

Pre-Post IFAS 72 Adoption and Earnings Management: Comparative Evidence From Indonesian Corporate Sectors

135

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ABSTRACT

This study examines the impact of the mandatory implementation of IFAS 72 on earnings management in telecommunications, construction, and real estate companies in Indonesia. This study uses a quantitative approach with a sample of 120 companies for the observation period of 2016–2023. Earnings management is measured through discretionary accruals using the modified Jones model. The results show that the mandatory implementation of IFAS 72 negatively correlated with earnings management but did not significantly affect it. The analysis also reveals no significant difference in earnings management levels before and after IFAS 72 mandatory implementation. This study contributes to the literature by providing empirical evidence regarding the impact of IFAS 72 implementation on accounting quality, particularly earnings management practices. The implications of this study can provide a reference for standard setters and regulators to evaluate the effectiveness of IFAS 72 implementation in Indonesia.

Keywords:

IFAS 72, Earnings Management, IFRS 15, Accounting Quality.

1. INTRODUCTION

IFRS adoption aims to enhance comparability, transparency, and the quality of financial reporting (Altaji & Alokdeh, 2019). IFRS adoption will also limit management opportunism in determining accounting figures, thus reducing earnings management practices (Napier & Stadler, 2020). Earnings management arises when managers use their discretion in arranging financial statement transactions to mislead stakeholders regarding the company's performance or alter the reported transaction value (Bao & Lewellyn, 2017). Empirical studies indicate that IFRS adoption may decrease an entity's earnings management practices (Hasan & Rahman, 2020; Amer et al., 2024). This is because IFRS adoption can limit management opportunism and reduce the use of discretionary accruals (Marco et al., 2019).

In May 2014, the IASB introduced IFRS 15 Revenue from Contracts with Customers. In Indonesia, IFRS 15 was fully adopted as Indonesian Financial Accounting Standards 72 (IFAS 72) issued by DSAK-IAI on July 26, 2017. The adoption of this



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standard is effective for entities in Indonesia starting January 1, 2020. IFAS 72 replaces various previous standards for recognizing revenue, including IFAS 23, IFAS 44, IFAS 34, ISAK 21, ISAK 10, and ISAK 27 (KPMG, 2018). This standard applies a single and consistent model for revenue recognition in companies, namely based on contracts with customers (PwC, 2017). IFAS 72 provides a consistent framework for recognizing revenue for all contracts, both goods and services. IFAS 72 also provides more comprehensive guide and disclosures compared to previous standards. Thus, the implementation of this standard is expected to enhance the quality of accounting and support IFRS convergence (Catur et al., 2024).

IFAS 72 is considered a critical issue for entities, given that revenue is a discretionary resource for managers (Marco et al., 2019). A key issue in revenue recognition lies in determining the timing of revenue recognition, namely, when revenue has been realized or can be realized and earned. However, in practice, determining the timing of recognition becomes complex due to the diversity and complexity of transactions. Entities often exploit loopholes to accelerate revenue recognition (Zhang, 2005). IFAS 72 emphasizes that revenue recognition should be based on actual performance, not solely on the signing a contract or receiving cash (Wisnantiasri, 2018). This approach is considered capable of minimizing management's opportunities to manipulate revenue, either through delaying or accelerating the timing of recognition (Agustrianti et al., 2020). IFAS 72 implements five stages in revenue recognition, thus minimizing opportunities for exploiting earnings management through the accumulation of accrued expenses (de Souza et al., 2022).

The issue of implementing IFAS 72 is in line with the issue of implementing IFRS 15. In an international context, adopting IFRS 15 has significantly changed revenue recognition and impacted earnings management behavior (Chen, 2025; Napier & Stadler, 2020). Research by Chen (2025) indicates that implementing IFRS 15 improves the consistency and comparability of reporting across companies and industries. This standard can reduce management flexibility in determining the timing of revenue recognition, especially for long-term contracts. Wagenhofer (2014) emphasized that IFRS-based revenue recognition can limit revenue recognition opportunities for earnings management purposes.

Revenue recognition plays a strategic role because it directly contributes to the presentation of earnings, one of the key financial performance indicators observed by investors, creditors, and regulators. Revenue recognition presents a significant challenge due to its complexity and is considered a top accounting and audit risk area (Khamis, 2016). One issue in revenue recognition is related to the timing of recognition, which is complicated by the complexity and diversity of transactions. The complexity of transactions in certain sectors such as telecommunications, construction, and real estate often presents challenges in determining the appropriate timing and amount of revenue to recognize (Boujelben & Kobbifakhfakh, 2020; Marco et al., 2019). This increases the potential

for earnings management through accelerated or delayed revenue recognition (Zhang, 2005). Therefore, implementing IFAS 72 is expected to provide a more consistent and transparent revenue recognition framework, improving financial reporting quality.

Based on agency theory, the relationship between managers (agents) and shareholders (principals) creates potential conflicts of interest due to information asymmetry. Managers may act opportunistically by engaging in earnings management to maximize personal benefit, misleading principals about the firm's performance (Wang et al., 2023). Implementing IFAS 72 can be viewed as a governance mechanism designed to reduce managerial opportunism by limiting discretion in revenue recognition. This standard enforces greater transparency and consistency, narrowing the scope for accrual-based manipulation (Chen, 2025; Napier & Stadler, 2020). Consequently, IFAS 72 functions as a control instrument within the agency framework, aligning managers' interests with those of shareholders, and enhancing financial reporting quality (Hasan & Rahman, 2020; Amer et al., 2024).

Previous studies related to IFAS 72 have primarily examined the impact of implementation on financial performance (Lestari & Khomsiyah, 2023; Yuliati et al., 2023; Siwi & Kartika, 2022). In addition, earlier research has investigated the impact of IFAS 72 adoption on the quality of information and shareholder value (Mubarika & Handayani, 2022). Unlike previous studies, this study aims to examine the impact of IFAS 72 implementation on earnings management practices of telecommunications, construction, and real estate sectors in Indonesia. Analysis of the Big Four companies identified telecommunications, construction, and real estate entities as the sectors most impacted by IFAS 72 implementation (Marco et al., 2019). These three industries generally engage in complex transactions through bundling contracts and long-term projects, potentially experiencing significant changes in accounting treatment following the implementation of IFAS 72 (Boujelben & Kobbi-Fakhfakh, 2020).

This study examines the impact of the mandatory implementation of IFAS 72 on earnings management. The urgency of this study lies in the importance of understanding the extent to which IFAS 72 can enhance accounting quality by limiting earnings management practices. IFAS 72 replaces the previous standard, which is believed to have significant implications for management flexibility in recognizing revenue (Napier & Stadler, 2020). IFAS 72 adopts a principles-based approach and transfer of control in revenue recognition, replacing the previous, more rules-based standard, thereby narrowing management discretion in determining the timing and amount of revenue recognition (Napier & Stadler, 2020). This change is expected to reduce accrual-based earnings manipulation, thereby improving the quality of financial information presented to stakeholders. This study provides empirical evidence regarding the effectiveness of IFAS 72 on earnings management, particularly in telecommunications, construction, and real estate companies. In addition, the research

results can also provide practical implications for regulators, standard setters, auditors, and investors in evaluating the financial reporting quality after the mandatory implementation of IFAS 72.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

This research is based on agency theory, which defines the relationship between principal and agent as an employment contract. Within the agency theory framework, earnings management practices are viewed as a logical consequence of a conflict of interest between principal and agent. This conflict arises because managers, as agents, have more complete information than shareholders, allowing them to exploit this information asymmetry to act opportunistically (Boučková, 2015; Saam, 2007). Managers tend to engage in earnings management to maximize personal interests, such as obtaining bonuses, maintaining positions, or meeting market targets, even though these are not in line with the long-term interests of shareholders (Bui, 2024). Thus, earnings management is often understood as opportunistic agent behavior driven by differences in goals and risk preferences between principals and agents (P. Dechow et al., 2010).

Every company's goal is to maximize its share price, so managers will engage in activities that maximize the company's value. Management can employ different strategies depending on the company's real-world economic scenario (Baig & Khan, 2016). The primary strategy employed by companies is earnings management, such as maximizing/minimizing profits, maximizing/minimizing losses (big-bath strategy), and income smoothing. There are two primary motivations for management in earnings management: (1) earnings are managed for the entity's benefit, maximizing the company's value and share price and meeting shareholder expectations; (2) earnings are managed to meet short-term goals by maximizing management remuneration and bonuses (Bui, 2024). This second motivation is related to management opportunism. Management tends to use accounting policies to mislead internal and external users of financial statements.

IFAS 72 and Earnings Management

Earnings management refers to the application of discretion in financial reporting to influence contractual outcomes or mislead stakeholders regarding company performance (Ugrin et al., 2017). This practice involves structuring transactions or altering financial statements to create a more positive financial image (Mongrut & Winkelried, 2019). Lara et al. (2005) define earnings management as deliberate management and opportunism intended to present results that do not reflect the true state. Marco et al. (2019) classify earnings management practices into two primary types: accruals management and real activities manipulation, which obscure economic performance through accounting and structuring actual transactions, respectively. For both analysts and investors, it is essential to recognize the degree of managerial in earnings management, assessing reported earnings quality.

The implementation and adoption of IFRS aims to improve comparability, transparency, and the quality of financial reporting. IFRS adoption will also limit opportunistic management discretion in determining accounting figures, thereby reducing earnings management practices (Napier & Stadler, 2020). Previous research has examined the effect of IFRS adoption or implementation on earnings management. Amer et al. (2024) investigated how IFRS adoption influences the quality of financial reporting in South Africa. The results showed that IFRS adoption significantly reduced earnings management practices. Eiler et al. (2022) also reported that the adoption of IFRS is linked to reduction in earnings management practices in Mexico. Firmansyah & Irawan (2018) also examined the impact of IFRS adoption on companies' accrual and real earnings management. The results showed that IFRS adoption impacted accrual earnings management, but not real earnings management. Garrett et al. (2020) reported that the adoption of IFRS had significantly negatively impact on earnings management practices.

IFAS 72, the latest revenue recognition standard, provides a single and consistent guideline for revenue recognition, based on customer contracts (PWC, 2016). In this standard, to recognize revenue, an entity must identify five stages: (a) identifying the contract with the customer; (b) identifying the performance obligation; (c) determining the transaction price; (d) allocating the transaction price to the performance obligation; and (e) recognizing revenue when the entity has satisfied its performance obligation (Boujelben & Kobbi-Fakhfakh, 2020). IFAS 72 also requires more comprehensive disclosures than previous revenue recognition standards, including aspects previously not covered, such as warranties, contract modifications, and multi-element arrangements (Chen, 2025). In addition, IFAS 72 also provides clearer provisions regarding the recognition of variable consideration, which previously gave rise to the potential for early revenue recognition. This standard also requires separating of significant financing components, especially for contracts with a term of more than 1 year, so that recognized revenue reflects the true value of the goods or services transferred to customers (Napier & Stadler, 2020). The expected impact of the mandatory implementation of IFAS 72 on the quality of financial reporting is a reduced use of accruals to manipulate revenue and earnings. Thus, adopting and implementing IFAS 72 can improve the quality of financial reports and limit management opportunism in engaging in earnings management practices. Based on the description above, the first hypothesis can be formulated as follows:

H1: Mandatory implementation of IFAS 72 has a negative effect on earnings management.

Earnings Management Pre-and Post-IFAS 72

Prior studies investigating the effects of IFRS adoption before and after its implementation found that companies are less inclined to practice earnings management after IFRS adoption (Ho et al.,

2015). Following IFRS adoption Adhikari et al. (2021) found an improvement in earnings quality, characterized by increased earnings persistence and value relevance. The study also demonstrated lower discretionary accruals after IFRS adoption than pre-IFRS adoption. IFRS adoption can effectively uncover earnings management (Wang et al., 2023).

IFAS 72 applies a principles-based approach and transfer of control to revenue recognition. This approach is expected to narrow management's discretion in determining the timing and amount of revenue recognition, thereby reducing the opportunity for accrual-based earnings management. Napier & Stadler (2020) assert that changes in stricter accounting policies can influence managerial behavior and limit financial reporting flexibility.

Previous research indicates that IFRS 15 implementation significantly improves the quality of accounting information regarding relevance and faithful representation (Altaji & Alokdeh, 2019). Chen (2025) also found an improvement in revenue quality and earnings accruals after IFRS 15 adoption. Ogunode & Salawu (2021) revealed that IFRS 15 implementation positively impacts corporate accounting in Nigeria. Catur et al. (2024) also found that earnings management practices in property and real estate services companies decreased significantly after the implementation of IFAS 72. Based on the above description, the second hypothesis can be formulated as follows:

H2: There is a difference in the level of earnings management before and after the mandatory implementation of IFAS 72.

3. RESEARCH METHODS

Sample and Population

Research subjects were telecommunications, real estate, and construction companies listed on the Indonesia Stock Exchange, with an observation period of 2016-2023. IFAS 72 is mandatory for companies in Indonesia to implement starting January 1, 2020. This study uses the 2016-2023 period to compare earnings management practices before and after the mandatory implementation of the standard, so that the effectiveness of IFAS 72 implementation can be determined more comprehensively. Sampling used a purposive sampling technique considering certain criteria. This study employed panel data with a sample of 120 observations. Data collection consisted of secondary data derived from each company's annual financial reports for the 2016-2023 periods.

Variables and Measurements

Earnings Management

Earnings management in this study uses the Jones model modified by Dechow et al. (1995). This model is used to identify the total amount of accruals by distinguishing between discretionary and non-discretionary accruals (Marco et al., 2019). The value of discretionary accruals is used as a proxy to measure the extent of earnings management practices. A high discretionary accrual

indicates a high level of earnings discretion or lower earnings quality (Adhikari et al., 2021; Wijayana & Gray, 2019). The following equation is used to calculate the level of earnings management:

$$\frac{TA_{i,t}}{Assets_{i,t-1}} = \alpha_0 + b_1 \left(\frac{1}{Assets_{i,t-1}} \right) + b_2 \left(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{Assets_{i,t-1}} \right) + b_3 \frac{PPE_{i,t}}{Assets_{i,t-1}} + e_{i,t}$$

The equation above, $TA_{i,t}$ is the total accruals measured by the difference between net income and cash flow from operating activities. $Assets_{i,t-1}$ is the total assets of the company in the previous period. $\Delta REV_{i,t}$ is the change in the company's revenue. $\Delta REC_{i,t}$ is the change in accounts receivable. $PPE_{i,t}$ represents the total fixed assets, such as plant, property, and equipment. This study uses the absolute value of discretionary accruals to test the level of company earnings management.

IFAS 72

Starting from January 2020, IFAS 72 is mandatory for companies in Indonesia. So, this study uses the 2016-2023 research period to compare earnings management behavior before and after the implementation of IFAS 72. The 2016-2019 period represents the pre-implementation stage of IFAS 72, while the 2020-2023 period represents the post-implementation stage. The selection of this period allows researchers to observe changes in earnings management practices comprehensively to assess the effectiveness of the mandatory implementation of IFAS 72. The measurement of IFAS 72 variables in this study is in accordance with previous studies conducted by (Adhikari et al., 2021) and (Agustrianti et al., 2020), namely before and after the mandatory implementation of IFAS 72. The IFAS 72 variable is measured using a dummy variable by giving a value of 0 for the year before the mandatory implementation of IFAS 72 (2016-2019 period). On the other hand, the value 1 is for the year after the mandatory implementation of IFAS 72 (2020-2023 period).

Table 1. Sample Selection Criteria

No	Criteria	Total
1	Telecommunications, construction, and real estate listed on the Indonesia Stock Exchange in 2016	78
2	Company has incomplete annual financial reports for the period 2016-2023	(30)
3	Company has incomplete financial data for measuring the research variable	(11)
4	Company reported loss	(22)
Final Sampel		15
Total Observations (8 years)		120

Source: Data Processed, 2025

Control Variables

This study employs three control variables, namely firm size, return on asset (ROA), and leverage. Firm size is measured by applying the natural logarithm of total assets (Adwan et al., 2020). ROA is determined by dividing net income after tax by total assets (Putri & Panggabean, 2020). Meanwhile, leverage is measured of the ratio of total liabilities to total assets (Wijayana & Gray, 2019). According to Wijayana & Gray (2019) these variables can influence the quality of financial reporting both in terms of the complexity of the financial reporting system used and in terms of management incentives to manipulate.

Model Analysis

Hypothesis 1 examines the effect of IFAS 72 implementation on limiting earnings manipulation practices. Using the Ordinary Least Squares (OLS), the following model is used to test Hypothesis 1:

$$ADAC_{i,t} = \alpha_0 + b_1 IFAS72_{i,t} + b_2 SIZE_{i,t} + b_3 ROA_{i,t} + b_4 LEV_{i,t} + e_{i,t}$$

$ADAC_{i,t}$ is the absolute value of the company's discretionary accruals. $IFAS72_{i,t}$ a dummy variable, a value of 1 for the year after the mandatory implementation of IFAS 72 and a value of 0 for before the mandatory implementation of IFAS 72. $SIZE_{i,t}$ is the company's size at the end of the period. $ROA_{i,t}$ is the company's return on assets at the end of the period. $LEV_{i,t}$ is the company's leverage ratio at the end of the period. The equation above is used to test hypothesis 1 formulated in the study. The results of the equation that produce a statistically significant negative coefficient b_1 value indicate that the mandatory implementation of IFAS 72 has a negative effect on earnings management practices.

To test hypothesis 2, this study uses a paired sample t-test to determine the difference in the absolute average value of discretionary accruals before and after the mandatory implementation of IFAS 72. This comparative test of earnings management levels is important to provide a more comprehensive picture and ensure real changes in earnings management practices between before and after the implementation of IFAS 72. Through comparative tests, researchers can assess the difference in average earnings management between periods to see more clearly the effectiveness of IFAS 72 in suppressing earnings management practices. Later, the t-test results that produce a coefficient value <0.05 indicate a difference in earnings management before and after the mandatory implementation of IFAS 72.

4. RESULTS AND DISCUSSION

Descriptive Statistics and Multicollinearity Test

Table 2 displays the results of descriptive statistical tests of discretionary accruals (ADAC) over the entire period, showing that the mean value is 0.104253 with a standard deviation of 0.11175. The mean of ADAC value before implementing IFAS 72 is 0.115869 with a standard deviation 0.115338 and after implementing IFAS 72 is 0.092638 with the standard deviation 0.107751. The ADAC value before the mandatory implementation of IFAS 72 ranges

from 0.004891 to 0.449765. After the mandatory implementation of IFAS 72, the range of ADAC values changes to 0.003314 to 0.392400. Table 1 shows that the average ADAC decreased after implementing IFAS 72. This result indicates a change in earnings management behavior before and after implementing IFAS 72. The mean value of the ROA control variable was higher by 0.044776 in the period before implementing IFAS 72. After implementing IFAS 72, the ROA value decreased to 0.037091, indicating a change in financial performance behavior after implementing the standard. The company's SIZE increased from a mean value of 30.05850 to 30.31650, while the LEV value decreased slightly from 0.448155 to 0.426206. The result indicates a change in the company's financial characteristics before and after implementing IFAS 72.

The multicollinearity test in Table 3 shows that all independent variables have a VIF (Variance Inflation Factor) value of less than 10, ranging from 1.101 to 1.306. This value indicates no multicollinearity problem among IFAS72, SIZE, ROA, and LEV variables. The results of the correlation between variables in the table 3 show a relationship at a moderate and low level. SIZE variable positively correlated with the ROA variable of 0.080968 and LEV of 0.447465. IFAS72 variable has a negative correlation with ROA of -0.252933 and positively correlated with SIZE variable of 0.092465, and LEV variable of -0.03816. Thus, the regression model used in this study can meet the assumption of being free from multicollinearity.

Table 2. Descriptive Statistic Test

Variable	N	Min	Max	Mean	Std.Dev
Overall Period					
ADAC	120	0,003314	0,449765	0,104253	0,11175
IFAS72	120	0	1	0,5	0,502096
SIZE	120	28,03613	33,29065	30,1875	1,402577
ROA	120	0,000622	0,164754	0,044776	0,037375
LEV	120	0,006673	0,952779	0,43718	0,249393
Pre-IFAS72 Period					
ADAC	60	0,004891	0,449765	0,115869	0,115338
IFAS72	60	0	0	0	0
SIZE	60	28,03613	33,03012	30,05850	1,38830
ROA	60	0,005447	0,164754	0,05246	0,039435
LEV	60	0,056054	0,952779	0,448155	0,262234
Post-IFAS72 Period					
ADAC	60	0,003314	0,3924	0,092638	0,107751
IFAS72	60	1	1	0	0
SIZE	60	28,19665	33,29065	30,31650	1,416535
ROA	60	0,000622	0,122930	0,037091	0,033797
LEV	60	0,006673	0,858204	0,426206	0,237563

Source: Data Processed, 2025

Table 3. Multicollinearity Test

Variable	VIF	SIZE	ROA	LEV
IFAS 72	1,101	0.092465	-0,252933	-0,03816
SIZE	1,306		0.080968	0.447465
ROA	1,108			-0,076617
LEV	1,292			

Source: Data Processed, 2025

Table 4. IFAS 72 and Earnings Management

Variable	Coefficients	t-value	p-value
Intercept	-0,339173	-0,522968	0,6020
IFAS72	-0,030345	-1,060762	0,2910
SIZE	0,087419	0,711258	0,4784
ROA	0,316003	1,895035	0,0606
LEV	0,153854	2,086966	0,0391*
N		120	
Adj R ²		0,076993	
F- statistic		3,481599	
Prob (F-statistic)		0,010080*	

*significance level 0,05

Source: Data Processed, 2025

Hypothesis Testing

To test whether the mandatory implementation of IFAS 72 affects earnings management practices, this study uses the Ordinary Least Square (OLS) method according to model 2. The test results in Table 4 show that the IFAS72 variable has a negative coefficient, namely -0.030345, and a t-value of -1.060762. The negative coefficient value indicates that the IFAS72 variable negatively correlates with the ADAC variable. This negative relationship suggest that the mandatory implementation of IFAS 72 can reduce companies' tendency to carry out accrual earnings management. However, the p-value of 0.2910 indicates that the IFAS72 variable does not significantly affect the ADAC variable. In other words, this study does not have sufficient evidence to conclude that the mandatory implementation of IFAS 72 significantly negatively affects earnings management. Thus, hypothesis 1, which states that the mandatory implementation of IFAS 72 has a negative effect on earnings management, is not supported.

IFAS 72 applies a principles-based approach and the concept of transfer of control to revenue recognition. This standard replaces the previous standard, which gave management flexibility in choosing the revenue recognition method. This limitation in flexibility can reduce management's ability to time revenue recognition, thereby reducing earnings management levels (Chen, 2025). However, the insignificant research results are due to management's readiness and adaptability to the new standard, or IFAS 72 has not been implemented long enough to demonstrate its impact on financial reporting (Wahyuni et al., 2020). The results are in accordance

with Jeanjean & Stolowy (2008) finding that IFRS adoption did not directly reduce earnings management practices, particularly in the initial implementation period. This was due to management's ability to identify and utilize alternative strategies to maintain their financial reporting objectives.

Control variables SIZE, ROA, and LEV indicate that only LEV significantly influences earnings management. LEV variable has a p-value of $0.0391 < 0.05$, indicating a positive correlation of 0.153854. This finding indicates that the higher a company's leverage, the greater its tendency to conduct earnings management. This relationship implies that companies with large debts are more likely to manipulate earnings to appear more attractive to creditors and investors (Ghofir & Yusuf, 2020).

This study used a paired sample t-test to examine whether earnings management differed before and after the mandatory implementation of IFAS 72. The test results in Table 5 show that the average discretionary accrual value for the period before the mandatory implementation of IFAS 72 was 0.3056, while the average discretionary accrual value for the period after IFAS 72 was 0.2611. The t-test results showed a value of 1.5787 with a p-value of $0.1171 > 0.05$. These results found a decrease in the average level of earnings management after the mandatory implementation of IFAS 72, but the difference was not statistically significant. Therefore, hypothesis 2 in this study was also not empirically proven, meaning there was no statistically significant difference in the level of earnings management before and after the mandatory implementation of IFAS 72.

Previous research found evidence that IFRS adoption had no effect on earnings management (Rahmaningtyas & Mita, 2018; Santy et al., 2016; Yassin et al., 2022). Barth et al. (2012) stated that principles-based standards often provide more room for discretion and reporting manipulation. Although accountants appreciate IFAS 72 for increasing the transparency of financial reporting, they still question the level of subjectivity in the decision-making process required by the standard (Yassin et al., 2022). IFAS 72 adopts a principles-based approach, thus providing managers with flexibility in assessing and estimating. The five-step revenue recognition process, such as identifying performance obligations, variable consideration, and project completion rates, can open up opportunities for subjective judgment (Chen, 2025). This can increase the potential for earnings management, especially in the form of accrual earnings management. Furthermore, companies also experience difficulties in understanding and explaining the requirements of IFAS 72 and the lack of adequate accounting systems to facilitate the implementation of these standards (Arham et al., 2020).

Table 5. Earnings Management Pre and Post-PSAK 72

Period	N	Mean	Std. Dev	Std. Error Mean
<i>Pre-PSAK72</i>	60	0,3056	0,1511	0,0195
<i>Post-PSAK72</i>	60	0,2611	0,1577	0,0204
<i>t-test</i>			1,578775	
<i>Probability</i>			0,1171	

Source: Data Processed, 2025

Adopting IFRS creates uniformity in accounting standards globally to produce financial reports with relevance and faithful representation. Implementing IFRS makes information more transparent and uniform, making manipulation practices easier to detect (Eiler et al., 2022). However, the effectiveness of IFRS in reducing earnings management also depends on how these standards are implemented and monitored by companies and regulators (Christensen et al., 2013). Within the agency theory framework, although implementing IFAS 72 narrows the scope of revenue recognition, agents still have incentives to maximize their interests through alternative accounting methods or subjective estimates. Applying principles-based standards provides broad interpretations, necessitating strong legal enforcement to reduce earnings management (Rahmaningtyas & Mita, 2018; Yassin et al., 2022). Therefore, the effectiveness of IFAS 72 in suppressing earnings management can only be significant if accompanied by an adequate monitoring and auditing system.

Napier & Stadler (2020) stated that while IFRS is designed to limit management discretion, its impact on earnings management practices will vary depending on the industry context and corporate governance. According to agency theory, formal regulatory enforcement requires strong corporate governance mechanisms to minimize earnings management practices. Aligning the roles of the board of commissioners, audit committee, and incentive mechanisms with shareholder interests is crucial in ensuring effective implementation of IFAS 72 (Alzoubi, 2016). Therefore, policymakers and regulators must strengthen regulations and provide more structured guidelines to minimize earnings management practices. This is expected to strengthen stakeholder trust, encourage more informed decision-making, and enhance the integrity and credibility of corporate financial reports (Yassin et al., 2022).

5. CONCLUSIONS AND SUGGESTIONS

This study examines the effect of mandatory implementation of IFAS 72 on earnings management practices and compares differences in earnings management levels before and after the standard's mandatory implementation. The theoretical background of this study is based on agency theory, which highlights the potential for conflicts of interest between managers and shareholders, as well as the opportunity for management to manipulate earnings due to information asymmetry. IFAS 72 is a revenue recognition standard

that adopts a principles-based approach and a five-step model, thus reducing management discretion. This study focuses on telecommunications, construction, and real estate companies due to the complex nature of contracts and long-term projects, making them vulnerable to significant changes in revenue recognition under this standard. Therefore, mandatory implementation of IFAS 72 is expected to reduce accrual-based earnings manipulation, thereby improving the quality of financial information presented to stakeholders.

This study uses a quantitative approach with a sample of 120 companies from the telecommunications, construction, and real estate sectors during the 2016-2023. The OLS test indicates that mandatory implementation of IFAS 72 is negatively correlated with earnings management, but does not have a significant effect. Meanwhile, the paired sample t-test results also showed no difference in earnings management before and after the mandatory implementation of IFAS 72. Although the average value of earnings management accruals decreased after the mandatory implementation of IFAS 72, this decrease was not statistically significant. Therefore, the empirical data does not support the hypothesis indicating a significant negative relationship and difference in earnings management before and after the mandatory implementation of IFAS 72.

This study has limitations, including its focus on three industrial sectors, the relatively short post-implementation period of IFAS 72, and the measurement of earnings management based on accruals. Therefore, future research could expand the sector coverage, extend the observation period, add measurements of actual earnings management, and include moderating variables, such as corporate governance or audit quality. The implications of this study are the need for standard setters and regulators to provide more detailed technical guidelines and increase oversight in the implementation of IFAS 72. Companies need to improve their understanding of internal control systems, and auditors need to focus on areas prone to subjectivity, such as variable estimation and performance obligations in revenue recognition. With these steps, implementing IFAS 72 is expected to significantly improve the quality of financial reporting.

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