



## **The Impact of Implementation by PSAK 55 for Allowance for Credits Losses Towards Earnings Management Practices in Banking Companies on The Indonesia Stock Exchange**

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### **ABSTRACT**

This research aims to find out The Impact of implementation by PSAK 55 for allowance for credits losses towards earnings management practices in banking companies on the Indonesia stock exchange. The data analysis technique that is used is documentation for the data by banking companies for the period 2009-2016, the data analysis technique that is used mutiple linear regression method to calculate the data that has been found. The result of research showed the implementation of PSAK 55 for allowance for credits losses has been negative effect and reduce the practice of earnings managements in banking companies on the Indonesian Stock Exchange.

**Keywords:** PSAK 55; Allowance for credits losses/Loan Loss Provisison; Earnings Management.

### **INTRODUCTION**

One of the main activities of banks is to channel funds to debtors in the form of credit, where these funds are funds in the form of third party funds obtained from creditors (Akib et al., n.d.; Hudjir et al., 2021; Revualu et al., 2018; Sobiech et al., 2021; Sunarsi, 2017; Tadampali et al., 2016). Then what will happen if the debtor cannot pay his credit arrears? Of course the Bank will take over the guarantee for the debtor's credit. If the collateral for the credit cannot cover the arrears of credit, then what is done by the bank is to establish or set aside funds to cover the risk of credit losses which is known as the loan loss provision or allowance for impairment losses (CKPN). In determining the allowance for credit losses, earnings management practices are prone to occur (Nurjannah et al., 2020; Revualu et al., 2018; Sahade, 2020b, 2020c; Sahade & Adi, 2021; Sahade & Amsa, 2020; Sahade & Ngampo, 2021 ).

Earnings management can occur when managers use policies in financial reporting. Where the policy will mislead stakeholders regarding the company's economic performance

which will affect contractual results that depend on reported accounting numbers (Hasyim & Sahade, 2019; Sahade, 2020a; Sahade et al., 2021; Sahade & B Nurdin, 2019; Sahade & Rijal, 2018). In addition to these policies, the existence of rules in accounting standards is also a tool that accommodates and provides opportunities for companies to commit fraud. Companies can hide fraud by utilizing various methods and procedures contained in accounting standards, so as to provide opportunities for companies to regulate and manage company profits.

One of the efforts to reduce the practice of earnings management is the development and improvement of the applicable accounting standards. One of the accounting standards that has undergone refinement and development is the Statement of Financial Accounting Standards (PSAK) 55 concerning the recognition and measurement of financial instruments. These improvements and developments are expected to have a significant impact on banking companies, namely the provision for credit losses or allowance for impairment losses. These improvements are expected to limit management's policies in manipulating earnings.

Allowance for credit losses is defined as the value established by the bank to anticipate credit losses. Prior to the refinement or application of PSAK 55, the determination of allowance for credit losses was carried out using the concept of expected losses, so that banks could accumulate large reserves if the expected losses to be experienced in the future were greater. Banks can deliberately accumulate large reserves for reasons of prudence, although credit quality is not a concern, this certainly provides an opening for bank management to practice earnings management.

Based on PSAK 55, at the end of each reporting period, an entity evaluates whether there is objective evidence that a financial asset or group of financial assets is impaired. The evaluation process for impairment is divided into two criteria, namely individually and collectively. An asset is valued individually if its value is greater than the limit set by management policy, which is calculated by calculating the estimated future cash flows discounted at the effective interest rate.

Furthermore, an asset is collectively valued and grouped based on similar credit risk characteristics which indicate the debtor's ability to pay based on the contractual period. The valuation collectively reflects the model of the loss incurred and may not result in the recognition of an estimate of future losses. Collectively, the formation of CKPN is carried out using historical loss experience data for the past three years. If implemented correctly, PSAK 55 will increase the accuracy and informativeness of CKPN. So that the application of PSAK 55 is expected to close the gap for management to practice earnings management (Anggraita, 2012).

Based on the explanation above, the researcher is interested in analyzing "Impact of the Implementation of PSAK 55 on Loan Loss Provision on Earnings Management Practices in Banking Companies on the Indonesia Stock Exchange".

## METHOD

The dependent variable (dependent variable) is a variable that is influenced or becomes a result, due to the presence of other variables (independent variables) (Creswell & Clark, 2017). The dependent variable in this study is earnings management (Y). The independent variable (independent variable) is a variable that causes or changes/affects another variable (Siregar, 2015:18). The independent variable in this study is PSAK 55 on allowance for credit losses (X). Research design is a guideline or procedure as well as a technique in research planning that is useful as a guide for building a strategy that produces a research model or blueprint. This research is quantitative research. The data used in this study is secondary data in the form of annual financial statements of banking companies listed on the Indonesia Stock Exchange for the years 2009 - 2016.

The sampling technique used in this research is purposive sampling technique. To obtain the data needed in this study, the authors use documentation techniques by looking at the financial statements of banking companies listed on the Indonesia Stock Exchange. The analytical tool used in this research is simple linear regression analysis.

Earnings management variable will be proxied by special accruals of Loan Loss Provision from certain financial statement components from certain industries (DA\_LLPP). Based on research by Rahmawati (2007), the special accruals model of Beaver and Engel is one of the earnings management detection models that can be used to detect discretionary accruals in banking companies.

The measurement of the PSAK 55 variable is a dummy variable that shows whether the bank has fully implemented PSAK 55 in establishing the allowance for credit losses. The measurement is done by assigning a value of 1 and 0. A value of 1 indicates that the bank has fully implemented PSAK 55, and a value of 0 indicates that the bank has not fully implemented PSAK 55.

The population used in this study were banking companies listed on the Indonesia Stock Exchange in 2009 – 2016. The sampling technique in this study was purposive sampling, namely the method of determining respondents to be sampled based on certain criteria (Siregar, 2015:60). The criteria for taking samples based on purposive sampling techniques include: 1) State-owned commercial bank listed on the Indonesia Stock Exchange (BEI) since 2009 - 2016. 2) The bank published its financial report data from 2009 – 2016, and 3) The bank has implemented PSAK 55 at least since 2012.

The data collection carried out in this study uses the documentation method, namely by collecting data on the financial statements of banking companies from 2009 - 2016. The data analysis technique used in this study is simple linear regression analysis, which will then be analyzed using SPSS 21.

## **RESULT AND DISCUSSION**

The results of hypothesis testing indicate that the application of PSAK 55 on allowance for credit losses has a negative and significant effect on earnings management practices (DA\_LLPP). The regression coefficient of the negative PSAK 55 variable indicates that there is a negative relationship between PSAK 55 and the value of earnings management. Likewise, statistical tests showed significant results. The results of this study are in accordance with the research hypothesis, namely the application of PSAK 55 on allowance for credit losses to reduce earnings management practices in banking companies specifically for state-owned banks. In addition, these results are consistent with research by Adi and Mulyani (2016) and Anggraita (2012) which show a negative effect on the implementation of PSAK 55 on earnings management (DA\_LLPP).

The decline in earnings management may be due to the establishment of Allowance for Impairment Losses (CKPN) which must be based on objective evidence of impairment of financial assets. This means that the formation of CKPN formed by the bank only occurs when the credit has actually suffered an incurred loss. In addition, due to the strict prohibition on reclassification between financial instruments, there is less room for management to smooth earnings through reclassification between groups of instruments (Anwar et al., 2020; Gaddafi & Mutiarin, 2017; Nuvitasari & Martiana, 2019; Wahyudiati & Isroah, 2018 ).

In this study, there was an increase in the outstanding credit score (LOAN) in the year of each reporting period. Where the increase in credit is proportional to the increase in the value of earnings management every year. Although there is an increase in the value of earnings management every year, it does not mean that the value of earnings management after the

implementation of PSAK 55 is greater than before the implementation of PSAK 55. (KL) and Doubtful Loans (D) where there is an impairment in the value of earnings management after the bank applies PSAK 55 for the allowance for credit losses.

## CONCLUSION

Based on the results of the research described previously, by using a simple linear regression analysis regarding the impact of the application of PSAK55 on allowance for credit losses on earnings management practices in banking companies listed on the Indonesia Stock Exchange 2009-2016, it can be concluded that during 2009-2016 there were a decrease in earnings management practices, especially in the value component of Non Performing Loans, namely Substandard Credit (KL) and Doubtful Loans (D). Thus, the application of PSAK 55 on allowance for credit losses reduces earnings management practices in banking companies on the Indonesia Stock Exchange. So it shows that the hypothesis in this study is accepted.

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