Economic Consequences and Positive Accounting Theory
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ABSTRACT

This paper reviews economic consequences as a choice of attitudes toward accounting policies. Economic consequences are an anomaly to the theory of efficient securities markets. This theory fails to explain market behavior concerning the accounting policies made. To overcome this, a positive accounting theory is attempted to be built which can explain that accounting policy is a choice of attitude towards economic consequences.

Keywords: Economic Consequence, Anomaly, Positive Accounting Theory

1 Introduction

Accounting policies are an important source of information for investors. This policy can be used by managers, as a signal of accounting information sourced from within the company. Three constituents of financial statements, namely management, government, and investors, showed reactions to the article on accounting policy. The management reaction extends to the intervention of the standards-setting body. These reactions involve economic consequences, namely that the choice of accounting policies can be a problem even though there is no effect on the company's cash flow.

Economic consequences are an anomaly for an efficient capital market. This happens because alterations to accounting principles that have no impact on cash flow have economic consequences but are not reacted to by the market. This market behavior fails to be explained by efficient capital market theory.

Economic consequences from a theoretical perspective are a choice of attitude in the selection of accounting policies. Scott (2009), who bases accounting policies on stock-based compensation, explains that economic consequences are accounting policy concepts that can affect firm value regardless of the impact of efficient securities market theory. Every policy related to accounting does not only affect a company's cash flow. On the other side, the economic impact of accounting reports on the behavior of firms, governments, and editors in making decisions. The main idea behind this concept is that accounting reports can affect actual decisions made by managers and other parties rather of just reflecting the outcomes of such actions.

In terms of economic consequences, there is an assumption that there is competition in obtaining information sources and net benefits from information on accounting numbers (users of accounting numbers). Investors must make a significant (true) attempt to gather the knowledge required to distinguish themselves from other investors by gaining these rewards. Given the ineffectual accounting choice concept, it cannot be argued that neither managers nor regulators will choose accounting methods at random. Managers choosing a specific accounting technique or method must have different histories or motivations, else they would not choose a different accounting method. In other words, there is an assumption that can be founded on customs or habits that are specific to the industrial scale, even in the setting that accounting decisions do not affect stock prices.

In this situation, one type of industry has a propensity to consistently employ a specific accounting technique, whereas other industries either do not or employ different techniques. Whether we are aware of it or not, every accounting technique selection has a predetermined outcome. Accounting policies are an important source of information for investors. This policy can be used by managers, as a signal of accounting information sourced from within the company. Three constituents of financial statements, namely management, government, and investors, showed reactions to the article on accounting policy. The management reaction extends to the intervention of the standards-setting body. These reactions involve economic consequences, namely that the choice of accounting policies can be a problem even though there is no effect on the company's cash flow. Economic consequences are an anomaly for an efficient capital market. This happens because changes in accounting policies that do not affect cash flow have economic consequences, but are not reacted by the market. This market behavior fails to be explained by efficient capital market theory.

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economic consequences are accounting policy concepts that can affect firm value regardless of the impact of efficient securities market theory. Every policy related to accounting does not only affect a company's cash flow. The impact of accounting reports on the conduct of enterprises, governments, and editors, on the other hand, is the economic consequence. This definition's main idea is that accounting reports can affect actual managerial and other parties' decisions rather than just reflecting their outcomes. In terms of economic consequences, there is an assumption that there is competition in obtaining information sources and net benefits from information on accounting numbers (users of accounting numbers). Investors must make a significant (true) attempt to gather the knowledge required to distinguish themselves from other investors by gaining these rewards. Given the ineffectual accounting choice concept, it cannot be argued that neither managers nor regulators will choose accounting methods at random.

Managers choosing a specific accounting technique or method must have different histories or motivations, else they would not choose a different accounting method. In other words, there is an assumption that can be founded on customs or habits that are specific to the industrial scale, even in the setting that accounting decisions do not affect stock prices. In this situation, one type of industry has a propensity to consistently employ a specific accounting technique, whereas other industries either do not or employ different techniques. Whether we are aware of it or not, any accounting system choice must have a history or motivation, both motivated by economic and non-economic factors. The qualities of a corporation and the accounting method it selects are shown to be related in theoretical economic repercussions. That is, companies or managers have special reasons according to economic considerations that will provide more benefits for choosing an "X" accounting method compared to a "Y" accounting method. The manager's decision to select an accounting method is motivated by a number of factors. It follows that the theory that economic actors must base every decision they make on cost-benefit analyses. The result is that the agent (manager) must be interested in having an agreement and also the repercussions that must be taken into account regarding what will happen and/or be lived if accounting procedures are regarded to be capable of affecting the prosperity of interested parties. According to Watts and Zimmerman's (1990) analysis as well as a number of other studies, there are at least four activities that can influence the economic effects of accounting decisions. These four actions demonstrate the connection between the company's cash flow and its reported accounting figures. These four things are (1) management compensation plans, (2) government regulations, (3) lending agreements, and (4) political aspects. (political visibility).

2 Management Compensation Plans

Watts and Zimmerman (1990) state that why management compensation plans (bonus plans) exist within a company (used by the company) are none other than because these plans are an efficient contract facility that can maximize firm value. Plans for management remuneration are frequently linked to chances for managers to share in corporate earnings if the business achieves a predetermined (targeted) level of profitability. These objectives are typically expressed in numerical terms, such as the net profit of the business for a particular accounting period, the rate of return on the book value of the business's assets, or the achievement of a specific share price on the capital market (stock exchange).
Of course, the success of management may be impacted by the changes it makes, whether they are optional or required modifications, if the existing compensation contracts are not modified to reflect changes in the law. Using corporate cash for investments or other financial actions that could have an impact on the overall amount of profit for the company is another opportunity or interest for management. The amount of the bonus that managers will receive will therefore depend on whether they accept and apply the accounting rule or reject it (bargain).

The economic effects of the accounting decisions resulting from the compensation plan depend on the terms of the agreement (agreement), including any modifications made in the future. Existing compensation agreements might not signify anything if there are no costs associated with negotiations and oversight. Conversely, there is a chance that managers will use current accounting regulations to obtain personal benefits or other policies (actions) that can affect the value of the company if the costs of negotiation and supervision are significant enough to have an impact on the prosperity of various parties involved, especially managers. Therefore, how closely the remuneration is related to the firm's performance (manager) will be able to change the manager's policy or strategy (activity), which will then be able to affect the value of the company (prosperity of shareholders and other parties).

According to the management compensation plan hypothesis (bonus plan hypothesis), business managers who have compensation plans are more likely to select accounting methods that convert gains from future periods to current period profits' (Watts and Zimmerman, 1990). Due to a number of factors, managers are motivated to "manipulate" or "manage" reported results by using accounting practices that can change the magnitude of profits. Healy and Palepu (2001) conducted the first empirical study to try and evaluate the effects of management bonus compensation programs (bonus plans). Holthausen, R.W., and Lefwich, R.W. (1983), among others, discovered substantial evidence that the decision of management to select or implement an accounting rule is closely related to how dependent bonuses are on meeting profit targets. What Healy and Palepu (1985) and Holthausen, RW, and Lefwich, RW (1983) reported underscores the significance of comprehending managers' actions in light of the availability of compensation schemes that may have an impact on their current and future prosperity. It is possible to research the behavior of managers towards compensation plans in Western countries with good openness systems, but in Indonesia, where there is still a problem with information transparency or openness, it would be fairly challenging to implement. It is difficult for Indonesian scholars to learn more about this phenomenon because of this.

3 Government Regulations

The federal and regional governments restrict business activity with restrictions based on clear accounting data in industrialized countries, which is now also a trend in emerging countries. In the banking industry, examples of these regulations include the adoption of a capital adequacy ratio (capital adequacy ratio), which requires banking companies to pay close attention to the structure of capital, as well as the existence of provisions or requirements to set prices for goods and services at a certain level with the intention of protecting a particular industry (business).

Banking management must take care to ensure that the capital possessed does not fall significantly below the acceptable level with regard to the capital adequacy ratio because it can have a variety of effects on the company's operational performance as well as the attitudes of many people, particularly investors. The government (regulator or banking authority) may make changes that are not burdensome to management in relation to the cost of contracts and supervision and still with the case of the level of capital adequacy in the banking industry. If the company considers that making adjustments to the level of capital adequacy is an expensive and difficult effort.

It's likely that banking regulators won't have to set minimum time limits for the required adjustments, even if it might not be excessively expensive or burdensome for businesses to make changes to the new capital adequacy ratio criteria. The measures or policies that managers will adopt to achieve the required adjustments will therefore be impacted by changes in new rules. There is a chance that actual attempts may arise that can alter the performance of the reported accounting figures if the manager believes the new policy or rule can hinder the company's performance. In other words, if a corporation adopts a new legislation early or as late as the date of the regulation's implementation, it may have an impact on the company's financial results. The impact of the regional autonomy policy and its relationship to the formation of numerous regional rules (Perda), which in many cases have not examined the influence on firms in the area, is another example that is likely to appear frequently, especially in Indonesia.

Conflicts in substance between local and national legislation in one area can have a variety of effects on businesses, such as increased taxes and fees. For instance, district 'X' with its Perda mandates that specific commodities or services are subject to local taxes or that there are additional taxes based on the success of the
Managers may be driven to select particular accounting techniques that can affect the magnitude of earnings if the impact of these restrictions is directly tied to the company's financial success.

4 Lending Agreements

Limitations on the borrower's activities are a direct result of having a loan arrangement with a business, and many of these limitations are concrete or take the shape of accounting numbers. A loan agreement might have clauses that restrict the amount of cash dividends or the maximum amount that can be borrowed again, for instance. The severity of the restrictions in the lending and borrowing agreement will, of course, be directly or indirectly impacted by changes to the accounting principles used to calculate the numbers mentioned because the agreement will unavoidably have an impact on how well debt holders and shareholders will fare. Therefore, whether voluntary or required, adjustments to accounting principles may have an impact on the company's cash flow, which in turn may have an impact on the value of various claims that may arise.

Managers can advocate for or against alterations to accounting practices in this situation. The expense of renegotiating and monitoring debt agreements, which may be expensive, or when the agreement will become expensive to recapitalize current debt commitments, are some of the economic repercussions that may occur from changes in accounting as a result of loan agreements.

It is futile (not productive) for managers to fight for and voluntarily modify accounting practices if the costs of negotiation and monitoring, renegotiation, and recapitalization are regarded to be high, even when these expenses will lower or reduce the value of the company. However, there is a chance that managers will take action to implement changes in accounting techniques if the costs associated with changes in debt agreements are negligible and these changes will in many ways affect the prosperity of shareholders when followed by such changes.

5 Political Aspect (Political Visibility)

can have an indirect impact on how the other parties involved will respond. Customers, employees, trade unions, politicians, bureaucrats, or the business community, for instance, will all have various opinions about a company's financial success, whether they approve of it or not. The level of earnings (accounting statistics) for companies that are politically sensitive, in the sense that they frequently find themselves in the public eye, which is a trait of huge corporations or companies in certain industries, will be perceived differently by various parties. For instance, in Indonesia, the banking sector or publicly traded state-owned businesses like PT. Telkom Tbk. or PT. Semen Gresik Tbk. The government recently authorized an increase in phone rates. The increase would boost PT. Telkom Tbk's level of earnings, and in many situations, it would be burdensome for customers. However, in reality, the company has been able to achieve relatively high profit levels without a tariff hike. The plan to sell government-owned shares through a long-term put option mechanism is a sensitive topic relating to PT. Semen Gresik that undoubtedly influences the public's (investors') perception of share prices in the capital market.

If changes in the accounting numbers alter the likelihood of the amount of taxes to be paid or subsidies to be received, the stated accounting figures for companies that are in the public eye may have economic repercussions. Managers in these businesses have an incentive to utilize a specific accounting technique and have the power to advocate for or against changes to the legally required accounting standards that may have an impact on how politically sensitive their organizations are.

In this scenario, only expensive political contracting and supervisory processes will have an impact on a company's political sensitivity. The costs of contracting and monitoring in the political process can take the form of costs associated with putting together a coalition of companies with similar interests or costs necessary to incur so that the company "knows" about the economic effects of taxes or subsidies that will be mentioned either explicitly or implicitly. In other words, if the expenditures associated with contracting and monitoring activities increase, it will have an impact on the company's stated accounting profit figures. The accounting statistics supplied by the corporation will have no impact at all if contracting and monitoring costs are negligible or extremely low.

6 Methods Or Empirical Evidence

In conclusion, there are three categories into which the empirical data on the impact of altering accounting techniques or methods can be divided: (1) choice of type or type of accounting technique or method, (2) lobbying positions and selection of proposed accounting standards, and (3) the impact of accounting choices on stock prices. These three types of empirical evidence are reviewed in more detail in the following sections.
7 Choice of Accounting Techniques or Methods
The first research group tries to look at the financial effects of accounting decisions. That is, researchers try to see whether the decision to choose an accounting technique or method can be associated with several characteristics of the company. In other words, the selection of an accounting approach or practice depends on several factors inherent in a company, such as company size, debt adequacy ratio (leverage), and the existence of a bonus program for management. Holthausen and Leftwich (1983) divided this first research group into seven types of accounting choices. The seven types of accounting choices are as follows.
1. depreciation method, the choice between accelerated and straight-line,
2. interest treatment, the choice between capitalizing (capitalize) and being considered as an expense (expense),
3. inventory valuation, the choice between using the FIFO and LIFO inventory recognition methods,
4. treatment of investment tax credits, the choice between flowthrough and deferral systems,
5. gas and oil exploration costs, the decision between effective efforts and full cost,
6. coverage for unpaid pensions, the short length of the amortization period,
7. Combination (portfolio) of the four existing methods, depreciation, inventory, investment tax credit, and pension amortization.

Existing research usually uses a probit analysis approach, which is a statistical analysis based on multiple regression where the dependent variable is measured using a dummy variable (0/1). In this case, the accounting technique is the dependent variable. While the independent variables are proxies for contract and supervisory costs (which usually consist of leverage, whether there is a compensation plan linked to accounting numbers [bonus scheme], debt coverage ratios, the size of dividend deviations, and whether the company is controlled more by owner or manager) and political sensitivity variables (which usually consist of firm size, concentration ratios, capital intensity, and systematic risk).

The assumption that is typically tested is that businesses with high contract and control costs will favor accounting methods (techniques) that can boost profit performance, while businesses with high political sensitivity will favor accounting methods (techniques) that boost losses.

8 Lobbying and Election Behavior
There are at least two different categories of voting and lobbying-based studies. The first type forecasts corporate lobbying stances based on firm-specific traits or characteristics, such as how proposed accounting standards would affect earnings (revenue), if management compensation plans are in place, and how politically sensitive a company is (see Watts and Zimmerman, 1990). While the second type examines the relationship between the position of the standard-setting authority (in Indonesia it is the Indonesian Institute of Accountants [IAI], in America it is the Financial Accounting Standards Board [FASB]), and parties who are the object or target of the standard accounting product, such as companies, auditors, and academics.

Watts and Zimmerman (1990) are perhaps the first researchers to try to find answers to the factors that cause the motivation for lobbying by companies. Watts and Zimmerman found significant evidence that company size is the main factor causing lobbying efforts against standard accounting authorities (standard-setting bodies) by company managers. Large companies (big companies) which in many ways are easily in the public spotlight (politically sensitive corporations) have a strong incentive to lobby when there is a new accounting regulation that can affect their financial performance in the long term. In addition, large companies also have a strong incentive not to emphasize too much the profit (reported income) due to fears of accusations of obtaining special facilities or monopolies. Empirical evidence tends to support the hypothesis that large companies will choose accounting methods that reduce income (see Watts and Zimmerman, 1990), and in addition, empirical evidence supports the political hypothesis.

9 Results And Discussion
Positive/Descriptive Accounting Theory
It is impossible to isolate the emergence of positive theory from discontent with normative theory (Watt & Zimmerman, 1990). Furthermore, it is said that the justification for using a normative method to analyze accounting theory is overly straightforward and lacks a solid theoretical foundation. According to Watt and Zimmerman (1990), there are three main explanations for the change from the normative to the positive approach:
1. the incapacity of a normative approach to evaluate theories empirically because their foundations are flawed or predicated on untestable assumptions.
2. The empirical validity of the normative approach is given additional attention.
3. Investors individually rather than the prosperity of society at large. The ideal distribution of economic resources in the capital market is not encouraged nor made possible by the normative approach. Keeping in mind that accounting data can be a controlling tool for the community in effectively distributing economic resources in an economic system based on market principles.

Additionally, Watt & Zimmerman claimed that the justification for studying accounting theory from a normative perspective is too straightforward and does not offer a solid theoretical foundation. A positive approach that is more focused on empirical research and justifies various accounting techniques or methods now in use or looks for new models for future accounting theory development was established by Watt & Zimmerman to close the gap in the normative approach.

Positive theory seeks to explain or forecast actual phenomena and empirically tests them, whereas normative theory demonstrates the appropriate course of action based on assumptions, norms, or standards. According to how well they fit with observations from the outside world, explanations or predictions are developed. The idea of positive flow is now largely accepted by academics. The University of Chicago was where this stream was originally introduced; from there, it spread to a number of other American colleges, including Rochester, Barkley, Stanford, UCLA, and NY.

According to the positive accounting theory, social reality exists apart from people, who each have a unique nature or essence. As a result, empirical phenomena and research are separated. Thus, observation is used to evaluate the empirical world's scientific validity. According to Chua (1986), there are two ways that empirical testing is expressed in the philosophy of science:
1. A theory and a number of findings declarations are present in the positivist viewpoint, utilized to support or validate the validity of the idea through an independent observation.
2. According to Popperian, scientific theories can be rejected (falsified) since they are theory-dependent and faulty claims from observations cannot be proved to be true.

Even though there are 2 ways of empirical testing, the researchers still agree that the hypothetical-deductive method is the choice. An explanation is said to be scientific if (1) It must have one or more general principles or rules, (2) It must contain prerequisites, which are typically expressed as assertions of observations, and (3) It must contain a statement characterizing the subject of the explanation.

Positive accounting theory according to Scott (2000) seeks to make good predictions according to real events. Furthermore, Godfrey et.al (1997) states that positive accounting theory seeks to answer, among other things, the following questions from an economic perspective:
1. Are the costs incurred commensurate with the benefits obtained in choosing an alternative accounting method?
2. Are the expenses incurred in the process of regulating and establishing accounting standards comparable to the gains expected?
3. What effect do recently released financial reports have on stock prices?
4. A positive accounting theory that may be divided into two stages was developed to address the aforementioned queries.

Market behavior and accounting study. At this point, accounting procedures are not disclosed; instead, research is being done on the correlation between earnings reports and changes in stock price. The Efficiency Market Hypothesis was employed to conduct research at this level (Scott, 2000). An effective capital market is one where securities are exchanged at acceptable prices that take into account all information that is generally available about the securities as well as the Capital Asset Pricing Model (CAPM).

The objective of the second round of research was to explain and forecast accounting practices between companies which focused on opportunistic reasons in terms of companies choosing certain accounting methods, or on efficiency reasons, namely accounting methods were chosen to reduce contract costs between companies and their stakeholders. The opportunistic perspective is known as ex-post, which refers to the choice of accounting procedures being made after the facts are known. The efficiency perspective is referred to as ex-ante for a second reason since the choice of accounting technique is chosen before the facts are known. Agency theory, which discusses the control paradigm, is used in this field of study.

The positive flow presupposes that power and politics are unchangeable and that the social system within the company is made up of real-world empirical phenomena and is independent of its managers and staff members.
in terms of value. When accounting phenomena are observed, the positivist sees himself as an unbiased, objective, and value-free observer. The foundation of positive accounting theory is also dependent on presumptions about how societies function. It is considered that humans always decide on their aims before acting. This presumption, which is found in the agency theory of accounting, states that persons in this situation have "a single superordinate goal," namely "utility maximization." In accordance with this principle, a manager (agent) will always want to work less than more, whereas a principal (owner) wants to get the most return on his investment.

Positive accounting can be developed on a solid foundation provided by the capitalist economic system. The relationship between theory and practice in accounting is positive with the existence of a means-end dichotomy, namely the separation between the worlds of theory and practice. The existence of an object of research and social reality is a logical presumption that follows from ontological assumptions (assumptions about the subject of the study). Whether the social reality being investigated is a physical object or an idea, researchers must be able to persuade themselves of the reality of what is being studied or researched (Gaffikin, 2008).

The consequence in the accounting sector is that accountants and accountants supply information as effectively and efficiently as possible, but they are not concerned with how managers use it. So far, the positive flow has always attempted to conduct accounting research by evaluating the relationship between variables with results indicating the significance of these variables. Therefore the evaluation and analysis of positive flows rely heavily on the use of statistical tools. All cases are attempted to be seen and simplified into statistical formulations, as a result, researchers often feel confused about the research results obtained because all problems are simplified by statistical formulations. According to Watt Zimmerman (1990), the positive approach has significantly contributed to the advancement of accounting:
1. Make systematic patterns in your accounting decisions, and then explain them in detail. Establish a structure that is straightforward for comprehending accounting.
2. Show how contracting expenses play a key role in accounting theory.
3. Describe the purpose of accounting and offer a framework for forecasting accounting decisions.
4. Promoting accounting-related research and placing a focus on phenomenon forecasts and explanations.

10 Conclusion

Economic consequences are an anomaly for an efficient capital market. This happens because changes in accounting policies that do not affect cash flow have economic consequences, but are not reacted by the market. This market behavior fails to be explained by efficient capital market theory. The failure of market theory is an efficient capital theory because it cannot explain the economic consequences due to asymmetric information. According to the positive accounting theory, social reality exists apart from people, who each have a unique nature or essence. This results in separate empirical phenomena from research. To overcome this, a positive accounting theory is attempted to be built which can explain that accounting policy is a choice of attitude toward economic consequences.

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