IMPLEMENTATION OF PSAK 71 AND FINANCIAL STATEMENT QUALITY IN INDONESIAN BANKING INDUSTRY

Eni Indriani[1], Biana Adha Inapty[2], Iman Waskito[3]

[1]Fakultas Ekonomi dan Bisnis, Universitas Mataram, Indonesia.
eni.indriani@unram.ac.id
[2]Fakultas Ekonomi dan Bisnis, Universitas Mataram, Indonesia.
bianainapty@hotmail.com
[3]Fakultas Ekonomi dan Bisnis, Universitas Mataram, Indonesia.
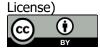waskitoiman@unram.ac.id

Abstract: *The implementation of PSAK 71 requires the companies to have a greater allowance for impairment losses (CKPN) than the previous standard. This is an opportunity for companies to maintain the elements of management in such a way. Managers' opportunistic behavior in exploiting opportunities will affect the financial statement quality because they are assumed to contain earnings management. It is feared that an increase in CKPN determined by corporations will have an impact on the financial statement quality. This research aims to determine the impact of implementing PSAK 71 on the financial statement quality in Indonesian banking industry. The sample consist of 41 companies listed on the Indonesia Stock Exchange for the 2019–2020 period. Based on the results of data processing with the use of Eviews version 12, it can be concluded that the implementation of PSAK 71 has a positive effect on financial statement quality in Indonesian banking industry. The results of this research contribute to the study of the the new PSAK implementation and as an evaluation for the standard-setter board.*
Keywords: PSAK 71, allowance for impairment losses, earnings management, financial report.

INTRODUCTION

The Financial Accounting Standards Statement (PSAK) is a set of standards governing the calculation, classification, and recording of accounting in Indonesia, formulated by the Financial Accounting Standards Board of Institute of Indonesia Chatered Accoountants (IAI). The Statement of Financial Accounting Standards (PSAK) is a guideline for carrying out accounting practices. The description of the material in it covers almost all aspects related to accounting, which in its preparation involve a group of people with abilities in the field of accounting who are members of an institution called the Indonesian Accountants Association (IAI). In other words, PSAK is a guidebook for accounting practitioners that contains guidelines about everything that has to do with

accounting. The understanding above provides an illustration of the Statement of Accounting Standards for Finance (PSAK), which contains procedures for preparing financial reports, which always refer to the prevailing theory, or, in other words, based on current conditions 12 taking place. This does not rule out the possibility that Standard Statement Financial Accounting (PSAK) may experience changes or adjustments from time to time in line with changes in economic information needs.

The latest Financial Accounting Standards (SAK) issued by Financial Accounting Standards Board (DSAK) which are effective from 2020 are PSAK 71, 72 and 73. The three new PSAK are released as efforts of the authority's to converge the International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board (IASB). One of the PSAK was issued to accommodate non ideal financial conditions is PSAK 71, which regulates financial instruments. This PSAK replaces PSAK 55 and brings significant changes to: (1) classification and measurement; (2) impairment; and (3) hedge accounting. This standard is effective globally in January 1, 2018, so for subsidiaries or associations of a foreign company that have implemented IFRS 9, it is necessary to provide additional information (adjustments) for financial information purposes as well as to prepare for its implementation locally.

PSAK 71 mandates corporations to form allowance from the start of the credit period. Where the basis of the reserve is to anticipated credit loss based on a variety of factors, one of them is the economic forecast in the future. According to the SAK 71, a corporation must provide CKPN for all categories of credit or loans, whether they are performing or non performing. Therefore, PSAK 71 requires the banking industry to have a greater CKPN compared to previous regulatory provisions. (Ilat, Sabijono, dan Rondonuwu, 2020)

PSAK 71 adopts International Financial Reporting Standards (IFRS) 9 to replace PSAK 55 which was adopted from International Accounting Standard (IAS) 39. The PSAK 71 and PSAK 55 have difference in calculation arrangement of CKPN. Context in the banking industry, CKPN is an allowance prepared by banks to lower the risk of assets impairment losses such as credit and securities. In PSAK 55, allowance obligations only arise if an event that cause payment failure (incurred loss) has occurred. Meanwhile, in PSAK 71, allowance must be prepared from the start, i.e., when credit occurs by the corporation. (Sibarani, 2021).

A backward-looking method is used to calculated CKPN in PSAK 55 which is formed when there is objective evidence that the debtor is experiencing a decreasing ability to fulfil its credit obligations. Each bank has a different assessment policy in forming the CKPN. Determining the risk of reduced debtor payability is based on historical data. To illustrate, if in the last few years the credit card business loss was 10%, then the bank would set the CKPN as much as 10% of the Credit Card business loss. Different from PSAK 71, CKPN is calculated by the forward looking method of expected loss. According to IAI, to estimate the risk of financial instruments in initial recognition the method requires banks to consider the information such as economic growth projections, inflation, rates of unemployment, and commodity price index. (Indramawan, 2019).

In mid-March 2020, banks faced obstacles related to the spread of the Covid-19 pandemic. This pandemic has led to slowing economic growth, Indonesian and even the global economy are slowing down significantly (Isnawaty, Inapty, and Effendy; 2022). According to the data of BPS on Triwulan II Economic Growth Data for 2020, Indonesian economic growth by year on year (yoy) reached minus 5.32%. This is the lowest economic growth since the 1998 crisis due to the decline in Indonesia's GDP (Gross Domestic Product) which affects almost the entire sector. The Covid-19 pandemic has made it difficult for the industry to sustain its business, which indirectly affects the difficulty of bank debtors in paying their liabilities. Therefore, the Financial Services

Authority (OJK) has providing credit relaxation for micro and small businesses for values under IDR 10 billion, both credit and financing.

The facilities provided by OJK are a chance and an opportunity for the company to manage its financial information performance in such a way, as an attempt to obtain credit relaxation and financing. This gives manager the discretions to act according to the considerations based on their experience. It is concerned that it may lead to opportunistic behaviour when managers use their personal judgements and motivations in presenting financial statements that may mislead stakeholders related to company performance. (Indriani et al, 2019).

The opportunistic behaviour of managers in exploiting opportunities will affect the financial statements quality, as it is assumed contain earnings management. The view of earnings management is debatable, as it is assumed as an excess permitted by the generally accepted Financial Accounting Standards (SAK), but also has a less positive impact when earning management practiced and it becomes the basis to economic decision by the financial statements user. According to Harindra, Shoba, and Firmansyah (2023), the implementation of new financial accounting standards aims to improve the financial statement quality, however, the asymmetric information between managers and shareholders can be exploited by managers to find opportunities from new financial accounting standards which in line with their own interests. Different finding from Rizky, Qodarina, and Firmansyah (2022) research which found that earnings management practices were not taken by managers in response the changes of the PSAK 71 implementation.

In assessing future conditions, entities consider various relevant information available, for example the impact of Covid-19 and policies issued by authorities to support and mitigate the impact of the Covid-19 spread on the economy. (IAI, 2020). The banking sector is one of the industries that affected by Covid-19. So empirically, effect of PSAK 71 implementation on financial statement quality of banking industry sub-sector in Indonesia becomes relevant for further research. Several previous studies focused on testing of the CKPN value before and after implementing the PSAK 71 and to compare the company performance before and after implementing the PSAK 71. According to the Hasibuan, Juliyanto, and Firmansyah (2023) research finding of the PSAK 71 implementation, that had an impact on CKPN of the banking sub-sector companies.

The implementation of PSAK 71 causes CKPN calculation using the expected loss method, which is forward-looking. According to IAI, the expected loss method requires banks to estimate the risk of financial instruments since initial recognition using forward-looking information such as projections of economic growth, inflation, unemployment rate, and commodity price index at each reporting date. The corporation must provide CKPN for all credit or loan categories, whether those with current status (performing), doubtful (underperforming), or stuck (non-performing). PSAK 71 requires banks industry to have greater CKPN, compared to previous regulatory provisions. This is an opportunity at once for companies that do not rule out the possibility of containing elements management in such a way. Opportunistic behavior of managers in exploiting opportunities will affect the financial statement quality because they are assumed to contain earnings management. And it is feared that the CKPN determined by the corporation will increase the impact on the financial statement quality. Therefore, the problem formulation appears, which will be studied further, whether the implementation of PSAK 71 has an impact on the financial statement quality in Indonesian banking industry.

This research is expected to has contribution in increasing literature which discussing the impact of new financial accounting standards implementation in Indonesia, especially PSAK 71. The findings of this research also expected can be used

by the standard-setting boards to evaluating the implementation of PSAK 71, especially in banking companies as one of important industrial sector of Indonesian economy. And this study too are expected to be beneficial for the stakeholders in their economic decision-making.

METHOD

This research purposes is to determine the impact of PSAK 71 implementation on financial statement quality. Given the purposes of research, type of the research are categorized as causal research. The descriptive approach is used to gather, classify, analyze, and interpreting data of financial statements of the Indonesian Stock Exchange. Descriptive research is carried out by focusing on certain aspects and often showing the relationship between variables. The population are companies listed on the Indonesian Stock Exchange especially banking sub sector, which comprises 46 banking companies. Using the purposive sampling method, total of 41 companies were selected. The documentation method used to collect data from 2019 and 2020. Research data will be processed using the E-Views program application.

Consideration The years chosen are when the implementation of PSAK 71 will become effective as of January 1, 2020, and before the implementation of PSAK 71. So to capture the impact of banking profits, the 1-year financial report prepared is taken with PSAK 71 and the previous year's financial statements that applied PSAK 55, namely before the implementation of PSAK 71.

There are two variables studied in this research, first is the PSAK 71 implementation as the independent variable and the dependent variable is the company's financial statement quality. PSAK 71 introduces the expected credit loss method to measuring the loss of financial instruments due to the value decrease. Based on PSAK 71, an entity measures the allowance for impairment losses on the financial instrument as the amount of expected credit losses over its life if the risk credit on such financial instruments has increased significantly since the initial recognition. If, at the reporting date, the credit risk of financial instruments has not increased significantly since initial recognition, the entity measures the provision losses for these financial instruments as compared to expected credit losses over the next 12 months. The loss represents by the expected credit loss that arises from financial instrument default events that may occur within 12 months after the reporting date. (ED PSAK 71: Financial Instruments, 2016). The implementation of PSAK 71 is projected with the Bank allowance of impairment loses (CKPN) calculated using the 12-month ECL method or the lifetime ECL with the use of macroeconomic projections (forward looking adjustment). (Suroso, 2017).

Financial statement quality is an indicator of financial information that can be understand by the user and can be used for future decision-making. The financial statement quality measured through discretionary accrual (DAcc) calculated using the Modified Jones Model with calculation steps is as follows:

$$Ta_{it} = N_{it} - CFO_{it}$$
$$Ta_{it}/A_{it-1} = \alpha\,(1/A_{it-1}) + \alpha\,(\,\Delta Rec/A_{it-1}) + \alpha\,(PPEt/A_{it-1}) + e$$
$$NDA_{it} = \alpha(1/A_{it-1}) + \alpha(\Delta Sales_{it}/A_{it-1} - \Delta Rec_{it}/A_{it-1}) + (PPEt/A_{it-1})$$
$$DA_{it} = (Ta_{it}/A_{it-1}) - NDA_{it}$$

Additional information:

DAit = Discreationary Accruals of company i in period t
NDAit = Non Discreationary Accruals of company i in period t
TAit = Total Accruals of company i in period t
Nit = Net Profit of company i in period t
CFOit = Cash flow from operating activities of company i in period t
Ait-1 = Total Assets of company i in period t

ΔSalesit = Sales Diferencial of company i in period t
ΔRecit = Changes in receivables of company i in period t
PPEt = Fixed Asset value (gross) of company i in period t
e = error

According to Gujarati and Porter (2012), there are three methods of panel data approaches are the Common Effect Model (CEM) approach, the Fixed Effecct Model (FEM), and the Random Effect Models (REM). Panel data regression models should be tested to choose the correct regression model used in research. The empirical model in this study uses the panel data regression as follows.

$DAcc_{it} = \alpha_{it} + \beta_1 CKPN_{it} + ei.$
Additional information:
CKPN = Allowance for Impairment Losses of company i in period t
DACCit = Financial quality reports of company i in period t
Ei = error
Based on the model, so the Goodness of fit test will determined by the determination coefficient (R^2) and t-statitical test.

RESULTS AND DISCUSSION

This research purpose is to determine the impact of PSAK 71 implementation on the financial statement quality in Indonesian banking industry. This research using secondary data of annual reports and company financial statements of banks listed on the Indonesia Stock Exchange during the 2019–2020 period. Based on the established criteria, 41 banking companies are matched. So, total observations obtain 82 observation. The results presented in table 4.1. as follows:

Table 4.1. Descriptive Statistics

Value	DAcc	CKPN
Mean	-0.0477	13.1604
Maximum	0.0470	17.8561
Minimum	-0.3181	5.7004
Std. Dev.	0.0599	2.4225
Observations	82	82

Source: Data processed (2022)

From the descriptive statistics table known that the size of the DAcc of 82 samples has Mean value of -0.0477 which means the average company observed has a declining financial statement quality in 2019-2020. The CKPN which measured with the ECL has the average value of 13.1604 with standard deviation value of 2.4225, it indicates that the mean value is greater than the default deviation.

The study has three regression models, namely the common effect model (CEM), the fixed effect model (FEM) and the random effect model (REM). The best model selection tests are conducted to find out which panel data regression model is most suitable used to test the hypotheses. The Chow and Hausman tests are used to choose which model is the best among the three models.

The chow test is used to determined which are the best model between among CEM and FEM. The results of the Chow test shown in table 4.2. below:

Table 4.2. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.965008	(40,40)	0.5446
Cross-section Chi-square	55.390713	40	0.0535

Source: Data processed (2022)

The results of data processing shows that p-value > and chi-square values of both models are significant with chi-square of 0.5446 is greater than 0.05 so it can be concluded the best model is the Comon Effect Model and Hausman test is not required. The classical assumption test is performed to determine whether or not the classical hypothesis deviates from the double regression equation used. Since the best model is CEM, then the classical assumption test carried out is a test of heterocadastisity and multicolinearity, but because the independent variable is only one, then a multicolinarity test is not carried.

The zero hypothesis (Ho) of this chi-squared test is shows that there is no heteroskedastisity (homoskedastisity) in the regression model, and the alternative hypotheses (Ha) are the presence of symptoms of heteroskedastisity in the returning model. Based on p-value value (0,9499) greater than α (0,05) means that Ho stating no symptoms of heterocedasthesis on the regression model tested. Thus, based on the results of the residual heteroskedastisity test, the regression model assumption that does not allow the existence of the heteroskedasty is satisfied. After the common effect model chosen as the best model and ensured that the regressive model developed to test the hypothesis of this study does not indicated has classical assumptions problems.

Table 4.3. Common Effect Model Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.119825	0.036135	-3.316013	0.0014
X	0.005481	0.002700	2.029576	0.0457
R-squared	0.048968	Mean dependent var		-0.047697
Adjusted R-squared	0.037080	S.D. dependent var		0.060368
S.E. of regression	0.059238	Akaike info criterion		-2.790425
Sum squared resid	0.280730	Schwarz criterion		-2.731725
Log likelihood	116.4074	Hannan-Quinn criter.		-2.766858
F-statistic	4.119177	Durbin-Watson stat		1.996836
Prob(F-statistic)	0.045725			

Source: Data in processed (2022)

Information gather from table 4.3 shown that the regression model describes as follows:
DACC = -0.119825 +0.005481 CKPN + e
According to the regression model conclude that: a) uf the constanta value is -0.119825 and all independent variables are equal to zero (0) then the quality of the financial report is the value of -0.119825; b) CKPN value coefficient of 0.005481 indicates that CKPN has a positive impact on the quality of financial statements, and its shows that if CKPN rises one unit, assuming other variables are fixed, then the Financial Statement Quality will increase by 0.004481.

The value of determination coefficient (R^2) is 0.0489, this means that 4.89% of the dependent variable is influenced by independent variables and 95,10% is described by other variables. The t-statistic test has probability value of 0,0457, or (p-value < 0,05), it's shows that independent variables have an impact on dependent variables. This means that the implementation of the PSAK 71 has impact on the financial statement quality in Indonesian banking industry.

The implementation of PSAK 71 had a significant impact on the banking industry, especially in calculating CKPN. The context of CKPN in banking is the preparation by banks to face the risks default because of impairment losses on assets such as securities and credit. For all banking assets, there is risk of value loss as the form of bad credit caused by the debtor default. (Husni, Apriliani, Idayu, 2022). Managers in banking sub-sector companies have anticipated the possibility of increasing in CKPN due to the implementation of PSAK 71 with the expected credit loss method. IFRS provisions which have been adopted through the convergence of PSAK 71 provide opportunity for managers to make policy adjustments within the company. One of the policies is to increase the CKPN value gradually, possibly even before 2019.

Based on the results of empirical tests, it is known that the CKPN value of the companies studied is in the range of relatively high average values, meaning that companies increased their ECL in 2020, to anticipate unstable economic conditions due to the Covid-19 impact. On the other hand, from results of data processing its found that the Discretionary Accrual (DAcc) value as a proxy for the financial statement quality negative, which means the research sample practiced earnings management using income decreasing pattern. These findings provide evidence that the implementation of PSAK 71 has an impact on increasing CKPN and earnings management carried out by management as a form of prudence in responding to unstable economic conditions. This inline with research finding from Husni, Apriliani, Idayu (2022) which found that allowance for impairment losses (CKPN) was one of the factors impacted by the implementation of PSAK 71 related to the decline in banking profits/losses.

CONCLUSION

The purpose of this research is to analyze the impact of PSAK 71 implementation on the financial statement in Indonesian banking industry. The implementation of PSAK 71 has a significant impact on the banking industry, especially in calculating CKPN. The context of CKPN in banking is the preparation of allowance for losses by banks to face the risks posed by impairment losses on assets such as securities and credit. From results of data processing found that the value of determination coefficient (R^2) is 0.0489, this means that 4.89% of the dependent variable and the t-statistic test has probability value of 0,0457, or (p-value < 0,05), it's conclude that independent variables has impact on dependent variables and has a positive effect on the financial statements quality. Based on the results of the data processing it can be concluded that the implementation of PSAK 71 has a positive significant impact on the Financial Statement Quality in Indonesian Banking Industry.

The CKPN value of the companies studied is in the range of relatively high average values, meaning that companies increased their ECL in 2020, to anticipate unstable economic conditions due to the impact of Covid-19. On the other hand, from the results of data processing it was found that the Discretionary Accrual (DAcc) value as a proxy for the financial statement quality was negative, which means that the research sample practiced earnings management using an income decreasing pattern. These findings provide evidence that the implementation of PSAK 71 has an impact on increasing CKPN and earnings management carried out by management as a form of prudence in responding to unstable economic conditions.

The research was carried out only in the banking sub sector listed in the Indonesian Stock Exchange (BEI), while the financial sector companies listed in the BEI are not only banking sub sector, but there are also insurance companies, securities companies, and other financial institutions. Therefore, it is recommended for further researchers to carry out research on the entire sector of the financial industry listed at the BEI. Furthermore, the research is limited to the analysis of financial quality using the

DAcc proxy, therefore it is recomended for future research to analyze other proxy to obtain more comprehensive findings.

AUTHOR'S CONTRIBUTION
Authors consisting of Eni Indriani, Biana adha Inapty, and Iman Waskito have contributed in drawing up backgrounds, formulating problems, designing research methods, analysing and interpreting data, and writing publication articles together.

CONFLICT OF INTEREST
The author states that there is no conflict of interest with any party either in the research process or in the publication of the research results.

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