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Research Article

The Effect of Implementing Financial Accounting Standards Statement No. 71 on Earnings Management and Financial Instruments in Banking Companies Listed on the IDX

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Abstract: This study aims to examine the impact of the implementation of Financial Accounting Standard Statement (PSAK) No. 71 on earnings management in banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2023 period. The study uses a quantitative approach, with secondary data collected from the financial statements of 43 banking companies listed on the IDX. A sample of 39 banks and 78 data observations collected over two years was used for the analysis. The data collection method involved gathering written sources from the financial reports of the selected banks. The analysis was conducted using multiple linear regression, with the results revealing that PSAK No. 71 negatively impacts earnings management in these banks. Specifically, the implementation of PSAK No. 71 affects the way banks recognize and measure financial instruments, leading to a reduction in the manipulation of earnings. This suggests that the standard plays a significant role in improving transparency and reliability in financial reporting within the banking sector. The findings highlight the effectiveness of PSAK No. 71 in curbing earnings management practices, contributing to more accurate financial statements. The study's results underscore the importance of implementing accounting standards that promote fair and transparent financial reporting, benefiting stakeholders and ensuring financial stability in the banking sector.

Keywords: Banking companies; Earnings management; Financial instruments; Financial reporting; IDX

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1. Introduction

In modern business dynamics, the issue of earnings management is a major concern, particularly in the banking industry. As explained by Sulistyanto (2018), this practice is not limited only to developing nations but also in developed nations, even with the existence of corporate governance mechanisms. As long as it complies with PSAK provision and ISAK Interpretations of Financial Accounting Standards, earnings management practices are accepted. Nevertheless, executed deviantly, e.g., by accelerating revenue recognition or postponing recording of expenses, it could be termed as fraud. Similarly, Bimo (2021) emphasizes that manipulation of financial statements through earnings management can result in losses for stakeholders.

In Indonesia, the practice of earnings management has surfaced several times in cases involving banks. One of the most prominent cases is the Bank Bukopin case, where the company revised its financial statements consecutively in 2015, 2016, and 2017. For example, the 2016 net profit, originally recorded at Rp 1.08 billion, was revised to Rp 183.56 billion. There was also a difficulty with the financing of a Bank Syariah Bukopin subsidiary, which required adding some loan loss reserves. Prior to the Financial Services Authority (OJK) clarification, equity in Bank Bukopin had fallen, from Rp 9.53 trillion to Rp 6.91 trillion, due

to a reversal of retained earnings, which dropped to Rp 5.52 trillion due to deceptive profit reporting (finance.detik.com). A similar case also befell Bank Harda Internasional, which was implicated in the marketing of illegal products (FTC) and came under strict supervision from the OJK for alleged irregularities in banking practices.

Furthermore, PSAK No. 71 requires the measurement of financial instruments using fair value. This regulation has a direct impact on the income statement, making financial statements more transparent, relevant, and reliable. Although officially effective January 1, 2018, full implementation in the banking sector was not required until January 1, 2020. With the implementation of this standard, it is hoped that earnings management practices can be minimized, thereby improving the quality of financial reporting and maintaining stakeholder trust.

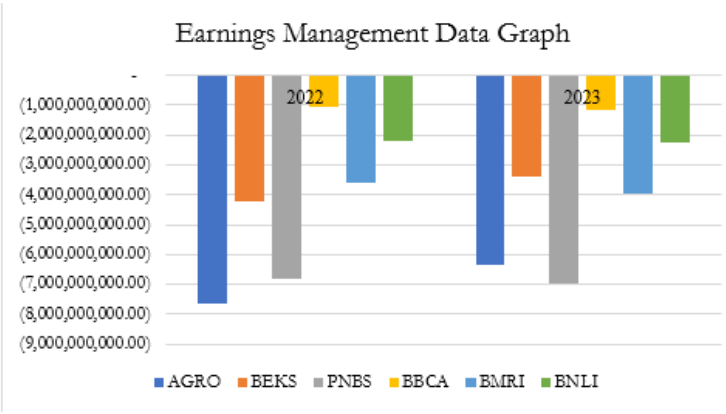

Figure 1. Earnings Management.
Source: Processed Data (2025)

The earnings management chart shows a comparison of earnings management practices at six banks during the 2022–2023 period, all of which have implemented PSAK No. 71. The measurement results show negative values for all banks, indicating indications of earnings management practices. In terms of improvement, Bank AGRO and BEKS showed a decrease in negative levels, indicating an improvement in the quality of earnings reporting. Conversely, PNBS, BBCA, BMRI, and BNLI showed an increase in negative values with varying magnitudes, indicating a decline in the quality of earnings reporting during the period

2. Literature Review

2.1. Agency Theory

Jensen and Meckling's (1976) theory of agency explains how the agent (the firm's management) is tasked by the principal (the management or the shareholder) to run the firm in such a manner that it would maximize its value. By the argument of Puspitasari et al. (2019), this validates managers' accountability in dealing with company assets on behalf of capital owners' interests.

2.2 Bank

Law Number 4 of 2023 concerning the Development and Empowerment of the Financial Sector (PPSK) explains that banking encompasses everything about banking institutions, from institutional to business activity, and operational procedures. Bank is a business institution that collects funds from the public in the form of deposits and allocates them as credit or financing for the purpose of improving people's quality of life. Banking is placed in the economy strategically as a financial intermediary, channelling funds from surplus units with excess liquidity to deficit units in want thereof, and at the same time ensuring the smooth payment system process (Nasution et al., 2021).

2.3 Earnings Management

According to Sutrisno in Barus et al. (2018), earnings management is management action on the external financial reporting process with some goals, including personal gain. The earning management practices applied in this study were measured based on proxy Discretionary Accruals (DA) by using the Modified Jones Model approach (Rahdal, 2017) through the following steps of calculation:

To calculate Total Accrual, use the formula:

$TACCit = NIit - CFOit$

After that, the value is entered into the following regression equation:

$TACCit/Ait\text{-}1 = \beta1(1/Ait\text{-}1) + \beta2((\Delta REVit/Ait\text{-}1) + \beta3(PPEit/Ait\text{-}1) + e$

After the values of β1, β2 and β3 are obtained, then calculate the NDACCit value using the formula:

$NDACCit = \beta1(1/Ait\text{-}1) + \beta2((\Delta REVit\text{-}\Delta RECit)/Ait\text{-}1) + \beta3(PPEit/Ait\text{-}1) + e$

Calculate the DACCit value, with the formula:

$DACCit = (TACCit/Ait - 1) - NDACCit$

Information:

TACCit	=The amount of accruals of company i in year t
NIit	= Profitnet income of company i in year t
CFOit	=Cash flow from operating activities of company i in year t
Ait-1	=Total assets of company i in the previous year t
ΔREVit	=Change in company i's revenue in year t
ΔRECit	=Change in net receivables of company i in year t
PPEit	= Property, plant, equipmentcompany i in year t
NDACCit	= Non-discretionary accrual of company i in year t
e	= Error.

2.4 Financial Accounting Standards Statement (PSAK) No. 71 Concerning the Recognition and Measurement of Financial Instruments

PSAK No. 71 on recognition and measurement of financial instruments is a result of the application of IFRS 9 published by the IASB, which was later adopted by DSAK IAI in an Exposure Draft on September 14, 2016, and applied successfully from January 1, 2020 in lieu of PSAK No. 55 (IAI, 2018). This standard introduces a new approach to the measurement and classification of financial instruments, one of which is through the application of the expected credit loss model that accurately reflects the actual credit risk better than the previous method. According to Gustina (2017), the applicability of PSAK No. 71 can be measured using a dummy scale with the following conditions: (1) Score 0: The company has not implemented PSAK No. 71. (2) Score 1: The company has implemented PSAK No. 71.

3. Method

This study used the quantitative approach, focusing on bank companies that were publicly listed in the Indonesia Stock Exchange (IDX) in 2022–2023. The study population was 43 bank companies listed on the IDX. A selection process with some specifications was conducted, resulting in 39 companies as samples. Data used were quantitative data from secondary data obtained by using official documents and company finance reports. Data were collected using the documentation techniques. The data were also analyzed using multiple linear regression to confirm the effect of the independent variables on the dependent variable.

4. Results and Discussion

4.1. Descriptive Analysis of Variables

Table 1. Descriptive Statistics.

Descriptive Statistics			
	Mean	Standard Deviation	N
Earnings Management (Y)	58702055.99	106102832.351	78
PSAK No. 71 (X1)	1.00	.247	78

Source: Processed Data SPSS Version 25 (2025)

Based on the descriptive analysis results, the PSAK No. 71 variable has an average value of 1.00. This indicates that all sample companies in the study have fully implemented PSAK No. 71 in their financial statements. The standard deviation value of 0.247 indicates that there are small differences between companies in the implementation of the standard, but overall the distribution remains consistent because the standard deviation value is relatively smaller than the average.

Meanwhile, the earnings management variable showed an average value of 58.7 million rupiah. This figure reflects the average level of earnings management practiced by banks in the study sample. The standard deviation of 106.1 million rupiah indicates a fairly wide

variation between companies in earnings management practices. However, because the standard deviation is still below the mean, it could be said that the earnings management data are normally distributed, even if there are very large differences in the degree of earnings management activities among banks.

4.2. Classical Assumption Test

4.2.1 Normality Test

Table 2. One Sample Kolmogorov-Smirnov.

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		78
Normal Parameters[a,b]	Mean	.0000000
	Standard Deviation	105995980.36577126
Most Extreme Differences	Absolute	.128
	Positive	.081
	Negative	-.128
Test Statistics		.128
Asymp. Sig. (2-tailed)		.169[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
Source: Processed Data SPSS Version 25 (2025)

Kolmogorov-Smirnov test outcomes provided a value of significance as 0.169. The value is greater than the significance level of 0.05, and therefore the conclusion is drawn that residual data is normally distributed. Normality assumption in the given regression model has thereby been met.

4.2.2 Autocorrelation Test

Table 3. Autocorrelation Test.

Model Summary					
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.451[a]	.203	.178	106691043.422	1,748

a. Predictors: (Constant), PSAK No. 71 (X1)
b. Dependent Variable: Profit Management (Y)
Source: Processed Data SPSS Version 25 (2025)

Based on the result of the autocorrelation test, the DW value was 1.748. The lower limit (dl) and upper limit (du) were then compared with the number of samples (n = 78) and the number of independent variables (k = 1). The dl was 1.5801 and the du was 1.6851. Since the DW value (1.748) is higher than du (1.6851) and lower than 4 – du (2.3149), it is safe to conclude that the model is free from autocorrelation issues. Therefore, the model employed is appropriate to proceed to the subsequent stage of analysis.

4.3. Multiple Linear Regression Analysis

Table 4. Multiple Linear Regression Analysis.

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	219,893	92,582		2,375	.020
	PSAK No. 71 (X1)	-193,078	95,266	-.211	-2,027	.046

a. Dependent Variable: Profit Management (Y)
Source: Processed Data SPSS Version 25 (2025)

Based on the results in the table above, the multiple linear regression equation is obtained as follows:

$$Y = 219.893 + (-193.078)$$

The equation shows that the constant of 219.893 means that when the PSAK No. 71 variable is not applied (X = 0), the estimated earnings management value is 219.893.

The regression coefficient of the variable PSAK No. 71 is negative, which is -193.078. This indicates that with every addition to the level of implementation of PSAK No. 71 by one

unit, the level of earnings management will be decreased by 193.078. That is, the higher the level of implementation of PSAK No. 71, the lower the level of earnings management practice carried out by banks.

Moreover, the sig. value of 0.046 < 0.05 level. This shows that PSAK No. 71 has a significant effect on earnings management. Therefore, it can be stated that the implementation of PSAK No. 71 plays a significant role in preventing earnings management practices in the bank companies that were part of the research sample..

4.4. Hypothesis Testing

4.4.1 Partial Test (t-Test)

Table 5. Partial Test (t-Test).

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	219,893	92,582		2,375	.020
PSAK No. 71 (X1)	-193,078	95,266	-.211	-2,027	.046

a. Dependent Variable: Profit Management (Y)

Source: Processed Data SPSS Version 25 (2025)

From the above table, t-test was conducted on degrees of freedom (df) = n – k – 1. df = 78 – 1 – 1 = 76. For a significance level of 0.05, the t-table value for df = 76 is 1.665151.

1. Testing the Effect of PSAK No. 71 on Earnings Management: The test result shows that t value calculated is -2.027 > t table 1.665151 with the significance level of 0.046 < 0.05. This shows that H0 is rejected and H1 is accepted. Thus, it can be stated that PSAK No. 71 has a significant and negative effect on earnings management. This means that the higher the level of application of PSAK No. 71, the lower the earnings management practices applied by banking companies.

4.4.2 Coefficient of Determination Test (R^2)

Table 6. Test of the Coefficient of Determination (R^2).

Model Summary					
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.451[a]	.203	.178	106691043.422	1,748

a. Predictors: (Constant), PSAK No. 71 (X1)

b. Dependent Variable: Profit Management (Y)

Source: Processed Data SPSS Version 25 (2025)

Based on the test results of the determination coefficient, the R Square value 0.203 indicates that 20.3% of the change in earnings management is explained by the implementation of PSAK No. 71. The remaining 79.7% is explained by other variables outside this research model, and it could be internal and external determinants of the company.

4.5. Discussion

4.5.1 The Impact of PSAK No. 71 on Earnings Management

The findings of the study indicate that the implementation of PSAK No. 71 greatly impacts earnings management practices. This is a sign that the enforcement of this accounting standard can limit the freedom of management to manipulate earnings, particularly of listed banking companies during the years 2022–2023.

This negative impact can be understood through the fundamental changes brought about by PSAK No. 71 in the accounting treatment of financial instruments. According to the Indonesian Institute of Accountants (IAI, 2018), this standard reforms the procedures for classifying, measuring, and recognizing impairment losses. While previously there was still room for management subjectivity in determining accounting, financial instruments are now classified and measured based on the characteristics of contractual cash flows and the entity's business model. With a more stringent system, opportunities for financial statement manipulation are increasingly reduced.

This supports Sutrisno's view in Barus et al. (2018), which states that earnings management is a deliberate, manipulative action carried out by management to fulfill specific interests, such as improving financial image or achieving personal goals. Therefore, stricter regulations, such as PSAK No. 71, play a crucial role in curbing this practice.

The findings of this study align with those of previous studies, such as Sri Sundari's (2022) study, which examined the effect of PSAK No. 71 on earnings management in the banking sector for the 2020–2021 period, finding a significant negative effect. Fiorintari, Agus Widodo, Mahyus, & Wida Arindya Sari's (2024) study showed that the implementation of PSAK No. 71, proxied by allowance for impairment losses (CKPN), had a significant negative effect on the profitability of large banks in Indonesia for the 2019–2022 period. Gustina Ira's (2017) study, which examined the implementation of PSAK 55 (Revised 2011), also found a negative effect on earnings management, strengthening the argument that strict accounting regulations can suppress earnings manipulation practices.

However, the results of this study differ from several other studies, such as those by Ramadhany and Nerisha Putri (2023), which concluded that PSAK No. 71 had no significant effect on earnings management when tested partially. Furthermore, research by Marsalino, Naufal Gani, and Ratna Septiyanti (2024) found that the difference in the application of the Loss Incurred Model (LIM) to Expected Credit Loss (ECL) impairment loss method had no significant effect on earnings management practices, primarily due to the credit restructuring policy implemented under OJK regulations during the Covid-19 pandemic.

As this, the results of this research complement that even though differing in the results of some prior researches, as a whole, the implementation of PSAK No. 71 tends to provide a positive contribution in improving the quality of financial reports by holding back earnings management practice at banks.

5. Conclusions

Concluding based on analysis and discussion, this study concludes that the implementation of PSAK No. 71 has a significant negative impact on the practice of earnings management. It shows that accounting standards with more similar rules to recognize and measure financial instruments may limit the possibility of earnings manipulation by the management. Thus, the use of PSAK No. 71 is a significant contribution in igniting the growth of more objective, transparent, and credible financial reporting for Indonesian banking sector.

The suggestions given by researchers are:

For researchers, enlarging the scope of the study is recommended, not just targeted at the listed banking industry in the IDX but also including other sectors of industry. This must be done for a more comprehensive understanding of the impact of the implementation of PSAK No. 71 in various business conditions.

For academics, the research findings may be used as reference materials and literature that may add to studies on accounting standards, especially the effects of PSAK No. 71 on financial reporting and earnings management practices.

Companies, particularly those operating in the banking sector, are encouraged to consistently and comprehensively implement PSAK No. 71. Compliance with this standard not only improves the quality of the financial information presented but also strengthens investor and stakeholder confidence in the company's performance.

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