Earning Management : Evidence From Indonesia

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Abstract

The purpose of this study was to test whether the absence of a definition of earnings management as something accidental, one statement of decision, omission of a material fact, or because of the process of accounting data that is misleading when considered with all the information that is available, thus causing the reader to replace judgment or decision. Data in this study were drawn from a database BEI with the sample period from 2004 to 2014 PT Kalbe Farma Tbk. As for the data analysis method used is multiple linear regression analysis.

From research conducted concluded that the absence of earnings management practices in the years 2002-2014 at PT Kalbe Farma Tbk. However, research conducted by the authors has limitations in the form of research data is used only for 10 years, for companies that sampled only 1. The implication at the time of future research may sample of companies that will be examined could be even more.

Keywords: *Earnings Management, Total accrual, accrual Discresionari, Multiple Regression Model regression test*

I.   Introduction

In a study conducted by Healy and Wahlen (1999) concluded an aspect called engineered or regular financial reports is defined by the name of earnings management. According to the study terms of earnings management means something in the specialization of financial reporting, relating to structuring the transaction results in the financial statements; the occurrence of an incompatibility with the stakeholders in a company on an underlying economic performance; as well as the Effect of contract work that relies on accounting numbers are reported financial outlined. Although the word profit management is not anything new, but the popularity of the recent earnings management can manipulate earnings attract serious attention of financial regulators in Indonesia, due to financial pressures and academic research is so rapid.

With tears in the speech at NYU who is a legal and business centers in 1998, Levitt writer, who is also the Chairman of the US Securities and Exchange Commissions (SEC) said the earnings management is one of the things that can cause a disruption in the quality of financial reporting a company. His comments showed serious concern of the consequences that could harm from the practice of earnings management to capital markets in the US.

Earnings management can also be undesirable by the shareholders. While the interests of shareholders and managers do aberration, a manager can do to manipulate earnings for the purpose of enriching themselves at the expense of the interest expense of shareholders. With the conclusion that in this case the company which carried out a study, PT Kalbe Farma Tbk Indonesia can improve the reliability and integrity in financial reporting, this is an interesting topic for current research.

An association Certification Cheating in the financial statements (National Association of Certified Fraud Examiners, 1993, p.12) concludes the process occurs earnings management in the financial statements can be defined as: "something unintentional misstatements and intentional or gross negligence of material facts, or the factor of misleading accounting data with the assumption that all of the information available in the company otherwise exist, would lead the reader to change or replace its assessment or decision ". Meanwhile, according Dechow and Skinner (2000; p238) concluded that earnings management is considered something that explicitly measures could violate the limits contained in reporting standards, it is done usually in order to make misguided stakeholders within the company with a way to achieve personal gain. Wherever standards or regulations prohibit the existence of an engineering in the financial statements. Managers who perform earnings management practices in the financial statements, deliberate breaking the accounting and financial reporting standards in order to present financial information in a deliberate misstatements in order to mislead the decision-making within the company, in explaining the conditions and actual financial performance, in terms of achieving profits personal and not an advantage for the company.

Xie et al (2003), Teoh et al (1998a) and Stolowy and Breton (2004) concluded that the basis of accrual accounting gives Management Company in this case is represented by am, a manager as decision makers greater discretion in determining earnings in certain periods for the company. And they judge and concluded that a manager has the space and opportunity to manipulate earnings. They also give the conclusion that with the election of an accounting method to create and delay the recognition of revenue and expenses in the income statement and balance sheet. With the use of discretionary models make use of the accounting method chosen and can adjust the time on the acquisition and disposition of assets in terms of reported profit items in the financial statements.

With the research that they do signify that earnings management principles are within legal limits were reasonable and not reasonable, but are outside the accounting principles that are reasonable in terms of the company's financial statement presentation. They also emphasized the tidaksamaan to the interpretation of the application of engineering in the GAAP financial statements and behavior, so that item item is so material and may mislead occur in the structure financial statement. Model report by Stolowy and Breton (2004), the summary of which indicates the boundary confines of fair presentation in the financial statements, as well as the application of earnings management and engineering processes in the financial statements.

In contrast to Helay and Wahlen (1999) which provides a schematic of how a manager in the company using earnings management practices in the selection and application of accounting cash flow model selection, by identifying incentives for the use of earnings management. These incentives are translated in the form of a scheme by Healy and Wahlen as follows:
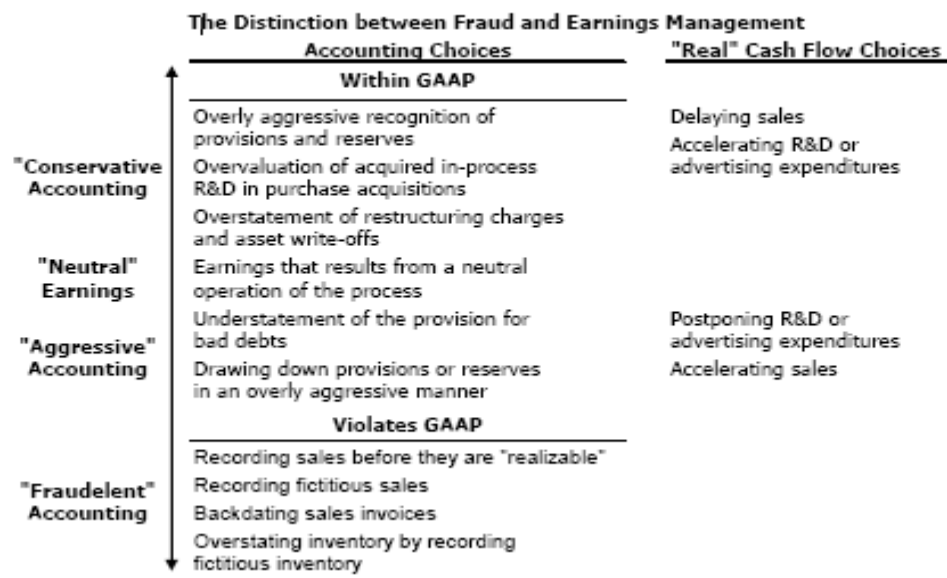
Figure 1 Relations in selecting accounting policies and cash flow model selection and Healy version Wahlen (1999)

With the assumption that later a manager intends to leave the company, this theory assumes that the final financial statements are presented by the managers would have to say good condition. Where the model of the manager trying to make the reward of good results so as to make the job status and also be good. Given this Dechow and Sloan (1991) concurs and follow this theory to make the conclusion that an official from the company will try to increase the compensation they will be able to cut some cost items deemed less necessary for companies, such as research and development costs. By using a sample of several hundred companies found a positive association between the increase in income by performing accounting method by company officials.

II. Literature Review

Some of the principles and arguments used as a basis in the case of the creation of the framework in earnings management diarttikan as opinions will be an accounting theory. With the Relationships between theory and explained some of these things make their opinions and assumptions of earnings management becomes one of the emergence of Positive accounting,

agency theory and the latest theories of legitimacy, with accompanied by the emergence of the theory of transaction costs.

- *Positive accounting theory*

Watts and Zimmerman (1986) introduces an accounting theory known as the positive accounting theory. According to Watts and Zimmerman (1986, p 7) Positive Accounting Theory can be made and explain the accounting practices on the basis of empirical observation without having to evaluate the results of that observation. Positive accounting theory can be used to predict and explain economic behavior and accounting indirectly, where this theory is inversely proportional to the normative theory.

However Deegan and Unerman (2006), found kauntansi normative theory is something specific practices that must be done by using something recipes will be a kauntansi its significance from an existing practice. Research carried out at this time will not give an assessment of how the company should act in certain situations as described by the normative theory, but with the positive accounting theory makes the basis that the study was conducted

In another study conducted by Deegan and Unerman (2006, p 207) describes Positive Accounting Theory which focuses on the relationship between the various individuals involved in providing the resources for an organization and where accounting in a way that can be used to aid in the function of a relationship. With the advent of the opinion that the centralized economic assumptions made and the actions of individuals will be driven by self (self) can not be ignored anymore. As said by Deegan and the Unerman, normally an employee will take action when an opportunistic way of their actions will increase the employees' own wealth. It is in fact a positive Accounting Theory provides the choices and methods of accounting methods used and will make the implications of such to choice accounting methods that.

According to Positive Accounting Theory actually there are 3 things underlying this positive accounting theory: the first bonus plan hypothesis, the hypothesis that the second plan of debt or equity and and the latter the notion of the political cost hypothesis. With reference to the use of different incentive models, each of the three hypotheses try to explain the use of earnings management.

1. **The bonus plan hypothesis by Manager**

In a study conducted by Watts and Zimmerman (1990) concluded that the bonus plan hypothesis makes the managers of these companies to enable the use of the method of accounting in the period to maximize the gain or loss will be realized in the current year by way of profit or loss reported earlier in accordance expected. With the application it makes the hope of getting the bonus, compensation committee and the board of directors can be accomplished by doing the accounting method chosen.

2. Plan ekuitaspara hypothesis shareholders

According to Watts and Zimmerman (1990) in predicting the high ratio of corporate debt / equity, are believed to use the accounting method the more likely managers to increase profits to be generated. According to these principles higher ratio of debt / equity, the company is getting closer to the projection in the debt agreements. There are mechanisms in the agreement in an equity and debt in an equity and debt, making the magnitude of the probability of possible violations of the agreement, which can result in costs that are likely to be issued by the company later.

3. Hypothesis charge Politics

Still in Watts and Zimmerman (1990) the political cost hypothesis plan to do and going on to predict that large companies are more likely to use accounting option to reduce reported profits of the small companies. Recording using the size of the company as one of the variables proxy for political attention. Based on this, it makes the assumption that some individuals will obtain information that is very expensive to get information on accounting profits actually represent monopoly profits from the contract executed. Given that the financial information and monitoring costs are considered expensive, and makes the managers have an incentive to exercise discretion over the accounting profits of the parties to take advantage in the process of the political costs

- *The existence of the Application of Concept Agency Theory, Theory of Legitimacy and transaction costs*

In terms of agency theory of Jensen and Meckling (1976) define agency theory as agency relationships in 'A contract in which one or more principal agents involved had to do some service that involves delegating some decision-making in nature gives authority to the agent' '

In Smith and Watts' (1983) found a company regarded as a nexus of contracts, the agents are in the contract to ensure that all individuals who act for ourselves and not for the common good is more motivated to make the maximum value of the company. A process of information asymmetry can still run if these agents have insider knowledge of a company. Which raised the presumption that the agent has information advantage over the main functions of a company.

In theory legitimacy initiated by Lindblom (1994, p 2), says that legitimacy is: "Something situation or condition that exists when an entity's value system is congruent with the value system of the larger social system of an entity that became a small part of the entity. Meanwhile, according to Deegan and Unerman (2006) argues that "the legitimacy of the theory depends on the idea that the" social contract "between organizations in a question to the community in which the organization is located. While Coase (1937) argues that the economic cost of the transaction by the companies is a particular form of organization in arranging try a transaction activity, from one organization to another.

In order to limit the divergence in interests between the principal and the agent is often the case in the agency theory, Jensen and Meckling (1976) provides a definition of the expenses for the cost of shareholders faced, which is defined as the sum of: the influence charge, search on costs, monitoring costs, and the existence of a bond for the remaining costs and the loss of a fee. Costs incurred for shareholders to confront the establishment and maintenance between a principal and agent in the form of their expenditure on a transaction fee.

III.   Research Hypothesis

To test whether the PT Kalbe Farma Tbk are earnings management practices during 2002 to 2014. The author makes the hypothesis of the study as listed and defined below, that there was no significant increase or the use of earnings management in the financial statements of PT Kalbe Farma Tbk discretionary accruals on years of doing research. The author makes this hypothesis is based on the assumption that the use of earnings management discretionary accruals visible when changes can be identified.

IV.   Research Methods

- *Time and Data Research*

This research was conducted at the time of the month from March to June 2014. The data used in this research are the financial statements of PT Kalbe Farma Tbk, which ended in 2002-2014. The financial statements in the can by the authors by means of downloading at the website burebsite Indonesia Stock Exchange (BEI)

- *Techniques Analysis Data Research*

- *Time Series Data Analysis*

Because the goal of this research is to focus on one company, in this study the approach of time series that will be used is Model Healy. According to Healy (1985) total accruals consist of both non-discretionary accruals and discretionary accruals related working capital Cash flow from operations was minus changes in inventory and accounts receivable, plus changes in accounts payable and income taxes payable (Healy 1985). Healy (1985) defined the total accrual to the following formula:

$$ACC_t = -DEP_t - XI_t + \Delta AR_t + \Delta INV_t - \Delta AP_t - \Delta TP_t + D_t$$

Where:

ACC_t	= total accruals
DEP_t	= depreciation in year t
XI_t	= extraordinary items in year t
ΔAR_t	= accounts receivable in year t minus accounts receivable in year t-1
ΔINV_t	= inventory in year t minus inventory in year t-1
ΔAP_t	= accounts payable in year t minus accounts payable in year t-1
ΔTP_t	= income taxes payable in year t minus income taxes payable in year t-1
D_t	= deferred income tax expense (credit) for year t

By referring to the model of Total accrual Hely and Wahlen (1985), the authors make four equation model that will make 4 hypothesis, in this study.

1. $Y = a + b_1x_1 + b_2x_2 + \ldots\ldots\ldots b_kx_k +$

2. $LnY = a + Lnb_1x_1 + Lnb_2x_2 + \ldots\ldots\ldots \mathbf{Ln}b_kx_k +$

3. $AbsY = a + Absb_1x_1 + Absb_2x_2 + \ldots\ldots\ldots \mathbf{Abs}b_kx_k +$

4. $DY = a + Db_1x_1 + Db_2x_2 + \ldots\ldots\ldots \mathbf{D}b_kx_k +$

   Information :

   $x, x_{1,} x_2\ldots\ldots x_k$ = variable-variable

   $a, b_{1,} b_2\ldots\ldots b_k$ = a constant (constant) coefficient

Simultaneously the Null Hypothesis H0: $\beta 1 = 0$ ie the null hypothesis states that the variable Y significantly while the other variables are also significant for the four kinds of regression models were used.

V.   Results and Discussion

- *Multivariate Analysis*

In the research methods in the previous section have been described that can be used for earnings management analysis of time series and cross section, depending on the needs and purposes to be used, but here the authors use the model time series OLS, Model Ln, Model and First Absolute Difference Model for all variables , Of the three models used will be seen which of the three models is the best. Here are the results for the model display multiple regression equation for OLS models.

- *Results Display Equation Model Regression to Model OLS*

To see the effect of a variable that involves more multiple independent variables (X1, X2, X3, ..., Xn), typically using multiple linear regression analysis, called linear because the estimate of the expected value memgalami increased or decreased following such a straight line. For OLS multiple regression models, models of multiple regression equation shapes similar to those written above without any additions or changes for each model variables.

Table 1 : With the OLS regression model
Dependent Variable: ACCT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.350012	2.650011	5.103414	0.0038
DEPT	5.684035	0.424274	13.39709	0.0000
XIT	-5.774348	2.422497	-2.383635	0.0629
ART	-1.712864	0.536348	-3.193570	0.0242
INVT	-0.005025	0.054652	-0.091949	0.9303
APT	6.176644	1.073620	5.753102	0.0022
TPT	-0.214125	0.636547	-0.336385	0.7502
DT	-56.20886	29.03192	-1.936106	0.1106
R-squared	0.993602	Mean dependent var		5.760012
Adjusted R-squared	0.984646	S.D. dependent var		2.680012
S.E. of regression	3.320011	Akaike info criterion		56.17066
Sum squared resid	5.520023	Schwarz criterion		56.51833
Log likelihood	-357.1093	Hannan-Quinn criter.		56.09920
F-statistic	110.9343	Durbin-Watson stat		1.886377
Prob(F-statistic)	0.000035			

* Sources by author

Visible results using probabilistic level OLS produced very significant for almost all variables, only the variable INVT, TPT and DT is not significant at the alpha level of 5%. So it can be concluded with the OLS model almost as significant for earnings management. The second model is semi-log model, this model is the same, only the data used is transformed into the form of logarithma.

- *Results Display Equation Model Regression to Model Ln*

By having a variable Y which involved more multiple independent variables (X1, X2, X3, ..., Xn), multiple regression models Ln models, obtained by transforming an early form of the equation with the transform into shape LNY models and to become independent variables

(LnX1, LnX2, LnX3, ..., LnXn), the following results for the model change of the regression in question.

Table 2 : With the Ln regression model
Dependent Variable: ACCT(-1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.350012	2.960011	4.565094	0.0103
DEPT(-1)	5.682956	0.475874	11.94215	0.0003
XIT(-1)	-5.771722	2.709798	-2.129945	0.1002
ART(-1)	-1.714225	0.601570	-2.849586	0.0464
INVT(-1)	-0.004945	0.061163	-0.080857	0.9394
APT(-1)	6.174458	1.202771	5.133530	0.0068
TPT(-1)	-0.213900	0.711657	-0.300566	0.7787
DT(-1)	-56.18231	32.46940	-1.730315	0.1586

R-squared	0.992539	Mean dependent var		5.480012
Adjusted R-squared	0.979482	S.D. dependent var		2.590012
S.E. of regression	3.710011	Akaike info criterion		56.35308
Sum squared resid	5.510023	Schwarz criterion		56.67635
Log likelihood	-330.1185	Hannan-Quinn criter.		56.23339
F-statistic	76.01471	Durbin-Watson stat		1.882079
Prob(F-statistic)	0.000433			

* Sources by author

See from the output to model semi-log, which only gives a few significant variables for DEPT, XIT, APT, while the rest for other variables look insignificant but the value of R squared is slightly lower than the OLS model, this indicates that the practice of earnings management still not the case with a model semi log. The third, we look for a model absolute.

- *Results Display Equation Model Regression to Model Abs (Absolute)*

Similarly, the multiple regression models models Ln, absolute regression model obtained by performing the initial shape transformation equation with transform into shape AbsY models and to become independent variables (AbsX1, AbsX2, AbsX3, ..., AbsXn), the following results for the model changes of regression intended.

Table 3 : With the Abs regression model
Dependent Variable: ABS(ACCT)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.330012	5.370011	2.467141	0.0567
ABS(DEPT)	5.134687	0.749779	6.848269	0.0010
ABS(XIT)	-2.256256	3.748124	-0.601969	0.5734
ABS(ART)	3.645753	1.226161	2.973307	0.0310
ABS(INVT)	-0.029464	0.127108	-0.231802	0.8259
ABS(APT)	-6.285212	2.507571	-2.506495	0.0541
ABS(TPT)	-0.052976	1.819031	-0.029123	0.9779
ABS(DT)	-61.60112	56.74809	-1.085519	0.3272
R-squared	0.979396	Mean dependent var		5.760012
Adjusted R-squared	0.950549	S.D. dependent var		2.680012
S.E. of regression	5.960011	Akaike info criterion		57.34024
Sum squared resid	1.780024	Schwarz criterion		57.68790
Log likelihood	-364.7116	Hannan-Quinn criter.		57.26878
F-statistic	33.95234	Durbin-Watson stat		1.919084
Prob(F-statistic)	0.000638			

* Sources by author

The model obtained is good enough where the value of R^2 is quite high and all significant slope coefficient. Possible problems will be more complex to interpret the intent of the meaning of the slope coefficient for the variable. With absolute models we see significant value only for the variable DEPT, ART, APT and other residual value is not a significant variable, with a value of R^2 for the model absulte now smaller than the 2 previous models.

- ***Results of Multiple Regression Equation Model Display for First Model Difference***

The model of multiple regression models Difference First, Regression Models obtained by transforming an early form of regression to transform the original equation in the form of the model DY and to become independent variables (DX1, DX2, DX3, ..., DXN), the following results for the model change of the regression question.

Table 4 : With the First Different regression model
Dependent Variable: D(ACCT)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.770011	2.320011	0.763915	0.4875
D(DEPT)	3.711170	2.155311	1.721872	0.1602
D(XIT)	-2.431060	3.943524	-0.616469	0.5709
D(ART)	-1.120556	0.641156	-1.747712	0.1554
D(INVT)	-0.024123	0.047005	-0.513199	0.6349
D(APT)	4.181586	1.931657	2.164766	0.0964
D(TPT)	-0.328411	0.635933	-0.516424	0.6328
D(DT)	-41.15044	40.45980	-1.017070	0.3666
R-squared	0.781982	Mean dependent var		5.880011
Adjusted R-squared	0.400451	S.D. dependent var		5.200011
S.E. of regression	4.030011	Akaike info criterion		56.51524
Sum squared resid	6.480023	Schwarz criterion		56.83851
Log likelihood	-331.0914	Hannan-Quinn criter.		56.39555
F-statistic	2.049590	Durbin-Watson stat		1.719365
Prob(F-statistic)	0.254484			

* Sources by author

For the latter model, the fisrt models for overall defference almost no significant variable, and the value of R adjustednya least a third lower than the previous model. This ensures that the absence of practice amanjemen profit at PT Kalbe Farma Tbk year while doing research.

Selection of Regression Model 4th of regression model used appears that none of the regression model provides significant figures in the alpha level of 5% is used. But if we make sure that from 4 regression models were used, the OLS model is the most good, is evident from the figures adjusted R squared and Akaike Information criterian value generated by OLS models. For Ln model, and First Absolute Difference value R adjustednya slightly lower, and the value of Akaike Information criterian slightly higher absolute model when compared with OLS regression model, Ln and First Difference.

VI. Conclusion

Based on research conducted by the authors of PT Kalbe Farma Tbk 2002-2014 fiscal year financial statements can be concluded that there is no significant evidence using Model Healy in detecting earnings management at PT Kalbe Farma. There are no results of the above studies were conducted, which can prove and provide a conclusion that the PT Kalbe Farma Tbk happen for earnings management practices.

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