

Factors That Influence Earnings Management: A Study of the Indonesia Stock Exchange

Citra Mariana^a, Diah Andari^b, Rini Susiani^c, Hesty Juni Tambuati Subing^d, Ingrid Larasati Agustina^e, ^{a,b,c,d,e}Faculty of Economics, Widyatama University, Indonesia Email: citra.mariana@widyatama.ac.id

This study aims to reveal firm value and deferred tax expense on earnings management in manufacturing companies on the Indonesia Stock Exchange in 2015-2017. The method used in this study is explanatory. This research was conducted on data in the form of financial statements. To analyze the research data, multiple linear regression analysis was used. Based on the results of multiple linear regression analysis, the firm value and deferred tax expense partially and simultaneously influenced earnings management in manufacturing companies on the Indonesia Stock Exchange in the period 2015-2017.

Key words: *deferred tax expense, earnings management, firm value.*

Introduction

Earnings management is an effort to change, hide, and engineer numbers in financial statements by playing with accounting methods and procedures used by the company. Business enterprises or certain parties manipulate information and this type of earnings management actions can cause financial statements to no longer reflect the true value, in that as financial statements they do not function as a valid medium of management communication with external parties or between companies and stakeholders. A company's efforts to manipulate information through the practice of earnings management have become the main factor that cause financial statements to no longer reflect the fundamental value of a company. Aditama and Purwaningsih (2014) explained that the concept of earnings management is best understood by using the agency theory approach, which states that the practice of earnings management is influenced by a conflict of interest between the parties concerned (principal) and management as those who carry out interests (agent). This conflict arises when each party tries to reach the level of prosperity it wants.

The latest case of earnings management involving manufacturing companies is the case of PT. Toshiba Corporation. Toshiba is one of the largest companies in the world that has infrastructure, audiovisual and semiconductor businesses. PT Toshiba Corporation has more than 200,000 employees worldwide. In 2015 Toshiba was involved in cases of accounting irregularities which inflated company profits over a six year period (2008-2014) to 1.2 billion US dollars (liputan6.com). Company motivation to manage income is in some cases due to taxation motivation. Philips, Pincus & Rego (2004) state that deferred tax expense can be used to detect earnings management conducted by the company for three objectives: (1) to avoid decreasing profits, (2) to avoid losses, and (3) to avoid failure to meet earnings predictions by analysts.

Another factor that influences earnings management is the firm value as measured by the PBV. When a high PBV can reflect a high firm value, the signal is only the external side of the company. The good or bad of the fundamental side can be seen from the assessment of the company individually, one method is by using income (income) and also company profits. High corporate value motivates managers to conduct earnings management so that the assessment of the company's performance is balanced from the external and internal side. Based on the literature reviews, there are many contradictory findings with regard to this theory. Research (Sumomba 2012; Astutik and Mildawati 2016; Negara and Saputra 2017; Pratita 2017) states that deferred tax expense affects earnings management, while (Yulianti 2004; Widyaningsih and Purnamawati 2012; Timuriana and Muhammad 2015) deferred tax expense does not affect earnings management. Research conducted by Pasaribu et. al. (2016) states that firm value influences earnings management, while research conducted by (Hadriyanto and Christiawan 2017; Rice 2013; Sehic, 2017) states that firm value does not affect earnings management.

Literature Review

Agency Theory

The definition of agency theory according to Scott (2009) is that "Agency theory is a branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent's interests would otherwise conflict with those of the principal". Conflict of interest is increasing, especially since the principal cannot monitor daily agent activities to ensure that the agent works in accordance with the wishes of the shareholders (Widyaningdiah, 2001). Shareholders who act as principals can be assumed to only be attracted to financial results or increased investment for the company, while agents receive satisfaction in the form of bonuses, compensation, and evaluation of management's performance.

Earnings Management

Earnings management is an attempt to change, hide, and engineer numbers in financial statements by playing with accounting methods and procedures used by the company (Sulisyanto, 2008: 48). Scott (2000) says the motivation of managers to engage in earnings management is caused by 1) Bonus plans, 2) Debt contracts, 3) Political motivation, 4) Motivation of taxes, 5) Changes in Chief Executive Officers (CEO), and 6) Initial public offering (IPO).

Firm Value

According to Husnan and Pudjiastuti (2013), the firm value is the price paid by prospective buyers of the company. Firm value can be calculated by Price to Book Value (PBV). PBV is a ratio that shows how much the market gives as an assessment of the book value of a company's shares. The ratio of the market price of a stock to the value of its book gives an indication of the investor's view of the company. The company is seen as good by investors if the company profit and cash flow is safe and continues to grow (Bringham, 2010).

A high PBV indicates the market has trust in the company's future. This is what the owners of the company want because high corporate value indicates that shareholder prosperity is also high (Ayuningtyas 2013). Companies whose activities run well, generally have PBV ratios reaching above one (> 1). The higher the firm value, the more likely it is to engage in earnings management with a larger pattern of income smoothing because a good firm value is considered to be stable and so is in the interest of management to practice income smoothing (Pasaribu et. al., 2016).

H1: Firm value influences earnings management.

Deferred Tax Expense

Deferred tax expense is an expense arising from a temporary difference between accounting profit and fiscal profit. Temporary differences that can increase the amount of tax in the future will be recognized as deferred tax debt and the company must recognize deferred tax expense, which means that the increase in deferred tax debt is consistent with companies that recognize income earlier or delay costs for financial reporting tax reporting appeal. Conversely, temporary differences that can reduce the amount of future tax will be recognized as deferred tax assets and the company must recognize the existence of deferred tax benefits or benefits, which means that the increase in deferred tax assets is consistent with companies that recognize earlier costs or defer income for financial reporting purposes compared to tax reporting (Sumomba, 2013). Philips et al. (2003) in Setyawan and Harnovinsah (2016) say that deferred

tax expense can be used to detect earnings management. The higher the deferred tax expense recognized by the company as a deferred tax expense, the higher the practice of earnings management in the company. Further, Astutik & Mildawati (2016), Negara & Saputra (2017) and Pratita (2017) stated that deferred tax expense has an influence on earnings management.

H2: Deferred tax expense influences earnings management.

Method

The research method used in this study is an explanatory method. The data used in this study are annual financial reports on manufacture companies on the Indonesia Stock Exchange (IDX) in 2015-2017 (Abdul Hadi et al., 2018). The object in this study is the firm value, deferred tax expense and earnings management. The subjects of this study were manufacturing companies on the Indonesia Stock Exchange (IDX) in the period 2015-2017. The sampling technique used in this study was purposive sampling based on criteria: manufacture companies on the Indonesia Stock Exchange (BEI); published financial reports and annual reports in 2015-2017, and the financial reports contain complete information related to all the variables studied in 2015-2017. The total sample is 60. The variables in this study are (Sinaga et al., 2019):

1. Independent variable (X)

In the study of the independent variable (X1) is the Firm Value (FV) with indicators:

$$PBV = \frac{\text{Current Price}}{\text{Book Value}}$$

The independent variable (X2) is Deferred Tax Expense (DTE) with indicators:

$$DTE_{it} = \frac{\text{Deferred Tax Expense } t}{\text{Total Assets } t-1}$$

2. Dependent variable (Y)

In this study the dependent variable (Y) is the Earnings Management with indicators:

$$TAC_t = NI_t - OCF_t$$

The data analysis method used in this study is multiple linear regression analysis. Before testing multiple linear regression, it is necessary to conduct a classic assumption test (Ghozali, 2013), which consists of tests of normality, multicollinearity, autocorrelation and heteroscedasticity.

Discussion and Conclusion

Descriptive analysis

The following are the results of descriptive analysis of the data of each indicator:

Descriptive Statistics

	Min.	Max.	Average
FV	0.12	47.54	4.2362
DTE	-0.0173	-0.00003	-0.0043
EM	-0.1889	0.1782	-0.0078

The average of firm value is 4.2362. The lowest value of firm value is 0.12 namely PT. Prima Alloy Steel Universal Tbk. in 2015, on the contrary, the highest firm value is 47.54 namely PT. Multi Bintang Indonesia Tbk. in 2016.

The average value of deferred tax expense is -0.0043. The lowest deferred tax expense is -0.0173, namely PT. Eterindo Wahanatama, Tbk. In 2016, the highest deferred tax expense was -0.00003, namely PT. Arwana Citra Mulia, Tbk. In 2017 (Saudi et al., 2019).

The average of earnings management is -0.0078. The lowest firm value of -0.1889 namely PT. Ricky Putra Globalindo Tbk. In 2017, the highest earnings management was 0.1782, namely PT. Intan Wijaya International Tbk. In 2016.

Simultaneous Test

Simultaneous testing is carried out using F test statistics obtained by ANOVA output for simultaneous testing as follows:

ANOVA^a

Model	Sum Of Square	df	Mean Square	F	Sig.
Regression	0,51	2	0,026	6,004	0.004
Residual	0,242	57	0,004		
Total	0,293	59			

The results above show the Fcount value of 6,004 with a significance value 0.004, because of $F_{count} (6,004) > F_{table} (1,84)$, the probability of fewer than 0.05 means that firm value and deferred tax expense simultaneously affect the earnings management in the manufacture companies in the IDX in 2015-2017.

Determination Coefficients

The determination coefficients are used to see how much influence the firm value and deferred tax expense simultaneously on earnings management. The following are the results of data processing obtained by the coefficient of determination:

Model Summary^b

Model	R	Adjusted R Square
1	0.417 ^a	0,145

The determination coefficient value of 0.145 shows that firm value and deferred tax expense simultaneously have an effect of 14,5% on earnings management in the manufacture companies in the IDX in 2015-2017. When viewed from the magnitude of the value, many other factors outside the firm value and deferred tax expense letters have a greater influence on earnings management.

Partial Test

Partial testing is done to test the effect of each independent variable on firm value

Partial Test (t Test)

Model	t count	t table	Significant
FV	2.876	2,00	0.006
DTE	2.152	2,00	0.036

The Influence of Firm Values on Earnings Management

The value of the firm obtained is 2,876 with a significance value of 0.06. The value of t table (2.00) < t count (2,876), at the error rate of 0.05, H1 is accepted, meaning that firm value affects the earnings management.

The results of this study indicate that corporate value has sufficient information in explaining earnings management variables. The higher the value of the company, the more likely it is to make earnings management with a larger pattern of income smoothing because good corporate value is considered to be stable and as such, the interest of management is in income smoothing (Pasaribu, et. al., 2016).

The Influence of Deferred Tax Expense on Earnings Management

The value of deferred tax expense obtained is 2,152 with a significance value of 0.036. The value of t table (2,00) < t count (2,152), at the error rate of 0.05, H2 is accepted, meaning that deferred tax expense affects earnings management. The results of this study indicate that deferred tax expense has sufficient impact in explaining earnings management variables. Philips et al. (2004) state that deferred tax expense can be used to detect earnings management by the company in meeting three objectives: to avoid decreasing profits, to avoid losses and to avoid failure to meet earnings predictions by analysts. The higher the deferred tax liabilities recognized by the company as a deferred tax expense, the higher the practice of earnings management in the company. The results are also in accordance with the results of a number of previous studies (Yulianti, 2005; Sumomba, 2012; Ifada & Wulandari, 2015; Astutik & Mildawati, 2016; Negara & Saputra, 2017; Pratita, 2017; Kisno & Istianingsih; Kusumaningrat, 2017), proving that deferred tax expense affects the earnings management.

Conclusions

The purpose of the study was to identify the determinants of earnings management by measuring firm value and deferred tax expense. The conclusion is that firm value and deferred tax expense simultaneously influence earnings management. Firm value and deferred tax expense partially influence earnings management.

Suggestion

Based on the conclusions from the results of the study, when analyzing financial statements presented by companies, stakeholders can use firm value and deferred tax expense as indicators to detect earnings management practices.

REFERENCES

- Aditama, F., & Purwaningsih, A. (2014). *Pengaruh Perencanaan Pajak Terhadap Manajemen Laba Pada Perusahaan Nonmanufaktur Yang Terdaftar Di Bursa Efek Indonesia*. Modus, 26, 33-50.
- Agnes Utari Widyaningdyah. (2001). *Analisis Faktor-Faktor Yang Berpengaruh Terhadap Earnings Management Pada Perusahaan Go Public Di Indonesia*. Jurnal Akuntansi & Keuangan Vol. 3, (2), 89 – 101.
- Ahmed, U., Umrani, W. A., Qureshi, M. A., & Samad, A. (2018). Examining the links between teachers support, academic efficacy, academic resilience, and student engagement in Bahrain. *International Journal of Advanced and Applied Sciences*, 5(9), 39-46.
- Astutik, R. E., & Mildawati, T. (2016). *Pengaruh Perencanaan Pajak Dan Beban Pajak Tangguhan Terhadap Manajemen Laba*. Jurnal Ilmu Dan Riset Akuntansi, 5 No.3, 1-17.
- Ayuningtyas, Dwi. (2013). *Pengaruh Profitabilitas Terhadap Nilai Perusahaan: Kebijakan Dividen And Kesempatan Investasi Sebagai Variabel Antara*. Jurnal Vol.1 No.1.
- F. Eugene Bringham dan Houston, Joel F. (2010). *Dasar dasar Manajemen Keuangan*, Edisi 11. Jakarta: Salemba Empat.
- Ghozali, I. (2013). *Aplikasi analisis multivariate dengan program IBM SPSS 19*. Edisi Ketujuh. Semarang: Badan Penerbit Universitas Diponegoro Semarang.
- Hadriyanto, Ivan & Yulius Jogi Christiawan. (2017). *Pengaruh Kondisi Laba Operasional Terhadap Manajemen Laba*. *Business Accounting Review*. Vol. 5, No. 1, Januari 2017 (37-48).
- Husnan, Suad dan Enny Pudjiastuti. (2015). *Dasar-Dasar Manajemen Keuangan*, Edisi Ketujuh. Yogyakarta: UPP STIM YKPN.
- Hussein, D. & Jermsttiparsert, K. 2019. "The Legality of Women's Presidential Power in Regard to Feminist Standpoint Theory." *International Journal of Innovation, Creativity and Change* 5 (2): 82-92.
- Ifada, Luluk Muhimatul dan Wulandari Nova. (2015). *The Effect Of Deferred Tax And Planning Toward Earnings Management Practice: An Ampirical Study On Non Manufacturing Companies Listing In Indonesia Stock Exchange In The Period Of 2008-2012*. *The International Journal of Organizational Innovation*. Vol. 8, Num 1. July 2015.

- Kisno & Istianingsih. (2016). *Detection Earnings Management by Deferred Tax Expense and Firm Characteristic*. Jurnal Riset Akuntansi Terpadu. Vol.9 No.1, April 2016 Hal. 139-145.
- Kusumaningrat. (2017). *Effect of Tax Deferred Charges, Leverage and Size of Management Company Earnings (Empirical Study at Company Jakarta Islamic Index (JII) Listed in Indonesia Stock Exchange Period 2012-2015)*. Research Journal of Finance and Accounting www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.8, No.12, 2017.
- Negara, A. R., & Saputra, I. D. (2017). *Pengaruh Perencanaan Pajak Dan Beban Pajak Tangguhan Terhadap Manajemen Laba*. E-Jurnal Akuntansi Universitas Udayana, 20.3, 2045-2072.
- Pasaribu, Rowland, Dionysia Kowanda & Esty Dwi Widyastuty. (2016). *Pengaruh Konservatisme Akuntansi, Kepemilikan Manajerial, Kebijakan Dividen, Ukuran Perusahaan, Leverage, Prece Eraning Ratio, Price Book Value dan Earning Per Share Terhadap Manajemen Laba*. Jurnal Ekonomi dan Bisnis Vol. 10, No. 2, Juli 2016: 71-87.
- Phillips, John D., Morton Pincus, Sonja Olhofft Rego, and Huishan Wan. (2004). *Decomposing Changes in Deferred Tax Assets and Liabilities to Isolate Earnings Management Activities*. Journal of the American Taxation Association.
- Pratita, N. A. (2017). *Pengaruh Perencanaan Pajak, Beban Pajak Tangguhan dan Aktual Terhadap Manajemen Laba (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2012-2014)*. JOM Fekon, 4 No.1, 2807-2819.
- Rice. (2013). *Pengaruh Leverage, Kepemilikan Institusional, Ukuran dan Nilai Perusahaan Terhadap Tindakan Manajemen Laba*. Jurnal Wira Ekonomi Mikroskil. Volume 3, Nomor 01, April 2013.
- Saudi, M. H. M., Sinaga, O., Roespinoedji, D., & Razimi, M. S. A. (2019). *The role of renewable, non-renewable electricity consumption and carbon emission in development in Indonesia: Evidence from Distributed Lag Tests*. *International Journal of Energy Economics and Policy*, 9(3), 46-52.
- Scott, W. (2009). *Financial Accounting Theory*. Canada: Fifth Edition, Pren ticehall Canada Inc.

- Sehic, S. (2017). Learning Methodologies for Learners with Dyslexia. *International Journal of Educational Technology and Learning*, 1(1), 28-36.
- Setyawan, B., & Harnovinsah. (2016). *Pengaruh Beban Pajak Tangguhan, Profitabilitas, Dan Perencanaan Pajak Terhadap Manajemen Laba (Studi Empiris Pada Perusahaan Manufaktur Sub Sektor Otomotif Dan Komponen Yang Terdaftar Di Bursa Efek Indonesia Periode (2010-2014))*. *Keberlanjutan*, 1(I), 15-40.
- Sinaga, O., Saudi, M. H. M., Roespinoedji, D., & Razimi, M. S. A. (2019). The Dynamic Relationship between Natural Gas and Economic Growth: Evidence from Indonesia. *International Journal of Energy Economics and Policy*, 9(3), 388-394.
- Sulistiyanto, H. (2008). *Manajemen Laba, Teori dan Model Empiris*. Jakarta: Grasindo.
- Sumomba, C. R., & Hutomo, Y. (2012). *Pengaruh Beban Pajak Tangguhan Dan Perencanaan Pajak Terhadap Manajemen Laba*. *Kinerja*, 15 No.2, 103-115.
- Timuriana, T., & Muhammad, R. R. (2015). *Pengaruh Aset Pajak Tangguhan Dan Beban Pajak Tangguhan Terhadap Terhadap Manajemen Laba*. *Jurnal Ilmiah Akuntansi Fakultas Ekonomi*, 1, 12-20.
- Widyaningsih, A. & Purnamawati, C.A. (2012). *Pengaruh Pajak Tangguhan dan Probabilitas terhadap Manajemen Laba*. *Forum Bisnis & Keuangan*, 1, 323-339.
- Yulianti. (2005). *Kemampuan Beban Pajak Tangguhan Dalam Mendeteksi Manajemen Laba*. *Jurnal Akuntansi Dan Keuangan Indonesia*, 2 No.1, 107-129.
- Bursa Efek Indonesia. *Laporan Keuangan Perusahaan Manufaktur*. Quoted from: <https://www.idx.co.id>. Accessed in March 2019.
- Hakim, Ifsan Lukmannu. (2015). *Skandal Terungkap CEO Toshiba Mundur*. Quoted from: <https://www.liputan6.com/bisnis/read/2277114/skandal-terungkap-ceo-toshiba-mundur> . Accessed in March 2019.