

Earnings Management At Public Sharia Banks In Indonesia

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ABSTRACT: This study aims to determine the actions of earnings management at public sharia banks in Indonesia. The object of this study is public sharia banks in Indonesia, which is to examine the presence or absence of earnings management. Research data collection is carried out with documentation, which is data collection obtained from annual reports published by public sharia banks in Indonesia. The annual report used in this study is a report from 2013 to 2018. The research sample was taken using purposive sampling that met the criteria of (1) public sharia banks in Indonesia, (2) published annual reports for the period 2013 to 2018, and (3) the financial statement period ends on December 31 each year. This research variable uses a discretionary accrual approach to measure the presence or absence of earnings management. Discretionary accruals are a proxy for accrual policies used by company management to manipulate earnings related to accruals. If the value of discretionary accrual is positive, the company carries out earnings management by income increasing. If discretionary accrual is negative, then the company carries out earnings management by income decreasing. The discretionary accruals calculation in this study uses a modified Jones model. Detection results of earnings management using the modified Jones model indicate that the value of discretionary accruals of public sharia banks have fluctuating values. The banks detected earnings management in their financial statements. Earnings management is done by income increasing and income decreasing in the company's financial statements.

Keywords: earnings management, sharia banks, public companies

1 INTRODUCTION

Earnings management occurs when managers use judgement in preparing financial statements and in arranging transactions that aim to mislead users of financial statements by manipulating the amount of earnings [1]. Earnings management can occur because of the preparation of financial statement on an accrual basis. Earnings management actions are usually carried out through four patterns taking a bath, income minimization, income maximization, and income smoothing [2]. In general, earnings management techniques that are carried out can be divided into three: utilizing opportunities to make accounting estimates, change accounting methods, and shift the period of costs or revenues. Banks will provide provisions on each credit loan approved. Provision is considered as unearned income so that it will be amortized over the life of the loan. At the time of bad credit loans, provision for loan losses that are a burden in the income statement will reduce the bank's net income, so that if the loan loss is smaller than the estimated loss, the bank's capital ratio will increase to defend against unexpected losses. The failure of the loan will cause bank capital to decrease because it absorbs the loss, so this will cause the bank's CAR to decrease which shows the bank is in an unhealthy state. Management will anticipate that situation by making earnings management. The decision to increase or decrease the profit becomes an unregulated and unaudited decision. Earnings management can be measured using discretionary accruals (DA), which is the accrual component within the manager's policy, meaning that the manager gives his intervention in the accounting reporting process [3].

The research question is whether public sharia banks in Indonesia take earnings management actions, with an observation period of 2014 to 2018? While the purpose of this study was to determine earnings management actions at public sharia banks in Indonesia from 2014 to 2018. Earnings management is proxied by discretionary accrual.

2 LITERATURE REVIEW

Earnings management is a phenomenon of financial statements related to management behavior that seeks to achieve the goal of benefiting oneself or company by misleading shareholders and other interested parties [4], [5]. These management actions can cause conflicts of interest. Agency theory explains that each individual is motivated by his own interest [6], which causes information asymmetry involving principals and agents related to business transactions, where one party has more information than the other. This results in shareholders not being able to accurately evaluate and determine the value of decisions made and detect earnings management practices [7]. There are two earnings management techniques that can be performed by managers, accrual and real [8], [9], [10], [11]. Accrual earnings management does not have a direct impact on the company's cash flow, but increase the risk of accrual detection by auditors or regulators, for example changing the methods of depreciation of fixed assets, allowance for loan losses, loan charges off, and pensions settlement gains [2], [10], [12], [13]. Meanwhile, real earnings management will affect the company's long-term performance and have an impact on the company's cash flow [2]. Earnings management occurs when managers use personal judgement in determining transactions to change financial statements so as to cause distortion or deviation from actual earnings figures, then cause misleading information for users of financial statements [1], [14]. Research funding showed that profit is one of the important components in financial statements that are used to inform company performance [15]. Earnings management is the manager's choice through accounting policies or concrete actions that impact earnings to achieve certain goals [2]. The phenomenon of earnings management in banks arises because of regulatory restrictions relating to capital adequacy

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ratios (CAR) and the existence of high incentives for equity positions to maximize bonuses [1], [16], [17]. A study explain that there are some banks that have incentives to reduce earnings volatility by decreasing earnings in the fiscal year that results in good performance or increasing earnings in the fiscal year that results in poor financial performance.

3 RESEARCH METHODS

The research conducted is a descriptive study that aims to reveal the facts, the phenomenon, variables and circumstances that occur when the research takes place and presents what it is. The object of this study is public sharia banks in Indonesia, which is to examine the presence or absence of earnings management in the activities carried out by the banks that become the sample. Research data type is secondary data that guarantees the absence of data manipulation that affects research. The data used in this study comes from the published financial statements of public sharia banks in Indonesia. The research period is 2014 to 2018. Research data collection is carried out with documentation, which is data collection obtained from annual reports published by public sharia banks in Indonesia. The annual report used in this study is a report from 2013 to 2018. The research sample was taken using purposive sampling that met the criteria of (1) public sharia banks in Indonesia, (2) published annual reports for the period 2013 to 2018, and (3) the financial statement period ends on December 31 each year. This research variables use the discretionary accrual approach to measure the presence or absence of earnings management. Discretionary accruals are a proxy for accrual policies used by company management to manipulate earnings related to accruals. To measure discretionary accruals, the total accruals are measured first with the following formula:

$TAC_{it} = Net\ Income_{it} - Cash\ Flow\ from\ Operation_{it}$ (1) Total accruals formulated by Jones (1991) modified by Dechow (1995) [18] as follows: $\frac{TAC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta Rev_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \varepsilon$ Total assets symbolized by **TA**, revenue symbolized by **Rev**, fixed assets symbolized by **PPE**, and accounts receivable symbolized by **Rec**. Calculations for nondiscretionary accruals for the modified Jones mode are formulated as follows: $NDA_{it} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta Rev_{it}}{TA_{it-1}} - \frac{\Delta Rec_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \varepsilon$ Based on the equation above, the discretionary accrual is calculated using the following formulas: $DA_{it} = \frac{TAC_{it}}{TA_{it-1}} - NDA_{it}$ The modified Jones model

implicitly assumes that all changes in credit sales in the event period are the result of earnings manipulation. This is based on the reason that it is easier to manipulate earnings by changing the recognition of income from credit sales than changing the recognition of income from cash sales. If the value of discretionary accrual is positive, the company carries out earnings management by income increasing. If discretionary accrual is negative, then the company carries out earnings management by income decreasing. If discretionary accrual is equal to zero, the company carries out earnings management by doing income smoothing.

4 RESULTS

Research data consisting of total assets, income, fixed assets, and total cash flow values from operational activities are taken from the financial statements of public sharia banks in Indonesia. The financial statements used are financial statements that have been audited and are full reports for one year. This study uses the discretionary accrual approach to measure the presence or absence of earnings management actions contained in the financial statements of public sharia banks in Indonesia. The discretionary accruals calculation as a proxy of earnings management in this study uses a modified Jones model. The calculation results of total accruals, nondiscretionary accruals, and discretionary accruals of each bank are presented in table 1 to table 2.

Table 1
The Results of Calculation of Earnings Management Components at BRI Syariah

Year	Total Accrual (TAC)	Nondiscretionary Accrual (NDA)	Discretionary Accrual (DA)
2014	-0,0717720920	0,0092882623	- 0,0810603543
2015	0,0729144474	0,0073048269	0,0656096205
2016	0,1500944039	-0,0233238092	0,1734182130
2017	-0,0163007234	0,0031511597	- 0,0194518832
2018	-0,1144432427	0,0006590056	- 0,1151022483

Source: Data that has been processed

Detection results of earnings management using the modified Jones model indicate that the value of discretionary accruals in BRI Syariah in the 2014-2018 periods has fluctuating values. In the year of 2015 and 2016, discretionary accruals showed positive values, meaning that during the period of the year BRI Syariah detected earnings management in its financial statements. Earnings management is done by income increasing in the company's financial statements. While discretionary accruals in 2014, 2017 and 2018 are negative, this means that the company carries out earnings management by income decreasing.

Table 2
The Results of Calculation of Earnings Management Components at Panin Dubai Syariah

Year	Total Accrual (TAC)	Nondiscretionary Accrual (NDA)	Discretionary Accrual (DA)
2014	0,1500944039	-0,0233238092	0,1734182130
2015	-0,0163007234	0,0031511597	- 0,0194518832
2016	-0,1144432427	0,0006590056	- 0,1151022483
2017	-0,0183740490	0,0250574054	- 0,0434314544
2018	0,0404370796	-0,0010807627	0,0415178423

Source: Data that has been processed

Detection results of earnings management using the modified Jones model indicate that the value of discretionary accruals at the Panin Dubai Syariah in the 2014-2018 periods has fluctuating values. In the year 2014 and 2018, discretionary accruals showed a positive value, meaning that during the period of the year, Panin Dubai Syariah was detected doing earnings management on its financial statements. Earnings management is done by income increasing in the company's financial statements. While discretionary accruals in 2015, 2016 and 2017 are negative, this means that the company

carries out earnings management by income decreasing. The results of this study are supported by previous research. Earnings management in banks arise because of regulatory restrictions relating to capital adequacy ratios (CAR) and the existence of high incentives for equity positions to maximize bonuses [1], [16], [17]. Some studies explained some banks reduce earnings volatility by decreasing earnings in the fiscal year that results in good performance and increasing earnings in the fiscal year that results in poor financial performance.

5 CONCLUSION

Based on the tests results conducted during the observation period, the results obtained showed that public sharia banks in Indonesia perform earnings management in the financial statements. On average, earnings management carried out by sample companies is by income decreasing. Suggestions for further research development can do earnings management testing using other models. In addition, earnings management testing can be done by distinguishing between accrual and real of earnings management.

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