

PSAK-71 and Firm Value: Mediating Role of Allowance for Bad Debt and Profitability



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ABSTRACT

This study investigates the effect of the implementation of PSAK 71 on firm value with profitability as an intervening variable. The population of this study is banking companies listed on the Indonesia Stock Exchange for the period 2018-2021. Determination of the sample using purposive sampling and selected 17 companies. The result shows a direct positive influence of PSAK 71 on AFBD and PSAK 71 on ROA. The analysis also uncovers the negative impact of AFBD on ROA, AFBD on PBV and ROA on PBV. Meanwhile, this research does not find any influence of PSAK 71 on PBV. Sobel tests prove the negative partial mediation role of AFBD on the impact of PSAK 71 on ROA and ROA in the effect of AFBD and PBV. On the other hand, we also find the full negative mediation role of AFBD on the influence of PSAK 71 on PBV and ROA on the effect of PSAK 71 on PBV.

1. INTRODUCTION

A firm value is essential because it reflects the company's prospects. This valuation shows the public trust in the company (Noerirawan, 2012). Price to book value represents the investor assessment of the company's share. The appraisal expresses the shareholder's prosperity (Febriani, 2020). The price-to-book value measure is crucial because it can show whether a stock runs into the overvalued or undervalued category. An interesting phenomenon of PBV is the decline in the value of some banking companies. The PBV of BBTN, BBNI, BMRI, BBRI, and BBCA were 0.94, 1.19, 1.75, 2.63 and 4.74 in 2019. The

valuation decreased to 0.91, 1.05, 1.56, 2.61 and 4.52 in 2020. On the other hand, the capital adequacy ratio (CAR) increased in 2020. Meanwhile, the Indonesian Bank regulation Nr. 13/1/PBI/2011, dated January 5, 2011, requires the use of capital adequacy ratio as one of the measures of banking healthy. In addition, the Indonesian Bank also mandates a minimum requirement of 8% of CAR.

The increase in the Bank's capital will result in elevated public trust and the rise of the PBV. We consider to trace the anomaly according to a special event that potentially reduces the investors' valuation of the banking sectors. Conceptually, investors' valuation of every company will regard profitability. The stock price should walk following the profits. Accordingly, our identification will begin with a search of occasions that result in a decrease (increase) in revenue (expense).

The accrual accounting assumption requires revenue (expense) recognition as it occurs and does not have to wait for the cash flow to happen. Consequently, some of those components come from estimation. On the other hand, the financial reporting standard is the ultimate reference for any accounting measurement. We consider that the explanation of the abnormal movement of the PBV and the capital adequacy ratio will emerge from an accounting standard implementation.

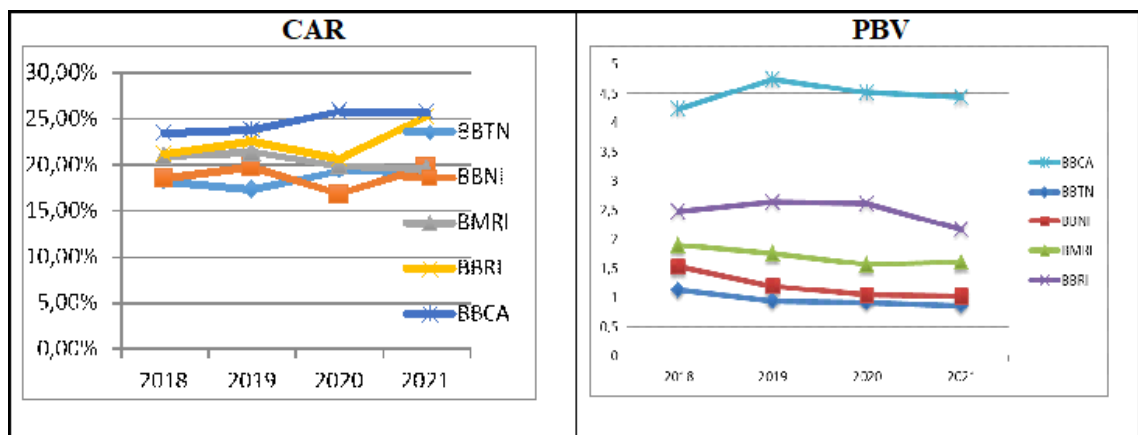
Indonesian Standard Setting Body applied PSAK 71 effectively on January 1, 2023. The regulation is the adoption of IFRS 9, which regulates the change of financial instrument recognition and measurement. In addition, the body also enacted PSAK 72 (adoption of IFRS 15) for revenue from customer contracts and PSAK 73 (adoption of IFRS 16) for leasing. However, we consider that PSAK 71 has more relevancy than other standards to be the lens of analysis on the phenomenon.

The arrangement of PSAK 71 is closer to the banking companies than the other sectors get. This sector manages financial instruments more intensively than the others. The banking sector is the fund provider through consumptive or productive credit distribution. Allowance for bad debt is an inherent risk for banking companies. Accordingly, the accounting standard very likely influences the recognition and measurement of the account.

PSAK 71 supersede the previous standard (PSAK 55). The new arrangement requires the early recognition of allowance for bad debt. The banking sector must recognize this allocation starting at the moment of the distribution of the credit instead of awaiting the presence of objective evidence for the credit default (Suroso, 2017).

This requirement delivers information to financial report users more effectively on the inherent risk of credit. Salazar, Merello, and Zorio-Grima (2023) prove that the Expected Credit Loss model (ECL) is more effective than Incurred Credit Loss model (ICL) in helping Loan Loss Provisions (LLPs) anticipate future overall banking risk. Investors can calculate future risk and the income of a banking company more conservatively. However, the new arrangement also results in higher bad debt expenses, which reduces earnings more than those caused by the old provision. Investors can calculate future risk and the income of a banking company more conservatively. However, the new arrangement also results in higher bad debt expenses, which reduces earnings more than those caused by the old provision. Several Indonesian banking companies showed a fluctuating capital adequacy ratio from 2018 to 2021.

Figure 1
Capital Adequacy Ratio and Price to Book Value



Sources: Secondary data (2023)

Figure 1 shows that BBNI, BMRi and BBRI reported a ratio of 19.7%, 21.39%, and 22.55% in 2019. The magnitude decreased to 16.80%, 19.90%, and 20.61% in 2020. On the other hand, BBTN and BBKA showed the opposite situation. Both companies have been implementing PSAK 71 since 2020. Their capital adequacy ratio of 17,32% and 17.32% in 2019 increased respectively to 19.34% and 25.80% in 2020.

The movement of the capital adequacy ratio of BBTN and BBKA is in line with Parashtiw (2021) that documented evidence of the increase in the capital adequacy ratio after the implementation of PSAK 71. Contrarily, Suroso (2017) reported the allowance for bad-debt expense growth and a decline in the capital adequacy ratio after the passage of PSAK 71. Meanwhile, Arindi (2016) uncovered that the expense from this allocation

undermines the accretion of the capital adequacy ratio. On the other hand, banking companies included in the liquid-45 showed a lowered firm value from 2018 to 2021. All of the members of this category experienced a decline in the price-to-book ratio. The symptom also occurred for BBCA, which encountered a decrease in the investors' valuation, even though its capital adequacy ratio increased in 2020.

Accounting literature does not provides how accounting standards influence firms' value sufficiently. We consider that alteration in the risk assessment impacted by the arrangement plays a central role in that relationship. Incidental and unstable recognition of allowance for bad debt, as mandated by PSAK 55, created instability in the banking sectors. Allocation for uncollectible claims tends to be low during the growth periods and vice versa. This policy implies a lower credit risk faced by the companies. Consequently, banking companies run excessive lending. On the contrary, the higher allocation for uncollectible claims restricts lending distribution (credit crunch). The allowance for bad debt suppresses the profit of the banking sector. The increase in credit default during an economic slowdown pushes banking companies to allocate higher losses.

This accounting policy does not portray business risk inherently adhered to in the banking sector thoroughly. This sector should consider threats from repeated global or regional economic crises. Accordingly, incidental and unstable recognition of the allowance for bad debt is irrelevant for this sector. We develop an analysis based on the Adaptive Market Hypotheses. Low (2004) argued that the market is not efficient, and fear and greed are those that gear the market up and down. The theory explains that the market is dynamic and adaptive to the change in competition and the evolution of behavior, strategies, and policies of market participants & institutions (Imhanzenobe, 2022). Implementation of PSAK 71 emerges from the dynamics of the policies held by the Indonesian accounting standard-setting body. As the dynamic brings a substantive shift in the expense recognition principle, it will impact the market that relies on the accounting number.

We contribute to explaining the accounting standards' role in forming value relevance of financial report information. Our analysis proves that firm value is the function of the provision in the regulation. This finding is essential for the standard-setting body and investors in defining the accounting standards that can portray the economic conditions and the business risks inherent in the reporting entity.

2. LITERATURE REVIEW AND HYPOTHESIS

The terminology of firm value comes from the clean surplus theory. The theory explains the relationship between financial reports and public valuation of the companies' stock (Ohlson, 1995). The relationship between equity and earnings creates a net surplus. The explanation arises from the assumption that the same beliefs and choices among investors exist. The theory provides a framework for the relationship between the firm's value and information conveyed in the balance sheet and income components (Scott, 2009). Francis & Schipper (1999) defines the value relevance of accounting information as the ability of accounting numbers to summarize the information which underlies stock prices.

According to Hung (2000), value relevance refers to the ability of accounting data to recapitulate information in market prices. Scott (2009) called value relevance the capability of the accounting information to explain the firm's value. Those definitions imply that the relationship between financial information and the stock price can represent the measure of this variable. Aboody, Hughes, and Liu (2002) develop a measurement of this variable according to the coefficient of a linear relationship of intrinsic value with the accounting variables.

PSAK 71 and Allowance for Bad Debt

PSAK 71 supersede PSAK 55 with a significant change in the recording of credit impairment. The initiative for the new accounting standard emerges from the motivation to avoid a sudden drop in profit due to the recognition of bad debt loss. PSAK 71 requires early recognition of financial instrument impairment (Indramawan, 2019). Every collectable asset carries risk. Entities should incorporate the uncollectible part of the assets in the financial report. Investors have the right to get information about the underlying economy of every single company.

The previous arrangement (PSAK 55) did not incorporate the business risk of financial instruments sufficiently. Investors can't predict the percentage of the potential default of every single Rupiah of the disbursed credit. The sudden recognition of the financial instrument impairment implies the failure of the financial report to depict the long-run perspective of a business prospect. Thus the research hypothesis is:

H1: PSAK 71 influence allowance for uncollectible debt positively.

3.

PSAK 71 and the Profitability

The value relevance of accounting standards is a crucial issue, particularly regarding debates concerning IFRS implementation. The concept emphasizes the extent of accounting information are compatible with the investors, creditors, and other users' needs. Achievement of this quality underlies the establishment of the accounting principles comprising the measurement, revenues & expenses recognition, and disclosure. Accordingly, a standard has a potential effect on influencing the magnitude of accounting numbers. One of the most crucial issues is the influence of an arrangement on profitability. Earnings may increase (decrease) from the potential profit (loss) recognition. Kasum (2011) documented the rise of Nigerian companies' profitability after the accounting standard harmonization to IFRS.

By referring to the theory, we suggest that the new PSAK 71 potentially changes the allowance for impairment losses. PSAK 71 requires the early recognition of credit failures. The banking companies should allocate a failure portion from all disbursed credits in each financial year. Allowance for the failure of credit is crucial for the banking sector. The number implies the business risk sticking on the disbursed credit. Without this information, management is under-informed in anticipating future failure. Most banking crises stem from credit defaults. However, an error in determining the amount of allowance allocation also causes distortion. Over-allocation means companies retain higher assets as the allowance. Accordingly, companies refrain from exploiting resources for productive activities. In addition, this allowance also results in expenses. The companies will report lower earnings due to this provision. Thus, the implementation of PSAK 71 results in lower profitability. The research hypothesis is:

H2: PSAK 71 negatively influences the companies in the banking sector's profitability.

4.

Impairment of financial instrument and Profitability

Financial instruments refer to all assets or liabilities to be collected. The terminology implies the role of the second parties who control the assets or bill the indebtedness. Accordingly, acquiring fully collectable assets is almost impossible. Companies face uncertainty about the net collected amount. This characteristic is the underlying assumption of the impairment of the instruments.

The magnitude of impairment of financial instruments comes from internal estimation. Appraisal of future risk involves complex deliberations. Managers particularly consider the impact on profitability. As every single financial instrument always contains the risk of an
PSAK-71 and Firm Value: Mediating Role of Allowance for Bad Debt and Profitability

uncollectible amount. Recognition of the portion of the assets in an allowance for an uncollectible amount reflects an admission of the estimated risk. Recording the provision implies the allocation of unusable assets. Accordingly, recognition of the risk also inflicts expenses and undermines profitability. Mitic, Kocic, Mizdrakovic, and Tereladze (2019) found a positive relationship between the impairment of the financial instrument and profitability. Then, the research hypothesis is.

H3: Impairment of financial instrument influence profitability negatively

PSAK 71 and Firm Value

The financial report conveys monetary and non-monetary information. Financial information plays a central role in the investors' valuation. Such detail is a measured consideration for prospective and retrospective valuation. The arrangement of recognition and measurement are the crucial judgment which shapes the structure of the reported accounting number. Accounting standards turn up as the dominating reference in producing the numbers.

PSAK 71 has a different feature from the previous accounting standard (PSAK 55). The new arrangement measures all financial assets at amortized cost. Meanwhile, PSAK 55 split them into four categories: (1) Measured at fair value through the income statement (at the fair value-the principal amount of the loan disbursed). 2) Held to maturity (at fair value), (3) available for sale (at fair value), and (4) loans disbursed & receivables. The fair value for items 2, 3, and 4 is the principal amount of the credit minus (plus) income (expense) directly attributable to the credit.

The change from PSAK 55 to PSAK 71 implies the recognition of expenses from the amortizations. The new arrangement stipulates company incorporate risk as expenses through amortizations. Consequently, PSAK 71 tends to undermine profitability. Szuc & Markus (2020) documented evidence that the volume of financial instruments and the impairment influenced the market more significantly than the influence of the evolution of time. Accordingly, the research hypothesis is. Consequently, PSAK 71 tend to undermine profitability. The research hypothesis is.

H4: PSAK 71 influences profitability negatively.

Allowance for Uncollectible Debt and Firm Value

Investors entail firm confidence about the future. Business prospect is directly proportional to the investors' valuation, while the risk is the opposite. According to the value relevance theory, business risk drives the market to react negatively. The financial statement is the primary source of such information. PSAK 71 impose the raise of the allowance for uncollectible debt. The new arrangement implies increasing the content of business risk information in the financial report. Investors may consider the increased risk that emerges from usual accounting practices. The shift from PSAK 55 to PSAK 71 could be out of investors' consideration. PSAK 71 inflicts the raise of the allowance for uncollectible debt. The new arrangement implies increasing the content of business risk information in the financial report. Unfortunately, investors could experience bounded rationality in estimating the business risk information conveyed in the magnitude of the allowance for uncollectible debt. Investors may not consider those increased risks emerging from accounting practices. They can perceive that the banking sector has experienced a raised business risk. Amit & Wennerfelt (1990) showed that business risk is the deterrent element that limits access to the lower cost of the factor of production and reduces operation fluency. Consequently, the preference for this sector's stocks will be lower. Thus the research hypothesis is:

H5: Allowance for uncollectible debt positively influences firm value.

The Profitability and Firm Value

The objective of every investment is to raise their invested assets. Investors always consider the trade-off between the benefits and risks of every single investment option. They entail sufficient information and relevant measure to account for the best decision. Profitability is a representative measure of a company's ability to increase assets through productive activities. The investors rate higher entities which acquire more profit than their counterparts. Profitability also conveys the prospect of the entities. Companies which can maintain progressive profitability give a positive signal about their future. Accordingly, this is the research hypothesis.

H6: Profitability influences firm value positively.

3. RESEARCH METHOD

This research is a quantitative analysis with a longitudinal time perspective. According to the analysis model, this research is an associative test of the relationship between the

independent and dependent variables. The data structure in this study constitutes a data panel consisting of time series and cross-sectional units.

Population and Sample

The population of this research comes from the 47 banking companies listed in the Indonesian Capital Market from 2018 to 2021. The banking sector manages financial instruments more intensively than the others sectors. Accordingly, this sector encounters a significant impact from the PSAK 71 implementation. The sample consists of companies that meet the following criteria.

Table 1
Sample Criteria

Criteria	Companies
1. Banking companies listed on the Indonesia Stock Exchange in 2018-2021.2.	47
2. Banking companies suspended by the IDX from 2018-2021.	BSWD (1)
3. Banking companies listed after 2018.	AMAR, BBSI, dan MASB (3)
4. Banking companies that commit to the early implementation of PSAK 71 before 2020.	BJTM (1)
5. Sharia banking companies.	BRIS, BANK, PNBS, dan BTPS (4)
Outliers	BEKS, AGRO, ARTO, BSIM, BBHI, AGRS, BCIC, BBKP, BBYB, BKSU, BINA, BBKA, MAYA, BMAS, BNBA, BBMD, MEGA, NOBU, BBRI, BNLI, & BABP (21)
Sample size	17
Period (2018-2021)	4
Observations	68

Sources: Secondary data (2023)

Variables

PSAK 71 superseded PSAK 55 starting on January 1, 2019. The new arrangement adopted the *International Accounting Standard (IAS) 39*. The starkest difference between the new and old standards lies in the allowance for uncollectible receivables accounts recognition (Indramawan, 2019).

We define PSAK 71 as the dichotomous variable. The score will be 0 for 2018-2019 and 1 for 2020-2021. This classification distinguishes the variable in interest according to the before and after the new standard implementation.

Allowance for Bad Debt

Allowance for Bad Debt (AFBD) conveyed information about the business risk of an entity. Banking companies bear allowance for bad debt as the risk sticking in their main operation activity. Loans for a productive and consumptive household are vulnerable to a credit default. We measure this variable as follows:

$$AFBD = \frac{AFBD \text{ from credit}}{Total \text{ Credit}} \dots\dots\dots(1)$$

Profitability

The profitability ratio is a measure to assess a company's ability to make a profit (Kasmir, 2011). Return on Assets (ROA) is a more suitable banking profitability measure because it reflects the characteristics of financial assets in a balance sheet where most of the funds are public deposits (Dendawijaya, 2009). AFBD in the balance sheet applies to all categories, performing, underperforming, and non-performing, so modification in accounting standards will impact the credit accounting treatment (Witjaksono, 2017).

$$ROA = \frac{Earnings \text{ After Tax}}{Total \text{ Activa}} \dots\dots\dots(2)$$

Firm Value

Firm value is an investor's perception of the company's success, and the stock price is the representative measure (Hamidah et al., 2015). Price to Book Value (PBV) is the most relevant proxy. This measure is the ratio between the market price per share and the book value (equity). Given that the function of a bank is collecting funds from and distribute them to society (Budisantoso & Nuritomo, 2014), performance measures that involve an equity component are crucial for public valuation. This concept makes PBV more reflective of the banking equity component.

$$Price \text{ to Book Value} = \frac{Stock \text{ Price}}{Book \text{ Value}} \dots\dots\dots(3)$$

4. RESULTS AND DISCUSSIONS

Table 1 shows 47 banking companies listed on the Indonesia Stock Exchange in 2018-2021. Thirty companies do not meet the purposive sampling criteria, including outliers. Our sample consists of 68 (17*4) firm years.

Descriptive Statistics

ROA as an intervening variable has an average value of 1.219. PT. Bank Victoria International Tbk reported the smallest ROA of -1.26 in 2020. PT. Bank Mandiri had the largest ROA of 3.17 in 2018. The standard deviation of ROA is 1.03078.

PBV is the dependent variable and had an average value of 0.8656. PT Bank Artha Graha Internasional Tbk reported the smallest PBV of 0.21 in 2018 and 2019. The deviation standard of PBV was 0, 38796.

Table 2
Descriptive Statistics

Var	Min	Max	Mean	Std Dev.
AFBD	0,28	8,64	3,0957	2,00606
ROA	-1,26	3,17	1,219	1,03078
PBV	0,21	1,86	0,8656	0,38796

Sources: Secondary data (2023)

Regression Analysis

The analysis in this study constitutes a tiered test. The hypothesis test uses a regression analysis for the three following models.

$$AFBD = \alpha_1 + \beta_1 \text{Before/After} + \varepsilon_1 \dots \dots \dots (4)$$

$$ROA = \alpha_2 + \beta_2 AFBD + \beta_3 \text{Before/After} + \varepsilon_2 \dots \dots \dots (5)$$

$$PBV = \alpha_3 + \beta_4 AFBD + \beta_5 ROA + \beta_6 \text{Before/After} + \varepsilon_3 \dots \dots \dots (6)$$

Table 3
Regression Analysis

Variabel	Model 1		Model 2		Model 3	
	AFBD		ROA		PBV	
	Beta	P-Value	Beta	P-Value	Beta	P-Value
<i>Dummy</i>	0,55	(0,002)***	0,334	(0,001)*	0,214	(0,085)*
Ln_AFBD			-0,14	(0,034)**	-0,17	(0,032)**
Ln_ROA					-0,62	(0,000)***

R-Square	0,14	0,167	0,233
F-Statistic	10,6	6,51	6,488
F-Sig.	0	0,003	0,001
N	68	68	68

Sources: Secondary data (2023)

The F-test result for model 1 was 0.002 (less than 0.050), for model 2 was 0.003 (less than 0.050) and for model 3 was 0.001 (less than 0.050). All of the models showed significant F-test results. The R-Square value for model 1, model 2, and model 3 were 0.138, 0,167, and 0,233.

The regression analysis showed that the implementation of PSAK 71 influenced AFBD with a regression coefficient of 0,548 and a significance of 0,002 (below 0,05). The result demonstrated that the new accounting standard raised the AFBD. This research proves hypothesis 1. Our analysis is in line with Arifullah & Firmansyah (2021).

The regression analysis showed that PSAK 71 influenced ROA with a regression coefficient of 0,334 and a significance of 0,001 (below 0,05). The result demonstrated that the new accounting standard raised the ROA. This research proves hypothesis 2. Our analysis is in line with Arifullah & Firmansyah (2021).

The result is in line with Parashtiwi (2021), which documented the ROA increase following the implementation of PSAK 71. The situation emerged from the growth in assets and profits that drove multiple parties to oversee the financial reports (Firmansyah et al., 2022). A high ROA conveys an information of the management capability in creating profits by exploiting assets properly.

Table 3 showed that AFBD influenced ROA negatively with a regression coefficient of -0.141 and p-value of 0.034 (<0.05). The analysis implies that the greater the allowance for bad debt, the lower the profitability. The result was in line with hypothesis 3. The evidence was in line with Pratama & Ratnaningsih (2014), Mokni & Rachdi (2014) and Sudrajat & Rahayu (2018).

The test showed that PSAK 71 did not influence PBV. The test showed a regression coefficient of 0.214 with a p-value of 0.085 (>0.05). This result did not support the hypothesis that the implementation of PSAK 71 influenced PBV. This research rejected hypothesis 4.

The result was in line with Yuliandi et al. (2016), which stated that business risk has no significant effect on firm value. Meanwhile, Makhsun et al. (2018) also found no

influence of the book value of equity on stock prices after IFRS adoption. More information is available from financial reports for investors. Consequently, investors switched to non-accounting information.

Table 3 shows that AFBD influenced PBV negatively significantly, with a regression coefficient of -0.173 and a p-value of 0.032 (<0.05). The analysis supported hypothesis 5 and proved there was a negative effect of AFBD on financial performance.

The implementation of PSAK 71 placed AFBD as a potential business risk. Rahman (2019) stated that high business risk would reduce firm value. PSAK 71 mandated the early recognition of allowance for bad debt. Consequently, investors got an illustration of the increased business risks.

Table 3 showed that ROA negatively and significantly influenced PBV with a regression coefficient α_1 of -0.616 and a p-value of 0.000 (<0.05). The test results implied that the company's performance (profitability) reduced the firm value. This evidence opposed hypothesis 6, which stated that profitability positively influenced the value.

This test supported Suranta & Pranata (2004) and Moniaga (2013) that ROA harmed firm value. These results place that information on profitability alone is not a primary consideration for investment decisions. The profitability of banking companies has the main characteristics derived from credit transactions. Therefore, greater profitability implied the recognition of large accruals. On the other hand, credit transactions are very vulnerable to the risk of default. Accordingly, the higher sales implicated a greater risk.

Our analyses supported the basic assumption of adaptive market hypotheses theory (Low, 2004). The shift from PSAK 55 to PSAK 71 creates a perception of the heightened business risks of the banking sector listed in IDX. The theory explains that fears and greeds are those that gear the market. So that the shift of accounting principles which increases perceived business risk, will boost the investor's apprehensions. Holding their funds from investing in the banking sector is preferable. As a result, firms' value in this sector felt.

Mediating Analysis

This paper develop a mediation analysis uses Sobel test to uncover the indirect effect of following models:

1. Before/After \rightarrow AFBD \rightarrow ROA
2. AFBD \rightarrow ROA \rightarrow PBV
3. Before/After \rightarrow AFBD \rightarrow PBV

4. Before/After → ROA → PBV

Table 4
Mediation Analysis

No	Model	Sobel Test Statistics	One Tailed Probability	Two Tailed Probability
1	Before/After → AFBD → ROA	-1.80628099	0,03543723	0,07087446
2	AFBD → ROA → PBV	1.93194705	0,02668302	0,05336604
3	Before/After → AFBD → PBV	-1.81814693	0,034520084	0,06904168
4	Before/After → ROA → PBV	-2,69169998	0,00355444	0-00710889

Sources: Secondary data (2023)

The Sobel test showed that AFBD negatively mediated the influence of PSAK 71 implementation on ROA with a beta coefficient of -1.80628099 with one tailed probability of 0,03543723. The mediation role took place partially. The result implied that recognition of business risk in the financial report harmed the profitability, which underlies the formation of the firm value.

Next, the Sobel test shows that ROA could mediate the effect of AFBD on PBV with a beta coefficient of 1.93194705 with one tailed probability of 0,02668302. The mediation role occurs partially.

According to table 4, AFBD can mediate the influence of the Before/After on PBV. The coefficient beta of -1.81814693 with one tailed probability of 0,034520084. The result indicates a negative indirect. The result implied that the new accounting standard had raised the allowance for bad debt. Next, this increase lowered the firm value.

Table 4 demonstrates the mediating role of ROA on the influence of the Before/After on PBV with a Sobel test beta coefficient of -2.69169998 with one tailed probability of 0,00355444. The result indicates that profitability can mediate the effect of PSAK 71 implementation on firm value. The negative sign on the coefficient implies that the increase (decrease) in profitability following the implementation of PSAK 71 will drive the lowering (rise) in the firm value. The indirect effect turns up as a full mediation model, which implies that the direct influence of the implementation of PSAK 71 on company value cannot occur except indirectly through the role of profitability.

Our analyzes supported Imhanzenobe (2022), who developed a structured literature review about the value relevance of accounting standards. The terminology refers to the power of changes in accounting standards in gearing stock prices (Brown, 1999; Outa, Ozili & Eisenberg, 2017; Imhanzenobe, 2022). Imhanzenobe (2022) concluded that previous

research documented a decrease in the value relevance of accounting after the standard shift. Our analysis gives an empirical view that the policies and institutional change, including the accounting standard shift, have a meaningful value relevance. However, we provide a different perspective that the power occurred indirectly through the role of proxies of business risks and profitability.

5. CONCLUSIONS

This paper proves that an accounting standard conveys relevant information to investors. The accounting standards are a set of arrangements of accounting recognition, measurement, recording, valuation and reporting. Accordingly, the alteration in the provisions will affect the configuration of reported accounting numbers. On the other hand, the numbers represent the underlying economics of an entity. The number can transmit information about the business prospect and the sticking risk. Since investors and other users account for the information in their consideration of investing decisions, the alteration in the standards also changes their valuation of the reporting entities. This research also demonstrates that the power of accounting standards in shaping firm value is an indirect way. The effect does not occur directly, instead relies on the mediation role of profitability. The evidence implies that investors account for the underlying economy of an entity conveyed in the financial report. They do not anchor their consideration on the prevailing financial reporting standard regime. However, the arrangement can alter the construction of the accounting number. Accordingly, the indirect effect of the provision on the investors' decision is to take place.

This paper provided evidence about the power of policies and institutions' dynamics in gearing down the market. The negative influence of PSAK 71 on the firm value supported the underlying assumption of adaptive market hypotheses theory. The theory assumes that the market is not efficient. Information is not the dominant prevailing determinant of stock prices. The psychological aspects play crucial roles in the market participants' behavior. Risk-averse and self-interest maximization are the foundation of the investors' behavior. Bounded rationality and asymmetry of information prevent them from the complete and accurate appraisal of the real-economic fundamental of business. As fear bursts out, then jeopardy apprehension gets stronger. Therefore, investors' reluctance to invest will be more apparent due to a new accounting standard producing a picture of higher business risks.

6. IMPLICATIONS, LIMITATIONS AND SUGGESTIONS

This paper provides insight into the practical aspect of a new accounting standard implementation. Regulators' and managers' anticipations of the psychological facets of investors are essential. Intensive and extensive socialization is crucial. The investors' early comprehension of the new standard's impact helps to mitigate the fears. Next, the corporates' role through a comprehensive and unambiguous disclosure of the accounting numbers is also beneficial. Investors can get a thorough picture of the fundamental economics of the business instead of just a quick overview. Disclosure of the different measures according to PSAK 55 and PSAK 71 is essential to help investors mitigate the information asymmetry. Finally, regardless of the role of regulators and corporates, investors also need to assess the underlying economy of the listed companies carefully. Differentiating the accounting standard effect from the business performance can stave off investors from misleading information.

This paper also has potential limitations. The small sample size reduces the generalization power. Next, the measure of the allowance for bad debt only encompasses the component of credit loans and non-sharia financing. Finally, the psychological aspect underlies the investors' behavior to refrain from investing in the banking sector is still unexplored. The archival research design hinders our investigation of such data. Future research can develop a survey or interview to uncover the opinions and responses of the investors toward the shift from PSAK 55 to PSAK 71.

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