

Analysis of Factors Affecting Earning Management in Banking Companies Listed on BEI

Geby Citra¹, Cahyo Pramono²

^{1,2} Management Study Program, Social Science Faculty,
Universitas Pembangunan Panca Budi Medan, Indonesia, 20122

Corresponding Author: Cahyo Pramono

ABSTRACT

This research is a causality research that aims to analyze the effect of leverage, firm size, free cash flow and profitability to earning management. The leverage variable is measured using debt to total assets (DTA) and profitability is measured using return on assets (ROA). The type of this research is quantitative research, while the model of this research is multiple linear regression analysis. In this study used secondary data with sampling technique used is purposive sampling. The population in this study are all banking companies listed on the BEI which amounted to 43 companies. Number of companies that meet the criteria to be sampled there are 32 companies and tested data using SPSS version 16.0. It can be seen that the results that leverage, firm size, free cash flow and profitability partially have no effect on earning management. And leverage, firm size, free cash flow and profitability simultaneously affect the earning management.

Keywords: Leverage (DTA), Firm Size, Free Cash Flow, Profitability (ROA), Earning Management.

INTRODUCTION

There is a tendency to pay attention to the company's profit has underpinned every manager in the company to conduct earning management practices. Until now financial statements have been a central issue as manipulation of information that can harm those who use it. Profit management is the company manager's attempt to interverb or influence the information in financial statements with the aim of tricking stakeholders who want to know the company's performance and conditions (Sulistyanto, 2008: 48). Profit management is also a detriment to shareholders because they will not get real information about the company's financial position.

Profit management is carried out by the company to achieve certain objectives. There are several approaches that can be taken to detect a company whether it is conducting profit management practices or not. One way that can be done to detect the presence of profit management practices is to use a discretionary accrual approach as in the table below.

Alteration Discretionary Accrual

No	Company Name	Discretionary Accrual		
		2014	2015	2016
1.	Bank Mestika Dharma Tbk	-0.289	1.5899	0.1966
2.	Bank Negara Indonesia Tbk	0.8168	-0.5774	-0.1411
3.	Bank Tabungan Negara (Persero) Tbk	-0.6069	0.0922	-1.5377
4.	Bank Mandiri Tbk	-0.0489	1.1218	-0.7534
5.	Bank CIMB Niaga Tbk	-2.8991	-0.0018	-0.4494

Source: Processed Secondary Data

It can be seen that there are uneven discretionary accrual changes in banking companies. Empirically, discretionary

accrual values can be zero, positive, and negative. Zero value indicates profit management is done with income smooting

pattern. While the positive value indicates the management of profit with a pattern of increasing profit (income increasing), and negative value shows profit management with a pattern of profit decreasing (Sulistyanto, 2008).

LITERATURE REVIEW

Earning Management

Earning management is the company manager's attempt to interverb or influence the information in financial statements with the aim of tricking stakeholders who want to know the company's performance and conditions (Sulistyanto, 2008: 6). This term interference and tricking is used as the basis of some parties to assess profit management as a fraud.

Research on profit management is based on agency theory. In this case the agency relationship is a contract between one or more principals who hire another person (agent) to provide a service and then delegate decision-making authority to the agent (Jensen and Meckling in Andriyani (2008: 10). The asymmetry of information between the agent and the principal may trigger the manager to perform disfunctional behavior. There is an information gap between managers and shareholders so management has the opportunity to maximize their interests, one of which is by doing profit management.

Empirical Model of Earning Management

In general there are three groups of profit management empirical models classified on the basis of the measurement base used, namely (Sulistyanto, 2008:7) :

1. Accrual-based model
2. Specific accruals-based models
3. Distribution of earnings model

In general, there are several motivations that encourage managers to do profit management, among others:

1. Bonus scheme reasons
2. Debt covenant
3. Political motivation
4. Taxation motivation

5. CEO change (chie executive officer)
6. IPO (initial public offering)

According to Sulistyanto (2008 :221) profit management can be measured using the formula:

$$NDA_t = TAC_{t-1}$$
$$TAC_{it} = \frac{N_{it} - CA_{it}}{TA_{it}}$$

Description:

TACit = Total Accrual Company

Nit = Net Income

CAit = Operating Cash Flow

TAit = Fixed Assets

Leverage

In financial management, leverage is the use of assets from sources of funds by companies that have fixed costs (fixed expenses) with the intention of increasing the potential profits of shareholders. The Company uses operating and financial leverage with the aim that the profit earned is greater than the cost of its assets and source of funds, thereby benefiting shareholders. Conversely, leverage also increases the variability (risk) of profits, because if the company turns out to benefit shareholders. (Sartono, 2010: 257)

The leverage ratio measures the extent to which the company funds its business by comparing the stakeholders equity that has been deposited with the amount of loans from creditors. Decisions about the use of leverage should be carefully considered between the possible risk and the expected return to be obtained. The commonly used leverage ratios are the following:

- 1) Total debt to total assets (DTA)

Calculation of debt ratio is as follows:

$$DTA = \frac{\text{amount of debt}}{\text{number of assets}}$$

Firm Size

One of the benchmarks that indicates the size or small of a company is the size of the company. According to Agnes Sawir in Yuliana (2012) the size of the company is expressed as determinant of the financial structure in almost every study for different

reasons. The size of the company can be expressed in market capacity. Albercth & Richardson and Lee & Choi in Yuliana (2012) found that larger companies were less encouraged to flatten profits than smaller companies. Because large companies will be more considered by the public so they will be more careful in reporting their finances and reporting their conditions more accurately. The size of the company is measured using the natural logarithm of the total asset.

Size=Ln (total assets)

Description: Ln Total asset is the natural logarithm of the total assets

Free Cash Flow

When a profit or loss report becomes a measure of a company's profits, the profit is not the same as cash flow. Profit is calculated using accrual base rather than cash base. Accrued-based accounting will record income when earning profit, whether or not income is received in cash, and record expenses when that income occurs, even if the money has not actually been spent. Free cash flow is the amount of cash available from operations after investment in net operating performance capital and fixed assets (Arthur et al, 2011: 47)

According to Arthur et al, (2011 :47) in the measurement of cash flow, we can use the presentation of accounting reports commonly called cash flow reports. The calculation of free cash flow is as follows:

Free Cash Flow = After-Tax Cash Flow From Operations-Investments In Assets

Profitability

Profitability is one of the benchmarks used by investors in assessing a company's performance as the basis for decision-making in making investments. Profitability is used to measure how much profit a company generates. The greater the profit that can be generated by the company, the better the performance of management in the company. Profitability is the ability of the company to make profit in its relationship with sales, total assets and own capital (Sartono, 2010: 122).

The objectives of profitability ratio according to Cashmere in Najmi (2015) are:

- 1) To measure or calculate the profit earned by the company in a given period.
- 2) To assess the company's profit position the previous year with the current year.
- 3) To assess the development of profit over time.
- 4) To assess the amount of net profit after tax with its own capital.
- 5) To measure the productivity of all company funds used both loan capital and own capital.

The profitability ratio measures the company's ability to make a profit using sources owned by the company, such as assets, capital and the sale of the company (Sudana, 2015: 25). This research uses ROA as a measurement of profitability ratio with the formula:

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}} \times 100\%$$

METHODOLOGY

Types and Approaches to Research

The type of research approach conducted in this study is causal design research. According to Sugiyono (2012: 59) causal design research is a causal relationship. So, here there are independent variables (affect) and dependent variables (affected).

Population

According to Marihot and Manuntun (2014: 137) the research population is all elements to be observed or studied. The population in this study is all banking companies listed on the Indonesia Stock Exchange for a period of 43 companies.

Samples

A sample is a drawn part of the population, as a result the sample is always the smallest part of the population (Istijanto, 2009: 113). The sampling in this study was conducted on a non probability sampling basis, i.e. by using purposive sampling, the sample was selected based on the subjective considerations of the researcher, where the

requirements made as criteria must be met. The criteria specified in this study include:

- a. Banking companies listed on the Indonesia Stock Exchange period
 - b. Report audited financial statements
- Based on the above criteria, the samples taken in this study became 32 banking companies.

Data Analysis Techniques

Classic Assumption Test

The classic assumption test is used so that we can find out the feasibility of multiple linear regression models that have the purpose of knowing whether the results of the regression estimation are really worth using or not. Classic assumption tests include:

- a. Normality Test
- b. Multicollinearity Test
- c. Auto correlates test
- d. Test Heteroskedasticity

Hypothesis Test

Hypothetical tests are performed to analyze whether the hypothesis is accepted or rejected. The tests carried out are:

- a. Test T
- b. Test F
- c. Determination Test

RESULTS AND DISCUSSION

Classic Assumption Test Results

Normality Test

Kolmogorov-Smirnov (K-S Test) One-Sample Kolmogorov-Smirnov Test Results

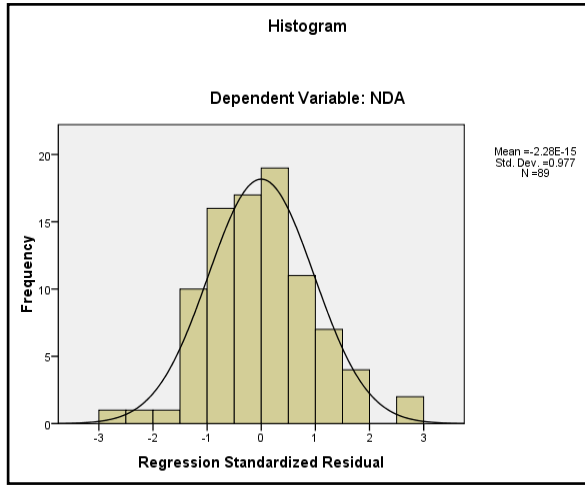
		Unstandardized Residual
N		89
Normal Parameters ^a	Mean	.0000000
	Std. Deviation	3.17958842
Most Extreme Differences	Absolute	.056
	Positive	.056
	Negative	-.047
Kolmogorov-Smirnov Z		.532
Asymp. Sig. (2-tailed)		.940
a. Test distribution is Normal.		

Source: Output SPSS, 2018

On the table we can tell that the significance value of the normality test result is 0.940 which indicates greater than 0.05 (0.940>0.05) which means that the variable is distributed normally.

Histogram Graph Analysis

Histogram Graphics

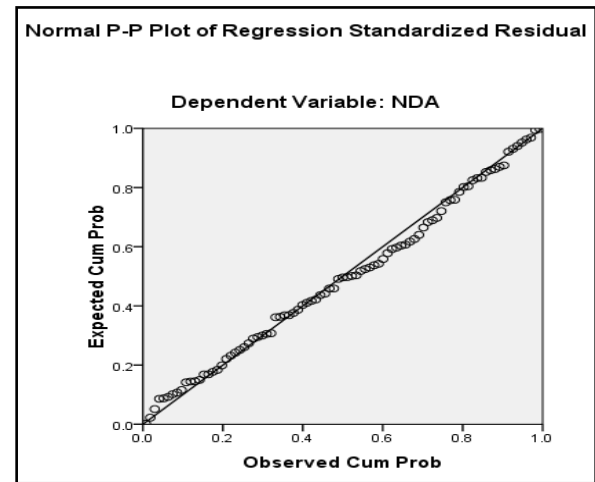


Source: Output SPSS, 2018

In the Image can be seen that the Earning Management histogram chart is perfectly shaped which shows a bell-shaped line which is proof that the chart is distributed normally.

Normal Probability Plot Analysis

Graphic Normal Probability Plot



Source: Output SPSS, 2018

In the Image that is the normal probability plot earning management chart showing the data spreading around the diagonal line and following the existing diagonal line, it can be concluded that the regression model meets the normality assumption test.

Multicholnearity Test

Multicholnearity Test Results

Model	Collinearity Statistics		
	B	Tolerance	VIF
(Constant)	19.571		
DTA	.345	.965	1.036
SIZE	-.626	.631	1.584
FCF	.001	.795	1.257
ROA	1.596	.770	1.299

a. Dependent Variable: NDA

Source: Output SPSS, 2018

On the table shows that based on the results of analysis and testing of 4 variables freely stated that it is free of symptoms of multicollinearity.

Auto correlation test

Auto correlation Test Results

Model	Durbin-Watson
1	2.011

a. Predictors: (Constant), ROA, FCF, DTA, SIZE

b. Dependent Variable: NDA

Source: Output SPSS, 2018

Based on the results on the table it is known that the regression model used is free of auto correlation as evidenced by the results of dw calculation between -2 to 2 which is 2,011.

Hypothetical Test Results

Test t

Partial Test Results (T Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.571	7.356		2.661	.009
	DTA	.345	2.549	.014	.135	.893
	SIZE	-.626	.231	-.340	-2.713	.008
	FCF	.001	.001	.106	.953	.344
	ROA	1.596	5.513	.033	.290	.773

Dependent Variable: NDA

Source: Output SPSS, 2018

Test F

Simultaneous Hypothesis Test Results (Test F)

ANOVA b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	1 Regression	177.014	4	44.253	4.178	.004 ^a
	Residual	889.661	84	10.591		
	Total	1066.674	88			

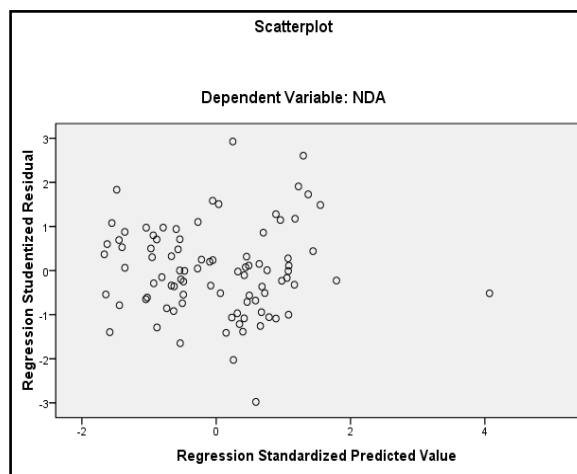
a. Predictors: (Constant), ROA, FCF, DTA, SIZE

b. Dependent Variable: NDA

Source: Output SPSS, 2018

From the calculation results can be interpreted that leverage, firm size, free cash flow, and profitability together affect earning management variables.

**Heteroskedastisity Test
Heterokedastisitas Test Results**



Source: Output SPSS, 2018

Based on the image it can be known that the points that show the data from this study do not form a specific pattern, where the dots spread randomly above and below zero points on the Y axis and on the X axis.

Determination Test

Determination Coefficient Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.407 ^a	.166	.126	3.25441

b. Dependent Variable: NDA

Source: Output SPSS, 2018

From the table above, it can be concluded that the effect of leverage, firm

size, free cash flow and profitability together on earning management is 16.6%. While the remaining 83.4% (100% - 16.6%) other variables not studied in this study.

CONCLUSION

1. Leverage has no significant effect on earning management in banking companies registered with IDX.
2. Firm size has no significant effect on earning management in banking companies registered with IDX.
3. Free cash flow has no significant effect on earning management in banking companies registered with IDX.
4. Profitability has no significant effect on earning management in banking companies registered with IDX.
5. Leverage, firm size, free cash flow, and profitability together affect earning management variables in banking companies listed on IDX.

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