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# Legal Integration of Contract Law and Accounting Standards: Auditors' Role in Ensuring Certainty and Risk Prevention

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## Abstract

The increasing reliance on accounting standards as regulatory instruments has expanded the legal responsibilities of business actors and independent auditors. PSAK 115 adopts a contract-based approach to revenue recognition, making contractual clarity a prerequisite for regulatory compliance. This article examines the integration between contract law principles and accounting standards from a normative legal perspective, emphasizing the professional responsibility of independent auditors to understand business law, civil law, and potential criminal law implications. Using a normative juridical method with statutory and conceptual approaches, this study finds that deficiencies in contract design not only impair revenue recognition under PSAK 115 but also expose companies and auditors to significant legal risks. The article argues that legal certainty in financial reporting requires synergy between contract law and accounting regulation, supported by auditors who possess adequate legal awareness. Such integration is essential to minimize disputes, prevent allegations of misrepresentation or fraud, and strengthen legal compliance in corporate governance.

## Keywords

Accounting Standards, Contract Law, Independent Auditors, Legal Certainty, Legal Risk Prevention.

## 1. Introduction

Legal certainty constitutes a foundational principle of the rule of law and a necessary condition for sustainable economic development (Mahmutovic & Alhamoudi, 2024; Juang et al., 2025). In contemporary business environments, financial reporting is no longer a purely technical exercise confined to accounting standards; rather, it is embedded within a broader framework of contractual obligations, regulatory compliance, and professional accountability. The increasing sophistication of commercial transactions particularly those involving bundled goods, long-term service arrangements, and performance-based contracts has intensified the interaction between legal norms and accounting regulation (Berg & Gakubia, 2018). As a result, the boundary between private contractual arrangements and public regulatory standards has become progressively blurred, raising important questions about the coherence between contract law and financial reporting frameworks (Scott, 2015).

The adoption of Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan/PSAK*) 115, which converges with International Financial Reporting Standards (IFRS) 15, represents a significant paradigm shift in revenue recognition by placing enforceable contracts at the center of accounting compliance. Revenue is recognized not merely upon transfer of risks and rewards but upon satisfaction of clearly identified performance obligations derived from contractual terms. Empirical studies demonstrate that IFRS 15 materially altered revenue reporting practices and required substantial judgment in identifying and measuring contractual obligations (Christensen et al., 2013; Kobbi-Fakhfakh & Boujelben, 2021). Consequently, contract clarity has become determinative of financial reporting outcomes. Although PSAK 115 is formally categorized as an accounting standard, its contract-based architecture gives it regulatory characteristics with direct legal implications. The effectiveness of revenue recognition thus depends not only on accounting expertise but also on the legal validity, precision, and enforceability of underlying agreements (Coetsee et al., 2022).

A significant phenomenon gap emerges in practice. Many commercial contracts are drafted primarily from a business perspective without sufficient attention to legal precision regarding scope of performance, transfer of control, and payment terms. Such deficiencies may not only impair revenue recognition under PSAK 115 but also generate exposure to civil disputes, regulatory sanctions, and reputational harm (Deegan, 2022). At the same time, independent auditors are increasingly expected to assess not merely numerical accuracy but also the legal sufficiency of contracts supporting reported revenues. However, the extent to which auditors integrate legal analysis into revenue audits remains uncertain, creating potential vulnerabilities in regulatory compliance and professional responsibility (Elliott & Elliott, 2023).

Despite extensive literature on IFRS 15 implementation and separate scholarship on contract law and auditing, limited research explicitly analyzes their normative integration within the Indonesian legal context. Prior studies have focused on technical accounting impacts or doctrinal aspects of contract validity, but few have examined how contract deficiencies translate into legal risk exposure for auditors and how regulatory synergy may enhance legal certainty (Dichev et al., 2013). This gap underscores the novelty of the present study, which situates PSAK 115 within a juridical framework and evaluates the institutional role of auditors in safeguarding legal certainty.

Accordingly, this research addresses the following questions: how are contract law principles integrated into revenue recognition under PSAK 115; what legal risks arise from deficient contract design; and how can regulatory synergy between contract law and accounting standards, supported by legally aware auditors, strengthen corporate governance and compliance? The objective of this study is to

provide a normative analysis of these interrelationships and to demonstrate that sustainable financial reporting in Indonesia requires interdisciplinary integration between legal doctrine and accounting regulation.

## **2. Methods**

This study applies a normative juridical research method with a qualitative approach to examine the legal integration between contract law and accounting standards. The statutory approach is employed to analyze PSAK 115 alongside relevant provisions of the Indonesian Civil Code governing contracts and obligations, particularly those concerning validity, enforceability, and the binding force of agreements. Through this approach, the research evaluates whether revenue recognition requirements under PSAK 115 are normatively consistent with the legal principles regulating contractual relationships in Indonesian civil law.

In addition, a conceptual approach is used to explore the doctrinal alignment between performance obligations under PSAK 115 and the concept of *prestasi* in the law of obligations. This approach clarifies the theoretical correspondence between accounting notions of distinct performance obligations and the legal requirement that obligations be lawful, clearly defined, and measurable. By situating accounting terminology within established legal doctrine, the study identifies areas of convergence and potential tension between financial reporting standards and contract law principles.

To guide the analysis more explicitly, the study adopts an analytical framework based on three interrelated dimensions: normative coherence, legal risk implication, and institutional responsibility. First, normative coherence is assessed by examining whether PSAK 115's contract-based paradigm operates consistently with foundational doctrines of contract validity and enforceability. Second, legal risk implication is analyzed by evaluating how deficiencies in contract drafting may affect revenue recognition and expose companies and auditors to civil, administrative, or criminal liability. Third, institutional responsibility focuses on the professional obligations of independent auditors in ensuring that contractual arrangements satisfy both accounting and legal standards. This structured framework enables a systematic evaluation of regulatory synergy and legal accountability. Primary legal materials include PSAK 115 and the Indonesian Civil Code. Secondary materials consist of legal doctrines, scholarly works on contract law and auditing, and literature on regulatory governance. The analysis prioritizes normative interpretation and legal implications rather than empirical measurement, consistent with doctrinal legal research methodology.

## **3. Results**

### **3.1. Integration of Contract Law Principles in PSAK 115 Revenue Recognition**

The adoption of IFRS 15 adapted in Indonesia as PSAK 115 represents a fundamental transformation in how revenue is recognized, shifting from industry-specific rules to a unified, principles-based five-step model anchored entirely in contractual relationships. Kabir and Su (2022) demonstrated through evidence from Australia and New Zealand that the transition to IFRS 15 materially altered revenue recognition practices and financial statement presentations across sectors, particularly in industries reliant on bundled goods and long-term service contracts. Similarly, Kobbi-Fakhfakh and Boujelben (2021) found that mandatory adoption of IFRS 15 produced significant divergences in reported financial figures, emphasizing the role of contract clarity in determining when and how much revenue may be recognized.

Onie et al. (2023), in a broader evaluation of IFRS 15 impacts, confirmed that the standard's emphasis on identifying distinct performance obligations within contracts

introduced new judgment areas that were closely linked to underlying contractual terms. These findings collectively highlight that the legal validity and precision of commercial contracts are no longer merely legal matters, they have direct and measurable consequences for financial reporting outcomes. The contractual completeness required by PSAK 115 therefore bridges the domains of contract law and accounting regulation, demanding interdisciplinary literacy from all stakeholders involved in financial statement preparation and verification.

In civil law systems, contracts constitute the principal source of obligations, establishing enforceable rights and duties between parties and forming the legal basis of economic transactions. Under Indonesian law, contractual validity depends on consent, capacity, a certain object, and a lawful cause, thereby ensuring that agreements possess binding legal force. Within this doctrinal framework, PSAK 115 implicitly relies on these foundational principles by requiring that revenue recognition be grounded in enforceable contractual arrangements. Contracts therefore function not merely as private instruments but as regulatory mechanisms that enable compliance with accounting standards, reflecting the inseparability of legal enforceability and financial reporting reliability (Olajide et al., 2024).

The contract-based orientation of PSAK 115 becomes more evident through its introduction of performance obligations as the determinant of revenue recognition. A performance obligation represents a promise to transfer a distinct good or service to a customer, which from a legal perspective corresponds directly to *prestasi* in the law of obligations. Legal doctrine requires that *prestasi* be clearly defined, lawful, and measurable to ensure certainty of rights and duties. Consequently, the accounting requirement to identify and measure performance obligations mirrors classical legal requirements governing contractual performance, reinforcing the structural alignment between contract law and revenue regulation (Posner, 2014).

However, practical challenges arise when commercial contracts are drafted without sufficient legal precision, particularly concerning the scope of performance, payment terms, and conditions for completion. Such drafting deficiencies weaken legal certainty and compromise the reliability of financial reporting because ambiguities obscure the identification of enforceable rights and obligations. When contractual terms lack clarity, both enforceability and accurate revenue recognition become vulnerable, demonstrating how weaknesses in legal drafting directly affect accounting outcomes (Messier et al., 2008).

Taken together, these findings demonstrate that accounting standards such as PSAK 115 cannot operate effectively without a sound contractual foundation. The conceptual alignment between performance obligations and legal *prestasi* confirms that accounting compliance is inseparable from legal validity. Revenue recognition, therefore, is not merely a technical accounting exercise but a legally grounded process dependent upon the clarity, validity, and enforceability of underlying contractual arrangements (Deegan, 2022).

### **3.2. The Role of Independent Auditors and Legal Risk Prevention**

Deficiencies in contract design carry significant legal and financial reporting risks that extend beyond technical accounting errors. Sabauri, Vardiashvili, and Maisuradze (2023) observed that ambiguities in contract terms particularly regarding the timing of control transfer and the scope of performance obligations directly undermine an entity's ability to produce legally defensible financial statements under IFRS 15. From a corporate governance perspective, Andriani (2024) argued that without legal certainty embedded in contractual frameworks, business actors face an elevated risk of disputes that can cause substantial financial losses and disrupt overall business continuity. This concern is reinforced by evidence from contract law scholarship suggesting that the rapid evolution of business models, especially in digital commerce, has widened the gap between existing

contractual norms and the demands of modern accounting standards (Heryanta, Pieris & Widiarty, 2024).

Furthermore, the legal audit mechanisms as strategic tools for assessing regulatory compliance are increasingly critical to achieving good corporate governance standards (Akinsola, 2025). These insights collectively suggest that inadequate contract drafting not only impairs revenue recognition processes under PSAK 115 but also exposes companies to civil liability, regulatory sanctions, and reputational damage, underscoring the necessity for robust legal-accounting integration in corporate governance practices.

Independent auditors occupy a strategic position at the intersection of accounting and law, particularly in the verification of revenue recognition under PSAK 115. In carrying out their professional responsibilities, auditors are required not only to evaluate technical compliance with accounting standards but also to assess the legal sufficiency and enforceability of the underlying contractual arrangements. Because PSAK 115 is fundamentally contract-based, the reliability of revenue recognition depends on whether the related agreements satisfy essential legal requirements. This interdependence illustrates that audit procedures increasingly demand attention to the legal structure and clarity of contracts supporting financial reporting (IFRS Foundation, 2023).

A lack of legal awareness among auditors significantly heightens exposure to legal risks. Such risks may manifest in the form of civil liability arising from disputes over contractual interpretation or allegations of misrepresentation, administrative sanctions resulting from regulatory non-compliance, and even potential criminal liability in cases involving fraudulent reporting or intentional misstatement. These exposures demonstrate that weaknesses in contractual analysis are not merely technical deficiencies but may escalate into substantial legal consequences affecting both the audited entity and the auditor. The growing complexity of revenue recognition frameworks reinforces the necessity of integrating legal scrutiny within audit engagements (Elliott & Elliott, 2023).

Comparative legal perspectives further highlight this dependency on contractual clarity. In common law jurisdictions, courts frequently assume an active interpretative role in resolving contractual ambiguities for accounting and regulatory purposes (Kumar & Heidemann, 2022). In contrast, civil law jurisdictions, including Indonesia, emphasize codified legal principles in determining contractual validity and enforceability. Despite these structural differences, both legal traditions converge on a shared requirement: revenue recognition standards can only function effectively when contractual terms are clear, measurable, and legally binding. This convergence indicates that accounting regulation, regardless of jurisdictional context, increasingly relies on the quality of contractual drafting.

To mitigate these risks, auditors must cultivate substantive literacy in business law, contract law, and relevant aspects of criminal law. Such legal awareness enables auditors to detect weaknesses in contractual provisions that may compromise revenue recognition and to recommend corrective measures before disputes or enforcement actions arise (Osifo et al., 2025). In this framework, auditors act not merely as numerical verifiers but as institutional safeguards contributing to regulatory compliance and legal certainty in financial reporting.

### **3.3. Regulatory Synergy, Independent Auditors, and Legal Certainty**

The evolving regulatory landscape demands that independent auditors transcend their traditional numerical verification role and develop substantive awareness of the legal dimensions of the transactions they audit. Campa et al. (2025) established that auditors' oversight responsibilities in ensuring financial reporting quality require meticulous attention to fraud risks and legal compliance signals that may originate from contractual irregularities. Carrera and van der Kolk (2021) found that ethical dimensions of auditing, including moral awareness are significantly shaped by

professional experience, reinforcing the argument that auditors must cultivate legal literacy alongside technical competence.

In the Indonesian context, Kuntadi and Akbar (2024) demonstrated that auditor professional ethics play a crucial role in enhancing financial reporting transparency and audit quality, with ethically grounded auditors better positioned to detect compliance violations embedded in contractual arrangements. The PCAOB's 2023 proposed expansion of auditors' responsibilities further signals a global normative trend toward broadening the legal scope of audit engagements, particularly with respect to identifying noncompliance with laws and regulations that may have material effects on financial statements. Taken together, this body of literature affirms that auditors operating under PSAK 115 must possess not only accounting expertise but also sufficient legal awareness to evaluate contractual validity and identify potential misrepresentation risks inherent in revenue recognition processes.

Legal certainty requires clarity, predictability, and consistency in the application of legal norms. In the context of PSAK 115, such certainty can only be achieved through a coherent synergy between accounting standards and contract law principles. Because revenue recognition under PSAK 115 is fundamentally based on contractual performance, accounting regulation cannot function effectively without a solid and legally valid contractual foundation (Zhaharah, 2025).

Accounting standards that rely on contractual performance must therefore be interpreted in harmony with legal doctrines governing obligations. The alignment between performance obligations and legally enforceable duties demonstrates that accounting compliance is inseparable from legal validity. An integrated interpretative approach not only strengthens the doctrinal coherence between law and accounting but also enhances the credibility of financial reporting and reduces the likelihood of disputes arising from contractual ambiguities (Messier et al., 2008).

Within this integrated framework, auditors assume a strategic institutional role. By ensuring that contractual arrangements are legally sound and accurately reflected in financial statements, auditors contribute directly to the realization of legal certainty in corporate reporting. Their function extends beyond technical verification, positioning them as key actors in maintaining the normative alignment between contractual obligations and accounting recognition (Wells, 2017).

The integration of contract law and accounting standards also reinforces corporate governance structures. Clear and well-drafted contracts reduce uncertainty, facilitate accurate financial reporting, and enhance stakeholder trust. Boards of directors and management bear responsibility for ensuring that contractual arrangements are designed with sufficient legal and economic clarity to support regulatory compliance and organizational accountability (Kraakman et al., 2017).

Auditors complement this governance function by providing independent assurance that contractual commitments are properly interpreted and reflected in financial statements (Mähönen, 2022). Through this collaborative dynamic, contract law, accounting standards, and audit oversight collectively promote transparency and accountability, thereby strengthening institutional confidence in corporate reporting systems (Clarke et al., 2017).

Ultimately, legal certainty in revenue recognition under PSAK 115 depends on sustained regulatory synergy. Accounting standards grounded in contractual performance must operate in continuous harmony with legal doctrines governing obligations (Rahayu, 2025). This systemic integration reduces interpretative fragmentation, enhances reporting credibility, and consolidates legal certainty as a foundational principle of modern corporate governance.

#### 4. Conclusion

This article concludes that PSAK 115 operates not merely as a technical accounting standard but as a regulatory instrument with substantive legal consequences. Its contract-based revenue recognition model demonstrates that financial reporting compliance is inseparable from the legal validity, clarity, and enforceability of underlying contractual arrangements. The effectiveness of PSAK 115 therefore depends on normative coherence between accounting standards and contract law principles, particularly concerning the definition and execution of legally binding obligations. The findings further affirm that independent auditors occupy a strategic institutional position in maintaining this integration. By possessing adequate literacy in business law, civil law, and potential criminal law implications, auditors are better equipped to assess contractual sufficiency, identify legal vulnerabilities embedded in revenue arrangements, and prevent exposure to civil, administrative, or criminal liability. This interdisciplinary awareness strengthens legal certainty, enhances the credibility of financial statements, and supports sustainable corporate governance and regulatory compliance in Indonesia.

The study carries important practical implications. Regulators and standard setters should promote harmonization between accounting guidance and contract law doctrine, while audit firms should reinforce legal training within professional development frameworks. Companies, in turn, must ensure that contractual drafting aligns with both legal and accounting requirements to minimize compliance risks. However, this research is limited by its normative juridical design, which focuses on doctrinal analysis rather than empirical validation. It does not measure how contractual deficiencies are addressed in practice nor assess auditors' actual legal competencies. Future research may adopt empirical or socio-legal approaches to examine how companies and audit firms implement PSAK 115 in real contexts, including comparative studies across jurisdictions to evaluate how different legal traditions influence contract-based revenue recognition and audit responsibility.

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Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

### ***Data Disclosure Statement***

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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