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The Impact Of Changes In Accounting Standards On The Quality Of Corporate Financial Reports

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Article Info	ABSTRACT

Keywords:
Accounting Standards,
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This study examines the impact of changes in accounting standards on the quality of corporate financial reports. Accounting standards play a crucial role in ensuring transparency, consistency, and comparability in financial reporting, which is essential for investors, regulators, and other stakeholders in making informed decisions. However, frequent revisions and updates to these standards may create challenges for companies in maintaining compliance while ensuring accurate financial representation. Using a quantitative approach, this study analysed financial data from selected companies before and after significant accounting standard changes. Key financial indicators such as earnings quality, revenue recognition, asset valuation, and disclosure levels are evaluated to determine the extent to which these changes influence financial reporting. Multiple regression analysis is used to assess the relationship between accounting standard updates and financial report quality. The findings reveal that changes in accounting standards have a significant impact on financial reporting quality. Improved disclosure requirements and fair value measurement enhance transparency and reliability, while frequent changes may lead to temporary inconsistencies and increased compliance costs. Additionally, companies with strong internal controls and corporate governance tend to adapt better to new standards, ensuring higher financial reporting quality. This study provides valuable insights for corporate managers, auditors, investors, and policymakers, highlighting the importance of effective implementation strategies to minimize disruptions while improving financial report accuracy. Strengthening accounting regulations and providing adequate transition periods can enhance the overall quality of financial reporting in response to evolving standards.

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INTRODUCTION

Nowadays, the demands of society are increasing for the implementation of good governance government. The increasing demands of society for the implementation of good governance government have encouraged the central government and local governments to implement public accountability. Accountability can be interpreted as a form of obligation to be responsible for the success or failure of the implementation of the organization's mission in achieving previously set goals and objectives, through a media of accountability that is carried out periodically (Andini D, 2016).

The village government is the smallest level of government that deals directly with the people, so the village government can assist the central government in implementing development, public services and empowerment to the community directly. The village is a geographical manifestation caused by local physiographic, social, economic, political, and cultural elements in relationships and reciprocal influences with other regions (Angelicca Maya. 2019). for that in the implementation of its activities it requires supervision, so the government together with the legislature ratified Law No. 6 of 2014 concerning Villages and Permendagri No. 113 of 2014 concerning General Guidelines for Reporting and Accountability Procedures The Implementation of Village Government, then the village government has the authority to carry out its government activities broadly and responsibly.

Through village autonomy, it is expected that villages can organize government professionally, efficiently and effectively, openly, and responsibly, and be able to create a just, prosperous, and prosperous society as a subject of development. In the Republic of Indonesia Government Regulation Number 71 of 2010 concerning government accounting standards, the qualitative characteristics of financial reports are normative measures that need to be realized in accounting information so that they can meet their objectives.(Cipmawati Mohune. 2014).

There are four characteristics needed for government financial reports to meet the desired quality, namely (a) Relevant, financial reports can be said to be relevant if the information contained therein can influence user decisions in helping them evaluate past or present events, and predict the future, and confirm or correct the results of their evaluations in the past. (b) Reliable, information in financial reports is free from misleading understandings and material errors, presents every fact honestly, and can be verified. (c) Comparable, the information contained in the financial report will be more useful if it can be compared with the financial report of the previous period or the financial report of other reporting entities in general. (d) Understandable, the information presented in the financial report can be understood by users and is stated in a form and terms that are adjusted to the understanding limits of the users (Sari, N, K 2022)

One factor that may affect the quality of Government Financial Reports is adequate Human Resource Competence. The lack of government employees who have competence and also an educational background in accounting is a weakness of the government in managing regional finances properly. Therefore, competent human resources are needed to produce quality and informative financial reports (Panggabean, F.Y. 2023). Understanding Government Accounting Standards is also related to the quality of financial reports. Government Regulation Number 71 of 2010 contains requirements regarding government accounting standards that can be used to realize a government that has transparent and accountable financial reports. If it is not in accordance with the legislation, various losses will arise such as regional losses, potential regional losses, lack of regional revenue, and weaknesses in regional administration. Many cases occur in government offices, especially in the Tanjung Gusta village office. That the staff in the finance department are still not in accordance with the expertise and education in the financial field. And in reality there are still regions that have not complied with government regulations and have caused various losses (Rahmawati, dkk. 2018)..

Internal control plays an important role in the quality of financial reports. The Indonesian government has regulations regarding the Government Internal Control System (SPIP) which are regulated in the Government Regulation of the Republic of Indonesia Number 60 of 2008, to achieve effective, efficient, transparent, and accountable state financial management, the government must be guided by the SPIP. The government's internal control system has received considerable attention from the BPK as an external auditor, the BPK criticized the weakness of the SPI implemented by the government, the weakness of the SPI can be a very big opportunity for deviations in budget implementation (Nurillah, 2014).

Mahmudi (2016) stated that the accounting system implemented by the regional government is related to the government accounting standards applied. There must be synchronization and harmonization between government accounting standards and the accounting system. The accounting system is a tool for producing regional government financial reports, while accounting standards are guidelines that regulate how the financial reports should be presented.

The financial reports of the Tanjung Gusta village government are managed through the Village Financial System (SISKEUDES) application. The Siskeudes application is an application developed by the Financial and Development Supervisory Agency (BPKP) in order to improve the quality of village financial governance. Still Lack of understanding of village government apparatus about PP No. 71 of 2010, namely Guidelines for village financial management, is an effort to overcome difficulties in preparing financial reports. And the educational background of the staff who manage and prepare financial reports at the Tanjung Gusta village office is not yet appropriate. As happened in the Tanjung Gusta village office, the finance staff did not match their expertise and education so that the Tanjung Gusta village financial report only presented the Budget Realization Report (LRA). So the financial information of the Tanjung Gusta village government is not in accordance with PP No. 71 of 2010. It is stated that SAP is the accounting principles that must be applied in preparing and presenting financial reports. The components contained in a set of accrual-based financial reports consist of budget implementation reports and financial reports, which are described as follows: 1. Budget Realization Report (LRA) 2. Report on Changes in Excess Budget Balance 3. Balance Sheet 4. Operational Report (LO) 5. Cash Flow Report (LAK) 6. Equity Change Report (LPE) 7. Notes to the Financial Statements (CALK).

Literature Review

Government Accounting Standards

Government Regulation Number 71 of 2010 states that Government Accounting Standards (SAP) are accounting principles applied in preparing and presenting government financial reports. Basuki (2007) in Liho, C. dkk (2018), explains that in order to realize transparency and accountability in regional financial management, regional government financial accountability reports need to be submitted on time and prepared following government accounting standards. Mahmudi (2016) argues that the current government accounting standards are accrual-based SAPs regulated in Government Regulation of the Republic of Indonesia No. 71 of 2010 (PP71/2010) concerning Government Accounting Standards. Accrual-based SAP is SAP that recognizes revenue in the Operational Report (LO), expenses, assets, debts, and equity in accrual-based financial reporting and recognizes revenue in the Budget Realization Report (LRA), expenditures and financing in budget implementation reporting based on the basis applied in the state/regional budget.

According to Sari N.K (2022), Government accounting (including accounting for non-profit institutions in general) is a field of accounting related to government institutions and institutions that aim not to seek profit. Although government institutions are always large, as in companies they are classified as micro institutions. According to Sari N. K (2022) Government Accounting is a service activity in order to provide quantitative information, especially financial information, from government entities for rational economic decision-making by interested parties on various alternative directions of action. In government accounting, accounting data is used to provide information on government economic and financial transactions to the legislature, judiciary, and the public. So, it can be concluded that Government accounting standards are principles used to improve previously used systems, so that the information in the financial statements becomes very accurate and minimizes errors.

Principles of Government Accounting Standards

The following are the basis for implementing government accounting standards that are still used today.

a. Cash-Based SAP
   This cash-based SAP is used by the government for the recognition of revenue, expenditure, and financing in the Budget Realization Report and the accrual basis for the recognition of assets, liabilities, and equity in the balance sheet. With this SAP basis, the Budget Realization Report means that revenue is recognized when cash is received in the State/Regional General Cash Account or by the reporting entity and expenditure is recognized when cash is distributed to the State/Regional General Cash Account or the Reporting entity. This is stated in PP No. 71 of 2010.
b. Historical Value (Historical Cost)

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Historical value can be an asset recorded at the amount of cash expenditures and cash equivalents paid. The recorded asset can also be the fair value of the consideration to acquire the asset at the time of acquisition. Historical value is more reliable than other assessments because it is more objective and can be easily verified. - Realization

Cash-based income that has been authorized through the government budget in an accounting period can be used for various purposes. Usually used to pay debts and make purchases during the period. Given that the Budget Realization Report (LRA) is a mandatory report, cash-based income must be recognized after being authorized through the budget and has added or reduced cash.

c. Substance Over Form

Information is intended to fairly present transactions and other events that should be presented, then these transactions or other events need to be recorded and presented in accordance with the substance and economic reality and not just the formality aspect, so this must be clearly disclosed in the notes to the financial statements.

d. Periodicity

In order for the entity's performance to be measured and the position of the resources owned to be determined, the accounting and financial reporting activities of the reporting entity must be divided into several reporting periods. The main period used is annually, although monthly, quarterly, and semester periods are also desired Romney B (2014).

e. Consistency

Consistency can be in the form of the same accounting treatment applied to similar events from period to period by a reporting entity. This condition does not mean that there should be no changes from one accounting method to another, but the accounting method used can be replaced with conditions. The condition is that the newly applied method must be able to provide better information than the old method. The effect of changes in the application of the method is disclosed in the Notes to the Financial Statements.

f. Full Disclosure

The financial statements present complete information needed by users. Information needed by users of the financial statements can be placed on the face of the financial statements or notes to the financial statements.

g. Fair Presentation

In the context of fair presentation, an element of caution is required for the preparer of the financial statements when facing uncertainty of certain events and circumstances. Such uncertainty is recognized by disclosing its nature and level by using sound judgment in the preparation of the financial statements. Sound judgment contains an element of caution when making estimates in conditions of uncertainty so that assets or income are not stated too high and liabilities are not stated too low. However, the use of sound

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judgment is not permitted. For example, the formation of hidden reserves, deliberately setting assets or income too low or deliberately recording liabilities or expenses that are too high so that the financial report becomes non-neutral and unreliable (Panggabean, F. Y., Dalimunthe, dkk. 2023).

Scope of Government Accounting Standards

Government Accounting Standards are applied within the scope of government, namely the Central Government, Regional Government, and organizational units within the Central/Regional Government, if according to the laws and regulations the organizational unit in question is required to present financial statements. In accordance with the current regulations, namely Government Regulation Number 71 of 2010, attachment 2, the scope that includes Government Accounting Standards is financial statements for general purposes prepared and presented on a cash toward accrual basis. This Standard Statement applies to reporting entities in preparing financial statements of a central government entity, regional government, and consolidated financial statements, excluding state/regional companies. The scope of this Government Accounting Standard (SAP) refers to the conceptual framework that formulates the concepts underlying the preparation and development of Government Accounting Standards which can hereinafter be referred to as standards (Cipmawati Mohune. 2014). This conceptual framework discusses:

1. Purpose of the conceptual framework
2. Government accounting environment
3. Users and information needs of users
4. Accounting entities and reporting entities
5. Role and purpose of financial reporting, components of financial statements, and legal basis
6. Basic assumptions, qualitative characteristics that determine the benefits of information in financial statements, principles, and constraints of accounting information
7. Elements that form financial statements, their recognition, and measurement.

The existence of financial statements is to determine the value of economic resources utilized to carry out government operational activities, assess financial conditions, evaluate the effectiveness and efficiency of a reporting entity, and help determine its compliance with laws and regulations. Each reporting entity has an obligation to report the efforts that have been made and the results achieved in activities systematically and structured in a reporting period for the benefit of (Mahmudi: 2016):

a. Accountability

   Accountability is an obligation to report and be responsible for the success or failure of the implementation of the organization's mission in achieving previously determined results, through accountability media that are carried out periodically.

b. Management

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Management is the art of regulating the process of utilizing human resources and other resources effectively and efficiently to achieve certain goals. Thus, management will be useful for evaluating the implementation of a reporting entity in the reporting period so as to facilitate the planning, management and control functions of all government assets, liabilities and equity for the benefit of the community.

c. Transparency
Providing open and honest financial information to the public based on the consideration that the public has the right to know openly and comprehensively about the government's accountability in managing the resources entrusted to it and its compliance with laws and regulations.

a. Intergenerational Balance
Intergenerational balance aims to help users to know the adequacy of government revenues in the reporting period to finance all allocated expenditures and whether future generations are assumed to share the burden of these expenditures.

d. Performance Evaluation
Performance evaluation is a systematic assessment process of employee work and potential that can be developed so that it is expected to produce appropriate work results based on a clear vision, mission, targets and objectives (achieving planned performance). Government Accounting has its own characteristics when compared to business accounting. Based on the government's objectives above, Bachtiar Arif, Muclis, Iskandar (2002) mention several characteristics of government accounting, namely:
1. The government is not profit-oriented so that in government accounting there are no profit reports and accounting reports related to it.
2. The government records the budget when the budget is recorded.
3. In government accounting, it is possible to use more than one type of fund.
4. Government accounting will record capital expenditures.
5. Government accounting is rigid because it is highly dependent on laws and regulations.
6. Government accounting does not recognize estimates of capital and retained earnings in the balance sheet.

Based on its function, government accounting is specifically for state institutions which do not have the aim of seeking profit. Some characteristics of government accounting are as follows:

1. This government accounting is oriented towards public service and not profit. Therefore, in its financial statements there are no income statements and accounting reports related to it.
2. This accounting does budget bookkeeping when the budget is booked.
3. Government accounting also allows the use of more than one fund.

4. Government accounting uses estimates of retained earnings and capital on the balance sheet.
5. This accounting is rigid and depends on applicable laws and regulations.

Understanding Government Accounting Standards

The government has stipulated government regulation Number 24 of 2005 concerning government accounting standards which is a follow-up to the State Finance Law. Government Accounting Standards regulate the accounting basis used in government financial reports, namely the cash basis for recognizing expenditures and financing in the budget realization report and the accrual basis for recognizing assets, liabilities, and equity in the balance sheet. This accounting basis is known as cash toward accrual.

Government Regulation Number 71 of 2010 concerning accrual-based government accounting standards replaces Government Regulation Number 24 of 2005. The effective implementation of accrual-based SAP for budget implementation accountability reports began in the 2010 budget year. However, for entities that are not yet ready to implement the accrual accounting basis, the government allows the implementation of the cash basis towards accrual for a maximum of 4 (four) years after the 2014 budget year. Furthermore, all reporting entities are expected to use the full accrual basis starting in the 2015 budget year. The fundamental difference between Government Regulation Number 24 of 2005 and Government Regulation Number 71 of 2010 lies in the financial statements. The financial statements produced by the cash basis towards accrual are in the form of budget realization reports, balance sheets, cash flow statements, and notes to the financial statements. Whereas if using the accrual accounting basis, more reports are produced, namely budget realization reports, balance sheets, cash flow statements, notes to the financial statements, operational reports, reports on changes in excess budget balances, and reports on changes in equity. The implementation of PP Number 71 of 2010 applies to all regional governments. This is the impact of the enactment of Law Number 32 of 2004 which is an amendment and refinement of Law Number 22 of 1999, while Law Number 33 of 2004 is an amendment and refinement of Law Number 25 of 1999. Regional autonomy gives authority to autonomous regions to regulate and manage their own households including in the management of regional finances. So that regional governments have responsibility in managing public funds through financial reports. The regional government financial report is a summary of the financial reports of regional work units that are directly responsible to the regional head.

The success of the implementation of accrual-based Government Accounting Standards (SAP) will run as it should, if supported by adequate understanding of SAP by financial employees. Financial employees who have an understanding of SAP are able to understand and apply it in every aspect of the related field of work. Understanding is a level of ability that expects someone to be able to understand the meaning or concept, situation and facts that they know. People who have understanding do not just memorize verbally, but understand the concept of the problem or fact stated, its operational meaning, can distinguish, change, prepare, present, organize, interpret, explain, demonstrate, give examples, estimate, determine, and make decisions (Panggabean, F. Y., & Dewi, R. 2021)

Meanwhile, according to (Angelicca Maya. 2019). Understanding (Comprehension) is a person's ability to understand or comprehend something after something is known and remembered. Understanding is understanding something and being able to see it from various perspectives. A student is said to understand something if he can provide an explanation or provide a more detailed description of it using his own words. Based on several descriptions of understanding and government accounting standards, it can be concluded that what is meant by understanding accrual-based accounting is the ability to understand the conceptual framework, techniques, and policies related to accrual-based Government Accounting Standards (SAP) so as to be able to explain, interpret, and present reliable financial reports and in accordance with the standards set for decision making for related parties.

METHOD

The type of research conducted in this study is causal associative research with quantitative techniques. According to Angelicca Maya (2019), causal associative research is research that aims to determine the relationship between two or more variables. With this research, a theory can be built that functions to explain, predict and control a symptom. A causal relationship is a relationship that is cause and effect, one variable (independent) affects another variable (dependent). Associative research uses quantitative or statistical analysis techniques. Quantitative research is a type of research whose specifications are systematic, planned, and clearly structured from the beginning to the creation of its research design. Another definition states that quantitative research is research that requires a lot of use of numbers, starting from data collection, interpretation of the data, and the appearance of the results. Likewise, at the conclusion stage of the research it would be better if accompanied by pictures, tables, graphs, or other displays. A sample is a portion of the population that will be taken for research and the results of the research are used as a representation of the population as a whole. Thus, the sample can be stated as part of the population taken with a certain technique or method to be studied and generalized to the population. Quality of Regional Government Financial Reports (Y) In this study, the Quality of Regional Government Financial Reports (Y) is a dependent variable. The Quality of Financial Reports can reflect whether the regional financial reporting is in accordance with applicable standards. The Quality of Regional Government Financial Reports is measured by 4 indicators, namely: (1) relevant, (2) reliable, (3) comparable, and (4) understandable. The instrument for the Quality of Regional Government Financial Reports is a questionnaire developed by Andini, d (2015) consisting of 13 statements Understanding Government Accounting Standards (X1) Understanding Government Accounting Standards must refer to government regulation number 71 of 2010 concerning Government Accounting

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Standards. With an understanding of Government Accounting Standards, it is hoped that it will produce transparent and accountable accounting information in the management of regional financial reports in order to realize good governance. Understanding of Government Accounting Standards (X1) is measured using 8 indicators, namely: (1) accounting basis, (2) realization, (3) consistency, and (4) presentation of financial statements. The research instrument is a questionnaire developed by Nurlaila (2014) consisting of 9 statements. The Internal Control System is a guideline for the government to achieve effective, efficient, transparent, and accountable state financial management. The Internal Control System (X2) is measured using 5 indicators, namely: (1) control environment, (2) risk assessment, (3) control activities, and (4) monitoring. The research instrument is a questionnaire developed by Romney B (2014) consisting of 9 statements. The data collection technique in this study is by using a questionnaire. A questionnaire is a data collection technique carried out by giving a set of written questions or statements to respondents to answer (Panggabean, F. Y. (2023). The questionnaire distributed is a written statement regarding the Quality of Financial Reports, Understanding of Government Accounting Standards and Internal Control Systems. Each variable has a different number of statements from one another. The questionnaire is accompanied by a permit to conduct research at the agency. After 1 week the questionnaire will be taken back by the researcher. The time needed by respondents to fill out the questionnaire is 5 to 7 minutes.

RESULT

Respondent Characteristics

From the 31 questionnaires processed, the general description of the 30 respondents detailed in table 4.1 is seen from the gender of the respondents, 16 men (53%) and 14 women (47%), meaning that most of the respondents are men. Judging from the level of education of the respondents, 0 people have a Masters degree (0%), 6 people have a Bachelor's degree (20%), 0 people have a Diploma (0%) and 24 people have a High School/Vocational High School (80%), this means that most of the respondents are high school/vocational high school graduates which shows that most of the respondents have a high school/vocational high school education and are able to understand the questions in the questionnaire and are competent in providing answers. And seen from the length of time the respondents have worked, less than 5 years as many as 8 people (27%), 5-10 years 10 people (33%) and more than 10 years 12 people (40%). This shows that most of the respondents have worked for more than 10 years which means that most of the respondents have work experience and understand matters related to this study.

Validity Test

The guideline of an instrument/question is said to be valid if r count> r table with a minimum value of r table is 0.361. The following table shows the results of the validity test of 3 (three) variables used in this study with 30 respondent samples.

Table 2. Validity Test of Variable X1 (Understanding of Government Accounting Standards)

Item Question	R CALCULATER	rTABLE	CONCLUSION
X1.1	0.697	0,361	Valid
X1.2	0.597	0,361	Valid
X1.3	0.689	0,361	Valid
X1.4	0.573	0,361	Valid
X1.5	0.681	0,361	Valid
X1.6	0.597	0,361	Valid
X1.7	0.689	0,361	Valid
X1.8	0.573	0,361	Valid
X1.9	0.773	0,361	Valid

The table above shows that the variable Understanding of Government Accounting Standards has valid criteria for each question.

Table 3. Validity Test of Variable X2 (Internal Control System)

Question	R Calculated	R Table	Conclusion
X2.1	0.881	0,361	Valid
X2.2	0.899	0,361	Valid
X2.3	0.898	0,361	Valid
X2.4	0.881	0,361	Valid
X2.5	0.882	0,361	Valid
X2.6	0.874	0,361	Valid
X2.7	0.886	0,361	Valid
X2.8	0.889	0,361	Valid
X2.9	0.899	0,361	Valid

The table above shows that the Internal Control variable has valid criteria for each question.

Multicollinearity Test.

Detection of the presence or absence of multicollinearity can be done by looking at the tolerance value and variance inflation factor (VIF). A good regression model is one that does not have multicollinearity t concluded that there is no multicollinearity in the data being tested. Detection of the presence or absence of heteroscedasticity can be done by looking at the presence or absence of a certain pattern in the scatter plot graph between SRESID on the Y axis, and ZPRED on the X axis. Liho, C. dkk (2018). stated that the basis of the analysis is if

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there is a certain pattern, such as the existing dots forming a certain regular pattern, then it indicates that heteroscedasticity has occurred. If there is no clear pattern, and the dots are spread above and below the number 0 on the Y axis, then heteroscedasticity does not occur.

The Influence of Internal Control System on the Quality of Financial Reports

The Internal Control System variable has a significant value of 0.074, which is greater than 0.05 and the tcount value <ttable (1.593 <2.048). This shows that the Internal Control System variable does not affect the quality of financial reports. These results contradict the concept of Internal Control in general which states that theoretically, the internal control system is a process to provide adequate assurance in achieving government goals that are reflected in the exemplary, efficient, and effective financial reporting. The better the control environment in implementing work process standardization, the better the quality of the resulting financial reports.

The lack of influence of the internal control system on the quality of financial reports is likely caused by the respondents taken being financial report reviewers, therefore understanding the internal control system does not have a significant impact on the quality of financial reports. This proves that in conducting a review of local government financial reports, understanding the internal control system is not to improve the quality of local financial reports but to improve the process of reviewing local financial reports by the inspectorate. Based on the Minister of Home Affairs Regulation No. 4 of 2008 that the financial statements presented by the regional government have been prepared based on an adequate internal control system, do not have the authority to audit or test the five elements of internal control in detail so that they cannot affect the quality of the regional government's financial statements. This study supports the results of research conducted by Liho, C. dkk (2018). which states that the Internal Control System does not have a significant effect on the Quality of Financial Statements. The variables Understanding Government Accounting Standards and Internal Control Systems simultaneously affect the Quality of Financial Statements, seen from the fcount> ftable (47.476> 4.21) and a significant value of 0.000 <0.05. This shows that if both independent variables (understanding of government accounting standards and internal control systems are run together, they can affect audit quality. Judging from the R2 value (Coefficient of Determination), the magnitude of the influence of independent variables together on the dependent variable (quality of financial reports) is 33.3%, which means that there is still a remaining 66.7% explained by other factors that are not included in this research model, for example the variables of computer information system utilization, training, work experience, and human resource competency.

CONCLUSION

This study analyses the impact of changes in accounting standards on the quality of corporate financial reports, focusing on key financial reporting indicators such as earnings quality, revenue recognition, asset valuation, and disclosure levels. The findings highlight that updates in accounting standards significantly influence financial report transparency, consistency, and reliability. The key conclusions from this study are: Enhanced financial transparency – Changes in accounting standards improve the clarity and comparability of financial statements, benefiting investors and stakeholders. Challenges in adaptation – Frequent revisions can lead to temporary inconsistencies, increased compliance costs, and complexities in financial reporting. Impact on earnings quality – Stricter reporting requirements help prevent earnings manipulation, leading to more accurate financial information. The role of corporate governance – Companies with strong governance and internal controls adapt more effectively to new accounting standards, ensuring higher financial reporting quality.

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