VALUE RELEVANCE OF ACCOUNTING INFORMATION AND MANAGERIAL ABILITY

(Manufacturer Companies at Indonesia Stock Exchange)

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ABSTRACT

The objectives of this study to test theoretically the value relevance of accounting information and the value relevance of managerial ability. The value relevance of accounting information involve the value relevance of earning per share and the value relevance of book value equity. In addition, the purpose of this study also examines how managerial ability to measuring the relationship between accounting information and stock prices in manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2014-2016. This study uses purposive sampling method in determining the number of samples used, and obtained 67 companies used as samples. This study uses secondary data sources. In this study the managerial skills are measured using Data Envelopment Analysis, Data is analyzed using moderate regression analysis. The results showed that managerial ability have value relevance to measure firm value, through value of Earning Per Share and Book Value Equity.

Keywords: value relevance, earning per share, book value equity, managerial ability, Data Envelopment Analysis (DEA).

INTRODUCTION

Research Background

Enterprise management is a major decision maker in a company. Daily operational decisions and future strategic planning that have been formulated, will determine the direction of the company and will also determine the company's success in achieving its ultimate goal. In addition, the company's management is also the people who are trusted by shareholders to manage and develop the company, which will add value to the shareholders. Good financial performance is one of the company's main goals, especially in commercial companies. This is because the financial performance will affect many things including the value of the company, stock price, and also the compensation that will be accepted by the management company. Financial performance is also a gauge for investors, especially shareholders, in measuring the effectiveness of the performance of the company's management that is their representation in the company.

Value relevance means the ability of accounting information to explain the value of the company (Beaver, 1968). Meanwhile Gu (2002) defines value relevance as the accounting information *explanatory power* of stock prices or share returns. Lev (1999) stated that the relevance of accounting value is characterized by the quality of accounting information.

Second, financial statement information has a relevant value which contains variables that can be used in the assessment model or predict those variables. Third, statistical relationship is used to measure whether investors actually use the information in pricing, so that relevant value is measured by financial statement information capabilities to change stock prices as it influences investors' expectations. Finally, value relevance is measured using financial statement information capabilities to provide a variety of information that affects the company's share.

The main purpose of investing is to earn dividends and capital gains. Before deciding to invest on a company, investors need information about the condition of the company. According Husnan (2009: 328), the level of profitability that can be generated by issuers will affect the stock price level. The company's ability to generate earnings for per share can be seen in Earning Per Share (EPS) ratio.

Another factor that can affect stock prices is book value equity. The book value equity shows the net assets owned by the shareholders by owning one share (Jogiyanto, 2009). The effect of the book value of equity on stock price is that this value can be compared to the market value of the firm's equity, so that investors can judge whether the stock price in circulation is too high or too low.

The increasing corporate value is usually measured by the increase of share market prices. The higher the shareholder's welfare, the higher the value of the company. This indicates that the owner delegates authority to the manager to manage the company in order to maximize the value of the company. Company owners need capable managers to maximize the value of the firm. A highly skilled manager is deemed to have sufficient expertise in his or her field of responsibility (Ruba'i, 2009). The manager is considered more capable to estimate the policies taken by the company. Furthermore, Isnugrahadi and Kusuma (2009) stated that one of the keys to the success of a company is the presence of managers who successfully design efficient business processes and are able to make decisions that add value to the company.

Research Questions

Based on the background of the study presented above, the formulated reserch questions are:

1. Does earnings per share has value relevance?
2. Does book value equity has value relevance?
3. Does managerial ability has value relevance to measure firm value event interacted with accounting information?

Objectives of the study

Based on the background described and research questionss, the objectives of this study are as follows:

1. Explaining and analyzing the relevance of earnings per share value.
2. Explaining and analyzing the relevance of the value of book value equity.
3. Explaining and analyzing the relevance of managerial ability affecting the relationship between the value of accounting information and stock prices.

Research Contribution

Based on the research objectives described above, the benefits that can be obtained from this research are:

1. Theory Contribution
   The results of this study to understanding of the relevance value in accounting such as earnings per share, book value equity and the role of managerial ability in affecting stock prices.
2. Practically
   The results of this study to be a reference for investors by using the relevance of accounting value and managerial ability as a consideration in determining stock prices before investing.

LITERATURE REVIEW

Theoritical Review

Clean Surplus Theory

The theoretical basis used in this research is clean surplus. It states that the value of the company is reflected in the accounting information contained in the financial statements (Ohlson 1995). Based on the theory of clean surplus, Ohlson stated that the company's market value is shown in the income statement and balance sheet. Furthermore, this theory provides a framework that is consistent with the measurement perspective. This theory states that the accounting data has value relevance.

Value relevance research is designed to establish the benefits of accounting values related with the valuation of the firm's equity. Value relevance is the reporting of accounting figures that have a prediction with respect to the equity market values. The concept of value relevance is inseparable from the relevant criteria of the financial accounting standard because the number of an accounting number is relevant if the amount presented reflects the information relevant to the assessment of a firm.

Relevant information is information that has a relationship with the problem at hand. Based on *Standar Akuntansi Keuangan (*SAK), information has a relevant quality if it can influence the economic decisions of financial statement users by helping them evaluate past, present or future events, as well as affirming or correcting the evaluation results that have been done in the past.

The term of relevance value in accounting information is derived from the theory of clean surplus which states that the value of the company is reflected in the accounting information contained in the financial statements (Feltham & Ohlson, 1995; Ohlson, 1995).

Earning Per Share

Earning per share (EPS) is a company's profitability analysis tool that uses the concept of conventional earnings. Earning per share is one of basic considerations in investing. Changes in the use of debt will result in changes in earnings per share and also risk changes (Brigham dan Houston, 2006).

Earning Per Share is one of the important company ratio indicators. Earning per share is the amount of rupiah earned on each share owned. Earning per share is earned by dividing net income after tax by the number of ordinary shares outstanding.

$$Earnings\ Per\ Share\ (EPS) = \frac{Net\ income}{Total\ Outstanding\ Shares}$$

Book Value Equity

Book value is the value of shares based on the bookkeeping of issuer companies. Burgstahler and Dichev (1997) argued that the book value is derived from the balance sheet which provides information about the net worth of the firm's resources and a measure of value that reflects the results of the use of company resources. The book value has a low value relevance if the activity of the company's earnings and profits are important information as a determinant of the value of the equity.

The information contained in the balance sheet is required by investors or potential investors and management as materials to be analyzed. One of the most important measuring tools in analyzing financial statements is the "book value per share" (Jusup, 2001).

$$Book\ value\ per\ share = \frac{Total\ equity}{Total\ Outstanding\ shares}$$

Managerial Ability

According to Isnugrahadi and Kusuma (2009), the key of company's success is the success of managers to design efficient business processes. In addition, managers must be able to make decisions that add value to the company. From the statement above a company needs a capable manager, the manager who has the ability to match in the field of responsibility. Managers also have an obligation to deliver performance to interested parties through periodic financial statements. Furthermore, managers use judgment to create the financial statements.

DEA (Data Envelopment Analysis)

DEA (Data Envelopment Analysis) is usually stated in Economic Activities Unit or *Unit Kegiatan Ekonomi* (UKE). DEA is a tool used to measure the relative efficiency of an organization. The efficiency of UKE can be determined by comparing the efficiency of a company's UKE with other company's UKE. However, there is a requirement that the input and output types are the same.

UKE is considered to be efficient when the ratio of input / output equals 1 or 100%. The point is that the UKE is able to maximize its inputs to produce a certain output without waste so as to reach an efficient point. UKE is not efficient if the ratio of the ratio between the input / output is between $0 \leq$ input / output <1 or less than 100%. According to Karsinah (in Isnugrahadi, 2009), it means that the company has not been able to manage the inputs, it has to produce optimal output or still produce waste in using the input.

Stock Price

Shares are securities that indicate the ownership of the company so that the shareholder has the right of claim over dividends or other distributions made by the company to its shareholders, including the right to claim the assets of the company with priority after the rights of other securities holder claim is met in the event of liquidity. Husnan (2002:303) mentioned that securities (share) is a piece of paper indicating the right of the investor (ie the party owning the paper) to obtain part of the prospect or wealth of the organization issuing such securities and the conditions under which the investor may exercise his / her rights.

Stock Price Valuation

Before investing the funds, investors will conduct an analysis of the company's ability to generate profits. Investors are also interested in information related to the condition or financial performance of the company as a guide to make investments, so that the funds invested may generate added value in the future in the form of dividends or capital gains. According to Tandelilin (2001: 183), there are three types of values in the valuation of the share, including:

1. The book value is the value calculated based on the bookkeeping of the issuing company (issuer).

2. The market value is the value of shares in the market, which is indicated by the price of such shares in the market.
3. Intrinsic or theoretical value is the actual or expected value of the share.

Theoretical Framework and Development Hypotheses

The value relevance of accounting information means the ability of accounting information to explain firm value (Beaver, 1968). While Gu (2002) provides not much different a definition that the value relevance is the ability to explain (explanatory power) accounting information to stock prices or share returns. Lev (1999) mentioned that the value relevance is characterized by the quality of accounting information. The more relevant the value of an accounting, the more qualified the accounting information is, because it reflects the real situation.

Earnings Per Share (EPS)

High Earnings Per Share (EPS) reflects the company in a good performance condition so that the company is able to pay high dividends. When the dividend payout is high, then the investor will be interested to invest in the company which makes the stock price will be high. High EPS values also indicate that the company experienced sales growth followed by an increase in corporate earnings resulting in an impact on stock prices that tend to be high. In accordance with research Dwimulyani (2010), it proved that profit has value relevance and give positive influence to stock price of a company. Based on the above explanation, the formulated hypothesis is as follows:

H1: Earnings Per Share (EPS) has value relevance.

Book Value Equity

The book value of equity in a financial statement has an important role in providing relevant information in explaining the value of the company's equity, because the value of the company's equity reflects in the net worth value or total equity held by the company. The higher the value of the firm's equity, the shareholder's prosperity level will also be high. Almilia and Sulistyowati (2007) stated that book value of equity has value relevance and gives a significant influence to stock price during crisis period. Based on the above explanation, the formulated hypothesis is as follows:

H2: The book value equity information has value relevance.

Managerial Ability, Value Accounting Information

A competent manager is a manager whom has a high level of intelligence, education, and experience (Isnugrahadi and Kusuma, 2009; Purwanti, 2010). Manager is expected to make the right decision, which can add value to the company. Every manager's decision will have an impact on the company. The existence of such decisions can indicate how competent a manager is. This is related to the ability of managers in making the right decision, which can provide added value for the company. Based on the above explanation, the hypothesis is formulated as follows:

H3: Managerial ability has value relevance to measure firm value event interacted with accounting information.

RESEARCH METHODS

Type of Research

In accordance with the subject matter and research objectives, this study uses explanatory research. It is a study that intends to describe the influence between two or more variables, which is symmetrical, causal and reciprocal (Sugiyono, 2007). The pattern of influence revealed in this research is the influence of earnings per share, book value equity, and managerial ability to stock price of manufacturing companies listed on the Share Exchange in 2014-2016. The unit of analysis in this study is manufacturing companies listed and active in the Indonesia Stock Exchange (IDX) during 2014 to 2016 which is amounted to 67 companies. Sampling is done using purpovise sampling method which is non-probability determination based on information obtained from certain criteria. Sample determination criteria are:

1. Manufacturing company is listed on the Indonesia Stock Exchange in 2014-2016.
2. Manufacturing company publishes annual reports in succession during 2014-2016.

Types and Data Sources

The type of data used in this study is secondary data which is obtained indirectly or through intermediary media. Secondary data is in the form of corporate financial statements obtained from various sources. The data needed for this research is company's financial statements and stock prices, data collection techniques used are documentation. Documentation is a method for obtaining data by collecting data from existing literature. The data source of this research is obtained from the website www.idx.go.id, www.yahoo finance.com, and ICMD (Indonesian Capital Market Directory).

Dependent Variable

The dependent variable is a variable that is influenced by other variables. Dependent variable used in this research is stock price. The stock price in this case is the price which sets to appraise each share of shares so that it has purchasing power which can lead to demand and supply in the secondary market adjusted quickly with any change of information. The stock price used in this study is the closing stock price per sheet at 3 (three) months after the end of the fiscal year ended in December 31. This measure is based on the research of Pinasti (2004), Subekti (2012), and Adhani (2014).

Independent Variables

The independent variable is the variable that influence or cause changes or the emergence of the dependent variable (Sugiyono, 2004). Independent variables in this research are:

Earning Per Share (EPS)

It is the ratio of net income per share to the number of shares. So the EPS information of a company shows the amount of net profit which is ready to be shared for all shareholders of the company. This variable is measured using the formula:

$$\text{Earnings Per Share }(EPS) = \frac{\text{Net income}}{\text{Total Outstanding Shares}}$$

Book Value of Equity

It is a value that shows net assets owned by investors for every single share owned. This variable is measured by:

$$\text{Book value per share} = \frac{\text{Total equity}}{\text{Total Outstanding shares}}$$

Moderator Variable

The moderating variable is a variable that can strengthen or weaken the relationship between dependent and independent variables (Ghozali, 2006). The moderating variable in this study is managerial skill. Managerial skill in this study is defined as the level of a company's relative efficiency in managing inputs (resource and operational factors) to increase output (sales). The level of relative efficiency is summed up as a result of managerial skills. The efficiency of a company is compared to other companies in the same manufacturing industry sub-sector, the more efficient a company, the more competent managers in the company are (Isnugrahadi and Kusuma, 2009).

Managerial skills are measured using DEA. DEA is an optimization program used to evaluate the relative efficiency of UKE in the form of a comparison between outputs or multiple outputs with inputs or multiple inputs. The comparison result is done between UKE among companies to see its' efficiency using the same output and input. The output is sales. Sales is chosen because they represent the nominal value of the company's products. While some of the inputs selected are:

1. Total Assets

Total Assets is selected because asset management can demonstrate managerial skills. A capable manager can certainly manage the company's assets to generate maximum sales.

2. Amount of Labor

The amount of labor can also indicate whether a manager is competent or not because, in general, for a certain sales value, the amount of labor can generate a certain sale, then a company efficiency is reflected.

3. Days COGS in Inventory (DCI)

DCI is used to measure the speed of the company's inventory turnover in a day. Companies are considered efficient when inventory turnover is smaller so managers who can manage companies and produce small DCI quantities are considered capable managers. The formula for calculating DCI quantities is as follows:

$$\text{DCI} = \frac{365}{\left(\frac{\text{COGS}}{Inventory}\right)}$$

4. Days Sales Outstanding (DSO)

DSO is used to measure the time taken by a company to earn cash after making a sale. Firms that can earn cash back sooner demonstrate the company's management by a capable manager.

The calculating DSO formula is as follows:

$$\text{DSO} = \frac{Recaivable}{\left(\frac{Sales}{365}\right)}$$

The model used to calculate the efficiency using the DEA approach is as follows:

$$MAX\theta = \frac{\sum_{i-1}^{S} U_i Y_{ik}}{\sum_{j-1}^{M} V_j\, X_{jk}}$$

Note:

θ	= k value is company efficiency
Ui	= the weight of I is output produced by k company
Yik	= the amount of i is output from k company and calculated from i=1 to s
Vj	= the weight of j is input used by k company
Xjk	= the amount of j input from k company and calculated from j=1 to m

The efficiency ratio θθ is obtained using the equation:

$$\frac{\sum_{i-1}^{S} U_i Y_{ik}}{\sum_{j-1}^{S} V_j X_{jk}} \leq (k = 1, \dots, n)$$

$$V1\ ,2,\dots\ ,Vm \geq 0$$

$$U1,2,\dots,Us \geq 0$$

From the above formula, it can be seen that the efficiency value will not exceed 1 (100%) and the input and output which are analyzed must be positive. This research uses MaxDEA software to calculate efficiency value.

Data Analysis Method

The method used to determine the effect of earnings per share, book value equity, and managerial skills to stock prices is hierarchical moderate regression analysis. the equation model in this study is:

1. $P_{it} = \alpha 0 + \beta_1 EPS_{it} + \beta_2 BVE_{it} + \varepsilon_{it}$
2. $P_{it} = \alpha 0 + \beta_1 EPS_{it} + \beta_2 BVE_{it} + \beta_3 KM + \varepsilon_{it}$
3. $P_{it} = \alpha 0 + \beta_1 EPS_{it} + \beta_2 BVE_{it} + \beta_4 KM{*}EPS_{it} + \beta_5 KM{*}BVE_{it} + \varepsilon_{it}$

Note:

P_{it} = Price per share of i company at three months after the end of the year t.

$\beta_1 EPS_{it}$ = Earning per share of i company during the year t.

$\beta_2 BVE_{it}$ = Book value per share of i company at the end of the year t.

$\beta_3 KM{*}EPS_{it}$ = Interaction between managerial skills and firm earnings i per share at the end of year t.

$\beta_4 KM{*}BVE_{it}$ = Interaction between managerial skills and book value per share of i company at the end of the year t.

ε_{it} = Residual error.

DATA ANALYSIS AND DISCUSSION

Descriptive Statistics Analysis

Descriptive statistics is a general description of the research data, data collection and data summary of the research variables. Descriptive statistics also describe various data characteristics, such as the mean, maximum, minimum, and standard deviation.

Descriptive statistics analysis results on earning per share variables, book value of equity, managerial ability and stock prices are presented in Table 4.2 below:

Tabel 4.2.
Desriptive Statistics of Research Variable

Vaiable	N	Minimum	Maximum	Mean	Std. Deviation
Earning Per Share	201	1	178756	3160,33	20716,403
Book Value Equity	201	55	344017	7669,18	40576,848
Managerial Abilty	201	71	100	96,37	5,966
Stock Price	201	50	413500	13384,45	52993,43

Based on table 4.2, it is revealed that earnings per share is the profit earned from company’s share. The increase in earnings per share shows that the performance of the company's earnings is very good so that it can increase the income of shareholders (investors). Based on the table above, the mean value of earnings per share is 3160.33. This shows that the company is able to generate profit per share (EPS) at 3160.33

net profit in a period that is divided by the number of ordinary shares outstanding in that period.

The book value of equity shows net assets owned by shareholders with one share. Based on the table above, the mean value of equity book value is 7669.18. This shows that in average the sample company generate 6.8855 net assets on one share owned.

The mean value of managerial ability is measured using Data Envelopment Analysis (DEA) which is 96.37. This shows that the in average the ability of managers to take and implement decisions to achieve efficiency is 96.37.

Stock price is the price of a stock that occurs in the stock market at a certain time determined by market participants and is determined by the demand and supply of shares concerned in the capital market. Based on the above table, the mean value of the stock price is 13384.45. This shows that during the period of observation, the stock price of the companies increase.

Based on table 4.2, the mean earnings per share, book value of equity, managerial ability and stock price are higher than the standard deviation. This indicates that research data tend to approach normal distribution. With the condition of normally distributed data, it is feasible to be analyzed based on parametric statistics. Therefore, earning per share, book value of equity, managerial ability and stock prices are feasible for testing.

Moderate Regression Analysis Results

The results of Moderate Regression Analysis (MRA) using Statistical Package for Social Science (SPSS) 17.0 for windows are as follows:

Table 4.3
Moderate Regression Analysis (MRA) Results

Variabel Independent	Model 1	Model 2	Model 3
earning per share t-value	0.795** (4.357)	0.760** (4.224)	0.239** (3.612)
book value equity t-value	0.927** (6.087)	0.890** (5.918)	0.330** (4.744)
managerial ability t-value		0.018 (0.467)	0.004 (0.096)
earning per share * managerial ability t-value			0.277** (3.742)
book value equity * managerial ability t-value			0.198* (2.171)
F value F change Adjusted R2	265.063** 265.063 0.725	176.083** 5.216 0.724	115.627** 7.504 0.741

Model I : $P = \alpha + \beta 1\ EPS + \beta 2\ BV + e$
Model II : $P = \alpha + \beta 1\ EPS + \beta 2\ BV + \beta 3$ managerial ability $+ e$
Model III : $P = \alpha + \beta_1\ EPS + \beta_2\ BV + \beta_3$ managerial ability $+ \beta_4$ EPS *managerial ability $+ \beta_5$ BV * β_3 managerial ability $+ e$

***Signicant level at 0.05, ** Signicant level at 0.01.**

Adjusted R Square is value used to know the independent variable influence simultaneously on dependent variable. This coefficient shows how much percentage of variation of independent variable used in model able to explain variation of dependent variable.

Table 4.3 reveals that Adjusted R Square is the result of earnings per share regression, book value equity, and managerial ability test. The calculation result of R Square value in model 1 shows that the contribution of earnings per share and book value equity to stock price is 72.5%, while the rest of 27.5% is influenced by other variables outside the research model.

The result of R Square model 2 shows that the contribution of earnings per share, book value equity, and managerial ability to stock price is 72.4%, while the rest of 27.6% is influenced by other variables outside research model.

The result of model 3 shows that the contribution of earnings per share and book value equity to stock price moderated by managerial ability is 74.1%, while the rest of 25.9% is influenced by other variables outside the research model.

Table 4.3 shows that the value of F on the three models yields significant level at 1%. This result shows that the variable of earnings per share, book value equity, earnings per share, and managerial ability can contribute to variable stock price in all three models tested.

In Table 4.3, there are three types of models, namely models 1 to 3 corresponding to the incoming predictors of regression. Model 1 examines the effect of earnings per share and book value equity on stock price resulted F value at 265.063 with p value 0.000 <0.05. This means that earnings per share and book value equity can predict stock price significantly.

Model 2. tests the influence of earnings per share, book value equity, managerial ability to stock price resulted F value at 5.216 with p value at 0.024 <0.05. This means that earnings per share, book value equity, and managerial ability can predict stock price significantly.

Model 3 tests the effect of earnings per share, book value equity, managerial ability, earnings per share resulted F value at 7.504 with p value 0.001 <0.05. This means earning per share, book value equity, managerial ability, and earnings per share can predict stock price significantly.

Therefore, it can be concluded that earnings per share, book value equity can predict stock price. In addition, managerial abilities is also proved to be a moderator of the relationship between earnings per share and book value equity with stock price.

The value of coefficient in model 1, the effect of earnings per share to stock price, is 79.5% and significan level at 5%. This means that earnings per share influences stock price; So earnings per share has acceptable relevance on accounting value.

The value of coefficient in model 1, the influence of book value equity to stock price, is 92.7% and significant level at 1%. This means that book value equity influences on stock price, so the book value equity has acceptable relevance on accounting value.

The value of coefficient in model 3, the influence of earnings per share to stock price without managerial ability moderation, is 23.9% and significant level at 1%. While the coefficient value of earnings per share influence on stock price moderated by managerial ability is 27.7%. This result shows that managerial ability has relevance on accounting and can strengthen earning per share influence to stock price.

The value of coefficient in model 3, the influence of book value of equity to stock price without managerial ability moderation, is 33% and significant level at 1%. While the value of coefficient influence book value of equity to stock price moderated with managerial ability is 19.8%. This result shows that managerial ability has relevance on accounting and weaken the influence of book value of equity to stock price.

Discussion

Value relevance of earning per share on stock price

Based on the results of inferential statistical analysis, the earnings per share influences stock price. This result shows that earnings per share has accounting value relevance. Earnings Per Share (EPS) is the net income earned by the company (Net Income) divided by the number of outstanding shares (Shares outstanding) (Ross, et al. 2010). The higher earnings per share shows the higher profit earned by the company. When investors evaluate the performance of firms, investors are not enough just to know whether the income of a company has increased or decreased; investors also need to look at how changes in income resulted in investment. Companies with higher EPS values will attract investors. If stock prices rise, it will result in multiple profits for investors. So the higher EPS of a company means higher stock prices.

A company EPS information shows the amount of net profit the company that is distributed to all of its shareholders. An investor buys and maintains a company stock in the hope of acquiring a dividend or capital gain. Profit is usually the basis for determining the dividend payout and the increase in the value of shares in the future. Therefore, shareholders are usually interested in the EPS figures reported by the company. If the Earnings per Share (EPS) of the company is high, more investors will buy the stock causing high stock price

Value relevance of book value of equity on stock price

The results of inferential statistical analysis show that the book value of equity effect on stock price. This result indicates that book value of equity has accounting value relevance. This shows that when the book value of equity increases, it will increase the stock price and if the book value of equity decreases, the stock price will decrease. This condition occurs because many companies have low total equity and are offset by a low stock price as well as a decrease in the book value of the equity, so it cannot provide a good guarantee for investors in investing their capital.

In addition, information on the increase in book value of equity will be accepted by the market as a good signal that will increase the demand of stock and its price. This shows that the book value of equity plays an important role in the increase or decrease in stock prices because it is one of the assurance for investors. This fundamental analysis can illustrate that accounting information in the form of book value per share can be used by investors to assess stock prices. Investors are very concerned about the increase and decrease in the book value of equity that occurred in the company before deciding to invest in the company.

Value relevance of earning per share on *stock price* if moderated by managerial ability

The results of inferential statistical analysis show that managerial ability is able to moderate the strengthening effect of earnings per share on stock prices. Earnings per share has relevance of accounting value if it is strengthened by managerial abilities.

This is because the high managerial ability can guarantee high level of earnings per share.

The existence of managerial expertise poses an impact on the increase in reported profitability, resulting in an increase in stock prices and return on investment. Investors as principal see stock price trends as a benchmark of a company market performance, if the company's stock price increases then the company's market performance is good.

Value relevance of book value of equity on stock price if modearted by managerial ability

The results of inferential statistical analysis show that managerial ability can moderate the weakening influence of book value of equity on stock prices. The existence of managerial ability actually weakens the book value of equity in increasing stock prices. This is because the book value of equity is the ratio of total equity to the total number of outstanding shares used to express the real value of a stock, this is not related to managerial abilities.

As revealed by Almila and Sulistyowati (2006) that the company resources provide a measure of value that reflects the company earning, the book value is of low value relevance if the company activities are profitable and profit has more important information as a determinant of equity. The coefficient value of book value is lower than profit, so the book value has lower relevancy to stock price than the value of accounting profit, so it can be concluded that book value influences stock price when the company does not produce profit. The book value is also more meaningful consideration in making investment decisions when a company activities suffer financial losses or in difficulties.

CONCLUSION AND SUGGESTION

Conclusion

The results of analysis and discussion are formulated into conclusion as follows: Earning per share influences stock price. This result shows that earnings per share has accounting value relevance. The higher Earning Per Share indicates the higher the profits the company earns and the higher the investor attracted.

Book value of equity influences stock price. This result shows that book value of equity has accounting value relevance. This shows that if the book value of equity increases, it will increase the stock price and if the book value of equity decreases, the stock price will decrease.

Manegerial ability has value relevance to measure firm value, through value of Earning Per Share and Book Value Equity. Managerial ability can moderate the effect of earning per share on stock prices. That is, earnings per share has relevance of accounting value when strengthened by managerial ability. Managerial ability can moderate the influence of book value of equity on stock prices. That is, the book value of equity has relevance of accounting value that is attenuated by managerial ability.

Research Limitation

There are some limitations of this research as described as follow: the observation period in this study is relatively short, i.e. only 3 years so that the conclusions cannot be generalized in another year. Variables used in this study are still limited to earnings per share and book value per share, while there are many other variables such as earnings quality, stock returns and other variables that may also affect the stock price.

The use of input and output factors in DEA score calculations can only be used in manufacturing industries. The input and output factors in this study cannot be applied in calculating DEA scores of other industrial companies. This study does not include companies from other industries as research samples.

Suggestion

Based on the above conclusions, the suggestions formulated covering: investors in taking investment decisions need to consider the managerial ability. It is important to make an assessment on the potential revenue that can be accepted.

Companies need to improve managerial ability, this can strengthen earnings per share that impact on increasing stock prices. For further research, it is better to use sample based on company sector listed on BEI with long observation.

This research used input and output factors that can only be applied in manufacturing industry in calculating DEA score. If input and output factors that can be used to calculate DEA scores for all industries have been found, the subsequent research may use samples from industries other than manufacturing industries. The use of samples from other industries is useful so that the results of the research can be generalized to the entire population.

The research on managerial ability using DEA is a fairly new topic. The research of managerial ability can be further developed in subsequent research. Lastly, the subsequent research can link managerial skills with other variables, such as earnings quality, stock returns and other variables.

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