and second hypothesis outlined, the first model of this research can be described as follows:

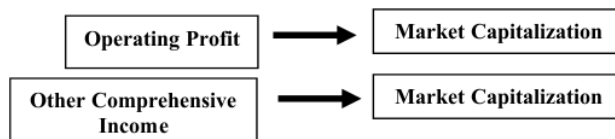


Figure 1.
Conceptual Model (First Model)

Normality test was done by using Kolmogorov-Smirnov Test, before testing the first and second hypothesis, for determining the parametric or non-parametric tests. Related to testing the third hypothesis by using Wilcoxon signed rank test on the correlation coefficient (r) between operating profit and other comprehensive income against market capitalization. Wilcoxon signed rank test was used because the data are not normally distributed. The second model of this study is:

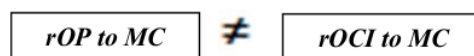


Figure 2.
Conceptual Model (Second Model)

Figure 2 is explaining that there is a significant difference between the coefficient correlation of operating profit and other comprehensive income to the value of the company's market capitalization.

4. RESULTS

The sample of this study was 50 companies with the largest market capitalization according to the Fact Book since 2010 until 2014, this was done because the reaction of investors who actively trade may be reflected in the market capitalization. Selection of the sample purposively did not include companies presenting financial statements in foreign currencies. Based on the selection of the sample, data obtained as follows:

Table 2. Selected Data

Year	50 Companies with the Largest Capitalization	Companies's Financial Statement in Dollar	Research Sample
2010	50	6	44
2011	50	5	45
2012	50	6	44
2013	50	6	44
2014	50	4	46
2010 – 2014	250	27	223

The overview of the research object consists of a description of the minimum, maximum, mean, and standard deviation can be seen in Table 3 and 4. Based on the Table 3, the value of other comprehensive income (OCI) is

always smaller than the value of operating profit (OP), so, market performance is worse than the operating performance in the companies. Based on the Table 4, the cross section descriptive statistics showing the trend of increase in the average (mean) value of market capitalization (MC), therefore, there is an increase in investor transactions on purchase of shares in the Indonesian Stock Exchange (BEI). Passions investors to trade on the Stock Exchange during 2010 up to 2014 showed optimism about the market although the market performance of each company tends to be worse than the operating performance. It expected more attention from management to manage the market performance with good risk management and pay attention to economic realities before making a decision.

Table 3. Descriptive Statistics in Cross Section

	N	Minimum	Maximum	Mean	Std. Deviation
MC2010	44	12945.00	220838.00	53218.9773	49135.70617
OCI2010	44	-195.39	3924.38	152.8332	601.61121
OP2010	44	-65.72	344135.00	11917.3936	51467.05385
MC2011	45	13708.00	299578.00	56915.8000	62213.04204
OCI2011	45	-234.18	5863.47	191.6591	923.06556
OP2011	45	131.42	21948.00	4850.2542	5097.87305
MC2012	44	15592.00	307675.00	65072.1591	71450.24708
OCI2012	44	-3064.00	1551.39	21.4427	576.23094
OP2012	44	-466.27	27846.00	5049.2082	6176.96399
MC2013	44	14625.00	275288.00	65692.4545	72998.20235
OCI2013	44	-2814.09	1744.61	-5.1832	687.90441
OP2013	44	647.99	27846.00	5371.9498	6606.23459
MC2014	46	17706.00	320361.00	79327.0652	91856.36397
OCI2014	46	-705.57	11722.02	270.9196	1741.82915
OP2014	46	428.41	32418.00	5887.5833	7827.77029

Table 4 is presenting the results of descriptive statistics in time series test.

Table 4. Descriptive Statistics in Time Series

	N	Minimum	Maximum	Mean	Std. Deviation
MC5th	223	12945.00	320361.00	64150.3767	71054.30673
OCI5th	223	-3064.00	11722.02	127.9239	1010.39004
OP5th	223	-466.27	344135.00	6600.8365	23528.43336

Before testing the hypotheses, Table 5 shows the results of normality tests with the Kolmogorov-Smirnov test on un-standardized residual value for H1 and H2 during.

Table 5. Results of Normality Test

Year	The Significancy of Unstdandardized Residual Value Ha1 (OP→MC)	The Significancy of Unstandardized Residual Value Ha2 (OCI → MC)
2010	0,047	0,016
2011	0,032	0,001
2012	0,025	0,003
2013	0,007	0,005
2014	0,049	0,002
2010-2014	0.000	0.000


Based on the result of normality test, all the significant value below 0.05 means that the data were not normally distributed, , this study can not use regression model but it will use a non-parametric test Spearman's Rho correlation, the results are showing in Table 6.

Table 6 shows that OCI2010 and OP2010 significantly correlated with MC2010. It can be concluded that in 2010 investors keeping OCI and OP in making investment decisions. It appears that OP2010 is more significantly correlated (.000) against MC2010 and OCI2010 (0,039). This indicates that the number of OP has more attention than the number of OCI, which means investors are more focused on the company's operating performance than the performance of the market. It can be concluded that the first hypothesis (H1) and the second hypothesis (H2) is accepted. The table shows that OCI2011 is not significantly correlated (.614) against the MC2011, while OP2011 significantly correlated (0.000) to the MC2011. Thus, in 2011 investors are pay attention to OP (company performance) and less attention to OCI (market performance) in making investment decisions.

Table 6. Results of Spearman's Rho Test

Spearman's Rho	MC2010	OCI2010	OP2010
MC2010 Correlation Coefficient	1.000	.313*	.806**
Sig. (2-tailed)	-	.039	.000
N	44	44	44
MC2011 Correlation Coefficient	1.000	.077	.857**
Sig. (2-tailed)	-	.614	.000
N	45	45	45
MC2012 Correlation Coefficient	1.000	-.118	.807**
Sig. (2-tailed)	-	.447	.000
N	44	44	44
MC2013 Correlation Coefficient	1.000	-.084	.760**
Sig. (2-tailed)	-	.587	.000
N	44	44	44
MC2014 Correlation Coefficient	1.000	-.084	.770**
Sig. (2-tailed)	-	.577	.000
N	46	46	46

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

Based on Table 6, it can be concluded that the first hypothesis (H1) accepted for OP2011 which is correlated significantly and positively with MC2011, while the second hypothesis (H2) can not be accepted, because OCI2011 does not correlate significantly although it has positive direction to MC2011. The above table shows that OCI2012 is not significantly correlated (0,447) to MC2012, while OP2012 is significantly correlated (0.000) to the MC2012. It can be concluded that in 2012 investors are pay attention to OP (company performance) and less attention to OCI (market performance) in making investment decisions. However, OCI2013 is not significantly correlated (0.587) with MC2013, while OP2013 is significantly correlated (0.000) to the MC2013. It can be concluded that by 2013, investors are paying more attention to OP (company performance) and less attention to the OCI (market performance) in making investment decisions.

Moreover, the first hypothesis (H1) accepted for OP2013 which is significantly and positively correlated with MC2013, while the second hypothesis (H2) is not acceptable, because OCI2013 does not significantly and positively correlated with MC2013 and OCI2014 is not significantly correlated (0.577) with MC2014, while OP2014 significantly correlated (0.000) with MC2014. It can be concluded that in 2014, investors are payig more attention to OP (company performance) and less attention to OCI (market performance) in making investment decisions. Finally, the first hypothesis (H1) accepted for OP2014 which is significantly and positively correlated with MC2014, while the second hypothesis (H2) can not be accepted, because OCI2014 does not significantly and positively correlated with MC2014.

Table 7. Results of Spearman's Rho Test

Spearman's Rho	MC5yr	OCI5yr	OP5yr
MC5yr Correlation Coefficient	1.000	.020	.811**
Sig. (2-tailed)	-	.764	.000
N	223	223	223

** Correlation is significant at the 0.01 level (2-tailed).

According to Table 7, the time series result of OCI5yr is not significantly correlated (0.764) against MC5yr, while OP5yr is significantly correlated (.000) with MC5yr. It can be concluded that in 2010 through 2014 investors pay more attention to OP (company performance) and less attention to OCI (market performance) in making investment decisions. However, the first hypothesis (H1) accepted for OP5yr which is correlated significantly and positively with MC5yr, while the second hypothesis (H2) can not be accepted, because OCI5yr does not correlate significantly although it has positive direction to MC5yr. Both in cross section and in time series in period of five years (2010-2014), the number of OCI (market performance) is still overlooked by investors in making investment decisions. Investors are more concerned with the company's performance through the OP figures in making investment decisions. This indicates investors are still use fundamental analysis that emphasizes reliability compared to relevance.

There is a positive coefficient correlation of OCI to MC in cross section for the year 2010 and 2011, while there is a negative for the years 2012 to 2014. In time series test, the coefficient correlation of OCI to MC is positive for 5 years. This illustrates that there is instability between OCI correlation to MC. The coefficient correlation of OP to MC in cross section and time series is always positive. Therefore, the reaction of investors is more stable or consistent with OP in making investment decisions. Statements profit/loss and other comprehensive income in accordance with international financial reporting standard (IFRS) which illustrate the company's overall performance (both operating performance and market performance), but the results of this study indicate that the market performance is still not considered by investors because of the economic turmoil and the market performance that contained in OCI fluctuate widely, making it difficult to predict. Results of testing the third hypothesis (H3) can be seen in table below.

Table 8. Wilcoxon Signed Ranks Test

Test Statistics ^a	rOCItoMC ≠ rOPtoMC
Z	-2.023 ^b
Asymp. Sig. (2-tailed)	.043

Ragard to Table 8, the significance value is less than 0.05 ($0.043 < 0.05$), thus, there is a significant difference between the correlation coefficient of OCI with MC (rOCItoMC) with a correlation coefficient of OP with MC (rOPtoMC). It shows that investors are still likely to pay more attention to OP than OCI in making investment decisions. The significant differences need to be considered by the IAI and the accounting profession to further promote the benefits of OCI presentation in the financial statements. Long-term effects need to be considered by investors although it is fluctuating. It can be concluded that the third hypothesis (H3) accepted for ROCI to MC which is differ significantly with ROP to MC.

5. CONCLUSION

The aim of this study to investigate the quality of earnings in terms of relevance and reliability of the company's performance and the market performance of the investors' perceptions that trigger reactions on market capitalization of going to public companies in Indonesia Stock Exchange. Descriptive statistics of research data shows that the value of other comprehensive income (OCI) is always smaller than the value operating profit (OP), although there was a trend of increase in the average (mean) value of market capitalization (MC), and therefore pointed out that the market performance tends to be worse than operating performance which is not seen by investors since there is increasing in investor transactions on purchase of shares in the Indonesian stock Exchange (BEI) during 2010 through 2014. Therefore, management is expected to manage the market performance with better risk management and attention to economic realities, so, OCI can become the information for investors in making investment decisions. The test results both in cross section and time series shows that there is consistency result of positive significance correlation between operating profit (OP) with market capitalization (MC), but this study can not prove the significance correlation between other comprehensive income (OCI) with market capitalization (MC). There are inconsistencies but positive direction of the correlation coefficient between OCI and MC in cross section, for 2010 and 2011, while they are negative for the year 2012 through 2014, and the direction of time series correlation coefficient of OCI to MC is positive for 5 years. This reveals that the reaction of investors is more stable or consistent with OP than OCI in investment decision making. Wilcoxon signed rank test shows the correlation coefficient between rOP and MC, rOCI and MC is significantly differences, so, investors focused more on the company's operating earnings than other comprehensive income. Thus the adoption of IFRS in IAS no.1 related to statement of profit /loss and other comprehensive income still need to be socialized.

Suggestion

This study considered just five years, due to adoption of IFRS which is newly implemented in Indonesia. Therefore, the period of observation is expected to be extended in the future study to see the benefit of OCI gradually. The reaction of investors is only visible from the 50 companies in market capitalization, so, it is still not enough to represent the overall investor reaction. This study just looking the quality of earning by operating profit and other comprehensive income, so, it is still not sufficiently represented an accounting gain in their entirety. Researchers can add independent variables by using comprehensive income (CI) in order to portray a more rational reaction of investors in making investment decisions. In addition, the separation by industry category may also increase the representation of accounting earnings figures according to the statement of profit/loss and other comprehensive income of each industries.

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