

RESTATEMENT OF PT GARUDA INDONESIA'S FINANCIAL STATEMENTS IS CONSERVATIVE?

Yuni Pristiwati Noer Widianingsih¹, Nikke Yusnita Mahardini², Tulus Prijanto³

^{1,3}STIE Swastamandiri, Indonesia

²Universitas Serang Raya, Indonesia

Email: yuni@stas.ac.id

Abstract: *This research is a case study research at PT Garuda Indonesia Tbk (PT GIAA). The motivation for conducting the research was the existence of PT GIAA's financial reporting in 2018 which revealed a significant increase in profit which required PT GIAA to restate its financial statements in 2019. The analysis used was descriptive and quantitative analysis. The restatement of the financial statements has an impact on changes in reported earnings, namely there are losses, adjustments to accounts also cause some changes in the amounts recognized in the financial statements. On this basis, a quantitative analysis was carried out to determine the level of conservatism in the restatement of PT GIAA's financial statements. Based on accrual conservatism, the company still applies conservatism principles but in the restatement period of financial reporting in 2018 the level of conservatism decreased. Based on market conservatism, the market value of the company's shares is lower than its book value, this indicates that the company is aggressive in determining book value. Even the average stock return each year is negative and a sharp decline occurred during the restatement of financial statements. This indicates that market confidence decreases when the company restatement its financial statements.*

Keywords: *conservatism, disclosure of earnings, restatement of financial statements*

1. Introduction

Conservatism is a principle that should be considered by companies as an effort to improve the quality of financial reporting to the public. The contracting factor (contracting), litigation (litigation) and political costs (political cost) are some of the factors that encourage companies to practice conservatism, Watt (2003). On the other hand, the emphasis on the conservative principle based on IFRS begins to decrease because IFRS uses a principal base and emphasizes judgments based on the principle of fair value. The conservatism principle in IFRS is replaced by the principle of prudence. Meanwhile in Indonesia, PSAK still recognizes the conservative principle.

Dechow and Schrand (2004) state that earnings quality is a measure to see whether earnings reported in the financial statements reflect the company's actual performance. (Penman and Zhang 1999) found low earnings quality in companies that are conservative and have fluctuating investment growth. (Basu, 1997), Feltham and Ohlson (1995) stated that conservatism can affect the quality of numbers reported in the balance sheet and income statement.

The motivation for writing this paper was related to the publication of the Garuda Indonesia annual financial report (GIAA) on April 1, 2019. The 2018 Consolidated Income Statement recorded a profit of \$ 5,018,000. The amount of reported profit is considered inadequate because

it experienced a significant increase compared to 2017 which experienced a loss of \$ 213,389,678 or an increase of 102%. In addition, there were 2 board commissioners who were unwilling to sign the 2018 financial statements because they thought that the financial statements were not prepared in accordance with the Financial Accounting Standard Guidelines (PSAK).

The public responded to the publication of the annual report including the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), and the Minister of Finance. Because Garuda Indonesia, as one of the airline groups, has a strong brand strength in the domestic market. In 2019, PT GIAA was named the best airline in Indonesia by the “Trip Advisor 2019 Travelers Choice Awards” organized by Trip Advisor - the world's leading travel site. In 2019, Garuda Indonesia also became The Best on Time Performance (OTP) as a five star airline with an OTP value of 91.6% in accordance with the award officially given by the Official Airline Guide Flight View on 27 June 2019.

Some companies that restated their financial statements reported excessively high earnings in their financial statements before restating. As a result, investors are concerned about the credibility of financial reporting because there is the possibility of aggressive reporting by managers of the company to gain personal benefits. It is therefore likely that investors will demand a higher level of conservatism for firms that report high earnings after disclosing their overstatement (Huang and Zhang, 1999). This research is important in giving special attention to the quality of financial reports in providing information to the public as a basis for decision making. How the company's financial statements have been presented in accordance with the guidelines for financial accounting standards, this study aims to determine the conservatism in disclosing earnings in the PT GIAA Annual Report 2018.

2. Theoretical Framework

Chan et al (2009) stated that conservatism identified as ex ante (unconditional) conservatism is conservatism based on accounting, namely balance sheets, and is not related to the presence of good or bad news. (Basu, 1997) as the originator of another type of conservatism concept, namely conditional conservatism or ex post conservatism based on market conditions, related to earnings and dependent on news. This form of conservatism is a reaction or response from companies carrying out different verifications as the absorption of information contained in the business environment that can affect company earnings in relation to information that has an impact on the existence of economic gains and losses.

2.1. Conservative Accounting and Earnings Restatements

Higher conservatism leads to quality information (Ball, 2009). When under certain conditions a company has to restate its financial statements, it will raise concerns for investors regarding the quality of published financial reports. The restatement will likely bring some changes to the financial statements that show the level of conservatism (Ettredge et al, 2009). However, efforts to improve the quality of financial reports must be the company's top priority and the means that will be used to restore the credibility of financial reports after restatement. Companies that restate their financial statements will adopt a more conservative accounting reporting strategy compared to companies that don't restate their financial statements, the goal is to restore the reputation of their financial statements (Chang et al, 2011).

2.2. Factors Affecting Restatement of Financial Statements

Several factors encourage companies to restate based on previous studies, among others

2.2.1 Restatements related to accounting standards

The accounting literature is indicative of various standards-related factors behind restate-

ment, including developments in accounting rules and implementation guidelines (as well as ambiguous accounting standards and financial reporting rules), application of the requirements of the Sarbanes-Oxley Act (SOX) 404, accounting complexity and transaction complexity (Plumlee and Yohn, 2010).

2.2.2 Restated related features of the underlying financial statements

Company lower profitability and higher level of financial leverage (Wu, 2002) and negative cash inflows from company operations are among the most important reasons leading to the restatement of financial accounts.

2.2.3 Restatement of stakeholder demands

Capital market pressures are the driving factor for companies to adopt aggressive accounting policies (Richardson et al., 2002), scattered company ownership (Defond and Jambalvo, 1991);

2.3. Previous Research

Previous research has shown that restatement of financial statements lowers stock prices, which is followed by a decrease in expected earnings and an increase in the cost of capital (Hribar and Jenkins, 2004). Restatement also causes negative returns indicating fraud, affecting several accounts in the financial statements, reducing reported earnings and being associated with auditors and management (Farhangdoust, et al, 2020).

The conservative attitude of managers (Hay and Sandefur, 2007); and managers 'requests to meet or beat industry benchmarks and market analysts' estimates of earnings or sales are contributing factors to increasing levels of financial restatement. In addition, increased share-based incentives and earnings management generated or manipulated by managers to achieve higher levels of compensation can also result in financial restatement. Weak corporate internal control (Plumlee and Yohn, 2010), lack and / or inefficiency of corporate audit committees. (Wu, 2002).

3. Research Method

This research is based on a case study at PT GIAA. The data required is in the form of PT GIAA's annual report obtained from the Indonesia Stock Exchange (www.idx.co.id). Case studies include descriptive and quantitative analysis. We conducted descriptive analysis to describe the disclosure of earnings reported by PT GIAA which caused irregularities in the 2018 financial statements. We conducted quantitative analysis to determine the application of the conservatism principle in disclosing earnings by measuring the level of conservatism before and after restatement. There are several measurements of the level of conservatism, in this study 2 conservatism measures are used, namely by accrual and market-based. The measure of conservatism using accruals is in accordance with that used by (Givoly et al., 2007), namely by using the formula:

$$KON_ACC = \frac{NI - CF}{RTA}$$

KON_ACC : Degree of accounting conservatism

NI : Profits before extraordinary items

CF : Operating cash flow plus depreciation expense

RTA : Average total assets

Meanwhile, the measurement of conservatism based on market value (Market to book ratio) refers to Givoly and Hayn (2000). This ratio is a comparison between the market value of equity and the book value of equity, denoted by the formula:

$$M/B = \frac{\text{Market Value of Common Equity}}{\text{Book Value of Common Equity}}$$

4. Data Analysis and Discussion

4.1. Descriptive Analysis

Descriptive analysis was carried out to determine the disclosure of PT GIAA's profit in the 2018 Annual Financial Report. Table 1 shows that the profit in 2018 was 5,018,238 while in 2017 it experienced a loss of 213,389,678 *, causing reported profit to increase sharply by approximately 102%. This is because in 2018, PT GIAA recognized quite large other operating income, namely 306,883,930 * which consisted of an increase in foreign exchange differences of 28,073,775 and other income of 278,810,155.

Table 1. Profit for 2017 & 2018

	2018 (USD)	2017 (USD)	
Operating revenues	4,373,177,000	4,177,325,781	
Operating expenses	(4,579,259,674)	(4,237,773,332)	
Other operating income (charges)	306,883,930	(15,733,627)	*
Profit (loss) from Operation	100,801,256	(76,181,178)	
Equity in profit association	204,241	192,617	
Finance income	3,695,161	6,196,164	
Finance cost	(85,691,120)	(88,388,240)	
Profit (loss) before tax	19,009,538	(158,180,637)	
Tax expenss	13,991,300	(55,209,041)	
Profit (loss) for the year	5,018,238	(213,389,678)	*

Other income was 278,810,155, dominated by compensation income for installation rights for in-flight connectivity and entertainment service equipment and content management 239,940,000. This revenue is obtained based on contracts made by PT GIAA and PT Mahata Aero Teknologi (Mahata) regarding the provision of in-flight connectivity services and in-flight entertainment and content management. Mahata is responsible for all costs of providing, implementing, installing, operating, maintaining and dismantling and maintaining, including in the event of damage, replacing and / or repairing in-flight connectivity service equipment and in-flight entertainment and content management

The presentation of the financial statements received responses from the Indonesia Stock Exchange, the Minister of Finance and the Financial Services Authority. An investigation was carried out on PT GIAA to obtain information related to this financial report and the results of the investigation conducted by PT GIAA and the directors, auditors and audit committee were sanctioned and obliged to restate the 2018 Financial Statements. GIAA and the board of directors were sanctioned by the OJK and the IDX, while the auditors and public accounting firms that audited the financial statements of PT GIAA were sanctioned by the Minister of Finance for license suspension. The company received a written order from the Financial Services Authority (OJK) to make improvements and restatement of the consolidated financial statements for the year ended December 31, 2018 in accordance with Letter No. S-21 / PM.1 / 2019 dated 28 June 2019 related to the inaccurate application of the accounting standard PSAK 30. In 2020 PT GIAA also amended and restated the consolidated financial statements for the year ended 31 December 2018 which were issued on 25 July 2019 to correct errors in recognition, measurement and presentation of several components of the consolidated financial statements to align with Indonesian Financial Accounting Standards and regulations. determined by OJK No. VIII.G.7. regarding the guidelines for the Presentation and Disclosure of Financial Statements of Issuers or Public Companies. The following is the restatement of the 2018 Financial Statements on 26 July

2019 and 27 March 2020. The restatement details are in table 2.

Table 2. Financial Statement 2018 and Restatements

	2018	Adjustment	After restatements on July 26, 2019
Assets			
Other receivables	280,808,848	(264,058,909)	16,749,939
Deferred tax assets	54,178,361	60,015,523	114,193,884
Total Aset	4,371,659,686	(204,043,386)	4,167,616,300
Liabilitas			
Taxes payables	78,247,776	23,996,817	54,250,959
Current maturities of finance lease liabilities	14,261,210	(52,420,501)	66,681,711
Current maturities of bonds payable	-	(496,845,180)	496,845,180
Long-term liabilities of finance lease liabilities	52,588,888	52,420,501	168,387
Long-term liabilities of bonds payable	496,845,180	496,845,180	-
Total liabilities	3,461,471,314	23,996,817	3,437,474,497
Equity			
Retained earnings - unappropriated	(415,858,167)	180,046,569	(595,904,736)
Total equity	910,188,372	180,046,569	730,141,803
Other operating income (charges)			
Gain on foreign exchange	28,073,775	122,092	27,951,683
Other income - net	278,810,155	239,940,000	38,870,155
Tax income (expenses)	13,991,300	(60,015,523)	406,024,223
Profit (loss) for the year	5,018,308	180,046,569	(175,028,261)

Source: www.idx.co.id

The restatement of the 2018 financial statements reported a loss of 175,028,261, namely the adjustment of other income amounting to 239,940,000 so that other recognized income became 38,870,155. Misinterpretation of facts and misappropriation of accounting policies for revenue recognition has impacted the recording and disclosure of consolidated financial statements for the year ended 31 December 2018, namely the application of PSAK 30. Changes and restatements require PT GIAA to apply PSAK 25, "Accounting Policies, Change in Estimates Accounting and Errors", and accordingly the Group amended and restated the consolidated financial statements for the year ended 31 December 2018. The adjustments made to the financial statements included:

- Adjusted for other income accounts amounting to USD 239,940,000,
- tax payable on value added tax of USD 23,994,000 and
- Other receivables from Mahata and Sriwijaya amounting to USD 233,134,000 and USD 30,800,000, respectively

d. Addition in disclosure of estimates and assumptions on the recognition of deferred tax assets from tax losses and the adjustment of their effects on recognized deferred tax income and tax assets amounting to USD 60,015,523

e. This affected the asset value which also changed from 4,371,659,686 to 4,167,616,300.

In March 2020, the 2018 Financial Statements were restated with several adjustments as shown in table 3

Table 3. Restated of Financial Statement 2018 on March 2020

	2018	Adjustments on KIK EBA	Adjustments on operating revenue	Adjustments on non - financial assets	Adjustments on unrecorded liabilities	Adjustments on financial asset	Reclassification adjustment	2018 restated 27 Maret 2020
Cash & cash equivalents	1,092,915,831	2,323,205	(3,826,827)	(27,568,008)	-	(580,274)	16,681,199	1,079,945,126
Non current asset	3,074,700,469	(13,820,000)	3,627,072	(7,965,473)	1,601,477	(13,368,801)	30,754,933	3,075,529,677
Total Asset	4,167,616,300	(11,496,795)	(199,755)	(35,533,481)	1,601,477	(13,949,075)	47,436,132	4,155,474,803
Current Liability	2,976,385,526	13,568,417	14,770,479	993,572	24,928,635	-	53,108,308	3,061,396,001
Non-current liability	461,088,971	3,947,669	-	(314,320)	-	-	(5,672,176)	454,272,246
Total Liabilities	3,437,474,497	(9,620,748)	14,770,479	679,252	24,928,635	-	47,436,132	3,515,668,247
Total Equity	730,141,803	(1,876,047)	(14,970,234)	(36,212,733)	(23,327,158)	(13,949,075)	-	639,806,556
Total liabilities & equity	4,167,616,300	(11,496,795)	(199,755)	(35,533,481)	1,601,477	(13,949,075)	47,436,132	4,155,474,803
Loss from operation	(139,260,766)	(3,254,826)	18,833,665	16,239,963	10,822,962	17,579,925	(376,906)	(199,105,549)
Loss before tax	(221,052,484)	1,864,450	18,833,665	16,239,963	10,822,962	17,579,925	-	(286,889,524)
Loss for the year	(175,028,261)	1,876,047	15,206,593	13,608,063	9,221,485	13,949,075	-	(228,889,524)

Source: www.idx.co.id

The adjustments in the restatement of the consolidated financial statements which for the year ended 31 December 2018 and the beginning balance for the presentation period, 1 January 2018 had an impact:

Adjustments for errors	The effect on Financial Statements
Funds received from the issuance of KIK EBA Mandiri GIAA001 securities are recorded as held-to-maturity investment as part of “other non-current assets” written off and recorded as part of “long-term loans”, interest paid to holders of KIK EBA Mandiri certificates GIAA01 is recorded and presented as part of “finance charges” and the Company's portion	Decrease in assets, decrease in liabilities and increase in loss for the year amounting to USD 11,496,795, USD 9,620,748 and USD 1,876,047, respectively.
Errors in the recognition and presentation of operating income that arise from the difference between the reconciliation of advances received and unearned income	Decrease in income of USD 46,320,299 and an increase in loss for the year amounting to USD 15,206,593.
Error in the recognition and measurement of non-financial assets as of December 31, 2018 due to capitalization errors and under recording of allowance for impairment of non-financial assets	-decrease in assets, increase in liabilities and increase in loss for the year amounting to USD 35,533,481, USD 679,252 and USD 13,608,063, respectively. -decrease in inventories and decrease in

	retained earnings amounting to USD 22,604,670, respectively
Under recording of liabilities as of December 31, 2018.	- increase in liabilities and increase in loss for the year amounting to USD 24,928,635 and USD 9,221,485, respectively. -- decrease in inventory and decrease in retained earnings amounting to USD 14,105,673, respectively.
Corrections related to initial recognition and measurement of financial assets.	decrease in assets and increase in loss for the year amounting to USD 13,949,075, respectively
Corrections related to the misstatement of several components in the Group's consolidated financial statements as of December 31, 2018.	increase in assets and increase in liabilities amounted to USD 47,436,132, respectively.

The effect of the overall adjustment causes a change in the reported losses from 175,028,261 to 228,889,524

4.2. Quantitative analysis

Quantitative analysis performed by measuring the conservatism of earnings disclosures

4.2.1. Accrual accounting conservatism

Year	Net Income	Depreciation	Cash Flow Operating	Total Assets	NI + Depr - CFO	Conservatism Accrual	Result
2015	77,974,161	(467,558,030)	179,399,348	3,310,010,986	(568,983,217)	-0.15	conservative
2016	9,364,858	34,455,687	107,532,264	3,737,569,390	(63,711,719)	-0.02	conservative
2017	(213,389,678)	54,886,460	(61,665,293)	3,763,292,093	(96,837,925)	-0.02	conservative
2018	5,018,000	76,888,013	270,751,794	4,371,659,686	(188,845,781)	-0.05	conservative
2018 (restated) 26 July 2019	(175,028,331)	92,472,550	28,342,981	4,167,616,300	(110,898,762)	-0.03	conservative
2018 (restated) 27 Maret 2020	(228,889,524)	92,472,550	28,342,981	4,155,474,803	(164,759,955)	-0.04	conservative

If the difference between net income and cash flow from operating activities is negative, then the company is categorized as conservative. This is because the profit is lower than the cash flow earned by the company in a certain period.

4.2.2. Market to book ratio refers to Givoly and Hayn (2000).

This ratio is a comparison between the market value of equity and book value

Year	MV Common Equity		BV Common Equity		Conservatism Market Value	Result
	Per Share	Total	Per Share	Total		
2015	309	881,514,102.01	459	1,309,433,569	0.673	agressive
2016	338	964,245,198.96	459	1,309,433,569	0.736	agressive
2017	300	855,838,933.99	459	1,310,326,950	0.654	agressive
2018	298	1,135,412,985.76	459	1,310,326,950	0.649	agressive
2018 (restated) 26	185	1,135,412,985.76	459	1,310,326,950	0.403	agressive

Juli 2019						
2018 (restated) 27 Maret 2020	390	1,135,412,985.76	459	1,310,326,950	0.850	agressive

Based on the measurement of accrual conservatism, it shows that during the observation period in 2015 the level of conservatism was the highest and decreased in 2016 and 2017 and increased in 2018. And after restatement on 26 July 2019 27 March 2020, it shows a lower level of conservatism than before restatement. .

The conservatism measurement based on market value shows that the company is aggressive or the level of conservatism is low. This is indicated by the lower market value than the book value. The stock market price has decreased from 2015 which shows a negative return and the sharpest decline was at the time of restating the financial statements.

5. Conclusion, Implication, Suggestion, and Limitations

This research is a case study related to the publication of PT GIAA's annual report which presents a significant profit disclosure compared to the previous year. The analysis used in this research includes descriptive and quantitative analysis. The results of descriptive analysis show that PT GIAA has misinterpreted revenue recognition according to article 30 of the collaboration with PT Mahata so that there was a mistake in implementing accounting policies for revenue recognition which had an impact on the recording and disclosure of consolidated financial statements for the year ended 31 December 2018, requires the Group to apply PSAK 25. As of March 27, 2020 PT GIAA has also amended and restated the consolidated financial statements for the year ended December 31, 2018 to correct errors in the recognition, measurement and presentation of several components of the consolidated financial statements to align with Financial Accounting Standards in Indonesia and the regulations set by OJK No. VIII.G.7. regarding the guidelines for the Presentation and Disclosure of Financial Statements of Issuers or Public Companies.

The restatement of the financial statements has an impact on changes in reported earnings, namely there are losses, adjustments to accounts also cause some changes in the amounts recognized in the financial statements. On this basis, a quantitative analysis was carried out to determine the level of conservatism in the restatement of PT GIAA's financial statements. Based on accrual conservatism, the company still applies conservatism principles but in the restatement period of financial reporting in 2018 the level of conservatism decreased. Based on market conservatism, the market value of the company's shares is lower than its book value, this indicates that the company is aggressive in determining book value. Even the average stock return each year is negative and a sharp decline occurred during the restatement of financial statements. This indicates that market confidence decreases when the company restarts its financial statements.

This study has limitations because it only analyzes in the short term, namely the restatement period and the previous 3 years, to find out more complete results it is necessary to compare it with the period before restatement in a longer period of time.

References

- Ball, R. (2009), “Market and political/regulatory perspectives on the recent accounting scandals”, *Journal of Accounting Research*, Vol. 47 No. 2, pp. 277-323.
- Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings: An event-based approach. *Journal of Accounting and Economics*, 24(1), 3–37. <https://doi.org/10.1111/j.1911-3846.2011.01151.x>
- Chang, C.C., Lin, C.J. and Wang, V.S. (2011), “Do firms adopt more conservative earnings reporting strategies after restatements?” Working Paper.
- Defond, M.L. and Jambalvo, J. (1991), “Incidence and circumstances of accounting errors”, *Accounting Review*, Vol. 66 No. 3, pp. 643-655.
- Ettredge, M., Huang, Y. and Zhang, W. (2009), “Restatement disclosures and subsequent accounting conservatism”, W
- Feltham, G.A. and Ohlson, J.A., (1995), “Valuation and clean surplus accounting for operating and financing activities”, *Contemporary Accounting Research*, Vol. 11 No. 2, pp. 689-731.
- Givoly, D. and Hayn, C. (2000), “The changing time-series properties of earnings, cash flows and accruals: has financial reporting become more conservative?”, *Journal of Accounting and Economics*, Vol. 29 No. 3, pp. 287-320.
- Givoly, D., Hayn, C. K., & Natarajan, A. (2007). Measuring reporting conservatism. *Accounting Review*, 82(1), 65–106. <https://doi.org/10.2308/accr.2007.82.1.65>
- Hay, L. and Sandefur, G. (2007), “Financial restatements: the changing rules of the game”, *Accounting & Tax Periodicals*, Vol. 16 No. 3, pp. 18-32.
- Huang, Y. and Zhang, W. (2009), “Earnings restatements and subsequent accounting conservatism”, *Aaa 2009 Financial Accounting And Reporting Section (Fars) Paper*,
- Penman, S. H., & Zhang, X.-J. (1999). Accounting Conservatism, the Quality of Earnings, and Stock Returns. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.201048>
- Plumlee, M. and Yohn, T.L. (2010), “An analysis of the underlying causes attributed to restatements”, *Accounting Horizons*, Vol. 24 No. 1, pp. 41-64.
- Richardson, S., Tuna, I. and Wu, W. (2002), “Predicting earnings management: the case of earnings restatements”, Working Paper, University of Pennsylvania, Michigan.
- Watts, R. (2003), “Conservatism in accounting Part One: explanations and implications”, *Accounting Horizons*, Vol. 17 No. 3, pp. 207-221.
- Wu, M. (2002), “Earnings restatements: a capital market perspective”, available at: <http://ssrn.com/abstract51844265>