

EARNING MANAGEMENT IN BANKING SECTOR ON INDONESIA STOCK EXCHANGE

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Abstract

The practice of earnings management could not be separated from the process of preparing financial statements. It could occur in all business sectors including banking. This study aims to analyze earnings management in financial statements of banks on Indonesian Stock Exchange. This research is a descriptive study of banks listed on Indonesia Stock Exchange in 2020. Earnings management in bank financial statements is proxied by discretionary accruals. The population and sample of this research are 42 banks. The results show that 31 banks have a negative Discretionary Accruals and 11 banks have a positive Discretionary Accruals. A negative discretionary accruals indicates that the company performs earnings management by decreasing earnings while a positive discretionary accruals indicates that the company performs earnings management by increasing the earnings in the financial statements.

Keywords : *earning management, discretionary accruals*

INTRODUCTION

Earnings management practices could not be separated from the process of preparing financial statements. The process of preparing financial statements carried out by management as an agent in agency theory. It could affect the profits reported in the financial statements. These profits can indicate the earnings management.

Earnings management is actually not a new thing in the practice of preparing financial statements. Earnings management is due to the difference in interests between the principal and the agent where each party will try to maximize their interests. It will create a conflict of interest between the two parties. (Scott, 2007)

Earnings management is not always synonymous with something "bad". Earnings management is caused by the choice of accounting policies taken by management in the process of preparing financial statements. However, this choice of accounting policy can also be misused by management to make earnings, either by taking accounting policy choices in an effort to increase profits or reduce profits. Cases related to earnings management have occurred in several large companies both in Indonesia and abroad.

One of the cases related to earnings management is PT Garuda Indonesia Tbk. Garuda is indicated to carry out earnings management by making a profit of USD 809.85 thousand in 2018. This profit decreased from 2017 where Garuda had a loss of USD 216.5 million.

The case above shows that users of financial statements need to be more careful in understanding the earnings reported in the company's financial statements. Profits in financial statement may not be in accordance with the actual profits of the company. This earnings manipulation is called earnings management. Earnings management in these financial statements can occur in all business sectors, including banking sector.

The banking sector has continued to develop over the last few years, as indicated by an increase in the distribution of funds by commercial banks, including the number of office networks. Data from Indonesian Banking Statistics (2017) show that over the last six years, the distribution of funds made by Commercial Banks has increased. The number of commercial banks in Indonesia as of January 2017 was 116 with 32,713 offices.

The accounting standards in Indonesia provide several options for financial statement preparers to choose the accounting method to be used. According to Anthony and Govindarajan (2005), the information contained in these financial statements often does not reflect actual profits, because management does not clearly convey the accounting method chosen, so that the information available can mislead users of financial statements. The flexibility associated with this accounting policy sometimes opens up opportunities for earnings management. Management often tries to maximize its interests by manipulating financial statements and doing earnings management. This study aims to analyze earnings management in the banking sector listed on the Indonesian Stock Exchange in 2020.

Earnings management could be caused by agency theory. The separation of ownership in agency theory can cause a conflict of interest between the principal and the agent. Agency theory is a basic theory that could be used in understanding earnings management. According to Anthony and Govindarajan, agency theory is the relationship between principal and agent. The principal employs agents to carry out tasks for the benefit of the principal, and also delegates the process of decision making. (Anthony and Govindarajan, 2005)

Earnings management could be interpreted as the selection of certain accounting policies carried out by management to influence the profits reported in the financial statements. Scott (2007) defines earnings management as "Given that managers can choose accounting policies from a set (for example, GAAP), it is natural to expect that they will choose policies so as to maximize their own utility and/on the market value of the firm"

Earnings management is an intervention in financial statements in order to maximize personal profit. Earnings management is one of the factors that could reduce the credibility of the financial statements. It could mislead users of financial statements. There are two types of earnings management, which are accrual earnings management and real earnings management (Schipper, 2004).

According to Gumanti (2000), accruals are the difference between the net cash inflows from the company's operating results and the profits in the income statement which can be in the form of discretionary accruals and non-discretionary accruals.

METHOD

This research is a descriptive research. This study uses secondary data from financial statements of banks listed on the Indonesian Stock Exchange in 2020. The population of this study is all banks listed on the Indonesian Stock Exchange in 2020 as many as 43 banks. While the sample in this study were 42 banks because there was one bank that had incomplete data. Earnings management in this study is proxied by accrual earnings management which is using discretionary accruals modified Jones models.

RESULT

The results of the study show that the number of banks listed on the Indonesia Stock Exchange in 2020 are 42 banks. This research uses accrual earnings management, with a Jones modified models. The steps to calculate the accrual rate are as follows:

1. Calculate the amount of total accruals:

$$TAC_{it} = NI_{it} - CFO_{it}$$

The results are as shown in the following table:

Table 1. Total Accruals

	* in thousand rupiah		
Bank	NI _{it}	CFO _{it} .	TAC _{it}
AGRO	140.495.535	(782.655.120)	923.150.655
AGRS	(8.319.000)	16.756.000	(25.075.000)
ARTO	(8.737.359)	40.872.419	(49.609.778)
BABP	(685.193.000)	(1.992.694)	(683.200.306)
BACA	86.140.000	1.060.492.000	(974.352.000)
BBCA	23.321.150.000	9.658.627.000	13.662.523.000
BBHI	10.362.325	(75.862.859)	86.225.184
BBMD	263.753.376	263.796.953	(43.577)
BBKP	135.901.000	(1.572.849.000)	1.708.750.000
BBNI	13.770.592.000	33.625.853.000	(19.855.261.000)
BBRI	29.044.334.000	39.299.109.000	(10.254.775.000)
BBTN	3.027.466.000	321.044.000	2.706.422.000
BBYB	14.420.412	296.882.748	(282.462.336)
BCIC	121.534.000	135.070.000	(13.536.000)

BDMN	3.828.097.000	3.748.625.000	79.472.000
BEKS	(76.285.000)	478.343.000	(554.628.000)
BGTG	51.140.000	91.416.000	(40.276.000)
BINA	18.340.000	(209.484.000)	227.824.000
BJBR	1.211.405.000	2.582.207.000	(1.370.802.000)
BJTM	1.159.370.000	6.663.420.000	(5.504.050.000)
BKSW	(789.803.000)	(230.590.000)	(559.213.000)
BMAS	69.497.192	233.597.722	(164.100.530)
BMRI	21.443.042.000	4.952.703.000	16.490.339.000
BNBA	89.548.095	(116.867.307)	206.415.402
BNGA	2.977.738.000	20.129.300.000	(17.151.562.000)
BNII	1.860.845.000	(3.996.679.000)	5.857.524.000
BNLI	748.433.000	(13.394.147.000)	14.142.580.000
BSIM	318.923.000	(807.980.000)	1.126.903.000
BSWD	(127.084.937)	(374.577.105)	247.492.168
BTPN	1.421.940.000	1.125.968.000	295.972.000
BVIC	136.090.761	1.408.519.316	(1.272.428.555)
DNAR	10.080.691	140.809.583	(130.728.892)
INPC	68.101.000	974.511.000	(906.410.000)
MAYA	675.404.953	2.350.025.483	(1.674.620.530)
MCOR	49.899.000	1.487.071.000	(1.437.172.000)
MEGA	1.300.043.000	5.356.123.000	(4.056.080.000)
NAGA	6.100.911	308.295.224	(302.194.313)
NISP	2.175.824.000	(339.906.000)	2.515.730.000
NOBU	34.985.000	969.073.000	(934.088.000)
PNBN	2.008.437.000	(7.087.172.000)	9.095.609.000
PNBS	(968.851.297)	258.337.781	(1.227.189.078)
SDRA	438.725.000	551.804.000	(113.079.000)

2. The total accrual value (TAC) is estimated using the OLS regression equation as follows:

$$TAC_{it}/A_{it-1} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_t/A_{it-1}) + \beta_3(PPE_t/A_{it-1}) + e$$

The data for calculations using the regression equation can be seen in the following table:

Table 2. Total Accruals Estimation Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-.007	.015		-.435	.665
TA	-2.560E7	4.097E7	-.081	-.625	.534
Revenue	-1.779	1.002	-.227	-1.775	.081
PPE	.117	.360	.042	.325	.746

From the regression calculation data, it could be seen that the coefficient value will be used to calculate the Nondiscretionary Accruals (NDA) value at the next stage. The coefficient values used are β_1 , β_2 , and β_3 . From the table above, it can be seen that the beta value for standardized coefficients is for the value of β_1 of -0.081, the value of β_2 is -0.227, and the value of β_3 is 0.042.

3. Calculate Nondiscretionary Accruals (NDA):

$$NDA_{it} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_t/A_{it-1} - \Delta REC/A_{it-1}) + \beta_3(PPE_t/A_{it-1})$$

Table 3. Nondiscretionary Accruals

Bank	<i>Nondiscretionary Accruals (NDA)</i>
AGRO	0.0511491
AGRS	0.1554644
ARTO	0.0067865
BABP	-0.0144326
BACA	0.0077867
BBCA	0.05637097
BBHI	0.0385681
BBMD	0.0119053
BBKP	-0.00306978
BBNI	0.03270691
BBRI	0.03069802
BBTN	0.0353015
BBYB	0.0303730
BCIC	0.0016309

BDMN	0.0044257
BEKS	0.0777801
BGTG	0.0206750
BINA	0.0085306
BJBR	0.03096382
BJTM	0.0119653
BKSW	-0.0357007
BMAS	0.0185820
BMRI	0.02789187
BNBA	0.0064712
BNGA	0.0064273
BNII	0.02865180
BNLI	-0.0056250
BSIM	-0.0044606
BSWD	-0.0113097
BTPN	0.00824463
BVIC	0.02052032
DNAR	0.0066132
INPC	0.0061014
MAYA	0.0317470
MCOR	0.0360173
MEGA	0.0248233
NAGA	-0.0044571
NISP	0.0205966
NOBU	0.0212776
PNBN	0.0099554
PNBS	-0.00041234
SDRA	0.0222212

4. Calculate the Discretionary Accruals (DAC):

$$DAC_{it} = TAC_{it} - NDA_{it}$$

The results of the calculation of Discretionary Accruals are in Table 4 below:

Table 4. Discretionary Accruals

Bank	<i>Discretionary Accruals (DA)</i>
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AGRO	0.0299859
AGRS	-0.1616406
ARTO	-0.0708173
BABP	-0.0378897
BACA	-0.0763672
BBCA	-0.03618220
BBHI	0.0033201
BBMD	-0.0119094
BBKP	0.01928091
BBNI	-0.06563264
BBRI	-0.04091556
BBTN	-0.0226646
BBYB	-0.0985386
BCIC	-0.0024735
BDMN	-0.0039692
BEKS	-0.1833955
BGTG	-0.0301832
BINA	0.0880423
BJBR	-0.04436123
BJTM	-0.1398684
BKSW	0.0127564
BMAS	-0.0485190
BMRI	-0.01201602
BNBA	0.0225149
BNGA	-0.0774272
BNII	0.00649077
BNLI	0.0910645
BSIM	0.0405878
BSWD	0.0687848
BTPN	-0.00500541
BVIC	-0.06945992
DNAR	-0.0631757
INPC	-0.0406709
MAYA	-0.0592724
MCOR	-0.1532667

MEGA	-0.0823305
NAGA	-0.1302922
NISP	-0.0023926
NOBU	-0.1251546
PNBN	0.0357110
PNBS	-0.13971031
SDRA	-0.0272179

From the table 4, it was found that the value of Discretionary Accruals (DAC) varies. From the 42 data, it was found that 31 data had negative Discretionary Accruals, while 11 data had positive Discretionary Accruals.

A negative discretionary accruals indicates that the company performs earnings management by lowering earnings on its financial statements, meaning that as many as 30 banks listed on the Indonesian Stock Exchange carry out earnings management by lowering earnings on their financial statements. Some of the factors that underlie companies to reduce profits include relations with the government or for tax reasons.

A positive discretionary accruals indicates that the company performs earnings management by increasing profits on the financial statements, with a total of 11 data for banks listed on the Indonesian Stock Exchange. One of the factors to increase profits in the financial statements are related to bonuses. By increasing profits, management performance will look good. If the giving of bonuses to management is based on the performance of this "profit", the management as the manager of the company will get a high bonus by increasing the company's profit in the financial statements.

In addition, companies can also increase profits with the aim of attracting investors to invest in the company. With a high level of profit, of course, the company's financial condition will look good so that it encourages investors to invest in the company.

CONCLUSION AND SUGESTION

Earnings management in bank financial statements is proxied by the value of discretionary accruals. Of the 42 existing banks, as many as 31 banks have a negative Discretionary Accruals value, while 11 data have a positive Discretionary Accruals value. A negative discretionary accruals value indicates that the company performs earnings management by decreasing earnings while a positive discretionary accruals value indicates that the company performs earnings management by increasing the earnings contained in the financial statements.

The results of this study can be used for stakeholders in making decisions related to financial statements, especially information about earnings. The results of the study show that banks listed on the Indonesian Stock Exchange carry out earnings management which is proxied by the value of discretionary accruals. Although earnings management does not always mean a "bad" thing, it is better for decision makers to be careful in making decisions related to financial statements, especially earnings.

For further research that will conduct research related to earnings management in financial statements, they could use additional other proxies such as real earnings management, or expand the research sample to obtain research models and better results.

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