CHAPTER I. INTRODUCTION

1. 1. Background

Between 1960 and 2001, there was an increase in the consumption of products to meet human needs, followed by the growth of the agricultural industry. Agricultural industry was third most influential sector in the economic growth recorded by Central Statistics Agency (Badan Pusat Statistik, 2020). Foreign investment capital creates opportunities and raises capital flows that have a positive impact on domestic growth, particularly in the agriculture sector. This growth was driven by an increase in the amount and productivity of Indonesia's commodity exports like coffee, rubber, palm oil, and forest products (Abrar, 2018).

To steadily growth and gain competitive advantage, the company's annual reports and financial statements need an accounting uniformity based on applicable international standard so that it helps the company easily compare their reports with other companies. Since 2008, Dewan Standar Akuntansi Keuangan of Ikatan Akuntan Indonesia (DSAK IAI) has been converging International Financial Reporting Standards (IFRS) to improve financial statement comparability. Pernyataan Standar Akuntansi Keuangan No. 69 (PSAK69) was ratified on December 16, 2015, and effective from January 1, 2018, adopting the International Accounting Standard No. 41 (IAS No. 41). According to Utami and Prabaswara (2020), the presence of PSAK NO. 69 which DSAK IAI authenticated as the agricultural sector guidance given big contribution of an increase in Indonesia's Gross Domestic Product by 3.7 percent in 2018 from 2017.

One of the accounts in the financial statements, assets are described as the tangible and intangible assets that a company owns to support its operational activities. Biological assets, which refer to living plants and animals, according to Ore (2010), are an essential element in accounting for agricultural activities. Plants and animals will have a different initial value than physically productive assets in the agriculture sector (Jesemčika, 2010). Unique characteristics of biological asset which differ agricultural company with other sector is the biological transformation

and the measurement of revenue which correlated with asset growth or when an asset is sold. All biological transformations or biological processes experienced by live plants and animals, from growing until they give benefit to the company should be included in the valuation of agricultural activity.

The valuation of biological assets is a problem in this sector because agriculture depend on agro-climatic conditions and territorial remoteness. According to Rankin, Ferlauto, McGowan , and Stanton (2018), social and environmental issues posed a challenge to accountants. The valuation of biological assets is complicated since the life span of biological assets is insignificant and different perspectives in determining its value might lead to subjectivity, which is neither clear nor concrete. According to Kusumadewi (2018), dynamic changes in size, age, number, and physical circumstances of an asset impact the economic value and the assets value. The fluctuations in unrealized profits or losses, which are recorded in profit or loss when they occur, are likely to impact the volatility of financial statements. Companies can refer to PSAK No. 69 and IAS No. 41 if they are unsure about the valuation of the biological assets. Because a lack of regulation might result in an unreliable financial statement and a reduction in decision-making accuracy (Kurniawan, Mulawarman, & Kamayanti, 2014)

There are relatively few accounting requirements for biological assets in agricultural companies (Rahmani, et al., 2021). According to previous research by Kodriyah and Monica (2018), most biological assets in Indonesia still follow the rules outlined in Pernyataan Standar Akuntansi Keuangan No. 16 (PSAK No. 16) regarding fixed assets that do not include living things (biological assets), as well as Pernyataan Standar Akuntansi Keuangan No. 14 (PSAK No. 14) regarding inventory. Kalnina (2006) described the accounting treatment at the time of harvesting the biological assets and inventory of agricultural products. It is clear that there are gaps in the standard-setting for biological assets, particularly in livestock and plant which shown in their presentation as parts of inventories and other fixed assets. Yet, the adoption of IAS 41 proved materiality in an agricultural

company's financial report and increased both transparency and accountability (Utami & Prabaswara, 2020).

At the end of 2000, IAS 41 regulated the multiple accounting treatments for biological assets, including its measurement, recognition, presentation, and disclosure. IAS 41 was amended to remove bearer plants from its scope because they matched the criterion for fixed assets. Animals or plants controlled by governments are recorded in the balance sheet as inventories or fixed assets. Furthermore, animals and plants are classified as extra-compatible assets that are not reported on the balance sheet if their value is less than the minimum capitalization value.

It was considered incompatible with the features of the agriculture sector, IAS 41 received a mixed response from developed countries and developing countries (Ariyanti, Sukedar, & Kurniawati, 2014). Several countries, particularly developed ones use IAS 41, although it has a limited impact because agricultural activities are not their primary economic activity. In fact, the practice of such regulation is difficult to apply in developing countries such as Indonesia which are well known for its agricultural activity. Because efforts to obtain fair values will always be closely related to the costs incurred and the benefits to be obtained, the challenges faced by various countries in measuring biological assets make their fair worth mismatched to the benefits received.

The financial statements must be presented with disclosures that contain both financial and non-financial data, either in the form of quantitative data or descriptive data. The agriculture company disclose their biological assets based on regulation as a form of accountability to stakeholders and to provide confidence in the sense that companies handle biological assets effectively as a source of profit. Additionally, disclosure adds value to improve a company's performance and reputation (trustworthiness). According to Nikmah, Taufik, and Ilyas (2022), companies comply with regulations by disclosing the true value of biological assets in the financial statements helps ensure the sustainability of agricultural companies and demonstrates that the company can meet the information needed by

stakeholders. The quality of agricultural products has improved because of this disclosure. An increase in biological asset intensity sends signals to investors which confirming the company's regulatory compliance. Stakeholders are more likely to pay attention to this type of compliance.

According to Yurniwati, Djunid, and Amelia in 2018, the company's proportion of biological assets was determined by the intensity of biological assets. When this biological asset is sold, this intensity represents the projected cash earned. Biological asset intensity influences biological asset disclosure, according to Routes and Patricia (2014); Yurniwati, Djunid, and Amelia (2018); Nikmah, Taufik, and Ilyas (2022) research. Alfiani and Rahmawati (2019); Zufriya, Putri, and Nur (2020) stated that biological asset disclosure did not influence by biological asset intensity.

Large companies have a higher requirement for information disclosures than small companies do, based on their size. Transparent and comprehensive information exemplifies the principles of excellent corporate operational management (corporate governance). Company size has a beneficial effect on the disclosure of biological assets (Yurniwati, Djunid, & Amelia, 2018); (Riski, Probowulan, & Murwanti, 2019); (Amelia, 2017); (Routes & Patricia, 2014). Putri and Siregar (2019) as well as Kusumadewi (2018) on the other hand stated that there is no influence of the company size with the biological asset disclosure.

Detailed information about biological assets adds value to business performance in this respect, as it not only gives investors' confidence that biological assets are well managed as a form of accountability but also as a source of profit. Agricultural companies' profitability demonstrated their ability to manage their biological assets to achieve a given level of profit. According to Zufriya, Putri, and Nur (2020); Nikmah, Taufik, and Ilyas (2022); declaration of biological assets is unaffected by profitability. Profitability has a beneficial effect on biological asset disclosure (Riski, Probowulan, & Murwanti, 2019)

The compliance of agricultural companies based on PSAK No. 69 has not been widely studied; nevertheless, in this case, the researcher employed a list of mandatory items based on PSAK No. 69 to assess compliance. Because biological assets have undergone biological transformation over time, disclosure is required. To close the gap between management and investor, agricultural company disclosure should reflect the company's position and performance. Researcher is motivated to re-examine factors that may alter biological disclosure from different perspectives after discovering inconsistencies in prior studies such as the intensity of biological assets, company size, and profitability.

1. 2. Research Problem

According to agency theory, relationship occurs when the principal hires an agent to provide a service and then delegate their decision-making authority. To overcome information asymmetry, the agent discloses all information to the principal. Biological asset disclosure in accordance with PSAK No. 69 demonstrate that the biological assets are well-managed and can be served as a guide for rational decision making, a form of management responsibility, and compliance with applicable regulations. In signaling theory, the disclosure made by internal parties is important for the investment decision by external parties. If company tend to disclose thorough information, it confirms companies' compliance with regulations which sends good signals to investors about companies' good performance. Therefore, three problems formulated, as follows:

1. Does biological asset intensity effect on the compliance of agriculture company using items of biological asset disclosure based on PSAK No. 69 from 2018 to 2020?
2. Does company size effect on the compliance of agriculture company using items of biological asset disclosure based on PSAK No. 69 from 2018 to 2020?
3. Does profitability effect on the compliance of agriculture company using items of biological asset disclosure based on PSAK No. 69 from 2018 to 2020?

1. 3. Research Objectives

In consistent with the formulation based on the problem above, this study shows empirical result to describe biological asset intensity, company size, and profitability effect on the compliance of agriculture company using items of biological asset disclosure based on PSAK No. 69 from 2018 to 2020.

1. 4. Research Contribution

Based on the topic discussed in this research about influential factor on biological asset disclosures that include its relationship with biological asset intensity, company size, as well as profitability. This research is expected to provide contribution in the form of:

1. 4. 1. Theoretical Contribution

This research contributes not only additional theories or references but also an insight of the field of economics especially in financial area regarding biological asset intensity, company size, and profitability effect on the compliance of agriculture company using items of biological asset disclosure based on Pernyataan Standar Akuntansi Keuangan No. 69 about agriculture.

1. 4. 2. Practical Contribution

This research is expected to be considered by agricultural company which desired to confirm their compliance with regulation which is Pernyataan Standar Akuntansi Keuangan No. 69 to facilitate stakeholders' understanding about biological assets intensity, company size, and profitabiliy. It is also expected to help investor in decision-making process before investing on agricultural-based companies along with its influential factor as the company’s performance indicator.

1. 5. Scope of Discussion

The discussion centered on financial accounting field about biological assets, firm size, and profitability impact on agricultural company compliance based on PSAK 69. Above are the precise details:

1. 5. 1. Substances

Writing a thesis to gratify graduation requirements with a focus on biological asset intensity, company size, and profitability effects on the compliance of agricultural companies with Pernyataan Standar Akuntansi No. 69 by using information from annual reports and financial statements of agricultural companies as well as content analysis of Pernyataan Standar Akuntansi No. 69.

1. 5. 2. Temporal

The research of this thesis took time over the past of about one semester, and the sample period of agricultural company 2018 to 2020.

1. 5. 3. Location

The writing is done independently by the author, who gathers data from the Indonesia Stock Exchange and company website rather than going to each company directly to gather information.

1. 6. Writing Systematic

The explanation about the process and outline of the research from the start can be seen as follow:

CHAPTER I Introduction

Chapter I is the beginning and introduction of the research which consist of research background, research problem, research objective, research contribution, and writing systematic.

CHAPTER II Literature Review

Chapter II is the literature review of the research which consists of theory and logical reasoning of the influence of biological asset intensity, company size, and profitability on biological asset disclosures based on PSAK No. 69. during 2018 to 2020 as the basis of hypothesis development and conceptual framework.

CHAPTER III Research Methodology

Chapter III is the research methodology used in the research which consist of type of research, population and sample, data gathering, measurement of variable, and data analysis.

CHAPTER IV Result and Analysis

Chapter IV is the result of the whole research using quantitative and qualitative approach which include descriptive statistics, classic assumption test, hypothesis testing, and discussion.

CHAPTER V Conclusion and Suggestions

Chapter V considered as the conclusion of the whole research which includes conclusion, limitation, and suggestion.