Measuring The Determinants of Earnings Management

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Measuring The Determinants of Earnings Management

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Abstract

The purpose of this research is to investigate the impact of profitability, leverage, deferred tax expense, tax planning on earnings management. The research sample consisted of 12 manufacturing companies on the IDX for the period 2018 - 2020. Data on the company's annual financial statements, 33 data were obtained which were analyzed before outliers, and 26 data were analyzed after outliers. Methods of data analysis using classical assumption test, hypothesis testing and multiple linear regression. The research results show that profitability has a significant positive effect, deferred tax expense has a significant negative effect, leverage and tax planning have no significant effect on earnings management.

Keywords: Profitability, leverage, tax, planning, earnings

1. Introduction

Along with the times, the competition in the business world is getting tougher, where every company is required to create competitive advantages and innovations in order to survive and excel in the competition. One of the efforts to overcome these conditions is to improve the management of financial quality. The company's communication media for interested parties is in the form of financial reports (Febriayanti, 2020). Disclosure of financial statements must provide an overview of the company's actual business situation so that the information can be used as a guide in making decisions in collaboration with other stakeholders in the company (Wirawan, 2020). Corporate profit is a company performance measurement tool that is commonly used for business decision making. This decision-making, for example the payment of compensation and the provision of bonuses for leaders. The distribution of bonuses is measured by the achievement of profits earned, so that managers try to achieve profit targets to get benefits for their policies. In an effort to achieve the profit target, the leader carries out an activity, called profit management.

Earnings management is one of the actions or efforts of a leader to regulate and manage his business profits in order to get profits for his probanya or other people, for the sake of prosperity together called earnings management. Earnings management is also called earnings management (earnings management up and earnings management down (Febriayani, 2020). There are several things that cause the effect of earnings management, including profitability, leverage, deferred tax burden, tax planning.Regarding earnings management, previous research was conducted by Purnama (2017), Yovianti & Dermawan (2020); Febriayanti (2020) states that profitability has an effect on earnings management. Contrary to Maslihah (2019); Wirawan (2020), namely profitability has no impact on earnings management. Moon (2017); Maslihah (2019); Yovianti & Dermawan (2020) state that earnings management is not affected by leverage, while Saputra (2018), states that earnings management is influenced by leverage. Maslihah (2019), it states that deferred tax expense has no effect and shows a positive direction on earnings management. In contrast to the research of Saputra (2018) and Hilmy & Sudrajat (2020) which conclude that deferred tax expense has a positive effect on earnings management. As for other research related to earnings management, by Maslihah (2019); Wirawan (2020), where tax planning positively affects earnings management, while Saputra (2018) and Hilmy & Sudrajat (2020) concludes that earnings management is not affected by tax planning.

On this basis, there are still different research results, as a result there is an opportunity for other researchers to conduct further research on the effect of profitability, leverage, deferred tax expense, and tax planning on earnings management. This research refers to the research conducted by Saputra (2018) but with a broader research object, namely all

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manufacturing companies listed on the IDX during the period 2018-2020, and adding a profitability variable as an additional independent variable. Research to examine the effect of profitability, leverage, deferred tax expense, tax planning on earnings management in manufacturing companies on the IDX. The formulation of the problem is whether profitability; leverage; deferred tax expense, tax planning has an influence on earnings management.

2. Literature Review

Profitability on Earnings Management

One of the company's goals is to make a profit. Regarding earnings management, profitability can influence managers to carry out earnings management. High profitability, investors will believe that the company has a good performance. On the other hand, if profitability is low, investors will not easily believe in the performance of company managers so that usually the leadership wants to carry out activities in the form of earnings management in order to save performance on the part of owners and investors. Moon (2017); Yovianti & Dermawan (2020); Febriayanti (2020) states that earnings management is influenced by profitability.

H1 : Profitability affects earnings management

Leverage on Earnings Management

Purnama (2017), leverage is a comparison between total debt to total assets. Saputra (2018) states that leverage is a ratio that measures how far the company uses debt. In his research, concluded that leverage has an effect on earnings management. This means that the higher the leverage, the higher the level of earnings management carried out.

H2: Leverage affects earnings management

Deferred Tax Expense on Earnings Management

Hilmy & Sudrajat (2020), the time difference between profit based on commercial and profit based on fiscal is the trigger for deferred tax, causing a positive correction. If in a positive correction the results of the fiscal profit exceed the profit on a commercial basis, the company can postpone the tax payable in the future. Related to earnings management, it can influence the leadership to carry out earnings management. Hilmy & Sudrajat (2020); 2013 and Astutik & Mildawati (2016), Saputra (2018) which state that earnings management is influenced by deferred tax expense, where the more deferred tax expense, the higher the manager carries out earnings management.

H3 : Deferred tax expense affects earnings management

Tax Planning on Earnings Management

Maslihah (2019), tax planning is the ability of a taxpayer to manage financial activities to achieve a minimum tax burden. When it comes to income management, tax planning can affect managers managing income. Maslihah (2019); Astutik & Mildawati (2016) and Wirawan (2020) conclude that tax planning affects earnings management, meaning that many companies carry out tax planning resulting in more companies carrying out earnings management, because these companies often manage their financial situation in order to obtain profits as expected.

H4 : Tax planning affects earnings management.

Theoretical Framework

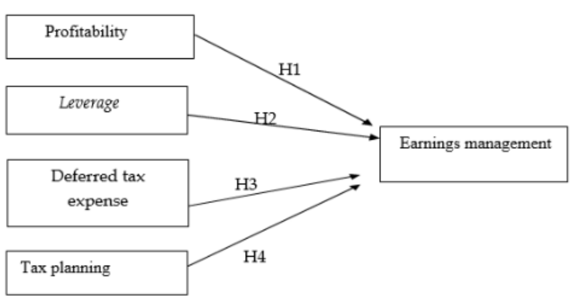

Figure 1. Earnings Management Research Model

3. Methods

Research variable

This study uses profitability, leverage, deferred tax expense, tax planning (independent variable) and earnings management (dependent variable).

Research Object, Sample Unit, Population and Sample

The object of research is a manufacturing company listed on the IDX. The choice of the object of this research is because a manufacturing company is one of the companies that requires loans from creditors and attracts investors to invest, so it is necessary to provide information on profit reports. The population is 193 manufacturing companies on the IDX during 2018-2020. Sampling using a purposive sampling technique, provided that: 1) Manufacturing companies are not delisted in 2018-2020, from the basic and chemical industry sector, the various industrial sector, and the industrial sector consumer goods, 2) Complete financial statement information. Therefore, obtained as many as 11 company samples.

Analysis method

Using a tool in the form of SPSS '26 and testing : normality. multicollinearity, heteroscedasticity, autocorrelation, multiple regression, t & F test, the coefficient of determination.

4. Result and Discussions

Descriptive Statistics Results

Table 1. Descriptive Statistics

	N	Minimum	Maximum		Mean	Std. Deviation
ROA	33	-,0444	,2426	,058309	,0119153	,0684482
DER	33	,0599	,7087	,415530	,0321190	,1845094
DTEit	33	-,0194	,0079	-,000918	,0010291	,0059118
TRR	33	-,3262	1,7872	,665924	,0636776	,3658002
EM	33	-,2479	,2042	,001073	,0131687	,0756486
Valid N (listwise)	33					

Table 2. Descriptive Statistical Analysis (After Outliers)

	N	Minimum	Maximum		Mean	Std. Deviation
ROA	26	-,0104	,2426	,072465	,0136320	,0695100
DER	26	,0599	,7087	,413400	,0373253	,1903224
DTEit	26	-,0194	,0079	-,001392	,0011724	,0059782
TRR	26	,1224	,9738	,707212	,0297680	,1517877
EM	26	-,0993	,1408	,009577	,0092685	,0472604
Valid N (listwise)	26					

After doing outliers as many as 7 data are extreme data that must be removed, namely in data lines 3, 4, 6, 13, 15, 21, and 33, the number of sample data to be tested changes to 26 data.

Normality test

Table 3. One-Sample Kolmogorov-Smirnov Test

		EM
N		33
Normal Parameters[a,b]	Mean	,001073
	Std. Deviation	,0756486
Most Extreme Differences	Absolute	,208
	Positive	,196
	Negative	-,208
Test Statistic		,208
Asymp. Sig. (2-tailed)		,001c

Table 4. *One-Sample Kolmogorov-Smirnov Test* (Setelah Outlier)

		Unstandardized Residual
N		26
Normal Parameters[a,b]	Mean	,0013749
	Std. Deviation	,04135013
Most Extreme Differences	Absolute	,130
	Positive	,130
	Negative	-,090
Test Statistic		,130
Asymp. Sig. (2-tailed)		,200[c,d]

Kolmogorov-Smirnov (K-S) after outliers, showed the significance value was 0.200 and the residual data were normally distributed because the significance value was greater than 0.05.

Multicollinearity Test

Table 5. Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	ROA	,529	1,892
	DER	,579	1,726
	DTEit	,961	1,041
	TRR	,904	1,106

The results of the multicollinearity test in the regression model do not occur multicollinearity between independent variables because the Tolerance value > 0.10 and the VIF value < 10, thus, the regression model is feasible to be used in this study.

Autocorrelation Test

Table 6. Autocorrelation Test (DW Test)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,632[a]	,400	,286	,0399406	1,895

Autocorrelation test using Durbin Watson test obtained a value of 1.895. The results of this value are included in the category du < d < 4 - du, meaning that the regression model does not occur autocorrelation and this regression model is feasible for research.

Heteroscedasticity Test

Table 7. Glejser

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std.Error	Standardized Coefficients Beta	t	Sig.
(Constant)	,010	,028		,354	,727
ROA	,059	,101	,173	,584	,566
DER	,020	,035	,156	,553	,586
DTEit	,143	,872	,036	,164	,871
TRR	,007	,035	,046	,205	,839

From the Glejser test, the significance of the independent variable is > 0.05, so there is no heteroscedasticity in the model, so the regression model is appropriate for research.

Multiple Linear Regression Test

Table 8. Multiple Linear Regression Test

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	,001	,044		,016	,988
ROA	,384	,158	,565	2,431	,024
DER	,078	,055	,313	1,410	,173
DTEit	-3,014	1,363	-,381	-2,211	,038
TRR	-,078	,055	-,251	-1,412	,172

The significance of ROA is 0.024 and DTEit is 0.038, so ROA (Profitability) and DTEit (Deferred Tax Expense) have a significant effect on EM (Earnings Management) because the significance value is below 0.05. DER (Leverage) and TRR (Tax Planning) have no effect on EM (Earnings Management) because the significance value is above 0.05, which is 0.173 and 0.172 respectively. The regression equation is as follows:

$$Y = 0.001 + 0.384ROA + 0.078DER + (-3{,}014DTEit) + (-0.078TRR) + e$$

Partial Hypothesis Test (Test Statistical t)

Table 9. Test Statistical t

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	,001	,044		,016	,988
ROA	,384	,158	,565	2,431	,024
DER	,078	,055	,313	1,410	,173
DTEit	-3,014	1,363	-,381	-2,211	,038
TRR	-,078	,055	-,251	-1,412	,172

The results of the t statistic test can be explained that profitability has a significant positive effect on earnings management through 2.431 < 2.0796 with a significant level of 0.024 <0.05. Leverage has no and no significant effect on earnings management with a value of 1.410 < of 2.0796 with a significant level of 0.173 > 0.05. Deferred tax expense has no significant positive effect on earnings management through -2.211 < el 2.0796 with a significant level of 0.038 <0.05. Tax planning has no positive and insignificant effect on earnings management with a value of -1.412 < 2.0796 with a significant level of 0.172 > 0.05.

F Test

Table 10. ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	,022	4	,006	3,501	,024[b]
Residual	,034	21	,002		
Total	,056	25			

The results of the F statistical test, obtained the value of 3.501 > bel 2.82 with a significance value of 0.024 < 0.05 then profitability, leverage, deferred tax expense; Simultaneous tax planning does not affect earnings management.

Coefficient of Determination

Adjusted R Square as much as 0.286 or 28.6% meaning that profitability, leverage, deferred tax expense, and tax planning can affect earnings management as much as 28.6% and 71.4% influenced by other factors outside the research. Likewise, because the coefficient of determination in this study is 0 < 0.286 <1, the regression model can be said to be feasible to use.

Table 11. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,632[a]	,400	,286	,0399406

Discussion

Effect of Profitability on Earnings Management

Profitability has a significant positive effect of the earnings management of manufacturing companies on the IDX. It is proven by the significance of 0.024 < 0.05. These results are in accordance with Purnama (2017) which states that profitability has a significant positive effect on earnings management. This is a sign that the leadership acts to implement earnings management using both income minimization (profit minimization) and income maximization (profit maximization) techniques. The existence of a positive influence indicates the higher the level of profit, the higher the opportunity for management to carry out earnings management.

Effect of Leverage on Earnings Management

Testing the hypothesis obtained a regression coefficient of 0.078 with a significance of 0.173 > 0.05 so that leverage has no effect on earnings management. This is supported by Purnama (2017), Maslihah (2019) and Yovianti & Dermawan (2020) who say that leverage has no significant effect on earnings management. This is because manufacturing companies are not only dependent on loans to fund company assets, as a result, it does not affect the company's decision to regulate the amount of profit to be conveyed if there is a change in the loan rate (Purnama, 2017).

Effect of Deferred Tax Expense on Earnings Management

The value of the coefficient of determination is -3.014 with a significance value of 0.038 <0.05 and the value of the coefficient of determination has a negative value, so the deferred tax burden of manufacturing companies on the IDX has a significant negative effect on earnings management. This research is supported by Asperti & Mildawati (2016); Saputra (2018); Hilmy & Sudradjat (2020) conclude that deferred tax expense has a significant positive effect on earnings management, but has a different direction. Deferred tax expense on the company arises due to temporary differences that arise when making fiscal corrections. This happens because the company's management has the freedom to apply accounting in its commercial financial statements. Deferred tax burdens (benefits) can arise due to a lot of company discretion (Hilmy & Sudradjat, 2020). The negative value in this study means that the higher the level of deferred tax expense, the lower the level of earnings management, and vice versa.

Effect of Tax Planning on Earnings Management

The coefficient of determination - 0.078 with a significance of = 0.172 so that, tax planning has an insignificant negative effect on the earnings management of manufacturing companies on the IDX. This negative effect is shown in the results of the t statistical test, where the value of -1.412 1 < 2.0796 and the value of the coefficient of determination has a negative value. The insignificance was seen from the significance value > 0.05. This study supports Saputra (2018) and Hilmy & Sudradjat (2020) stating that tax planning does not have a significant effect. This is because tax planning is the first step in tax management. Tax management is a medium to fulfill tax obligations appropriately, but the amount of tax issued can be reduced to a minimum in order to get profits and liquidity as desired. Asdot & Mildawati (2016), where in the tax planning can be done tax control.

5. Conclusions

Profitability has a significant positive effect on earnings management. Leverage does not affect and is not significant on earnings management. Deferred tax expense has a significant negative effect on earnings management. Tax planning has no significant negative effect on earnings management. With this tax planning does not significantly affect earnings management.

Companies should avoid earnings management practices, always report information according to the company's situation. The company has more control and scrutiny of profitability and deferred tax expense as the basis for making decisions for the survival of the company. Where both have an influence on the practice of earnings management. For investors, it is better to monitor the company's financial information, especially information related to profitability and deferred tax burden so that, if earnings management practices occur, they can make the right decisions.

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