



Jurusan Akuntansi Masyarakat Akuntansi Multiparadigma Indonesia



## AGGRESSIVE REPORTING BEHAVIOUR UNDER THE IMPLEMENTATION OF INDONESIAN ACCOUNTING STANDARDS

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**Abstrak: Perilaku Pelaporan Agresif dalam Penerapan Standar Akuntansi Keuangan Indonesia.** Penelitian ini bertujuan untuk menguji pengaruh ciri pribadi dan karakteristik tugas terhadap perilaku agresif akuntan dalam menerapkan standar akuntansi keuangan. Penelitian ini menggunakan metode eksperimen dengan melibatkan 105 akuntan profesional sebagai partisipan. Hasil analisis menunjukkan bahwa perempuan-akuntan dan akuntan dengan karakter moral idealistik kuat, atau karakter relativistik lemah, memiliki kecenderungan lebih rendah untuk mengaplikasikan standar akuntansi secara agresif. Penelitian ini juga menemukan bahwa perilaku pelaporan akuntan cenderung lebih agresif ketika tingkat keseriusan masalah pelaporan keuangan yang dihadapi adalah rendah. Hasil penelitian ini memberi implikasi bagi penyusun standar akuntansi dan asosiasi profesi akuntansi dalam melaksanakan upaya mewujudkan praktik pelaporan keuangan berkualitas.

**Abstract: Aggressive Reporting Behaviour under the Implementation of Indonesian Accounting Standards.** This research tries to assess the impact of personal and task-related characteristics on aggressive reporting behaviour under the implementation of Indonesian accounting standards. The study employs an experimental method involving 105 professional accountants. The results show that female accountants and accountants with stronger idealistic, or weaker relativistic, moral personalities are less likely to apply accounting standards aggressively. The study further indicates that accountants' reporting behaviour tend to be aggressive when the severity of the financial reporting problem is low. Overall, these results present implications to accounting standard setters and professional associations in their collective efforts in ensuring high-quality financial reporting.

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Several high profile corporate reporting scandals in the US have long raised concern over the reliability of rules-based accounting standards, particularly the US GAAP (Benson et al., 2006). Specific rules, predetermined parameters, and detailed instructions in rules-based standards allow accountants to engineer transactions manipulatively so that the accounting treatment for a trade appears to comply with the wordings of a stan-

dard but in fact violates intention behind the standard. As a result, principles-based accounting standards, especially the International Financial Reporting Standards (IFRS), are gaining popularity, and many countries throughout the world have now adopted these standards (Pacter, 2017). Indonesia, as one of IFRS adopters, has inevitably seen a transition in its national accounting standards, where previously the standards were

rules-based oriented (US GAAP-influenced) but presently they are principles-based oriented (IFRS-influenced) (Maradona & Chand, 2018).

In comparison to rules-oriented standards, principles-oriented accounting standards are perceived to have higher quality because the nonexistence of detailed reporting criteria in the latter forces accountants to focus on the essence of transactions rather than their contractual terms (Agoglia et al., 2011). While principles-based standards are considered superior, nevertheless, the application of these standards relies on judgements, and this has prompted concerns over the integrity of financial reporting practices. The professional judgements required by principles-based standards create opportunities for manipulative financial information because these judgements can be influenced by the incentives of accountants (Whiting et al., 2015). Therefore, when a country changes its orientation from accounting standards containing rules to accounting standards containing principles, the incidence of aggressive financial reporting in this country may not be necessarily lower (Wadeson & Ciccotosto, 2013). Instead, it may simply change the form of aggressive behaviour. In the context of Indonesia, the occurrence of recent financial reporting scandals involving renowned companies Garuda Indonesia and SNP Finance has, in fact, reinforced concerns that aggressive financial reporting may still occur despite the country has moved towards principles-based standards.

Given the integrity of financial information under a principles-oriented system is determined by the reporting behaviour of accountants, there is a growing concern about whether or not accountants will implement the reporting criteria in principles-based standards in an aggressive manner (Amaliyah, 2019; Giner & Pardo, 2015; Ramirez et al., 2015). While this issue is critical, however, studies that provide evidence of the behaviour of accountants in this context are limited (Agoglia et al., 2011; Cohen et al., 2013; Collins et al., 2012; Jamal & Tan, 2010). Some studies look at the differences between the behaviour of accountants when preparing financial statements in accordance with accounting standards containing rules and when working in accordance with standards containing principles. These studies find that accountants who use rules-based standards (i.e., the US GAAP) tend to

report more aggressively, while those who implement principles-based standards (i.e., the IFRS) tend to report more conservatively (Agoglia et al., 2011; Jamal & Tan, 2010). Other studies find that companies that implement rules-centred accounting standards have a greater probability of using opportunistic accounting treatments (Collins et al., 2012) and that auditors are more eager to restrain managers from reporting opportunistically when the accounting standards are principles-oriented (Cohen et al., 2013).

Although previous studies such as Agoglia et al. (2011), Cohen et al. (2013), Collins et al. (2012), and Jamal & Tan (2010) have provided some insight into the aggressive reporting behaviour of accountants, however, these studies only considered the influence of environmental factors, i.e., types of accounting standards. Few of the previous studies, if any, have considered other determinants of accountants' behaviour when applying accounting standards. Moreover, because countries around the world have moved towards principle-based standards through IFRS convergence (Pacter, 2017), the critical question at present is not how accountants' reporting approaches are different under the two types of standards (principles vs rules), but, instead, the determinants of the reporting approach in a principles-based standards regime. Accordingly, to fill the void left by previous studies, this study investigates the likelihood of accountants to aggressively implement principles-based accounting standards. The novelty of this study lies in the empirical examination of the effect of person and task-specific factors on reporting behaviour, something that prior research has not addressed even though the literature has highlighted the importance of these factors to accountants' judgments and decisions (DeZoort et al., 2019; Mala & Chand, 2015b).

The specific goal of this research, therefore, is to test whether personal and task-specific characteristics can shape accountants' decision-making mechanisms when employing accounting standards. This study makes contributions to literature by presenting novel evidence to support the use of the person-task-environment framework (DeZoort et al., 2019) in explaining the reporting decisions of accountants (see, e.g., Mala, Chand, & Patel, 2018). This study also presents practical and policy contributions to standard-setters, accounting professional associations, and other policymakers in

formulating appropriate strategies aimed at upholding the integrity of financial reporting practices under the implementation of principles-oriented accounting standards.

## METHODS

This study employed an experimental method. The participants of the experiment were members of the Indonesian accounting professional associations who work for public accounting firms in Jakarta. To recruit the participants, all Big Four affiliated public accounting firms and several conveniently selected non-Big Four firms in Jakarta were approached through personal connections. Contact persons at accounting firms in which professional accountants were willing to participate were identified. The experiment materials were sent to these contact persons, who then distributed the materials to participants at each firm.

The extent of accountants' aggressive reporting behaviour in implementing accounting standards serves as the dependent variable in this research. This variable was quantified using a hypothetical case scenario that placed participants in an accounting situation that required them to apply the Indonesian financial accounting standards. The case scenario depicted a distributor company that experiences a declining sales trend; thus, it tried to improve its sales performance by conducting an ethically questionable sales transaction. In the scenario, participants were placed in a position of the company's chief accountant and asked to decide the appropriate accounting treatment in accordance with PSAK 72 *Revenue from Contracts with Customers*. A hypothetical scenario based on PSAK 72 was employed because most of the real incidence of aggressive reporting involves deliberate misapplications of revenue recognition criteria prescribed in accounting standards (Lu & Wang, 2018).

To avoid bias from unfamiliarity with PSAK 72 because the standard is yet to be effective, the participants were provided with relevant excerpts from PSAK 72, and an emphasis were added to the excerpts. A third-person approach was used in the case scenario to control for social desirability bias (Krumpal, 2013; Patel & Millanta, 2011). The participants were requested to indicate the extent to which they are inclined to recognise revenue from the questionable sales transaction on a scale that ranges from 0 (Not likely) to 100 (Very likely). The extent of aggressive

reporting behaviour was operationalized using the participants' likelihood to recognise revenue. Given that a tendency to accelerate the recognition of income increasing items implies a less conservative accounting approach (Indriani & Amalia, 2019), it was considered that a greater likelihood to recognise revenue indicated more aggressive reporting behaviour.

A review of recent literature (Bobek et al., 2015; Cameron & O'Leary, 2015; Heinz et al., 2013; Mala & Chand, 2015b; Malagueño et al., 2019; Musbah et al., 2016; Oboh, 2019; Odar et al., 2017; Wang et al., 2015) suggests that person-specific variables that are most relevant when examining the reporting behaviour of accountants are moral personality, professional experience, and gender, while task-specific variable that is most relevant to such behaviour is problem severity of a task. Accordingly, these variables serve as independent variables. Moral personality is made up of two aspects, namely the idealism aspect and the relativism aspect. This research employed the Ethics Position Questionnaire (EPQ) to measure the variable (Forsyth, 1980; Tsahuridu, 2006). The EPQ measures the idealism and the relativism aspects using 20 questions that ask participants to indicate their conformity to a set of moral declarations on a nine-point Likert scale, where the score 1 symbolised 'completely disagree' and the score 9 symbolised 'completely agree'. The score on idealism was calculated by summing the participants' answers to Question 1 to 10 of the EPQ, and the score on relativism was obtained by summing the participants' answers to Question 11 to 20 of the EPQ. A higher score on the idealism and relativism dimensions indicates a greater level of idealism or relativism, respectively. Drawing upon Forsyth (1980) and findings of past studies (Ismail, 2014; Ismail & Rasheed, 2019; Ismail & Yuhannis, 2018; Liu, 2013; Malagueño et al., 2019; Utami et al., 2017), it is expected that accountants with higher idealism or lower relativism will be less willing to conduct aggressive reporting.

As for the level of professional experience and gender, the measures were straightforward. Level of professional experience was measured based on participants' years of experience in the accounting or financial reporting area. Following past studies (Cameron & O'Leary, 2015; Che et al., 2018; Chen et al., 2018; Herda & Martin, 2016; Wang et

al., 2015), this study expects that more experienced accountants will exhibit a lower propensity to apply accounting standards in an aggressive manner. Gender was measured dichotomously by inquiring participants to specify their gender, where their responses were coded 1 for male and 2 for female. Drawing upon previous studies (Bobek et al., 2015; Dhandra & Park, 2018; Eweje & Brunton, 2010), this study anticipates that female accountants will be less willing to commit aggressive reporting than male accountants.

Meanwhile, to quantify the problem severity of accounting task, in the case scenario problem severity was manipulated between participants, and therefore there were two versions of the scenario. The first version contained low problem severity (coded 1), and the other version contained high problem severity (coded 2). In the low problem severity version, participants were told that the company was a private family company, the financial statements would be merely for administrative purposes, and if the revenue from the questionable sales was recognised, then the current year's profit would increase by 10 per cent. Meanwhile, in the high problem severity version, participants were told that the company was in the process of an initial public offering, the financial statements were to be included in the prospectus, and the current year's profit would increase by 45 per cent if the revenue was recognised. The effectiveness of this manipulation was checked using two manipulation-check questions that are explained in more detail in the results section. Following previous studies (Cieslewicz, 2014; Musbah et al., 2016; Oboh, 2019), this study anticipates that accountants facing a high problem severity task will be less willing to commit aggressive reporting.

The experiment required participants to respond to a research instrument that consisted of three parts in a paper-and-pencil format. The first part asked participants to provide demographic information and to rate their familiarity and regularity to use the Indonesian accounting standards. The second part comprised questions to measure the participants' moral personality in terms of idealism and relativism. Meanwhile, the third section part consisted of a case scenario that was used to quantify the problem severity of the task and to measure the degree of accountants' aggressive re-

porting behaviour. Detailed purposes of the study were not presented in the instrument and participants were ensured anonymity to avoid demand effect. The total number of participants was 110 accountants. Fifty-five of the participants received an instrument with a low problem severity scenario, and the remaining 55 participants were given an instrument with a high problem severity scenario. After completing the instrument, participants were provided with a written debriefing statement informing them about the details of the study.

A regression model was developed to empirically assess the effects of moral personality, professional experience, gender, and problem severity on the reporting behaviour of accountants. The model is specified as follows:

$$\begin{aligned} \text{BEHAVIOUR} = & B0 + B1\text{Idealism} + B2\text{Re-} \\ & \text{lativism} + B3\text{Experience} \\ & + B4\text{Gender} + B5\text{Severity} \\ & + B6\text{Age} + B7\text{Education} \\ & + B8\text{Familiarity} + B9\text{Fre-} \\ & \text{quency} + B10\text{Firm Type} \\ & + B11\text{Firm Size} + e \end{aligned}$$

where: Behaviour is the extent of aggressive reporting behaviour; Idealism is the idealism score; Relativism is the relativism score; Experience is the extent of professional experience; Gender is the gender code (1 = male 2 = female); Severity is the problem severity of accounting task (1 = low, 2 = high); Age is the age category of participants; Education is the length of formal education; Familiarity is the degree of familiarity with accounting standards; Frequency is the frequency in using accounting standards at work; Firm Type is the type of accounting firms (1 = Big Four public accounting firm, 2 = non-Big Four public accounting firm); and Firm Size is the size of an accounting firm indicated by the number of accountants working for it.

As shown above, this study includes six control variables into the model, namely age, level of formal education, level of familiarity with accounting standards, frequency in using accounting standards at work, type of accounting firms, and size of accounting firms. These control variables were added to the regression model because past studies suggest that these variables may influence judgments and decisions of accountants in

**Table 1. Descriptive Statistics of Main Variables**

Variable	Mean	Median	Standard Deviation	Minimum	Maximum	Frequency	Percentage
Behaviour	46,75	50,00	22,89	0,00	90,00	-	-
Idealism	70,27	70,00	9,06	41,00	90,00	-	-
Relativism	46,56	49,00	14,60	10,00	74,00	-	-
Experience	7,36	7,00	4,361	1,00	32,00	-	-
Gender							
= 1 (Male)	-	-	-	-	-	58	55,20
= 2 (Female)	-	-	-	-	-	47	44,80
Severity							
= 1 (Low)	-	-	-	-	-	52	49,50
= 2 (High)	-	-	-	-	-	53	50,50

the financial reporting contexts (see, e.g., Mala & Chand, 2015a; Musbah et al., 2016; Oboh, 2019).

## RESULTS AND DISCUSSION

Prior to analysing the data, validity and reliability tests were performed on the research instrument, particularly on the measures of the relativism and idealism dimensions (i.e., the EPQ). The tests were specifically conducted on relativism and idealism because these were the only independent variables that were measured using scales consisting of measurement items. The validity of the relativism and idealism scales were evaluated using a Pearson's correlation between individual and total scores, and the reliability of these scales was verified using the Cronbach's alpha reliability test. A Pearson's correlation analysis on the idealism scale shows that each of the ten items of the scale is significantly correlated to the total idealism score ( $p$ -value < 0,01) with a correlation coefficient that is larger than 0,50. Similarly, a Pearson's correlation analysis on the relativism scale demonstrated that each of the ten items of the scale was significantly correlated to the total relativism score ( $p$ -value < 0,01) with a correlation coefficient that was larger than 0,50. These significant correlations and the large correlation coefficients suggested that the EPQ was a valid instrument for measuring the degree of idealistic and relativistic moral personalities of the participating accountants. With regards to the reliability of the EPQ, the reliability test showed that the Cronbach's alpha score for the idealism scale was 0,85, and the Cronbach's alpha score for

the relativism scale was 0.90. As these Cronbach's alpha scores were larger than 0.70, it was concluded that the EPQ was a reliable measure of idealism and relativism.

As previously stated, of the 110 accountants who participated in this study, 55 participants were placed in the low problem severity group, and 55 participants were placed in the high problem severity group. A simple randomisation technique was utilised to assign participants to one of the two groups. Three participants receiving the low problem severity case and two participants receiving the high problem severity case provided incomplete responses, and, therefore, their responses were not incorporated in the analysis. Thus, the final data consisted of 105 responses, in which 52 responses came from the low problem severity group, and 53 responses came from the high problem severity group. Descriptive statistics of the variables in this research is exhibited in Table 1 and Table 2.

Table 1 shows that the extent of aggressive reporting behaviour (the dependent variable) has a mean of 46,75 and a median of 50. Since the intensity of accountants' aggressive reporting behaviour was measured between 0 and 100, the data description implies that a substantial number of participants tended to exhibit a moderate-to-low level of aggressive reporting behaviour when applying accounting standards. Nevertheless, it is worthy to note that the minimum score on accountants' aggressive reporting behaviour is 0 while the maximum score is 90, implying that some accountants could be very conservative, while others could be very

**Table 2. Descriptive Statistics of Control Variables**

Variable	Mean	Median	Standard Deviation	Minimum	Maximum	Frequency	Percentage
Familiarity	3,94	4,00	0,62	2,00	5,00	-	-
Frequency	3,64	4,00	0,85	1,00	5,00	-	-
Age							
= 1 (< 20 y.o.)	-	-	-	-	-	0	0,00
= 2 (20-24 y.o.)	-	-	-	-	-	13	12,40
= 3 (25-29 y.o.)	-	-	-	-	-	46	43,80
= 4 (30-34 y.o.)	-	-	-	-	-	25	23,80
= 5 (35-39 y.o.)	-	-	-	-	-	13	12,40
= 6 (40-49 y.o.)	-	-	-	-	-	6	5,70
= 7 (50-59 y.o.)	-	-	-	-	-	1	1,00
= 8 ( $\geq$ 60 y.o.)	-	-	-	-	-	1	1,00
Education							
= 1 (< 15 yrs. of edu.)	-	-	-	-	-	0	0,00
= 2 (15 yrs. of edu.)	-	-	-	-	-	5	4,80
= 3 (16 yrs. of edu.)	-	-	-	-	-	31	29,50
= 4 (17 yrs. of edu.)	-	-	-	-	-	43	41,00
= 5 ( $\geq$ 18 yrs. of edu.)	-	-	-	-	-	26	24,80
Firm Type							
= 1 (Big Four)	-	-	-	-	-	57	54,30
= 2 (Non-Big Four)	-	-	-	-	-	48	45,70
Firm Size							
= 1 (1-5 Accts.)	-	-	-	-	-	8	7,60
= 2 (6-20 Accts.)	-	-	-	-	-	19	18,10
= 3 (21-100 Accts.)	-	-	-	-	-	12	11,40
= 4 (> 100 Accts.)	-	-	-	-	-	66	62,90

aggressive when making judgments and decisions in applying the reporting criteria prescribed in accounting standards.

In terms of moral personality, Table 1 shows that the participants appeared to be strongly idealistic, with an average idealism score of 70,27 and a median score of 70 that were far above the scale's middle point score of 45. As the idealism dimension represents an individual's consciousness about the negative consequences of an action, the high idealism scores among participants indicate that the majority of accountants in this study tended to believe that it was morally unacceptable to make financial reporting decisions that would bring about negative impacts to stakeholders of a company. Table 1 also shows that the participants of this study demonstrated a modest level of relativism, with an average relativism score of 46,56 and a median score of 49, which were just slightly above the scale's middle point

score of 45. Since the relativism dimension denotes an individual's orientation towards using absolute moral principles vs relative moral codes when evaluating moral situations, the modest level of relativism indicates that, while accountants in this study believed in universal moral principles, they also had a tendency to make a subjective moral assessment when making financial reporting judgments and decisions in accordance to accounting standards. Further, the descriptive statistics show that gender was almost equally distributed among participants, although men (55,20%) slightly outnumbered women (44,80%). Across the two groups, the distribution of gender was similar, in which in the low problem severity group, 55,77% of the participants were males and 46,33% were females, while in the high problem severity group males accounted for 54,72% of the participants and females accounted for 46,28%. The overall participants showed an

**Table 3. Results of Regression Analysis**

Variable	Expected Sign	Regression Coefficient	T-Statistic	P-Value
Intercept		117,683	3,449	0,000
Idealism	-	-0,442	-1,812	0,037**
Relativism	+	0,352	2,338	0,011**
Experience	-	-0,966	-1,130	0,131
Gender	-	-10,944	-2,417	0,009***
Severity	-	-6,255	-1,471	0,073*
Age	-	1,986	0,586	0,279
Education	-	-0,595	-0,218	0,414
Familiarity	-	-2,204	-0,529	0,299
Frequency	-	0,025	0,008	0,497
Firm Type	+	-4,858	-0,661	0,255
Firm Size	-	-3,974	-1,168	0,123
F-Statistic	2,144	(Two-Tailed P = 0,024**)		
R2	0,202			

**Notes:**

\*\*\* represents significant at the 0,01 level

\* represents significant at the 0,05 level

\* represents significant at the 0,10 level.

average professional experience of more than five years. Specifically, the participants in the low problem severity group had an average professional experience of 7,52 years, and participants in the high problem propensity group had an average of 7,21 years of professional experience. This implies that most accountants who participated in this study had adequate practical experience in dealing with real-life accounting situations.

Meanwhile, Table 2 shows that most of the participants were from large accounting firms. Nevertheless, they were almost similarly spread across firm types, in which 54,30% of the participants were affiliated with Big Four offices, and 45,70% worked for accounting firms that are non-Big Four. The participants appeared to be familiar with the Indonesian accounting standards and to frequently refer to the standards when performing their professional duties. The familiarity with the accounting standards and the frequency in using them in practice highlight the appropriateness of using these participants to work on the practical scenario in the experiment.

This study performed an ordinary least square (OLS) regression analysis on the data resulting from the experiment to empirically analyse the impact of moral personality,

professional experience, gender, and problem severity on the intensity of accountants' aggressive reporting behaviour. Initial procedures to determine the fulfilment of OLS regression assumptions were performed. Results of these initial procedures demonstrate that the empirical model developed in this research, when applied to the data, has satisfied the assumptions of normality of residuals, the absence of serial correlation between predictors (non-multicollinearity), the absence of heteroscedasticity, and the absence of serial correlation between regression residuals (non-autocorrelation). When running the regression analysis, both independent and control variables were entered simultaneously as predictors. Table 3 exhibits the outcomes of the OLS regression analysis.

As shown in Table 3, a test of goodness of fit using an F test on the regression model demonstrates an overall good fit to the data, with an F-statistic of 2,144 that is significant at the 0.05 level (two-tailed p-value = 0,024), suggesting the overall significance of the predictor variables in the model (both independent and control variables). This result implies the appropriateness of the regression model developed in this study since the chosen predictors provide a better fit to the data compared to an intercept-only model.

The test of goodness of fit also shows that the regression model has a coefficient of determination ( $R^2$ ) of 0.202, suggesting that the predictors in the model are able to explain around 20,20% of variations in the level of aggressive reporting behaviour, while the rest is explained by other variables that are not identified in the model.

Regarding the main analysis, Table 3 reports the outcomes of the OLS regression test that correspond to each of the regressors. As reported in Table 3, idealism has a negative coefficient that is statistically significant at the 0,05 level ( $b = -0,442$ ;  $t = -1,812$ ;  $p = 0,037$ ). This finding indicates that the more an accountant's moral personality is characterised by idealism, then the lower their tendency to engage in aggressive reporting behaviour when applying accounting standards. Conversely, the less an accountant's moral personality is oriented towards idealism, then the more likely this accountant to commit aggressive reporting behaviour. This result is similar to the findings shown in previous studies which exhibit that accountants who are more idealistic have a greater tendency to pursue ethical actions when performing their professional duties than accountants who are less idealistic (Ismail, 2014; Ismail & Rasheed, 2019; Ismail & Yuhanis, 2018; Liu, 2013; Malagueño et al., 2019; Utami et al., 2017).

Meanwhile, concerning the influence of the relativism dimension, the results in Table 3 shows that relativism has a positive coefficient that is statistically significant at the 0,05 level ( $b = 0,352$ ;  $t = 2,338$ ;  $p = 0,011$ ). This finding implies that when an accountant's moral personality is characterised by low relativism, they will be less willing to apply accounting standards in an aggressive manner. On the other hand, when an accountant's moral personality is high in terms of relativism, they would be more inclined to engage in aggressive reporting behaviour. This result is similar to those of prior studies that show that more relativistic accountants incline to be more permissive when making judgments on ethical issues and exhibit stronger willingness to behave unethically than less relativistic accountants (Ismail, 2014; Ismail & Rasheed, 2019; Ismail & Yuhanis, 2018; Liu, 2013; Malagueño et al., 2019; Utami et al., 2017). Overall, the findings on the examination of the influence of moral personality on accountants' reporting behaviour lend support to the theoretical

framework proposed by Forsyth (1980) by showing that the decision to pursue or to refrain from opportunistic reporting behaviour is strongly determined by an individual's orientation towards the idealism and relativism dimensions. Reflecting on Forsyth's (1980) conception of idealism and relativism, this study specifically shows that accountants whose moral personality is characterised by a stronger belief that action must not present harms to others and/or that the best outcome can be achieved without sacrificing the interest of others will be less willing to involve in the aggressive application of accounting standards. The study also demonstrates that accountants whose moral personality is built on the belief that moral issues should be judged by subjective norms depending on the situation, and not using universal moral principles, will be more likely to engage in manipulative financial reporting practices through an aggressive application of accounting standards.

As regards the effect of professional experience on the extent of aggressive reporting behaviour of accountants, the results reported in Table 3 shows that experience has a negative regression coefficient. However, this coefficient is not statistically significant ( $b = -0,966$ ;  $t = -1,130$ ;  $p = 0,131$ ). The insignificant finding on the influence of professional experience on accountant's reporting behaviour when applying accounting standards is contrary to results reported in previous studies (Cameron & O'Leary, 2015; Che et al., 2018; Chen et al., 2018; Herda & Martin, 2016; Wang et al., 2015).

A plausible argument for this insignificant effect is the differences between the accounting situation faced by research participants in this study and those of previous studies. Specifically, past studies such as Cameron & O'Leary (2015), Che et al. (2018), Chen et al. (2018), and Herda & Martin (2016) focus on professional judgments, decisions, or behaviour in the auditing context, while the present study focuses on accountants' behaviour in the financial reporting context. While successful execution of both auditing and accounting duties depends on, among other things, the professional experience of the accountants, the literature suggests that experience may be more necessary for accountants when performing audit tasks because auditors gain their audit expertise through experience, especially industry-based experience (Moroney & Ca-



rey, 2011). Meanwhile, knowledge may be more fundamental for accountants in order to work on financial reporting tasks because these duties are substantially determined by proper applications of accounting standards. Another reasonable explanation for the insignificant finding on professional experience is the nature of accounting situation depicted in the hypothetical case scenario. The scenario that was presented to participants of this study contains an ethical dilemma component that requires participants to also pay attention to ethical issues of accounting standard application, not merely the technical issues of financial reporting. While prior studies may have shown that experience can affect accountants' decisions in situations that are deeply technical in nature, existing studies in ethical decision making suggest that there is no strong evidence to argue that professional experience affects the decisions of individuals in morally ambiguous situations (Budisusetyo & Subroto, 2012; Dane & Sonenshein, 2015).

Regarding the effect of gender on accountants' reporting behaviour, the regression results reported in Table 3 show that gender has a negative coefficient that is statistically significant at the 0,01 level ( $b = -10,944$ ;  $t = -2,417$ ;  $p = 0,009$ ). Because gender was measured dichotomously in which male was labelled 1 and female was labelled 2, the negative coefficient of this variable implies that male accountants are more willing to apply accounting standards aggressively than their female counterparts. The significant effect of gender on the aggressive reporting behaviour of accountants is in agreement to results of previous accounting studies which suggest that male and female accountants may have different moral reasoning orientation and, therefore, may follow different decision-making mechanisms in contentious situations (Bobek et al., 2015). Furthermore, the finding that shows that women tend to behave less aggressively when applying accounting standards than men confirms results of prior ethics studies that demonstrate women are generally more sensitive to ethical problems, tend to judge ethical situations more harshly, and have a lower tendency to act unethically, while men are generally more permissive to ethical issues, tend to judge ethical problems more leniently, and are more willing to take unethical actions (e.g., Dhandra & Park, 2018; Eweje & Brun-

ton, 2010). Overall, the findings on the effect of gender on aggressive reporting behaviour of accountants provide support to the conception in the ethics literature that posits that men tend to have a greater inclination towards competition and domination, while women value more the social and emotional relationships with others (e.g., Dhandra & Park, 2018). These differing orientations lead to differences in behaviour between males and females when making moral decisions (Dhandra & Park, 2018; Eweje & Brunton, 2010), including differences in the tendency to engage in aggressive reporting behaviour as shown in the present study.

As regards the assessment of the effect of problem severity on accountants' aggressive reporting behaviour, an experimental procedure was followed. The problem severity of the accounting task was manipulated between participants as described in the methods section. That is, 52 participants responded to the low-problem severity instrument, and 53 participants responded to the high problem severity instrument. Prior to analysing the data, a manipulation check was performed to assess if the experimental manipulation in the case scenario had worked as intended, using two questions. The first manipulation-check question examines the participating accountants' perception about the materiality of the financial reporting situation depicted in the scenario, based on a scale with seven points, where the score 1 means 'not material at all' and the score 7 means 'extremely material'. The second manipulation-check question assesses the participating accountants' perception about the probability and magnitude of negative effects (harms) of the financial reporting situation, based on a scale with seven points, where the score 1 represents 'not significant at all' and the score 7 represents 'extremely significant'. An independent sample t-test on the participants' responses to the first manipulation-check question reveals that participants who were presented with the low problem severity task perceived the financial reporting situation to be less material (mean = 4,13) and the participants who were presented with the high problem severity task perceived the financial reporting situation to be more material (mean = 5,32), and this difference is statistically significant at the 0,01 level ( $t = -5,009$ ;  $p = 0,000$ ). Similarly, an independent sample t-test on the partici-

pants' responses to the second manipulation check question shows that participants who were provided with the low problem severity task rated the probability and magnitude of negative effects of the financial reporting situation to be less significant (mean = 4.40) and the participants who were presented with the high problem severity task rated the probability and magnitude of negative effects of the reporting situation to be more significant (mean = 5.50), and this difference is statistically significant at the 0,01 level ( $t = -3,812$ ;  $p = 0,000$ ). Considered overall, the outcomes on the two manipulation-check questions demonstrate that the participants in this study perceive the low problem severity scenario to have a lower level of materiality, a lower probability of negative effects, and lower magnitude of negative effects than the high problem severity scenario. This implies that the problem severity manipulation in the hypothetical case scenario was successful and meaningful interpretations can be inferred from the subsequent statistical test.

To determine the effect of problem severity on the intensity of accountants' aggressive reporting behaviour, the regression results of interest are those of severity. Table 3 reports severity has a negative coefficient that is statistically significant at the 0,10 level ( $b = -6,255$ ;  $t = -1,471$ ;  $p = 0,073$ ). Because the low problem severity group was coded 1 and the high problem severity group was coded 2, this finding implies that accountants who face a financial reporting situation that presents a high problem severity are less willing to use aggressive accounting techniques when following accounting standards than accountants who face a low problem severity situation. This significant result on the effect of problem severity of the accounting task on the extent of aggressive reporting behaviour of accountants is in line with results reported in previous studies which demonstrate that accountants' decision-making behaviour in a situation involving ethical issues is strongly determined by the severity of the moral problems that present in that particular situation (Arel et al., 2012; Cieslewicz, 2014; Musbah et al., 2016; Oboh, 2019). This finding is also similar to the outcomes of prior research examining ethical decisions in various contexts such as operations management (Valentine & Hollingworth, 2012), sales activities (Rokhmania, 2013; Valentine & Bateman, 2011; Yang et al., 2017) and purchasing decisions (Husser et al., 2019). More impor-

tantly, the finding on the effect of problem severity on aggressive reporting behaviour lends support to the long-standing concept of moral intensity proposed by Jones (1991) in the ethics literature, which posits that the situational factors, i.e., the intensity of moral issues, must be taken into consideration when evaluating the decision-making behaviour of individuals in conditions where moral dilemmas are present.

Concerning the control variables (i.e., age, level of education, familiarity with accounting standards, frequency in using accounting standards at work, firm type, and firm size), the regression analysis shows that these variables are not significant predictors of the aggressive reporting behaviour of accountants. To be specific, the results reported in Table 3 show that age has a positive coefficient, implying that older accountants may be more willing to apply accounting treatments prescribed in accounting standards in an aggressive manner than younger accountants. However, the influence of age on accountants' behaviour found in this study is not statistically significant at the acceptable level of confidence ( $b = 1,986$ ;  $t = 0,586$ ;  $p = 0,279$ ), and the direction is contrary to findings in prior studies such as Musbah et al. (2016). The conflicting results on age may be due to the use of age categories to measure participants' age instead of measuring it as a continuous variable. Further, Table 3 shows that education has a negative coefficient, which indicates a possibility that accountants who have had longer formal education tend to show a lower propensity to engage in aggressive reporting behaviour than accountants who have received shorter formal education. While the effect of the length of formal education in the present study is not statistically significant ( $b = -0,595$ ;  $t = -0,218$ ;  $p = 0,414$ ), it is worthy to note that the direction of the relationship between the extent of formal education and the propensity to commit aggressive reporting is consistent to the conception in the ethics literature. Specifically, the ethics literature asserts that individuals develop a moral reasoning ability through a learning process in various environment including the learning process in educational institutions; hence those individuals who receive more formal education have a greater probability are to make better ethical decisions than individuals who receive a less formal education (Musbah et al., 2016; Pierce & Sweeney, 2010).

With regard to familiarity with accounting standards and frequency in referring to the standards, the regression results show familiarity has a negative coefficient, but it is not significant at the acceptable level of confidence ( $b = -2,204$ ;  $t = -0,529$ ;  $p = 0,299$ ), while the coefficient for frequency is positive but not statistically significant at the acceptable level of confidence ( $b = 0,025$ ;  $t = 0,008$ ;  $p = 0,497$ ). These outcomes denote that both familiarity with accounting standards and the frequency in using them by accountants do not substantially determine the reporting behaviour of the accountants in a situation involving moral issues. These results can be considered reasonable because proficiency in terms of accounting standards will help accountants more in dealing with technical issues of financial reporting but may be less helpful when responding to ethical issues.

Regarding the effect of type of accounting firms, firm type has a positive coefficient, but it is not statistically significant at the acceptable level of confidence ( $b = -4,858$ ;  $t = -0,661$ ;  $p = 0,255$ ). Since the type of accounting firms was measured dichotomously where Big Four firms were labelled 1, and non-Big Four firms were labelled 2, the negative coefficient found in this study suggests that there is a possibility that Big Four accountants may behave more aggressively, while non-Big Four accountants may behave less aggressively when applying accounting standards. While the effect is not significant, the direction of the relationship between firm type and accountants' reporting behaviour appears to be consistent with the paradox reported in recent studies, where, although many studies consider Big Four affiliated firms to be superior to non-Big Four firms (Kusumah & Manurung, 2017), a recent study has shown that there is an association between the occurrence of aggressive tax reporting practices and the use of auditors from Big Four firms (Jones et al., 2018). Meanwhile, concerning the effect of size of accounting firms on accountants' behaviour, the regression results reveal that firm size has a negative coefficient, suggesting that there is a possibility that accountants from larger accounting firms will behave less aggressively when applying accounting standards than accountants from smaller accounting firms. However, in the present study, the effect of firm size is not significant at the acceptable level of confidence ( $b = -3,974$ ;  $t = -1,168$ ;  $p =$

$0,123$ ). However, it should be noted that the direction of the association between firm size and aggressive reporting behaviour shown in this study appears to be consistent to the conception in the accounting and auditing literature that holds that larger accounting firms tend to produce more prudent professional decisions (Berglund, 2018).

The insignificant results of the control variables allow this study to argue with great confidence that aggressive reporting behaviour is a function of moral personality and task characteristics instead of other individual or organisational factors. These results also underline that the randomisation procedure used to assign participants into the low problem severity or high problem severity groups was successful; hence, the variations in the participants' demographic and organisational characteristics were evenly distributed across the two groups.

The results reported that accountants can still prepare financial statements in an aggressive manner. It happens when principles-based accounting standards have been implemented. Findings reported in this study underline that aggressive reporting behaviour can still occur even though a set of higher-quality accounting standards (i.e., principles-based standards) have been adopted because the occurrence of such behaviour is not only influenced by environmental factors (such as accounting standards or other accounting regulations), but it is also determined by person-specific and task-specific factors. The specific results showing that aggressive reporting behaviour is directly influenced by accountants' moral personality signify that the application of reporting criteria in accounting standards, particularly in a situation involving a moral dilemma, concerns not only the technical aspects of financial reporting but also the ethical consideration by professional accountants. In particular, the findings of the present study demonstrate that accountants' ethical consideration when deciding on their extent of aggressive reporting behaviour is determined by their moral positions towards the idealism and relativism dimensions. That is, whether they believe that it is morally wrong to perform activities that may harm others, or, instead, negative consequences are sometimes acceptable to arrive at the maximum benefits for the majority of people (i.e., high vs low idealism), and whether they believe that

moral situations should be judged based on absolute moral principles or, instead, can be evaluated based on the situation using subjective norms (i.e., low vs high relativism).

Further, the findings that show that gender influences the decision-making behaviour of accountants, once again, highlights that aggressiveness in financial reporting are not merely technical in nature and are not only related to the application of hard skills by accountants. The present study's finding on gender corroborates the arguments proposed in the literature (Dhendra & Park, 2018; Eweje & Brunton, 2010) that gender can act as a direct determinant of individual behaviour, and that men and women follow different mechanisms of ethical decision making, leading to male accountants and female accountants facing a same financial reporting situation may come up with different levels of aggressive reporting due to the subtle effect of their gender. Meanwhile, the results on the effect of problem severity on aggressive reporting behaviour shed lights on the substantial role of the attributes of professional tasks in shaping accountants' decisions. Notwithstanding the fact that behaviour is shaped by personal morality and characteristics of accounting standards, the finding of this study demonstrates that accountants still assess the severity of a reporting situation before engaging in certain reporting behaviour. Taken together, the results of this study signify that the judgements and decisions of accountants are determined by person-specific and task-specific factors, in addition to environment-specific factors, consistent with the theoretical framework proposed in the literature on accounting judgment and decision making (DeZoort et al., 2019; Mala & Chand, 2015b).

## CONCLUSION

This study finds that person-specific factors, namely moral personality and gender, and task-specific factor, influence the extent of aggressive reporting behaviour of accountants. Accountants with stronger idealism or weaker relativism were found to demonstrate a lower tendency to engage in aggressive reporting practices. Male accountants were found to have a greater inclination towards following accounting standards aggressively than female accountants. Further, evidence was found that accountants behave less aggressively when applying accounting

standards in a reporting situation with a weaker problem severity. Overall, this study provides a significant theoretical implication that the reporting behaviour of accountants when applying accounting standards cannot be explained by merely looking at the types of standards being applied but should also be considering person-specific factors of the accountants and task-specific factors of the financial reporting problem faced by accountants.

The results reported in this study also present several practical and policy implications. First, the findings on the effect of moral personality imply the importance of recruiting individuals with high moral standards to the accounting profession, and the need to continuously equip accountants with the moral skills required to respond to contentious reporting situations. This implication should be a concern to accounting professional associations, educators, and regulators who are in the forefront in the formulation, socialisation, and enforcement of ethical standards in the profession. Second, the finding on gender should draw attention from standard-setters and other relevant policymakers because this finding implies the need for strategies to facilitate credibility in the implementation of accounting standards regardless of demographic differences. Third, the effect of problem severity signals standard-setters about the necessity to provide accountants with relevant decision aids which will help them better analyse a financial reporting situation and respond to it properly when applying accounting standards.

Although the study was designed carefully, there are some research limitations that warrant attention. First, this study only uses a scenario about the recognition of financial statement items. Future research could explore accountants' aggressive behaviour using scenarios on the measurement and disclosure of financial reporting items. Second, because this study uses a hypothetical scenario that presents a moral issue, there was a risk of social desirability bias. Although the present research has attempted to mitigate this bias by ensuring anonymity and the use of the third-person approach in the scenario, this study does not specifically measure the extent of this bias. Therefore, future studies could measure the extent of this bias using a social desirability bias scale, and then in-

clude that measure when analysing the reporting behaviour of accountants when they apply the reporting criteria in accounting standards.

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