

Influence of International Financial Reporting Standards Application on Education Accounting in Indonesia

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This study aims to explore fundamental issues related to IFRS adoption in Indonesia, including how educational accounting anticipates IFRS implementation in 2012, the readiness of Indonesian accountants to face the implementation of IFRS and the liberalization of accounting services and PPA preparedness to make accountants, who are competent and able to compete in the global market. The research method used in this research is descriptive research method by using data from various sources of literature such as books, information from mass media and internet. The results of this study indicate that IFRS implementation will be done taking a lot of changes in mindset, paradigm, and accounting teaching patterns. A curriculum improvement should be made to create accountants ready to compete in the global marketplace.

Keywords: IFRS, accounting educational

Introduction

The emergence of IFRS can not be separated from the global development, especially in the capital market. The rapid development of information technology (IT) in the market environment in itself affects many aspects of the capital market, ranging from financial reporting models and standards, distance relativism to capital movement, to the availability of information networks around the world.

With the advances and sophistication of IT capital markets, millions or even billions of investors can easily get into the capital market floor across the globe. Their movement can not be blocked again by distance or state territory. Investors can easily move and invest from one country to another, or at the same time invest in several countries at the same time. This necessarily implies the existence of an accounting standard required by either the capital market or the agency with the agency problem. What is meant by agency problem is the problem of distance between principle and agent that in relation requires bridge between owner and laborer or worker called agency relation, which is information. The information in question herein is a report of assets, resources, and others relating to the state of the company made by the agent and submitted to the principles (owners). The costs incurred to maintain good relationships between principles and agents are called agency costs. This phenomenon then encourages International Accounting Standard Boards (IASB) to accelerate the

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harmonization of international accounting standards through the so-called International Financial Reporting Standards (IFRS).

IFRS has been used by more than 150 countries, including Japan, China, Canada, and 27 EU countries. At a minimum, 85 of these countries have required their financial statements to use IFRS for all domestic or listed companies. For companies that have gone international, or who have partners from the European Union, Australia, Russia, and some countries in the Middle East have no choice but to apply IFRS. For Indonesia the transition to IFRS is an unavoidable choice. Therefore, Indonesia has become an integral part of the global market and the economy.

On December, 23, 2008, the Indonesian Institute of Accountants (IAI) inaugurated the grand launching of the International Financial Reporting Standards (IFRS) convergence program, the generally accepted accounting principles in Indonesia (Indonesian GAAP) will be fully converted to IFRS on 1 January 2012 of course this will be a challenge for the world of education, especially universities that in fact are required to immediately make changes and take certain steps so as to succeed the adoption plan in full international accounting standards. Therefore, the authors would like to try to explain about the readiness of education in Indonesia to face the implementation of IFRS.

Literature Review

There are two standard drafting bodies relating to international accounting standards (IASB) and the International Federation of Accountants (IFAC). IASB concentrates more on developing International Accounting Standards (IAS). The organization has the goal of developing and encouraging the use of high-quality, understandable, and comparable global accounting standards (Choi, Carol, & Garry, 1999). Meanwhile, IFAC focuses more on developing International Standard Audits (ISA), code of ethics, curriculum education, and the rules for accountants in business. The IASB establishment agreement took place in June 1973 in the UK, represented by accounting professional organizations from nine countries, Australia, Canada, France, West Germany, Japan, Mexico, the Netherlands, the United Kingdom, and the United States. IFAC was founded by a professional accounting firm from 63 countries in October 1977.

In April 2001, the International Accounting Standards Committee (IASB) grew into the International Accounting Standards Board (IASB), which due to this development International Accounting Standards (IAS) was later developed into International Financial Reporting Standards (IFRS). The first IFRS was published in June 2003.

In contrast to local standards/local PABU different between countries and capital markets, IFRS is a uniform set of rules and theoretically, applied in the same way to all public companies in capital markets or countries that adopt this standard. IFRS as a framework and its interpretation adopted by the IASB has broad legislation consisting of:

- (1) International Standard Audits (ISA)—standard published before 2001.
- (2) International Financial Reporting Standards (IFRS)—standard issued after 2001.
- (3) Standing Interpretations Committee (SIC)—which was published before 2001.
- (4) International Financial Reporting Issues Committee (IFRIC)—which was published after 2001.
- (5) Framework for the Preparation and Presentation of Financial Statements.

Most of the standards that were part of the previous IFRS were International Accounting Standards (IAS). The IAS was published between 1973 and 2001 by the International Accounting Standards Committee (IASB).

In April 2001, the IASB adopted the entire IASB and continued the development of standards (Natawidnyana, 2008).

By adopting full IFRS, financial statements based on PSAK do not require significant reconciliation with IFRS financial statements. Some of the following studies show the benefits of IFRS adoption.

Armstrong, Barth, Jagolinzer, and Riedl (2007) and Covrig, De Fond, and Hung (2007) based on their empirical studies suggest that IFRS-based reporting makes the cost of comparing inter-capital markets and between countries be more less costly. The higher comparability makes financial reporting be more useful to investors and stakeholders. In addition, the use of the same set of accounting standards among firms from different countries increases the ability of foreign investors (outsiders) to detect earnings management practices and accounting manipulations, such as by limiting the permissible accounting treatment. Thus, if the move towards IFRS adoption in fact can increase the company's reporting appeal, it will in turn increase market liquidity and lower the cost of capital. Differences in accounting standards are also constrained as barriers to cross-border investment (Bradshaw, Bushee, & Miller, 2004; Aggarwal et al., 2005). Conversely, financial reporting more easily understood by investors from abroad will be able to increase the liquidity of the capital market and expand the investor base of the company, and in the next stage will increase the risk-sharing and lower cost of capital (Merton, 1987). Thus, the global movement towards IFRS-based reporting can facilitate cross-border investment and capital market integration (Covrig et al., 2007).

Other evidence is from studies on the influence of IFRS adoption on capital markets, among others, by Ball, Kothari, and Robin (2000), Ball, Robin, and Wu (2003), Leuz (2003), Ball and Shivakumar (2005), and Burgstahler, Hail, and Leuz (2006). Their results are in accordance with the incentive-based view states that the institutional structure of a country plays an important role in explaining the impact of IFRS adoption on the capital market. Countries with tighter regulatory bodies and the institutional structures that encourage strong incentives related to reporting (reporting strong incentive) are more likely to show the impact the adoption of IFRS-based reporting. In line with this, several countries have strengthened their regulation in order to adopt IFRS. For example, the EU in 2003, through the Committee of European Securities Regulators (CESR) published a standard 1 which among other things provides impetus to develop and implement a common approach based on IFRS.

Discussion

Changes in financial reporting procedures that previously referred to many US GAAPs to IFRS will have far-reaching impacts. At least, practitioners in accounting are required to have "new competencies" as required by IFRS. Accounting teaching on campus should be upgraded soon, as Indonesian policies have declared the use of convergence of international accounting systems (IFRS). The major impacts of IFRS are introduction to accounting, intermediate financial accounting, accounting theory, international accounting, advanced financial accounting, accounting seminars or special topic accounting, research methodology, and financial report analysis. Until now, among practitioners, academics, and administrators IAI still have diverse opinions. There are those who claim Indonesia is ready, including in terms of education keprofesiannya. However, not a few doubt it (Accountant Indonesia, 2009, p. 21).

The process of convergence of PSAK with IFRS will have an impact on education, among others:

(1) Change of mind-stream from rule based to principle-based.

The full adoption of IFRS is not merely a move of accounting approach from historical cost to fair value.

The essence of the more fundamental problem of IFRS adoption is the change of concept, paradigm, or mindset. Because if indeed adopting IFRS in full it means there will be a transition from rule based to principles based on the accounting system.

U.S. GAAP is a more reflective accounting standard rule-based whereas IFRS is generally viewed as a more principle-based reflective standard (Schipper, 2003). Nelson (2003) defines rule-based as a specific provision or criterion that includes very clear boundaries, examples, range limits, exceptions, implementation guides, and so on. Rule-based accounting standards provide very detailed rules for each application of the standard. This encourages the emergence of check-the-box behavior in financial reporting that eliminates judgment in reporting practices.

In order to understand the rules- and principles-based accounting standards, it can be illustrated by the following illustration (Mainess et al., 2003 in Arifin, 2009). Example 1: “The annual depreciation expense for all fixed assets is 10% of the asset’s asset until the asset is fully depreciated”.

In Example 1 above, the standard does not provide space for judgment or disapproval of depreciation charge rates to be used. Although such a rule the level of comparability and consistency can be guaranteed, its relevance will decrease along with its inability to describe the actual underlying economic conditions, which may vary between firms. Example 2: “Rates of depreciation expense for each period should illustrate the level of impairment of the economic value of the asset during the period of benefit”.

In Example 2, the standard requires judgment applications and the expertise of managers and auditors. As a result, the comparability of financial statements will decrease and may be inconsistent over time. The principle-based standard provides an advantage in terms of enabling managers to select the accounting treatment that reflects the underlying transactions or economic events, although the opposite may occur. The principle-based standard enables managers, audit committee members, and auditors to apply their professional judgment to focus more on reflection events or economic transactions substantially, not merely reporting transactions or economic events in accordance with the standards.

US GAAP that is rule based gives the standard rules of financial reporting with terms and conditions specified on a regular basis detailed, while in the principles based only set the principle. Thus, the transition to IFRS means the transition of paradigms and mindsets. Preparation towards the change of paradigm, concepts, and mindset like this has not been done in many universities. So fundamental of this problem, then since early education accounting must be prepared with mature.

(2) Many use professional judgment.

With the application of IFRS, the world of education is required to be able to change the pattern of teaching and student mindset so as to produce accountants who are in accordance with global needs. Accounting education used to use many textbooks from the United States that notabene based on rule-based. Ordinary students are taught financial reporting and implementation instructions in detail thereby reducing uncertainty and generating applications of specific rules in standards mechanically.

IFRS does not provide detailed reporting settings. Therefore students should begin to be taught how to make decisions based on accounting principles. Adoption of IFRS requires both accountants and auditors to have an understanding of the conceptual framework of financial information in order to apply appropriately in decision making. In the principles-based system, the accountant will make a number of estimates that he must account for and require more professional judgment (Schipper, 2003). Flexibility in IFRS standards that are principles-based will affect the type and number of professional skills that should be owned by accountants and auditors. IFRS

adoption requires an accountant to have sufficient knowledge of the event and business and economic transactions of a company in a fundamental way before making judgment. Various estimates made by management need to be assessed feasibility by the auditor so that auditors are also required to have the ability to interpret the objectives of a standard. AAA Financial Accounting Standards Committee (2003) even believes the possibility of increased conflict between auditors and clients. In addition to technical expertise, accountants also need to understand the ethical and legal implications of implementing standards (Carmona & Trombetta, 2008). By comparing the three standards, Bennethet, Bradbury, and Prangnell (2006) concluded that principles-based standards require professional judgment at both the transaction level and at the financial statement level.

(3) Many use fair value accounting.

Unlike the FASB that does not recognize fair value as the basis for measuring assets, fair value is defined by the International Accounting Standard Board (IASB) as the basis for measuring assets. But Over the times, it turns out that the use of historical cost is no longer relevant because the credibility and usefulness of financial statements has been hampered by serious challenges. And many people argue and believe that accounting standards that use historical cost play an important role as the cause of economic damage, especially the savings and loan institutions of the 1980s and the banking problems of the 1990s. Because at that time many financial statements do not disclose any immediate losses when they occur, there is an agreement that the existing accounting standards need to be improved for. Therefore, FASB and IASB work together to try to harmonize their respective accounting standards. The question of how assets should be recognized on the balance sheet is one of the key issues that the solution should seek. For that both IASB and FASb do a careful examination of fair value, about the meaning of fair value and how it should be applied.

During this time there are many differences of opinion about fair value. Arguments opposing accounting based on market value suggest that market value accounting is less reliable and a major obstacle to its application and assumes historical cost models are superior because they are more reliable (higher levels of reliability). But the inherent problem is that historical accounting models cost does not recognize a change in economic value and tends to let the company choose itself whether and when to recognize the change. This prompted a bias in the selection of what was reported. Interestingly enough, however, that the figures reported with an accounting system based on market value have a very strong correlation with stock prices, and indicate that market-based values are better (more reliable) than historical values. The use of fair value accounting in the world of education and in the business world will cause smoothing income which becomes more difficult with the use of balance sheet approach and fair value. However, despite its advantages, the market value accounting system is potentially vulnerable to manipulation and estimation errors.

(4) IFRS is always changing and the concepts used in an IFRS can be different from other IFRS.

For example, lease uses risk and reward concept, while service concession arrangement using controllability concept, and updating IFRS is a must.

(5) Change textbook from US GAAP to IFRS.

One of the main problems associated with preparing for implementation of the International Financial Reporting Standard (IFRS) or international financial reporting standards in universities is the absence of a standardized curriculum and limited textbooks. Although the adoption of IFRS has long been declared, the curriculum and text books taught in universities are still oriented to the United States. Textbooks related to IFRS are still lacking or almost nonexistent. To overcome this IAI has initiated cooperation with Australia to try to arrange the material IFRS as teaching materials in the classroom.

(6) Research opportunities.

Adoption of International Reporting Standard (IFRS) will also have an impact on accounting research. Based on a review of various researches on the impact of IFRS adoption, there are two major research groups that can be undertaken on the impact of IFRS adoption, namely (1) the impact of IFRS adoption on participant behavior in the financial reporting process, and (2) the impact of IFRS adoption on the quality of financial reporting.

For Indonesia conditions, second group research can not be done until the availability of IFRS-based financial statements in 2012. However, researchers can conduct first group research without waiting for full adoption of IFRS in 2012. Some of the research opportunities for IFRS adoption in the first group are: (1) surveys of readiness of various parties in the adoption of IFRS, including the readiness of education to supply graduates who understand IFRS; (2) determinant of judgment performance; (3) standard-level standards (rules-based vs. principles based) on (various) judgment preparers and auditors; (4) rule-based vs. principles based on conflict between management and auditors, and negotiations; and (5) the role of audit committees in management-auditor conflicts. Some of the research opportunities for IFRS adoption in the second group are: (1) the impact on the comparability of financial statements in an accounting jurisdiction; (2) impact on profit quality with various proxies; (3) the role of the audit committee and other corporate governance mechanisms; (4) the usefulness of accounting information (e.g. financial ratios) before and after the adoption of IFRS; (5) disclosure research; and (6) choice research of accounting methods.

The professional education preparation is given special attention related to the imposition of IFRS and the liberalization of accounting services in the ASEAN region (ASEAN MRA Framework on Accountancy). Unable to be denied by practitioners in the field of accounting is required to have “new competencies” as required by IFRS. One of the crucial points in Indonesia’s plan to apply the International Financial Reporting Standard (IFRS) in 2012 is the preparedness of accounting profession education (PPA).

Many people judge in terms of education we are not ready. It is feared that PPA graduates will not have IFRS competency. The most competent institutions to adapt PPA to International Education Standard (IES) standards are the Accountant Compartment (KAPd) of the Indonesian Institute of Accountants (IAI) and the PPA Evaluation and Recommendation Committee (KERPPA).

As a consequence of IFRS enforcement, KAPd has adopted International Education Standard (IES) issued by International Federation of Accountants (IFAC). IFAC issued seven international education standards which became effective on 1 January 2005. The IES includes Entry Requirement to a Program of Professional Accounting Education known as IES-1 code, Content Of Professional Accounting Education Programs (IES-2), Professional Skills Contents (IES-3), Professional Values, Ethics, and Attitudes (IES-4), Practical Experience Requirements (IES-5), Assessment of Professional Capabilities and Competencies (IES-6), and Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence (IES-7). IES is a global guide to forming professional accountants, including PPAk in Indonesia. In addition KAPd also takes several steps in facing the implementation of IFRS: First, complete the preparation of accountant standards; second, establish cooperation with other compartments or associations to support IFRS implementation plan and fair value; third, encourage the making of teaching materials and research on the application of IFRS.

Others who are not spared responsibility for success IFRS implementation are academic, in this case college (PT). In the midst of rapid development of the global economy, rapid adjustments are needed in the

field of professional education if the accountant does not want to happen a very wide gap between the material taught academics with the developments that occur in the field. Otherwise there will be a wide gap between the output of educational institutions and market needs. Full IFRS adoption means that there will be a transition from rule based to principles based on the accounting system. Preparation towards such a paradigm shift, concepts, and mindset should begin in the college environment through updating the curriculum and syllabus of PPA, seminars and trainings on IFRS as well as the preparation of textbooks that conform to IFRS. In addition KAPd also held a lot of national workshops for lecturers with the aim of training for the trainer (TOT). This TOT is projected to be imitated and spread to various regions. The target, graduates of accounting education in Indonesia can compete with overseas graduates and be able to meet the demands of IFRS.

Accounting profession will play an increasingly important role in the national economy when Indonesia started implementing International Financial Reporting Standard (IFRS) in 2012. However, due to limited education, the number and competence of Indonesian accountants is not sufficient.

The data and facts submitted by the Accounting and Assessment Services Center of the Ministry of Finance in the Dialogue Committee of the IAI Accounting Profession Evaluation and Recommendation (KERPPA) conducted on May 20, 2009 show that compared to other countries, the condition of the accounting profession in Indonesia is still apprehensive both in terms of numbers and competencies. Therefore, the competitiveness of accounting services in Indonesia is still relatively low. As of 30 April 2009, the number of accountant registered is as many as 46,633 people. Meanwhile, the number of accountants who have taken public accountant certification exam (USAP) and passed is only 615 people. However, not all accountants graduate USAP are then practiced as a public accountant. As an illustration, as of January 1, 2009, of the 615 graduates of the USAP, only 158 people or 25.69 percent are practicing as public accountants. The rest, work in other places or fields. This is causing the development of the number of public accountants in Indonesia which is lower than the countries. In addition, the contribution of professional education is also minimal in supplying or mencatak accountant. Currently, for example, there are only 36 colleges (PT) that get recommendations to organize Professional Education programs Accountant (PPA). Indarto recorded total graduates of PPA from the country's high hunting only 2.153. Or, in 2008 there were at least 162,205 active accounting students. However, the number of public accountants in Indonesia until the year 2009 is only 887. Jumlah is very inadequate when compared to the population of Indonesia which reached 220 million inhabitants. Compare, for example, the number of Malaysian public accountants who have reached 2,410 people, Thailand (6,070 people), Philippines (4,011 people), or Vietnam (1,046). In fact, Singapore as a country that broadly just like Jakarta is almost the same number with Indonesia, 862 people. However, accountants who have pocketed Certified Public Accountant (CPA) amounted to 14,261 people.

Conditions as indicated by the data above can be an opportunity as well as an obstacle for students who are currently taking accounting majors. It will be an opportunity, if we are able to take advantage of the situation as well as possible. The growing capital market and the growth of the economy will lead to a huge market demand for profei accountants. However, if the domestic market can not meet the needs of this accounting profession or if the qualifications provided by the domestic market are not in line with international needs, it is not impossible that the greatest challenge will arise with the arrival of accountants from other countries who can easily take up employment.

Conclusion

The IAI's decision to adopt IFRS thoroughly in 2012 brings much influence to the world of accounting education. IFRS adoption, among others, will bring about changes in mindset, paradigm, and accounting teaching which should start to change from rule based to principle based.

IFRS does not provide detailed reporting rules. Therefore students should begin to be taught how to make decisions based on accounting principles. IFRS is always changing so that IFRS updating is a must. Adoption of International Reporting Standard (IFRS) will also have an impact on accounting research.

The most competent institutions to adapt PPA to International Education Standard (IES) standards are the Accountant Compartment (KAPd) of the Indonesian Institute of Accountants (IAI) and the PPA Evaluation and Recommendation Committee (KERPPA). In the framework of full IFRS adoption in 2012, KAPd held many national workshops for lecturers with the purpose of training for the trainer (TOT). This TOT is projected to be imitated and spread to various regions. The target, graduates of accounting education in Indonesia can compete with overseas graduates and be able to meet the demands of IFRS.

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