

# Valuing PSAK 64 in reducing conservatism in the extractive industry

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## ABSTRACT

In 2011, the Indonesian Institute of Accountants (IAI) issued PSAK 64, which adopted IFRS 6 concerning exploration for and evaluation of mineral resources. It is assumed that this adoption will improve the quality of financial reporting. This current study examines the impact of PSAK 64 implementation and other related factors on financial statement conservatism. The data were collected by using data from extractive industries listed on the IDX over the period 2009-2010 and 2013-2014 to represent before and after IFRS-based PSAK mandatory implementation respectively. This study develops two regression models to analyze first, factors influence on conservatism before implementing PSAK 64 and second, the influential factors after implementing PSAK 64 by interacting among conservatism factors. The study found that exploration aggressiveness has influenced conservatism and there are no influential factors on conservatism when they interact. Generally speaking, there is a no different level of conservatism before and after implementing PSAK 64. This finding adds a body of literature on the accounting of extractive industry in Indonesia and is prospective for countries having yet adopted IFRS.

## ABSTRAK

Pada 2011, Ikatan Akuntan Indonesia (IAI) menerbitkan PSAK 64 yang mengadopsi IFRS 6 tentang Aktivitas Eksplorasi dan Evaluasi pada Pertambangan Sumber Daya Mineral. Diasumsikan adopsi ini akan meningkatkan kualitas pelaporan keuangan. Penelitian ini mengkaji dampak penerapan PSAK 64 dan faktor terkait lainnya terhadap konservatisme laporan keuangan. Penelitian ini mengambil data dari industri ekstraktif yang terdaftar di BEI selama periode 2009-2010 (periode sebelum PSAK berbasis IFRS diwajibkan) dan 2013-2014 (periode setelah PSAK berbasis IFRS diwajibkan), penelitian ini mengembangkan dua model regresi untuk menganalisis rumusan masalah penelitian, yaitu pertama, faktor-faktor yang mempengaruhi konservatisme sebelum menerapkan PSAK 64, dan kedua, faktor-faktor yang berpengaruh setelah penerapan PSAK 64 dengan menginteraksikan antar faktor konservatisme. Studi ini menemukan bahwa agresivitas eksplorasi telah mempengaruhi konservatisme dan tidak ada faktor yang berpengaruh pada konservatisme ketika mereka berinteraksi. Secara umum, tidak ada perbedaan tingkat konservatisme sebelum dan sesudah penerapan PSAK 64. Temuan ini selain akan menambah literatur tentang akuntansi industri ekstraktif di Indonesia, ia juga prospektif bagi negara-negara yang belum mengadopsi IFRS.

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## 1. INTRODUCTION

Accounting for extractive industries has been the subject of academic discussion since the 1970s (Power, Cleary, & Donnelly, 2017). In general, this is due to the majority of the extractive industries that are high profile, economically significant, and have globally spanned operations and, in turn, they are inextricably linked with political and economic aspects of the world (Abdulrahman & Abdal, 2019; Cortese, 2011, 2013). Therefore, the choice of accounting policies for the industry is a critical topic for many interested parties due to the economic consequences it causes.

Conservatism in the extractive industry is a classic issue that has been discussed up to the present time. The principle of conservatism emphasizes the concept of prudence in selecting accounting methods to result in less valuation possibility of income and assets. Agency theory points out that the conservatism level associated with information asymmetry in manager-investor relations is inseparable from the selected accounting policies to maximize the wealth of the parties that are engaged in (Jensen & Meckling, 1976).

Implementing IFRS-based accounting standards can facilitate greater flexibility in accounting choice policy and professional judgment (Ahmed, 2020). Therefore, it can be assumed that manager can use these facilities to reduce the level of conservatism in financial reporting (Bodle, Cybinski, & Monem, 2016; Fearnley & Gray, 2015; Guerhazi & Khamoussi, 2018). This conservatism principle is essential because it can help accountants to record events or transactions containing uncertainties or estimates. In other words, an accountant should always be lean towards the most conservative side of every transaction. For that reason, it will be beneficial to analyze the relationship between conservatism and reporting practice.

The motivation of reporting—which is usually constructed from the various interest of institutional factors—is essential for managers when determining the flexibility offered by standards. Therefore, the presence of interest differences in institutional factors (Manganaris, Spathis, & Dasilas, 2016; Nobes, 2014; Outa, Ozili, & Eisenberg, 2017; Shimamoto & Takeda, 2020; Smith, Ren, & Dong, 2011; Zeghal & Lahmar, 2018), have raised the question of whether the adoption of IFRS in Indonesia (de jure harmonization) can improve the quality and comparability of

reporting practices (de facto harmonization) (Fearnley & Gray, 2015). The study aims to test whether the implementation of mandatory PSAK 64 improves the conservatism quality of reporting practices by the extractive industry in Indonesia.

There have been some previous studies concerning IFRS and PSAK. For example, Marsoem & Mita (2019) examine the impact of IFRS adoptions on the analysts' forecasts in Asia countries and they found that the quality of financial reporting increases. Another researchers, Sari & Sarumpaet (2019) found that IFRS is more conservative in conditional conservatism. Koharyanto & Christiawan (2013) examine investors' response to the issuance of PSAK 64 and they found that investors did not respond. Rosdini (2014) argues that the application of the PSAK 64, which refers to IFRS 6, might affect the quality of earnings and in turn reduce conservatism in financial reporting. Li, Wu, Zhang, & Chand (2018) found that accounting reforms in China have restricted the ability of managers to conduct conservatism. A number of studies found that industrial characteristics (Birt, Rankin, & Song, 2013; Manganaris et al., 2016; Wise & Spear, 2002), level of ownership (Kabir, Worthington, & Gupta, 2015) and auditors (Dimitropoulos, Asteriou, Kousenidis, & Leventis, 2013; Piot, Dumontier, & Janin, 2011) have influenced the level of conservatism.

The main characteristic of the extractive industry is the level of exploration activity or exploration aggressiveness. The level of exploration activity carried out by the extractive industry has an impact on company revenues because it is calculated from the ratio of total capitalization to exploration activity costs recognized as assets to total revenues in the period (Wise & Spear, 2002). In this context, the implementation of the PSAK 64 allows companies to consistently recognize exploration and evaluation costs as assets based on various corporate policy considerations (Rosdini, 2014).

The amount of total exploration costs that are recognized indirectly affects profits for the period. The greater the exploration cost which is recognized as an asset, the higher the company's profit is and this has an impact on the reduced level of company conservatism. Companies with low managerial ownership or no managerial ownership will cause management to act as agents in the company and not as shareholders (Kabir & Laswad,

2015). It is assumed that the manager through the accounting policies stipulated in the PSAK 64 will design earnings to be an overstatement because he/she attempts to attain a bonus through the fulfillment of profit target. Therefore, these managers ignore the principle of conservatism. The big-four auditors are one of the parties who play a role in the process of issuing IFRS 6 (Cortese, 2013). It is assumed that companies audited by big four public accountants tend to be less conservative than companies audited by non-big four public accounting firms (Piot et al., 2011).

Several studies concerning the association between institutional factors and conservatism in Indonesia have been conducted (Juniarti, Helena, Novitasari, & Tjamdinata, 2018; Kartika, Subroto, & Prihatiningtyas, 2015; Rosdini, 2014). However, only a few studies focus on the PSAK 64 concerning the conservatism of financial reports published by extractive industries (Marziana & Aswadi, 2018). The gap as shown in the previous studies motivate the researchers to conduct a research by using the perspective of agency theory to answer the problem of whether the implementation of the PSAK 64 reduces financial reporting conservatism, whether corporate exploration aggressiveness, managerial ownership, and audit quality affect financial reporting conservatism, and whether the implementation of the PSAK 64 affects the relationship between firm exploration aggressiveness, managerial ownership, auditor quality and financial reporting conservatism.

The study is beneficial due to the diversity of findings regarding conservatism (Barhamzaid, 2019; Guermazi & Khamoussi, 2018; Piot et al., 2011; Zeghal & Lahmar, 2018). Recent evidence based on data collected from extractive industries in other countries may have different consequences from the previous ones (Bird, Grosse, & Yeung, 2013; Gebhardt & Novotny-Farkas, 2011; Lai, Lu, & Shan, 2013; Zhou, Birt, & Rankin, 2015). The study about conservatism of accounting standards is not fully developed (Mora & Walker, 2015). It is expected that the study proliferate the literature on conservatism in the extractive industry in Indonesia. Some countries perceive that converging or harmonizing to IFRS is not attractive (Clarkson, Hanna, Richardson, & Thompson, 2011). Therefore, this study focuses on the countries that have not adopted IFRS but have already announced their interest in adopting IFRS, and for regulators from various

jurisdictions who are interested in the impact of IFRS conversion.

## 2. THEORITICAL FRAMEWORK AND HYPOTHESIS

### Agency Theory, PSAK 64 and Conservatism

Accounting number is the most helpful for explaining the principal and agent relationship. Therefore, agents often manage the numbers as a means of maximizing their interest by doing earnings management (Watts & Zimmerman, 1990). Moreover, PSAK 64 is a principle-based accounting standard facilitating the agent's flexibility to make decisions that are considered beneficial to the company and its financial performance. Furthermore, the standard recognized as assets for exploration and evaluation costs is based on various corporate policy considerations. Thus, it is possible to reduce the company's conservatism in recognizing the company's expenses and profits.

PSAK 64 that is converging with IFRS-based accounting standard has the same perception as the full cost method in the recording of exploration and evaluation activities; that is, it recognizes the capitalization of all acquisition, exploration, and drilling costs, whether successful or not, as assets until the assets are matched with revenue of the project (Kulikova, Gubaidullina, & Arzhantseva, 2014). This principle differs from the successful effort method, which states that capitalization of pre-production costs is only for successful projects while for unsuccessful projects, pre-production costs are recorded as an expense. Therefore, implementing the PSAK 64 could indirectly influence the firm's profit.

### PSAK 64 and Conservatism

The main activity of the extractive industry is exploration and evaluation (Kulikova et al., 2014; Sturdy & Cronjé, 2014). When there is an indication that there are mineral resources in an area, the company needs to obtain a license for exploration, which is then followed by initial research and excavation activities through carefully topographic, geological, geochemical, and geophysical analysis as well as other stages of examination to obtain optimal quality results. Both of them are activities with high-risk characteristics and mostly it can find a low probability of commercial mining sources. In addition, there is a considerable lag between the process of mining, license, and an entity's benefiting production and an

incongruous correlation between recognized costs and revenue. Another feature of the extractive industry is the need for a huge amount of costs, less amount of reserves that can be recognized as assets, and the discovery of new reserves representing future income is not relevant enough to be recorded as income (Cortese, 2011).

Before the implementation of the PSAK 64, the costs of exploration and evaluation that could not prove their technical feasibility and commercial viability must be recognized as expenses. This practice causes the recognized expenses to be high thereby reducing the industries' revenues that are reported in the financial statements. After IFRS 6 is adopted into the PSAK 64, extractive industries that carried out a lot of exploration and evaluation activities, it shows a preference for applying the PSAK 64. This is due to the fact that it allows the recording of exploration and evaluation costs as assets for several periods before being tested for impairment (Rosdini, 2014). Therefore, the study develops a hypothesis as follows:

H<sub>1</sub>: The implementation of the PSAK 64 reduces the level of financial statements conservatism.

#### **Exploration Aggressiveness and Conservatism**

It is assumed that a company with a high level of exploration activity will have a lower level of conservatism. Rosdini (2014) uses the level of exploration and evaluation activity as a proxy to measure exploration aggressiveness. The value is measured by dividing the costs of exploration and evaluation activities with total income for a period. Further, she assumed that the application of the PSAK 64 strengthens the effect of exploration aggressiveness on reducing conservatism. As the exploration level of extractive industries is one of the main considerations for the industries to apply the PSAK 64, this study develops the hypothesis as follows:

H<sub>2</sub>: Exploration aggressiveness influences the level of financial statements conservatism.

#### **Managerial Ownership and Conservatism**

The company will likely choose conservative accounting if management has higher ownership. Consequently, the company does not only focus on high profits but also the long-term company continuity (Kabir & Laswad, 2015). Agency problem might reduce if management has greater ownership since they

have greater motivation to work on behalf of shareholders. Therefore, they tend to increase the value of the firm's shares as well (Jensen & Meckling, 1976). In relation to this evidence, Hou, Jin, & Wang (2014) found that managerial ownership designed in executive compensation has lowered the level of conservatism. On the basis of those assumptions and findings, the study develops the hypothesis as follows:

H<sub>3</sub>: Managerial ownership influences the financial statements conservatism.

#### **Audit Quality and Conservatism**

Audit quality is related to the auditors' knowledge and ability of disclosing violations of the accounting system principles (DeAngelo, 1981). Piot et al. (2011) found that conditional conservatism decrease after European countries implementing IFRS. However, the decrease is only for companies that are audited by the big public accounting firms. It can be inferred that big-4 accounting firms have better audit quality than non-big-4 accounting firms. Therefore, this study develops the hypothesis as follows:

H<sub>4</sub>: Audit quality influences the level of financial statements conservatism.

#### **Moderating Effect of PSAK 64 on The Relationship between Exploration Aggressiveness and Conservatism**

The bonus plan hypothesis is well explained as the managers' motivation for selecting accounting policies to maximize their bonus (Watts & Zimmerman, 1990). The implementation of the PSAK 64 allows firms to maximize their profits thus resulting in a higher amount of profits than before. In this circumstance, it can be inferred that the bonus plan hypothesis has been indirectly maintained and therefore disregarding the principle of conservatism. Wise & Spear (2002) stated that extractive industry exploration activities have an impact on company revenues. Based on the above assumptions, this study develops a hypothesis as follows:

H<sub>5</sub>: The implementation of the PSAK 64 influences the relationship between exploration aggressiveness and conservatism.

#### **Moderating Effect of PSAK 64 on the Relationship between Managerial Ownership and Conservatism**

Managers will be awarded a bonus for their good performance, which is measured based



on the firm's profit. Conservative financial reporting is a useful tool to facilitate contracts between shareholders and managers if agency problems emerge. For instance, if there is a conflict between managers' and shareholders' interests, agency issues become apparent. As a result, managers tend to be less conservative by reporting high profits to gain their bonus and disregarding the shareholders' interests (Watts & Zimmerman, 1990). Findings on the study of the relationship between managerial ownership and the level of financial reporting conservatism vary. Cullinan, Wang, Wang, & Zhang, (2012) found that manager ownership did not affect the level of conservatism. Furthermore, LaFond & Roychowdhury (2011) found that the problem of conservatism decreased with increasing managerial ownership. In other words, companies with small or no managerial ownership will encourage managers to act as agents working for their interests, namely maximizing their bonuses. Therefore, this study develops the following hypothesis:

H<sub>6</sub>: The implementation of the PSAK 64 influences the relationship between managerial ownership and the level of financial reporting conservatism.

### Moderating Effect of PSAK 64 on the Relationship between Audit Quality and Conservatism

Large public accounting firms usually have interested in being involved in the setting of accounting standards as a constituent providing a piece of advice for a draft of the standard. Given such a role of the auditors from big-4 accounting firms, it is assumed that companies audited by big four accounting firms tend to be less conservative than companies audited by non-big four accounting firms (Rosdini, 2014). Thus, it is predicted that the PSAK 64 in which the big four auditors are involved in setting up the standard affects the level of financial reporting conservatism.

H<sub>7</sub>: The implementation of the PSAK 64 influences the relationship between audit quality and the level of financial reporting conservatism.

## 3. RESEARCH METHOD

### Sampling Methods

The research data is all mining sector companies listed on the Indonesia Stock Exchange (IDX) with the following criteria:

- a. Mining companies listed on the IDX in 2009, 2010, 2013, and 2014. The reason for selecting the sample period is to examine how conservatism is affected by the implementation of the PSAK 64, which is effective on January 1, 2012. To examine the impact before and after implementing the standard, the study selects financial statements for yearly-ended 2009 and 2010 and 2013 and 2014 respectively as the sample periods. This study does not employ 2011' and 2012's financial statements to avoid early adopters of the PSAK 64 that might lead a bias toward study results (Heniwati, 2015).
- b. Mining companies listed on the IDX that have complete financial data for research purposes and have not experienced delisting or backdoor listing during the research period as well as result in not zero revenue.
- c. Outliers' data are excluded from research samples in order to avoid a bias in results.

### Variable and Measurement

#### Exploration and Evaluation Assets

This study uses the level of conservatism as the dependent variable. Conservatism is a principle in accounting that provides several alternative options for recording, where the alternative with the least results will be selected. As a result, the company will have get a smaller amount of profit or a greater amount of losses than before for a certain accounting period. Rosdini (2014) measures the level of conservatism in financial statements by dividing the exploration and evaluation costs which are recognized as assets according to the PSAK 64 with total assets. The higher the value obtained the lower level of the company's conservatism is and vice versa.

$$AsEE = \frac{\text{Recognized exploration and evaluation as assets}}{\text{Total assets}}$$

The independent variable for the study is the PSAK 64 that is effective on January 1, 2012. Then, the standard is revised in 2014 though it does not make a significant difference. The standard permits companies to determine accounting policies governing expenditures recognized as exploration and evaluation assets and adopt it consistently. Expenditures related to developing mineral resources are not recognized as exploration and evaluation assets.

The PSAK 64 is a dummy variable, which is taking value 1 for companies that have implemented the PSAK 64 (after 2012) and 0 for those that have not implemented the PSAK 64 (before 2012) during the sample period.

**Exploration Aggressiveness**

Exploration and evaluation activities are the core of activities for an extractive industry. Exploration is a complete field investigation to collect data and information regarding the existence of natural resources. This activity is vital to be carried out considering the existence of mineral distribution is unspecified, temporary by nature, and run out after a certain excavation period. Therefore, to determine the location of the distribution, a careful investigation is required of the quality, amount of reserves, and method of collection in order to reduce the risk of failure, material loss, work accidents, and environmental damage.

Rosdini (2014), measures the level of exploration and evaluation activities or exploration aggressiveness by dividing exploration costs with total revenue during a sample period.

$$AgE = \frac{\text{Incurred exploration costs}}{\text{Total revenue}}$$

**Managerial Ownership**

Managerial ownership is company management owning shares measured by the percentage of owned shares. The increase of managerial ownership is dealt with agency problems, as it will encourage the manager to have a longer horizon regarding firm value. As part of shareholders, managers motivate to improve the firm’s performance and, therefore, they will carefully make decision-making since it directly affects their benefits. Managerial ownership is measured with a certain percentage of company share owned by management (Al-Thuneibat, 2018; Kusumawati & Setiawan, 2019).

$$KMa = \frac{\text{Number of share owned by management}}{\text{Number of outstanding shares}}$$

**Audit Quality**

Audit quality is the market evaluation likelihood that the financial statements contain material errors and the auditor will find and report such material errors (DeAngelo, 1981). Besides that, audit quality is directly related to the size of the audit firm, which is measured by

the number of clients. The findings of DeAngelo (1981) indicate that a large audit firm tries to present a greater audit quality compared to that conducted by a small audit firm in order to maintain its reputation.

The audit quality variable is a dummy variable, which is taking value 1 for companies audited by big-four accounting firms and 0 for those that are not audited by big-four accounting firms.

**Linear Regression Analysis**

For testing whether the PSAK 64 and other factors reduce financial reporting conservatism, this study develops two models that facilitate by separating the level of conservatism between before and after implementing IFRS-based PSAK 64. This is done by extractive industry to measure exploration and evaluation. Therefore, the model involving dummy variables is developed to test the hypotheses constructed, namely (1) PSAK 64 and other factors affect financial statement conservatism and (2) PSAK 64 interaction with other factors affect financial statement conservatism. This observed structure allows the researchers to analyze the differential effect of individually motivating feature of the recognized exploration and evaluation cost directly. It also provides the benefit of a significant degree of freedom (Heniwati, Yantiana, & Desyana, 2021). In other words, the two models allow the researchers to observe firsthand the impact of implementing IFRS-based PSAK 64 on the level of financial statement conservatism.

This study uses pooled least square for hypothesis testing, as it employs the combining time-series and cross-section data. The model is neither considered a dimension of time nor individual, assuming that the behavior of data is the same in various periods. This study does not use a fixed effect because it does not test the effect of time between periods. Beside, the sample periods taken are not consecutive.

The following are models to test hypotheses:

$$\begin{aligned} AsEE &= \alpha + \beta_1 P_{64} + \beta_2 AgE + \beta_3 KMa + \beta_4 KUa + \varepsilon \\ AsEE &= \alpha + \beta_1 P_{64} + \beta_2 AgE + \beta_3 KMa + \beta_4 KUa \\ &+ \beta_5 P_{64} * AgE + \beta_6 P_{64} * KMa + \beta_7 P_{64} * KUa + \varepsilon \end{aligned}$$

where:

AsEE : Recognized exploration and evaluation costs as assets divided by the total assets in the sample year

- P\_64 : A dummy variable for implementing the PSAK 64, which is taking value 1 for firms that have implemented the PSAK 64 in the sample year, and 0 vice versa. If mandatory PSAK 64 application causes less conservatism in financial reporting, the dummy variable will produce a positive sign on the regression.
- AgE : Exploration aggressiveness is measured by dividing the total of the incurred exploration costs with total revenue.
- KMa : Managerial ownership is measured by dividing the number of shares owned by management with a total of outstanding shares.
- KUa : Audit quality is a dummy variable proxied by big-four accounting firms, which is taking value 1 for the firms' financial statements in the sample year that are audited by the big-four accounting firms, and 0 vice versa.

It is predicted that the coefficient of  $\beta_1$  is positive and significant on the AsEE, indicating that the PSAK 64 reduces the conservatism of financial statements. The coefficients of  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$ , representing exploration aggressiveness, managerial ownership, and audit quality, respectively, significantly influence financial statements conservatism (AsEE). The coefficients of  $\beta_5$ ,  $\beta_6$ , and  $\beta_7$ , representing the relationship between exploration aggressiveness, managerial ownership, audit quality, respectively, and the implementation of the PSAK 64 have a significant effect on the AsEE. It is assumed that the company considers these conservatism-related factors when implementing the PSAK 64 in reporting exploration and evaluation costs.

#### 4. DATA ANALYSIS AND DISCUSSION

Table 1 presents the descriptive statistics of samples during the observation period.

Forty-eight valid data were derived from twelve mining sector companies, with the lowest value of 0.0000 for all variables. It can occur because some companies have no assets related to exploration and evaluation activities and managerial ownership in the outstanding firm's shares. Also, the firms do not carry out the exploration and evaluation activities, audited by big-four audit firms, and implementing PSAK 64 yet. Furthermore, this study observes that almost all variables except managerial ownership (KMa) have mean values smaller than the standard deviation values. It indicates that the mean value does not provide well represent the overall data due to high data deviation.

After considering all classical assumption tests and all of them fulfilled, the researchers employed the regression analysis. Table 2 presents the regression results with the specification models as described in the previous section.

#### The Impact of the PSAK 64, Exploration Aggressiveness, Managerial Ownership, and Audit Quality on the Financial Reporting Conservatism

Model 1 was developed to solve the hypothesis 1-4. Panel Model 1 in Table 2 shows a positive (0.927) correlation coefficient indicating conformity in the overall relationship between the PSAK 64, exploration aggressiveness, managerial ownership, audit quality, and conservatism (AsEE). The increase of the PSAK 64, exploration aggressiveness, managerial ownership, and audit quality, the increase of the AsEE, or conservatism decreases. In contrast,

**Table 1**  
**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Standard Deviation
AsEE	48	0.0000	0.4717	0.06015	0.113669
P_64	48	0.0000	1.0000	0.50000	0.505291
AgE	48	0.0000	0.4243	0.03240	0.082748
KMa	48	0.0000	0.1647	0.01798	0.046274
KUa	48	0.0000	1.0000	0.66667	0.476393

Note: AsEE =exploration and evaluation assets; P\_64=the PSAK 64 implementation by industry; AgE=exploration aggressiveness; KMa=managerial ownership; and KUa=audit quality  
Source: Processed data (2020)

if the PSAK 64, exploratory aggressiveness, managerial ownership, and audit quality decrease, the AsEE decreases or conservatism increases. Furthermore, the considerable value of the correlation coefficient (0.927) denotes a strong relationship between the PSAK 64 exploration aggressiveness, managerial ownership, audit quality, and conservatism.

The coefficient of determination (R Square) in Model 1 is 0.859 indicating that the explanatory variables (the PSAK 64, exploratory aggressiveness, and managerial ownership and audit quality) can explain changes in the AsEE (conservatism) by 85.9 percent, while the remaining, 14.1 percent, is explained by other variables excluded in this study.

Unlike the prediction, the regression coefficient for the dummy variable (P\_64) is positive but not significant. This result indicates that the mandatory PSAK 64 implementation does not reduce the level of conservatism of extractive companies' financial statements. In other words, the conservatism level does not differ before and after the mandatory PSAK 64 implementation.

The regression coefficient for the exploration aggressiveness (AgE) variable is positive and significant (coefficient=1.261; *p*-value=0.000). This shows that the variable exploration aggressiveness has a positive impact on the AsEE, indicating the level of exploration aggressiveness reduces the level of conservatism. Meanwhile, other variables, managerial ownership (KMa), and audit

quality (KUa) have a negative and insignificant coefficient value, which means that these two variables have a negative or no effect on conservatism. In other words, these variables increase the level of financial statements conservatism.

The findings from the first model show that the assumptions H<sub>1</sub>, H<sub>3</sub>, and H<sub>4</sub> are rejected and these results are in line with the previous studies such as by Barhamzaid (2019) and Hou et al., (2014). It is due to there being no significant change in exploration and evaluation assets at the firm either before or after the implementation of the PSAK 64. As such, it does not affect the level of conservatism. The reason for explaining these results is that before the PSAK 64 is implemented, companies have used the full cost method to account for the costs of exploration and evaluation activities, in which the method is similar to the PSAK 64.

Again, the second hypothesis (H<sub>2</sub>) is accepted, the exploratory aggressiveness affects conservatism and this result is in line with Rosdini's (2014) study. The reason for explaining the findings is that the higher the level of exploration and evaluation, the greater the capitalization of exploration and evaluation assets is. Therefore, it leads to the decrease of the level of conservatism. In addition, it is assumed that the companies are currently in the sizable exploration and evaluation phase. Therefore, they avoid recognizing the high exploration and evaluation costs as expenses because it will cause a significant decrease in company

**Table 2**  
**Factors Influence the Financial Statements Conservatism**

Variable	Model 1		Model 2	
	Coefficient	t-statistic ( <i>p</i> -value)	Coefficient	t-statistic ( <i>p</i> -value)
Constant	0.031	2.433(0.019)	0.032	1.969(0.056)
P_64	-0.017	-1.325(0.192)	0.023	-0.863(0.393)
AgE	1.261	15.594(0.000)	0.145	9.567(0.000)
KMa	-0.147	-1.002(0.322)	0.212	-0.858(0.396)
KUa	-0.001	-0.099(0.922)	0.020	-0.353(0.726)
P_64*AgE			-0.187	-1.060(0.296)
P_64*KMa			0.055	0.182(0.856)
P_64*KUa			0.011	0.387(0.701)
R	0.927		0.929	
R-square	0.859		0.863	
F	65.354(0.000)		36.120(0.000)	
Observation	48		48	

Source: Processed data (2020)



profits. Extractive industries that have high levels of exploration and evaluation activities tend to choose to recognize exploration and evaluation costs as assets following the rule of the PSAK 64.

### **The Impact of the PSAK 64 on the Relationship between Exploration Aggressiveness, Managerial Ownership, Audit Quality, and the Conservatism**

Model 2 shows a positive (0.929) correlation coefficient indicating conformity in the overall relationship between the PSAK 64, exploration aggressiveness, managerial ownership, audit quality, and their interaction variables on the AsEE. It means that the increase of the PSAK 64, exploration aggressiveness, managerial ownership, audit quality, and their interaction, can also increase the AsEE or decrease conservatism. In contrast, if PSAK 64, exploration aggressiveness, managerial ownership, audit quality, and their interaction decrease, the AsEE will decrease or increase the conservatism. Further, the large correlation coefficient (0.929) denotes the robust relationship between the PSAK 64, exploration aggressiveness, managerial ownership, audit quality, and the interaction variable on conservatism.

The coefficient of determination (R Square) model 2 is 0.863 demonstrating that the explanatory variables (the PSAK 64, exploration aggressiveness, managerial ownership, audit quality, and their interaction) can explain the change in the AsEE (conservatism) variable by 86.3 percent, while the remaining, 13.7 percent, is due to other variables that are not included in this study.

Unlike the results in Model 1, the dummy variable (P\_64) in Model 2 produces a regression coefficient value with a positive sign but is not significant. These results indicate that the mandatory PSAK 64 implementation does not reduce the level of conservatism of extractive companies' financial statements. In other words, the conservatism level does not differ before and after the mandatory PSAK 64 implementation. Moreover, while the regression coefficient of exploration aggressiveness moderated by the PSAK 64 is negative and insignificant, the regression coefficient for managerial ownership and audit quality as moderated by PSAK 64 is positive and insignificant. This finding can be interpreted that while exploratory aggressiveness (AsEE), which is moderated by the implementation of

the PSAK 64 increases the level of conservatism, managerial ownership and audit quality, which is moderated by the PSAK 64 reduces the level of conservatism.

The results of Model 2 indicate that the implementation of the PSAK 64 does not affect the relationship between exploration aggressiveness, managerial ownership, audit quality and conservatism. Therefore, the researchers' assumptions on H<sub>5</sub>, H<sub>6</sub>, and H<sub>7</sub> are rejected. This result is not in line with research by Rosdini (2014), who found that IFRS 6 (or the PSAK 64) affects the relationship between exploration aggressiveness and conservatism. The reason is the implementation of the PSAK 64 does not significantly change the costs of exploration and evaluation and as a result, the implementation of the PSAK 64 does not affect the relationship between exploration aggressiveness, managerial ownership, audit quality and the level of conservatism. It is due to that before implementing the PSAK 64, companies have used the full cost method that is in general similar to the standard in recognizing the costs of exploration and evaluation activities.

### **5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION**

This study is intended to examine the effect of the PSAK 64, exploration aggressiveness, managerial ownership, and audit quality on financial reporting conservatism and the impact of the PSAK 64 on the relationship between managerial ownership and audit quality and financial reporting conservatism. The result of the first model test indicates that the implementation of the PSAK 64, managerial ownership, and audit quality has no effect on conservatism while exploration aggressiveness has. This could occur because the extractive industry has used the full cost method to record activities related to exploration and evaluation where the method is similar to the PSAK 64. The impact of the implementation of the PSAK 64 on the relationship between independent variables shows that the implementation of the PSAK 64 does not affect the relationship. This occurs because there are no significant changes in the company's financial statements either before or after the implementation of the PSAK 64.

This study implies that it provides an understanding of interested parties such as researchers interested in similar studies regarding the relationship between the

application of PSAK 64 and the level of conservatism in financial reporting. However, this study has limitations, namely it only uses data shortly before and after PSAK 64 that is mandatory for extractive industries in Indonesia. Therefore, further studies can use the latest data to reflect better environmental conditions that may experience changes. Furthermore, as the institutional factors in its surrounding are different from other countries, therefore, to obtain consistent results, it is necessary to conduct studies using samples from similar industries but different countries. Apart from the existing limitations, this research is essential in Indonesia, considering that there are still few studies on it for the extractive industry. In addition, this study is beneficial for future researchers interested in similar studies.

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