The Implement Positive Theory Of Accounting Policy and Disclosure in Chemical Corporation

Wibisono[1], Sapta Lestari[2] Iskandar Muda[3]
[1,2,3]*Universitas Sumatera Utara, Medan, Indonesia*
wibisono128@yahoo.com

Abstract. This research was conducted to find out how the implementation of positive accounting theory in determining accounting policies in chemical companies. Accounting theory on the basis of three hypotheses that are built can assist companies in determining the direction of accounting policies that will be applied by the company. In this study the method used is descriptive method by providing an in-depth description and analysis based on existing theories and the financial condition of the company. Searching for data sources in this study through literature study and literature review as well as observation of company financial reports illustrates that positive accounting theory has a relevant influence on the direction of accounting policies that are strengthened by chemical companies. To see the extent to which the impact of the implementation of positive accounting theory on companies is observed and indicators of profitability ratios and company size, based on the data that has been collected that applying and implementing positive accounting theory will have a significant impact on the running process of the company in terms of the accounting policies set company.
Keywords : Accounting Policy, Disclosure, Chemical Corporation, Theory Positive Accounting

INTRODUCTION

Accounting principles are the rules and regulations that companies choose to use to prepare and present their financial statements. Accounting policies are of utmost importance as they set the framework that all companies follow. Like other financial policies, accounting policies improve performance in many ways. Recognizing the benefits of a well-structured accounting policy can also help you design and implement accounting policies within your organization to improve both the efficiency and productivity of your financial operations (Nasution et al, 2020).

In the early 20th century, accounting theory became more prescriptive (focused on what to do) as accounting theory focused more on accounting policy issues. At the time, little attention was paid to the empirical validity of hypotheses related to normative theories. Positive Accounting Theory (TAP) was developed around the 1960s due to a contradiction between the efficient market hypothesis and existing assumptions in the accounting literature (Nasution et al., 2020). Accounting researchers have adopted the "property rights" theory. This theory states that a company is a meeting place for various interest agreements (contractual relationships) between different people. Businesses try to minimize various contract costs, such as: B. Negotiation costs, labor supervision costs, bankruptcy estimation costs, etc. Most of these contracts consist of accounting variables, for example employee promotions and compensation may be based on accounting KPIs such as net income.

TAP said its accounting policies were chosen within the framework of the problem of minimizing contract costs. Mian and Smith (1990) predict that the preparation of consolidated reports for external reporting will be less expensive, as it will be more efficient to use consolidated financial reports to monitor the performance of managers. increase. However, TAP does not actually endorse companies and (the standard-setters) do not specify which accounting principles to use. This is because accounting principles are too expensive. This gives administrators the flexibility to choose accounting policies and allows them to set policies on a case-by-case basis.

It begins with Watts and Zimmerman's seminar paper in Accounting Review entitled "Towards an empirical theory of accounting standard determination" (1978). This paper seeks to criticize the accounting standard-setting process in the United States, where standards are set by various parties. It involves the federal government, accountants, the public, accounting professionals, executives of large corporations, and others. Against this background, Watts and Zimmerman (1978) tried to develop a positive theory about the development of accounting standards, hereinafter known as positive accounting theory (PAT). The theory was originally intended to provide a better understanding of the sources of pressure that drive the accounting standard setting process, the impact of various accounting standards on various users and the allocation of resources, and why various groups wish to influence or be involved in accounting standard setting. Furthermore, the theory predicts that managers tend to choose accounting standards that will report lower profits so they can increase their cash flow, firm value, and wealth because by reporting lower profits they will be able to make tax savings, minimize political pressure, and etc. Furthermore, this theory suspects that the company wants to be involved in setting accounting standards because of government intervention where the company is under contract with the government through various existing regulations. Thus the company hopes that various government regulations and accounting standards that will be produced will not affect the company's cash flow in the future. One year later, namely in 1979, the same authors, Watts and Zimmerman (1979) wrote a follow-up paper entitled "The Demand for and Supply of Accounting Theories: The Market for Excuses" which was also published in The Accounting Review. The article criticized various accounting theories that existed at that time which were generally prescriptive, where most of the authors were more concerned with how the contents of financial reports should be published and what companies should do, so that accounting theory had absolutely no effect on accounting practice and policies that existed at that time.This situation is often referred to as normative accounting theory which is considered a failure to satisfy accountants and tends to be difficult to be accepted by standard setters.

Given the above developments, we can conclude that the purpose of accounting theory is to provide a set of principles and observable relationships to national accounting practices to explain and predict the management of firms. . In other words, the principles and methods of empirical accounting theory should be able to explain matters related to accounting practice, such as profit unit accounting, in a manner acceptable to practitioners. Furthermore, empirical accounting theories must be able to be tested at any time by deductive or inductive reasoning through various studies in the field of accounting. Ahmadi (2011) and Bazrafshan and Talebnia (2016) explain that empirical accounting theory is based on a pre-defined conceptual framework of experimental content. Kabir (2011) explains that positive accounting theory has emerged as one of the most influential approaches to accounting research in the last 40 years, producing many empirical studies on the relationship between accounting figures and stock prices and earnings. doing.

LITERATURE REVIEW

Accounting Policy

According to the Supreme Court of Appeals (BPK), the Accounting Guidelines are guidelines for the preparation and presentation of general purpose annual financial statements (general purpose financial statements) for municipalities, which serve the interests of the majority of users of financial reports. It can meet (stakeholders), allows comparison of annual results between budgets, periods or companies.

Accounting policies include the selection of principles, bases, conventions, rules and procedures used by management in preparing and presenting financial statements. Multiple types of accounting principles can be used for the same topic. Consideration and/or selection should be made in the context of the organization. The objective of the most relevant policy decisions is to accurately describe the economic reality of a company in terms of its financial condition and operating performance. According to PSAK (2015) Accounting Principles are the principles, bases, conventions, regulations and specific practices adopted by Bank Indonesia in the preparation and presentation of financial reports.

Written by Elden S. Hendricksen, Translated by Marianus Sinaga (2001) says: "Accounting standards are the process by which companies select all reporting methods, alternatives, measurement systems, and specific disclosure techniques available for financial reporting." Financial Accounting Standards (2002) Accounting policies include the selection of principles, bases, conventions, rules and procedures used by management in preparing and presenting financial statements.

Types of accounting policies:

The accounting policies are classified into two types which are :

1. Conservative Politics:

Conservative policies highlight a company's current financial position and indicate better economic performance over the next few years (Muda and Landau, 2019). It's a lasting approach that companies can see improving over the years, and it bodes well for investors.

2. Proactive Policy:

Aggressive policies tend to exaggerate early accounting policy advances, resulting in significantly lower corporate performance in the years that follow. These policies can also lead to rejection from investors if they feel mismanaged anywhere in the operation.

Disclosure of Accounting Policies:

When providing a proper understanding of financial statements, it is mandatory to disclose every accounting policy adopted in the presentation of financial statements (Kholis et al., 2020). Such revealing information must be a form of financial statements. It would be feasible for the financial statement's reviewer if all the data is in one place rather than being scattered over various statements or notes. Any alteration in the accounting policy which has a significant effect should always be informed.

Positive Accounting Theory

Godfrey et al. (2010) pointed out that empirical accounting theory has become a major subject of academic research related to accounting. Active accounting theory departs from the approach of prescriptive accounting theory to develop theoretical models of contractual exchanges between people that use accounting numerically to influence payment transactions between people. and empirical experiments of these theoretical models. Researchers need a model of accounting principles that explains why accountants record transactions the way they do today. A study on positive accounting principles has found for the first time that numerical accounting can play an important role in contractual relationships to minimize the costs of inter-agency relationships.

Disclosure of social and environmental information is a subject that attracts the interest of many researchers from various theoretical perspectives. The most popular viewpoint is Watts and Zimmerman's Positive Accounting Theory (1986). Positive Accounting Theory (PAT) is an expression of neoclassical economic theory. Fundamental is a belief in rational choice theory. H. Material selfishness, commonly called opportunistic behavior, as the basis of all economic activity. Thus, in Positive Accounting Theory (PAT), self-interest (opportunistic behavior) drives choices in accounting methods and techniques, as well as policy decisions. In PAT, a company (organization, corporation, etc.) is described in terms of a set of contracts, or chain of contracts. Contracts are necessary for selfish individuals to cooperate. For example, contracts with management, investors, and employees (including management). Contracts are necessary to get each party to act in order to maximize the wealth of the owners (shareholders). However, there are contract costs associated with the contract, such as the cost of negotiating with parties and maintaining and monitoring the contract. PAT anticipates that this will influence applicable policies, including accounting principles, as firms seek to minimize contract costs (Graffikin, 2007).

Watts and Zimmerman (1986) argue that the purpose of positive accounting theory is to describe, explain, and predict management's accounting practices. This makes it clear which companies publish certain information, such as corporate disclosures. Since positive theory is based on empirical information and is not prescriptive, the positive accounting approach says nothing about which reporting method should be used. Watts and Zimmerman (1990) identified three key hypotheses commonly used in the PAT literature to explain and predict whether an organization would support or reject a particular accounting policy. These hypotheses are called the executive compensation hypothesis (bonus plan hypothesis), the debt hypothesis (debt/capital hypothesis), and the political cost hypothesis. Empirical accounting theory predicts and explains the events that occur in accounting practice to help companies choose the accounting principles and methods they use (Watts and Zimmerman, 1990). Therefore, information and transaction costs should be presented by accounting researchers. Watts and Zimmerman (1990) divide positive accounting theory into three hypotheses, including the bonus plan hypothesis, the debt commitment hypothesis, and the political cost hypothesis.

1. Bonus plan hypothesis

   In the bonus plan hypothesis, company managers tend to choose accounting policies and methods that will increase the company's profits for the current period.
2. Debt covenant hypothesis

   The debt agreement hypothesis predicts that the greater the company's debt-to-equity ratio, the more likely it is that the use of accounting policies and methods will increase profits in the current period. This is caused by the higher the ratio of debt to equity, the closer the company is to the limits on the debt agreement which will lead to the possibility of violating the agreement and incurring technical costs.
3. Political cost hypothesis

   The political cost hypothesis assumes that large firms tend to reduce or delay reported profits relative to smaller firms. This is due to the existence of political costs incurred by businesses in relation to enacted legislation. The bigger the company, the higher the political cost it has to bear. One of the political costs that companies bear is paying taxes. Taxes are paid by corporations to meet their obligations to the government. The political cost hypothesis causes companies to cut or delay earnings reporting for the current period. One of the opportunistic measures companies take to reduce their profits is to engage in aggressive transfer pricing activities in the form of shifting corporate profits and expenses to tax havens or high or low tax countries.

Functions of Accounting Theory

1. Fulfillment of educational aspirations (educational claims).

In this case, the accounting procedure is designed to reduce agency costs for contracts within the enterprise. Since these costs differ from company to company, the accounting treatment also differs from company to company, with different methods and formats. Diversification of accounting practices automatically makes it difficult to communicate accounting practices across countries. For this reason, accounting teachers are trying to develop educational tools to support the accounting learning process and help students understand the structure of the fluctuations that occur in practice.

2. Respond to information requests.

In an unregulated economy, it is not enough for authors to explain differences in accounting practices. For example, you need information to predict the health impact of your accounting practices and to inform all parties involved in your business. In other words, accounting theory is expected to explain the diversity of accounting practices around the world.

3. Fulfillment of Justification Claims.

Numerous studies have shown that managers in corporate management often put their own interests ahead of those of their shareholders. Therefore, it is necessary to justify the actions of managers, for example, if they can benefit from the possibilities of existing accounting methods. Approach Positive accounting theory has made a significant contribution to the development of accounting according to Watt Zimmerman (1986).

a. Generate systematic patterns in accounting choices and provide specific explanations.
b. Provides a clear framework in understanding accounting
c. Demonstrate the main role of contracting costs in accounting theory.
d. Explain why accounting is used and provide a framework for predicting accounting choices.
e. Encouraging research relevant to accounting and emphasizing predictions and explanations of phenomena

Profitability

Profitability is the ability of a company to achieve within a certain period of time. The basis for assessing profitability is the annual financial statement, which consists of the company's balance sheet and income statement. Based on these two financial reports, it is possible to determine the analysis of a number of indicators and use these indicators to assess certain aspects of the company's operations. The purpose of profitability analysis is to measure a company's ability to generate profits in terms of both sales, assets and capital. Profitability results can therefore be used to assess or describe the effectiveness of management's performance in terms of profits achieved relative to the company's sales and investment results. Financial reports such as balance sheets, income statements and cash flows are analyzed using analytical tools that suit the analyst's needs. Financial analysis tools include: Source and use of funds analysis, comparative analysis, trend analysis, leverage analysis, break-even point analysis, financial ratio analysis, etc. This study uses return on assets (ROA) ratios to measure profitability.

Firm Size

According to Bahaudin and Wijayanti (2011), firm size can be divided into three categories: large (large), medium (medium), and small (small). Companies categorized as large companies have more complex systems and higher profits than SMEs, so large companies also face greater risks. Large companies also face high political costs, so they tend to use conservative accounting principles to reduce political costs (Deviyanti, 2012). In this study, researchers used company total assets to measure company size.

METHODS

This search was performed using library and internet search approaches. It is a research method that collects various documents related to research themes obtained from libraries and the Internet, financial reports of chemical companies, etc., and serves as reference materials for grasping the outline of the practice of accounting theory. positive. Within the framework of this study, Internet sources were the main reference sources for collecting various references from various previous studies relevant to the issues addressed in this study, as well as various international publications. Published in peer-reviewed journals. By collecting historical literature research and company financial data and linking them to theory, we will explain in detail how positive accounting theory can be applied to the accounting principles of chemical companies.

RESULT & DISCUSSION

RESULT

Profitability

Based on the financial reports that have been collected and observed by researchers, it is found that the total assets are presented in the following Table 1:

Table 1. The sample of companies

Companies	2019	2020	2021
Aneka Gas Industri Tbk	1,47	1,40	2,59
Barito Pacific Tbk	1,90	1,90	3,20
Intan Wijaya International Tbk	3,41	6,76	2,16
Ekadharma International Tbk	7,99	8,87	9,31

Sources : Data Tabulation (2023).

Based on the data in the Table 1 above, it can be concluded from a sample of companies that have been observed by researchers that the ratio used to measure the profitability of chemical companies, namely the ratio of return on assets (ROA), has mostly increased from year to year, based on these data this indicates that chemical companies applying positive accounting theory which is a practical form of positive accounting theory is smoothing income or equal distribution of profits which means that the process of smoothing income in chemical companies is running and is also achieved by increasing ROA which means company profits also increase every year, and also through the bonus plan hypothesis of course given to the staff and staff who are to motivate and spur performance so that the company's operational processes in optimizing profits are achieved.

Firm Size

Based on the financial reports that have been collected and observed by researchers, it is found that the total assets are presented in the following Table 2:

Table 2. The Total Assets

Companies	2019	2020	2021
Aneka Gas Industri Tbk	7.020.980	7.121.458	8.164.599
Barito Pacific Tbk	7.182.435	7.689.555	9.241.551
Intan Wijaya International Tbk	405.445	444.866	510.699
Ekadharma International Tbk	968.234	1.081.980	1.165.565

Sources : Data Tabulation (2023).

Based on the data from the table above, it can be concluded that the total assets of chemical companies are increasing every year, which indicates that the company's firm size is increasing every year. By deciding to add assets, it will affect the company's operational activities which will lead to increasing and optimizing the company's income.

DISCUSSION

Positive Accounting Theory Against Accounting Policy in chemical companies

Bonus Plan Hypothesis

This study uses the firm's profitability ratio to show that the bonus planning hypothesis based on positive accounting theory is carried out by the firm. This, along with the bonuses granted, is sure to motivate all elements within the company to be optimized or increased. company profit (Evadine et al., 2022). The bonus plan hypothesis states that managers of firms with bonus plans (linked to reported income) are more likely to use accounting methods that increase reported income for the period (Watts and Zimmerman, 1979). When managers are rewarded for their performance, for example, through stock prices and earnings, they aim to increase stock prices and earnings to maximize their wealth (Deegan and Unerman, 2005). Similar to the reasoning associated with the bonus plan hypothesis, this study found empirical evidence to support the hypothesis that a company's bonus plan has a positive relationship to its accounting policies.

Debt/equity hypothesis

The level and size of firms, and the rate of return that increases each year, reliably answer the debt capital hypothesis. Debt contracts ensure that creditors' lending is increased or limited depending on the size and ability of the company to generate profits. company. With respect to debt agreements, it is stipulated that the greater the company's debt or equity, and the greater the potential for costs arising from breach of contract or technical failures, reflecting the firm's stringent adherence to the limits contained in the debt agreements. and the more managers there are, the more likely they are to use accounting methods that increase profits. The results showed, in most cases, a correlation between leverage and the level of corporate social and environmental disclosure. This finding echoes his Belkoui and Karpik that highly indebted companies may adhere to strict covenants because of the negative relationship between debt and corporate social and environmental disclosures. (1989). This increases the company's ability to devote resources to its social and environmental activities and to disclose information about its social and environmental activities. A decision to disclose a company's social and environmental activities will reduce the company's revenue. Therefore, companies with high debt will reduce the level of disclosure on social and environmental aspects.

Political cost hypothesis

This study found empirical evidence to support the hypothesis that monitoring costs (which vary by size) are positively correlated with a company's level of social and environmental disclosure. Decliftif analysis also reveals that size is a predictor or important explanatory variable influencing policy costs. Size is often used as an indicator of public visibility. Larger companies are more likely to be subject to stakeholder scrutiny because they are more likely to receive more attention from external groups and negative stakeholder reactions. Larger companies, on average, are more diverse across geographies and product markets, and therefore have larger and more diverse stakeholders. The result is that companies with high profile in the political arena and thus an attractive target for government-imposed wealth transfers (taxes, regulations, government subsidies, etc.) have minimal political costs. This supports the political cost hypothesis that there is an incentive to disclose information more voluntarily in order to do so. Cost (Watts & Zimmerman 1986). Similar to previous studies, large, high-profile companies in Indonesia are more likely to consider social and environmental activities and information disclosure as a way to improve their corporate reputation.

CONCLUSION

The existence of positive accounting theories has contributed significantly to the development of accounting, produced systematic patterns in accounting decisions, provided concrete explanations for these patterns, and provided a clear framework for understanding accounting. , clarified the main role of contract costs in accounting. It explains theory, explains why accounting is used, and provides a framework for predicting accounting decisions. They promote accounting-related research with a focus on predicting and explaining accounting phenomena. PAT appears to provide a solution to the weaknesses of prescriptive accounting. Positive accounting theory is characterized by its main characteristic of always asking what a company's accountant should do in determining the accounting policies a company uses, and is descriptive. In the results and discussion of this study, it was found that chemical companies have adopted a positive accounting theory that can be used to set corporate accounting policies and have the effect of optimizing corporate objectives and the growth of chemical companies.

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