

ANALYSIS OF EARNINGS MANAGEMENT ON PT BERKAH MULIA BETON DELI SERDANG

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Abstract

Earnings management is an intervention activity with certain objectives in the external financial reporting process, to obtain several benefits. This study aims to analyze earnings management at PT. Berkah Mulia Beton by using solvency ratios and profitability ratios for the period 2016-2017. The profit management proxy in this study uses discretionary accruals. While the solvency ratio is measured using the debt to total asset ratio (DAR) and the profitability ratio is measured using return on assets (ROA). This study uses quantitative data, data collection techniques using documentation techniques and data analysis techniques using descriptive analysis based on time series methods. The results of the study concluded that PT Mulia Ben Beton practices earnings management with income decreasing using the big bath strategy with the first in first out (FIFO) inventory recording method, and the double declining method for depreciating fixed assets office and factory. Where the solvency and profitability of the company motivates management to practice earnings management.

Keyword: earnings management, solvency, profitability

INTRODUCTION

Earnings management is a management behaviour to regulate earnings in accordance with the wishes of management through the choice of accounting policies carried out by managers to achieve certain goals (Scott, 2000, p. 269). Earnings management is a process for taking certain steps that are still within the general acceptable accounting limits to produce the desired level of profit from reported profits. Another view of profit management is a managerial activity to influence and intervene in financial statements (Sulistyanto, 2014, p. 51). Earnings management is also used to modify financial statements prepared to produce the desired amount of profit using different methods according to the objectives of each company.

There are two different perspectives on the practice of earnings management, which are actions that management can do (positive) and actions that management (negative) should not do. Earnings management is seen as a positive action if earnings management is carried out to convey confidential information in financial statements to interested parties such as shareholders or to reduce political costs. Whereas earnings management is on a negative perspective, if it is used to generate abnormal personal finance for managers such as salary increases and bonuses or reduce the possibility of recording when the manager's performance is low (Sulistyanto, 2014, pp. 3-27).

The practice of earnings management has recently become a common phenomenon because of the increasing number of cases of corporate irregularities that occur throughout the world. Earnings management seems to be a corporate culture that is detrimental to and involves all parties, both companies and outside the company. The case of earnings

management deviation itself does not only occur in developing countries with business systems that have not been well developed, but also occur in developing countries that have a well-organized system. Like the Enron financial scandal that came to light at the end of December 2001, a case of accounting scandals at Worldcom was recognized in August 2002, and a case of Xerox's 2001 record that caused the United States public to doubt the integrity and credibility of business people (Detik Finance, 2006; Koran SINDO, 2016; Detik Finance, 2005).

Turning to the continent of Asia, earnings management cases also occur in developing countries like Indonesia, one of which is an ethical violation case at PT. Great River International which was founded by Sukanta Tanudjaja and Sunjoto Tanudjaja in 1976. The company is a leading apparel company in Indonesia is growing rapidly, as indicated by several awards obtained from Asamoney magazine and successfully passed ISO 90002 certification for quality management. On September 2002, PT River River International posted a net profit that jumped more than the same period in the previous year which still booked a big loss. This increase in profit is due to the existence of extraordinary postal income from the results of debt restructuring, where the post that should be used to pay off debt turns into profit. Directly, income from extraordinary items does not affect the flow of company funds, but changes the financial structure to be positive. The Capital Market and Financial Institution Supervisory Agency (BAPEPAM-LK) found indications of inflating sales accounts, receivables and company assets of up to hundreds of billions of rupiah by public accountants so that the company experienced cash flow difficulties and failed to pay debts. From the results of the investigation, the public accountant PT. Great River International named as a suspect (TEMPO, 2006)

Cases of earnings management practices are proven to result in the destruction of the economic, ethical, moral order and the public no longer trusts the information or financial statements published by the company because it is considered a trick to boost profits without regard to the interests of others. Cases of earnings management practices are proven to result in the destruction of the economic, ethical, moral order and the public no longer trusts the information or financial statements published by the company because it is considered a trick to boost profits without regard to the interests of others. Earnings management is still a controversy to date, due to differences in views between practitioners and academics.

Practitioners assess earnings management as an act of fraud in the business world, while academics consider that earnings management cannot be categorized as fraudulent. Practitioners expect a business to be carried out without the practice of profit management in it. The financial performance produced by the company is financial performance with no profit playing in it. The company's financial performance can be seen, including from how the company fulfils its obligations and how the company generates profits.

The company's ability to fulfil its obligations can be seen from the company's solvency ratio, where this ratio describes the company's ability to fulfil all the company's obligations, including short-term debt and long-term debt, both the company is still running and in liquidation conditions (Sunyoto, 2013, p. 101). Companies with low solvency have a low risk of loss if economic conditions deteriorate, but also have low profits if the economic conditions improve. Solvency / leverage is a ratio that describes a company's ability to fulfil all its debts. Leverage is a ratio that describes the company's ability to meet all its debts. The companies with higher leverage ratios will use interest expense on debt to reduce the amount of income tax payable (Minnick, 2010, pp. 703-718)

The performance of a company's management can be measured with the level of profitability of the company. Based on the agency theory, the government as the principal seeks to maximize tax revenues, while the manager of the company as an agent will seek to minimize the tax burden to be paid (Irianto, 2017, pp. 33-41). Profitability ratio is a ratio

that describes the company's fundamental performance in terms of efficiency and operating effectiveness in maintaining financial stability in order to keep the profit (Harmono, 2009, p. 109). Profitability is important because it is a consideration of investment feasibility and security for investors. Company profitability can be measured using return on assets, return on equity, profit margin ratio and basic earnings power (Sudana, 2011, pp. 22-23).

The company is said to achieve success if the company is able to produce financial reports with good performance. Good financial performance shows how effectively the company uses the resources it has to generate profits or profits. Following are the financial data of PT. Berkah Mulia Beton Deli in 2016-2017.

Table 1.1
The Financial Condition of PT. Berkah Mulia Beton 2016 and 2017
(in rupiah)

Information	Year	
	2016 (Rp)	2017 (Rp)
Total Aset	15.514.435.049	12.336.936.935
Total Hutang	4.878.375.284	7.616.272.037
Total Modal	10.636.059.765	4.720.664.898
Pendapatan	26.366.562.489	27.312.093.150
Laba/ Rugi Bersih	(2.600.334.354)	768.547.785

Based on table 1.1 shows that in general the financial performance of PT. Berkah Mulia Beton has increased because in 2016 the company suffered a loss of Rp. 2,600,334,354, - but in 2017 the company was able to rise from adversity by generating a profit of Rp. 768,547,785. If seen in more detail, the financial performance of the company is fluctuating. The fluctuation of the company's financial performance shows that the company does not produce a constant or stable performance, other than that it shows that the effectiveness and efficiency of the company to maintain the stability of the resulting profit is doubtful. Fluctuating financial performance provides an overview of the risks faced by investors, this is a consideration of investors to invest their capital.

Corporate debt shows that the resulting performance does not provide good prospects, because in 2017 the company's debt has increased but assets have decreased. It is inversely proportional to the company's sales, which increased in 2017 but the company's capital fell in the same year. The loss in 2016 was due to the company spending more on sales returns of Rp 761,013,500, - with a greater general and administrative burden of Rp 1,718,597,769, and other expenses of Rp 209,166,077, whereas in the year 2016 the company's assets and capital are greater than in 2017 with smaller total debt.

If viewed financial data in 2017 indicates that the company has not been able to use resources that are owned effectively and efficiently to produce financial stability. This is indicated by the small amount of assets and capital compared to 2016 and the increase in debt of Rp. 2,737,896,753, - because the company has a leading debt. The amount of debt that is owned will make the company have a greater responsibility for the survival of the company

Solvency ratios and profitability ratios are part of the most important ratios in a company, so this ratio is very sensitive and becomes the target of earnings management for managers and other interested parties. If the company's debt is high, it is prone to

earnings management practices because management wants to show financial statements with good performance in the public so they can get an injection of funds from investors. Whereas, if the profits generated are large, there is a greater possibility of making earnings management to avoid regulator demands such as taxes and salary increases by unions

RESEARCH METHODS

The approach of this research is descriptive, namely research conducted to determine the value of independent variables, either one or more. Descriptive research is intended to compile, classify, interpret and interpret data so as to provide an overview of the problem under study.

The type of data used in this study is quantitative data, while the data source uses secondary data in the form of financial statements of the company PT Berkah Mulia Beton between 2016 and 2017. Data collection techniques use documentation techniques. The data analysis technique used is descriptive analysis based on the time series method.

RESEARCH RESULTS AND DISCUSSION

1. Earnings Management of PT.Berkah Mulia Beton

The earnings management formula used in this study uses the De Angelo model (Sulistyanto, 2014, pp. 219-221) which is as follows:

$$\begin{aligned} \text{Information } DA_t &= TAC_1 - NDA_t \\ DA_t &= \text{Discretionary accrual periode } t \\ NDA_t &= \text{Nondiscretionary accrual periode } t \\ TAC_1 &= \text{Total accrual periode } t \end{aligned}$$

Earnings management is measured by the De Angelo model with discretionary accrual as a proxy for earnings management, as follows:

Table 4.2.
Total Accrual PT.Berkah Mulia Beton
(in rupiah)

Year	Earning After Tax	Operating Cash Flow	Total Accrual
2016	(2.600.334.354)	13.866.036.022	(16.466.370.376)
2017	768.547.785	4.440.954.797	(3.672.407.012)

From table 4.2, it can be seen that the total accruals in 2016 were negative rep. 16,466,370,376 and in 2017 negative rep. 3,672,407,012. This does not mean that PT. Mali Mali Benton does earnings management in 2016 and 2017, because the total accruals obtained consist of discretionary accruals and non discretionary accruals that have different proportions in earnings management.

Non discretionary accruals are part of accrual components that are obtained naturally from the basis of accrual recording by adhering to generally accepted accounting standards (Sulistyanto, 2014, p. 164).. Non discretionary accrual PT. Berkah Mulia Benton can be seen in table 4.3, in 2016 negative at 1.0614 and in 2017 negative 0.2977. This explains that the value of non-discretionary accruals is declining, which indicates that the company's performance is declining, where the total value of assets has decreased.

Table 4.3
Non Discretionary Accrual PT.Berkah Mulia Beton
(in rupiah)

Year	Total Accrual	Total Asset	Non Discretionary Accrual (NDA)
2016	(16.466.370.376)	15.514.435.049	(1,0614)
2017	(3.672.407.012)	12.336.936.935	(0,2977)

Discretionary accruals are part of accrual components which are the result of managerial, engineering by utilizing freedom and freedom in estimating and using accounting standards in the financial statements presented (Sulistyanto, 2014, p. 164). Discretionary accrual PT. Berkah Mulia Benton in 2016 was negative at 16,476,370,374.94 and in 2017 negative 3,672.407,011.70. Thus the management conducts earnings management with income, decreasing patterns

Table 4.4
Discretionary Accrual PT.Berkah Mulia Beton
(in rupiah)

Year	Total Accrual	Non Discretionary Accrual (NDA)	Discretionary Accrual (DA)
2016	(16.466.370.376)	(1,0614)	-16.466.370.374,94
2017	(3.672.407.012)	(0,2977)	-3.672.407.011,70

Decreasing income is an effort made by reporting net income smaller than operating cash flow. Earnings management carried out by PT. Bearer Mulia Benton is called the big bath strategy. This strategy is usually done when the company's performance is very bad or when the company makes management changes, mergers, or restructuring (Subramanyam, 2017, p. 118). His big bath strategy is often used in conjunction with the strategy of increasing profits in the following year, and is used to erase past corporate errors for future profit increases.

Earnings management carried out by PT. Berkah Mulia Benton is legal because it does not violate general acceptable accounting principles (Generally Accepted Accounting Principles / GAAP). The company applies the recording of income and costs on an accrual basis or accrual accounting. The method of recording the company's inventory uses the FIFO method (first in, first out), while the depreciation of fixed assets by the method of declining balance (double declining method) where this method makes depreciation costs smaller.

According to Senjani (2013, p. 73) earnings management on an accrual and real basis cannot be prevented even though the company has made mandatory adoption of IFRS. Other literacy also says that earnings management is a culture carried out by companies to improve financial performance reported (Faradila, 2013, p. 72., Ratmono, 2010, p. 10). But Widodo revealed that earnings management is an unethical action in terms of ethical teleology, deontology ethics and virtue ethics (2009, p. 455).

2. Solvency of PT.Berkah Mulia Beton

This ratio is used to measure a company's ability to obtain a return on investment exceeding the rate of return of interest that must be paid (Mardiyanto, 2008, p. 59).. In

this study solvency ratios use a debt to asset ratio (DAR). The formula used is as follows:

$$\text{Debt to asset ratio (DAR)} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

The following data are debt to asset ratio or debt ratio of the assets of the company PT. Berkah Mulia Beton in 2016 and 2017

Table 4.5
Debt to Asset Ratio PT.Berkah Muliah Beton
(in rupiah)

Year	Total Debt	Total Asset	Debt to Asset Ratio
2016	4.878.375.284	15.514.435.049	0,314
2017	7.616.272.037	12.336.936.935	0,617

From table 4.5 it can be seen that the company's debt to asset ratio has increased, where in 2016 it was 0.314 or 31.4% of the company's assets were funded by debt. To 2017 amounted to 0.617 or 61.7% of the company's assets were funded by debt. This increase is due to the increase in the amount of corporate debt, namely short-term debt and long-term debt. This shows the greater loan capital used for the company's operations. The larger loan capital will have an impact on the company's finances, including the risks that the company will bear. Because of this risk, parties interested in companies such as banking wants a large guarantee, so that company management is motivated to make earnings management to avoid breach of agreement.

Optimizing the company's operations is one way to increase company assets and fulfilled its obligations to investors. This research is in line with previous research which concluded that large corporate debt will motivate managers to do earnings management, (Sosiawan, 2012, p. 87; Daniel, 2014, p. 68; Astuti, 2017, p. 508).

3. Profitability of PT.Berkah Mulia Beton

Profitability is a ratio used to assess a company's ability to seek profits. This ratio also provides a measure of the management effectiveness of a company (Kasmir, 2014, p. 115). Profitability in this study uses return on assets with the following formula:

$$\text{Return on Asset (ROA)} = \frac{\text{Earning After Tax}}{\text{Total Asset}}$$

The return on assets of PT. Berkah Mulia Beton in 2016 and 2017 are shown in table 4.6 below:

Table 4.5
Return on Asset PT.Berkah Muliah Beton
(in rupiah)

Year	Earning After Tax	Total Asset	Return on Asset
2016	(2.600.334.354)	15.514.435.049	(0,168)
2017	768.547.785	12.336.936.935	0,062

From the table above it can be seen that the return on company assets has increased from 2016 to 2017. In 2016 the company suffered a loss so that return on

assets was negative, but in 2017 return on assets increased to 0.062 or 6.20%. The greater the return on assets of the company shows that the company is able to maximize the resources owned by the company to generate profits. This means that the company is able to restore financial conditions for the better.

The better financial condition can be done by the company through earnings management, where the company uses accounting methods with accrual costs in its financial reporting. Because profits generated by the company during the year can be an indicator of the occurrence of old management practices in a company (Guna, 2010, p. 59)

CONCLUSION

Based on the results of the research and analysis described above, it can be concluded that the Deli Serdang Noble Concrete Company does earnings management with a pattern of profit decline and uses the big bath strategy, with the method of recording FIFO inventory, and for depreciation of assets using the declining balance method. The practice of earnings management carried out by PT. Berkah Mulia Beton is legal because it does not violate the general accepted accounting principles (GAAP). Besides the solvency and profitability of the company has an influence on earnings management, where if the solvency ratio and profitability of a high company will motivate managers to do earnings management on the company's financial statements.

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