



## THE EFFECT OF THE IMPLEMENTATION OF FINANCIAL ACCOUNTING STANDARDS ON THE QUALITY OF FINANCIAL STATEMENTS IN MANUFACTURING COMPANIES

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### Abstract

Manufacturing companies engage in complex transactions; therefore, strict compliance with Financial Accounting Standards (FAS) is essential to ensure high-quality financial reporting. This study analyzes the impact of the implementation of Financial Accounting Standards on the quality of financial statements in manufacturing companies. Financial statement quality is assessed using the qualitative characteristics of accounting information, namely relevance, reliability, understandability, and comparability. A quantitative research design is employed by distributing structured questionnaires to accounting and finance personnel in manufacturing companies. After conducting validity, reliability, and classical assumption tests, the data are analyzed using simple linear regression. The results indicate that the implementation of Financial Accounting Standards has a positive and statistically significant effect on financial statement quality. These findings suggest that higher compliance with Financial Accounting Standards leads to more reliable financial information that supports decision-making. This study provides empirical evidence that consistent implementation of accounting standards enhances financial reporting quality and offers practical implications for manufacturing companies seeking to improve transparency and accountability in financial reporting.

**Keywords:** *Financial Accounting Standards; financial reporting quality; manufacturing firms.*

### 1. INTRODUCTION

One of the primary ways to communicate an entity's financial information to stakeholders is through financial statements. Economic decision-making, performance evaluation, and assessment of a company's financial position are based on the data contained in financial statements. Therefore, in order for financial statements to provide relevant and reliable information to users, they must be of high quality (IASB, 2018). Qualitative characteristics of accounting information, such as relevance,

reliability, understandability, and comparability, are commonly used to assess the quality of financial statements (Kieso et al., 2020).

The quality of financial statements does not depend solely on how strictly Financial Accounting Standards (FAS) are implemented. Accounting standards regulate how financial transactions are recognized, measured, presented, and disclosed, so that financial statements are prepared properly and in accordance with generally accepted accounting principles (Deegan, 2022). Appropriate standards are expected to enhance reporting transparency, reduce information asymmetry, and increase users' confidence in financial statements (Bushman & Smith, 2001).

Inventory, production costs, fixed assets, and revenue recognition are examples of complex transactions commonly found in manufacturing companies. Due to this complexity, financial statements must be able to accurately reflect the company's economic condition when financial accounting standards are applied consistently and accurately (Horngren et al., 2019). Therefore, the manufacturing sector provides an appropriate setting to examine the relationship between the implementation of accounting standards and the quality of financial statements.

Although accounting regulations have been established and mandated for businesses, they are sometimes not properly implemented. The level of compliance with standards may be influenced by differences in human resource competence, accounting technical expertise, and the support of accounting information systems (Soderstrom & Sun, 2007). If accounting standards are not properly followed, the quality of financial statements may decline. Ultimately, users of financial statements may make incorrect decisions (Healy & Wahlen, 1999).

Previous studies indicate that the implementation of accounting standards improves the quality of financial statements. Research by Barth et al. (2008) shows that the adoption of IFRS-based accounting standards enhances the relevance and quality of accounting information. Ahmed et al. (2013) report similar findings, showing that higher compliance with accounting standards is associated with improved financial reporting quality. However, according to Ball (2016), various studies demonstrate differing results depending on the type of business and the institutional environment.



## 2. RESEARCH METHODOLOGY

This study employs a quantitative approach with a causal associative research design. The objective of this research is to examine how the implementation of Financial Accounting Standards affects the quality of financial statements in manufacturing companies. A quantitative approach is chosen because this study tests hypotheses using numerical data and statistical analysis.

The focus of this research is on the implementation of financial accounting standards and the quality of financial statements in manufacturing companies. Operationally, the study concentrates on the financial statements of manufacturing firms that apply Financial Accounting Standards in the preparation of their financial reports.

During the research period of 2021–2023, manufacturing companies listed on the Indonesia Stock Exchange (IDX) are used as the empirical subjects of the study. The selection of manufacturing companies listed on the IDX is based on the availability of audited financial statement data and the requirement for these companies to consistently comply with Financial Accounting Standards.

## 3. RESULTS AND DISCUSSION

Manufacturing companies listed on the Indonesia Stock Exchange (IDX) are the subjects of this study for the period 2021–2023. A total of 30 manufacturing companies were selected as the research sample based on purposive sampling criteria. Each company was observed once, resulting in a total of thirty observations.

The quality of financial statements is the dependent variable in this study, while the implementation of Financial Accounting Standards (FAS) serves as the independent variable.

**Tabel 1. Descriptive Statistics Result**

Variabel	N	Minimum	Maksimum	Mean	Std. Deviasi
Implementation of SAK (X)	30	0,60	0,95	0,81	0,09
Quality of Financial Statements (Y)	30	0,58	0,93	0,79	0,10

Source: Secondary data processed by researchers



Manufacturing companies have an average level of implementation of Financial Accounting Standards of 0.81, according to the results of descriptive statistics. Based on the descriptive statistics results, manufacturing companies have an average level of Financial Accounting Standards implementation of 0.81. This indicates that the companies have implemented accounting standards fairly well. Furthermore, with an average financial statement quality score of 0.79, the financial statements of manufacturing companies are generally classified as being of good quality.

The normality test was conducted using the Kolmogorov–Smirnov test. The significance value of 0.200 is greater than 0.05; therefore, it can be concluded that the data are normally distributed.

**Tabel 2. Normality Test Result**

Variabel	Asymp. Sig. (2-tailed)
Residual	0,200

Source: Secondary data processed by researchers

The significance value is greater than 0.05; therefore, heteroscedasticity does not occur.

**Tabel 3. Heteroscedasticity Test Result**

Variabel	Sig.
Implementation of SAK	0,412

Source: Secondary data processed by researchers

The regression model obtained is:

$$Y = 0,215 + 0,713X$$

The regression coefficient of 0.713 indicates that, assuming other variables remain constant, each one-unit increase in the implementation of Financial Accounting Standards will increase the quality of financial statements by 0.713.



**Tabel 4. Simple Linear Regression Analysis Result**

Variable	Coefficient ( $\beta$ )	t-value	Sig.
Constant	0,215	2,134	0,041
Implementation of SAK (X)	0,713	6,982	0,000

Source: Secondary data processed by researchers

The results of the t-test show that the variable representing the implementation of Financial Accounting Standards has a significance value of 0.000, which is less than 0.05. Therefore, the research hypothesis is accepted.

Manufacturing companies gain significant benefits from the implementation of financial accounting standards.

An  $R^2$  value of 0.610 indicates that 61% of the variation in the quality of financial statements can be explained by the implementation of Financial Accounting Standards, while the remaining 39% is influenced by other factors not included in the research model. The results of the study show that the implementation of Financial Accounting Standards has a positive and significant effect on the quality of financial statements in manufacturing companies.

These findings indicate that the quality of financial statements is positively correlated with the level of accounting standards implementation. Well-implemented accounting standards enable companies to prepare financial statements in a consistent, clear, and generally accepted manner. As a result, financial statements become more useful for users in making economic decisions, as the financial information provided is more relevant and reliable.

The results of this study are consistent with financial reporting theory, which states that accounting standards play an important role in improving the quality of financial information. In addition, these findings support previous studies suggesting that compliance with accounting standards can enhance the quality of financial statements and reduce information asymmetry.

Manufacturing companies must properly apply Financial Accounting Standards due to the presence



of many complex transactions, such as inventory management, production costs, and asset accounting. Inaccurate implementation of standards has the potential to reduce the quality of financial statements. Consequently, the findings of this study indicate that a better understanding of financial accounting standards and stronger compliance with them are essential efforts in improving the quality of financial statements in manufacturing companies.

This study demonstrates that the quality of financial statements in manufacturing companies is strongly influenced by the implementation of Financial Accounting Standards (FAS). This analysis is conducted to substantively interpret the statistical results and to relate them to the research objectives and relevant theories. The results of the descriptive statistical analysis indicate that manufacturing companies generally comply with Financial Accounting Standards. The high average value of FAS implementation suggests that most companies have considered recognition, measurement, presentation, and disclosure in the preparation of their financial statements. This condition indicates that companies understand the importance of applying accounting methods as the foundation for financial reporting.

Furthermore, as shown by the results of the simple linear regression analysis, the implementation of Financial Accounting Standards improves the quality of financial statements. The positive regression coefficient indicates that higher levels of FAS implementation are associated with better financial statement quality. In other words, the more consistently and accurately companies apply accounting regulations, the higher the quality of the financial information produced. The results of the t-test hypothesis testing show that the significance value is below the predetermined significance level ( $\alpha = 0.05$ ). This finding indicates that the effect of Financial Accounting Standards implementation on the quality of financial statements is statistically significant. Therefore, the research hypothesis stating that the implementation of Financial Accounting Standards helps manufacturing companies improve the quality of their financial statements is accepted.

Based on the coefficient of determination ( $R^2$ ) analysis, most of the variation in financial statement quality can be explained by the implementation of Financial Accounting Standards. However, other factors also influence financial statement quality, such as the quality of human resources, the effectiveness of internal control systems, the role of auditors, and the use of accounting information systems. This suggests that financial statement quality is not influenced solely by accounting



regulations.

Substantively, this study indicates that the implementation of Financial Accounting Standards enhances the quality of financial statements, particularly in terms of relevance, reliability, comparability, and understandability. Manufacturing companies, which typically face complex transactions, can benefit from the consistent application of accounting standards to reduce recording errors, increase transparency, and improve the quality of financial information disclosure. Consequently, this analysis shows that Financial Accounting Standards are not only a legal requirement but also an important tool for improving the quality of financial statements. These results support the view that compliance with accounting standards is a key component in producing reliable financial reports that are beneficial to users.

#### **4. CONCLUSION**

Based on the research findings and discussion, it can be concluded that the implementation of Financial Accounting Standards has a positive and significant effect on the quality of financial statements in manufacturing companies. This indicates that the quality of financial statements prepared by manufacturing firms is closely related to the level of implementation of Financial Accounting Standards. By consistently and appropriately applying financial accounting standards, financial statements become more relevant, reliable, understandable, and comparable.

Compliance with accounting standards is particularly important for manufacturing companies that engage in numerous complex transactions, as it can reduce recording errors, enhance transparency, and improve the quality of financial information disclosure. The results of this study also show that the implementation of Financial Accounting Standards plays a substantial role in explaining variations in the quality of financial statements. However, there are other factors outside the scope of this study that also influence financial statement quality.

Therefore, Financial Accounting Standards function not only as formal guidelines for financial reporting but also as strategic tools for improving the quality of financial information, thereby providing greater benefits to stakeholders.

Based on the research findings and discussion, it can be concluded that the implementation of



Financial Accounting Standards has a positive and statistically significant effect on the quality of financial statements in manufacturing companies. This indicates that the quality of financial statements produced by manufacturing firms is closely associated with the extent to which Financial Accounting Standards are implemented. Consistent and proper application of these standards enhances the relevance, reliability, understandability, and comparability of financial statements.

Compliance with accounting standards is particularly crucial for manufacturing companies that engage in numerous complex transactions, as it helps reduce recording errors, increase transparency, and improve the quality of financial information disclosure. The results of this study also demonstrate that the implementation of Financial Accounting Standards contributes substantially to explaining variations in financial statement quality. Nevertheless, other factors beyond the scope of this study also influence financial reporting quality.

Therefore, Financial Accounting Standards serve not only as formal guidelines for financial reporting but also as strategic instruments for improving the quality of financial information, thereby providing greater value to stakeholders.

## **REGARDS**

Give credit to those who helped with this research.

## **CONFLICT OF INTEREST**

The authors have no conflicts of interest to report.

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