

EARNING MANAGEMENT: PHENOMENONS YOU CANNOT AVOID (DISCRETIONARY ACCRUALS EQUATION AND NON DISCRETIONARY ACCRUALS EQUATION)

Kamaludin ¹⁾, Akram Harmoni Wiardi ²⁾

^{1,2,3)} Faculty of Economics And Business, Universitas Bengkulu, Indonesia

Corresponding author: kamaludin@unib.ac.id; akramharmoniwiardi@gmail.com

Abstract

Earning management is a phenomenon that is difficult to avoid because it was the effect of accrual basis usage in the preparation of financial statements. The accrual basis agreed upon as the basis for preparing financial statements because the accrual basis is indeed more rational and fair compared to the cash basis. Conflicts of interest are increasing, especially because the principal cannot monitor daily management activities to ensure that management works in accordance on shareholders wishes. The objectives of this research is to measure earnings management in 78 companies in Indonesia that have conducted an IPO in 2008-2019. Earnings management is measured to determine the behavior of managers by utilizing earnings management when going to conduct an IPO. We collect secondary data provided by the IDX and the research sample is private companies and SOEs that conduct IPOs on the Indonesia Stock Exchange (BEI) from 2008 to 2013. The results of this study reveal that the calculation of earnings management with measurement methods Discretionary Accrual (DA) in 78 companies that have conducted an IPO has a minimum DA value of -384.41 and a maximum DA value of 27.04. The results of the one sample t-test test statistically show a significance value below 5%, this shows that 78 companies tend to do earnings management before conducting an IPO.

Keywords: Discretionary Accrual, Earning, Management, Financial, IPO.

Introduction

Agency theory has the assumption that each individual is solely motivated by his own interests, causing a conflict of interest between the principal and agent. The principal is motivated to enter into contracts to improve his welfare with ever-increasing profitability. The agent is motivated to maximize the fulfillment of his economic and psychological needs, including in terms of obtaining investments, loans, and compensation contracts. Conflicts of interest are increasing, especially because the principal cannot monitor daily management activities to ensure that management works in accordance with the wishes of shareholders (owners).

In the agency relationship, the principal often does not have enough information about the performance of the agent. The agent has more information about his capacity, work environment, and the company as a whole. This has resulted in an imbalance of information held by the principal and agent. This imbalance of information is called information asymmetry. The assumption that individuals act to maximize themselves, causes the agent to take advantage of the asymmetry of the information he has to hide some information that is not known to the principal. Information asymmetry and conflicts of interest between the principal and agent encourage the agent to present information that is not true to the principal, especially if the information is related to the agent's performance measurement. One form of the agent's actions is referred to as earnings management (Widyaningdyah, 2001).

Healy and Wahlen (1998) reveal that earnings management occurs when managers use their decisions in financial reporting and in making transactions to change financial statements either to give a false picture for stakeholders about the company's economic performance, or to influence contractual results that depend on accounting figures reported. According to Scott (2003: 377) some of the motivations that encourage management to make earnings management are include the following:

1. Motivation bonuses, the manager will try to regulate net income in order to maximize the bonus.
2. Motivation of the contract, related to long-term debt, ie managers increase net income to reduce the possibility of the company experiencing technical default.
3. Political motivation, this political aspect cannot be separated from companies, especially large companies and strategic industries because their activities involve the lives of many people.
4. Tax motivation, tax is one of the main reasons companies reduce reported net income.
5. Substitution of CEO (Chief Executive Officer), a lot of motivation arises relating to CEOs, such as CEOs approaching retirement will increase bonuses, CEOs who are less successful in improving performance to avoid dismissal, new CEOs to point out mistakes from previous CEOs.
6. Initial public offering (IPO), going public company managers make earning management to obtain higher prices for their shares in the hope of getting a positive market response to earnings forecasting as a signal of corporate value.

7. Motivation of the capital market, for example to disclose private information held by the company to investors and creditors.

Earning management is a phenomenon that is difficult to avoid because this phenomenon only impacts the use of the accrual basis in preparing financial statements. The accrual basis is agreed upon as the basis for preparing financial statements because the accrual basis is indeed more rational and fair than the cash basis. For example, on a cash basis, the purchase of fixed assets in cash of one hundred million rupiahs must be charged as expenses in the period when the assets are purchased, even though the assets will benefit the company for 10 years. If the income statement is prepared on a cash basis, then it is probable that in that period the company will be experiencing loss. So basically, the accrual basis is chosen with the aim of making financial statements more informative, namely financial statements that truly reflect the actual conditions. Unfortunately, accruals intended to make reports that fit this fact can be moved a little so that it can change the resulting profit figures. This study specifically examines whether companies do earnings management with income maximization.

Literature Review

Earning Management

Scott (2003: 369) defines earnings management as "the choice by a manager of accounting policies so as to achieve some specific objectives" which means that choices are made by managers in determining accounting policies to achieve certain objectives. According to Sugiri (1998) quoted by Widyaningdyah (2001), the definition of earnings management is divided into two definitions:

1. Narrow definition

Earning management in this case only relates to the choice of accounting methods. Earning management in this narrow sense is defined as the behavior of managers to "play" with the component discretionary accruals in determining the amount of earnings.

2. Broad definition

Earning management is the manager's actions to increase (reduce) the reported earnings of a unit for which the manager is responsible, without causing an increase (decrease) in the long-term economic profitability of the unit. If Sugiri (1998) provides a technical definition of earnings management, Surifah (1999) provides her opinion about the impact of earnings management on the credibility of financial statements. According to Surifah (1999) earnings management can reduce the credibility of financial statements when used for decision making, because earnings management is a form of manipulation of financial statements that are the target of communication between managers and external parties of the company.

The concept of earning management according to Salno and Baridwan (2000: 19) that uses an agency theory approach which states that "earning management practices are influenced by conflicts between the interests of management (agent) and owner (principal) arising because each party tries to achieve or consider the level of prosperity he wants. Schipper (1989) defines earnings management as an effort made by managers to obtain certain personal benefits. Earnings management occurs when managers use judgment in the process of financial reporting and structuring transactions to change financial statements with the aim of deceiving shareholders about the company's economic performance or influencing contract results based on accounting figures reported (Healy and Wahlen, 1999). Healy and Wahlen (1999) conclude that some managers are motivated to raise profits before the initial public offering with the aim to influence the expectations of investors and / or potential investors about the company's future performance and increase the price of the initial public offering. Whereas contractual objectives, managers perform earnings management because they avoid violating debt agreements, or to increase compensation and provide information about managerial performance.

Earnings management can be done through the selection of accounting policies to control accrual transactions. This accrual transaction is a transaction that does not affect the company's cash flow, which consists of discretionary accrual and non-discretionary accrual transactions. Discretionary accrual transactions are transactions that can be controlled and influenced by the amount of policy made by management. Conversely, non-discretionary accrual transactions are accrual transactions that cannot be influenced by management policies.

Manager Behavior and Profit Maximization

Many ways can be done by managers to influence the time, number, or meaning of transactions in financial reporting by choosing the method of accounting and accounting judgment (Merchant and Rockness, 1994). According to Scott (2003) various patterns that are often done by managers in earnings management are:

1. Taking a bath

Taking a bath in periods of stress or reorganization including the appointment of a new CEO. If the company must report high profits, managers are forced to report high profits, consequently managers will write off assets in the hope that future earnings can increase. This form recognizes costs in the future periods as losses in the current period, when adverse conditions that are unfavorable cannot be avoided in

the period. For this reason, management must write off some assets and charge estimated future costs at this time and clear the desk, so that reported earnings in the coming period increase.

2. Income minimization

This form is similar to "taking a bath", but it is less extreme, which is done as a political reason in a period of high profits by accelerating the elimination of fixed assets and intangible assets and recognizing expenses as costs. When company profitability is very high with the intention that it does not receive political attention, the policy taken can be in the form of removal of capital goods and intangible assets, advertising costs and expenses for research and development, accounting results for exploration costs.

3. Income maximization

This action aims to report high net income for the purpose of a larger bonus. Bonus planning based on accounting data encourages managers to manipulate the accounting data to increase profits to increase annual bonus payments. So this action is taken when the profit decreases. Companies that violate debt agreements might maximize revenue.

4. Income smoothing

This shape is perhaps the most interesting. This is done by leveling reported earnings for external reporting purposes, especially for investors because investors generally prefer relatively stable earnings.

Techniques for manipulating profits can be grouped into three groups (Setiawati and Na'im, 2000). The first is to take advantage of opportunities to make accounting estimates, including: estimates of the level of uncollectible accounts, estimated time periods of depreciation of fixed assets or amortization of intangible assets, estimated cost of guarantee. The second is changing accounting methods. Changes in the accounting method used to record a transaction, for example: changing the method of depreciation of fixed assets that is from the year number depreciation method to the straight-line depreciation method. Third is shifting the cost or revenue period, for example: accelerating or delaying expenditure for research and development until the next accounting period, accelerating or delaying promotional expenses until the next accounting period, accelerating or delaying product delivery to customers, selling securities investments to manipulate profit levels, regulating when the sale of fixed assets that are not used.

IPO is often used as an excuse for some managers to manage earnings by raising profits reported in financial statements. This is done for the purpose of giving signals to investors and potential investors that the company has high quality financial performance, as revealed by Gumanti (2001) and DuCharm et al. (2004). Earnings management occurs when managers use judgment in the process of financial reporting and structuring transactions to change financial statements with the aim of giving signals about financial performance to investors and / or potential investors.

Schipper (1989) defines earnings management as an effort made by managers to obtain certain personal benefits. Earnings management occurs when managers use judgment in the process of financial reporting and structuring transactions to change financial statements with the aim of giving signals about financial performance to investors and / or potential investors. On the other hand, some researchers state that there is a negative relationship between earnings management around the IPO and the performance of stock prices on the secondary market (Fan, 2007). While Ball and Shivakumar (2008) state that the average company that will conduct an IPO, reports earnings more conservatively. However, the results of previous studies generally concluded that the company did earnings management before carrying out an IPO. Based on the review of the literature, the researchers compiled the research hypothesis as follows.

H1: The company conducts earnings management when it will conduct an IPO.

H2: The company is maximizing profits at the time of its IPO.

Methods

This type of research is empirical research with several hypotheses that are built based on previous formulation of research problems. The research hypothesis consists of a single hypothesis (H1) and a comparative hypothesis which states the alleged difference in two paired samples (H2).

The type of data used in this study is secondary data. company data used as objects and selected as research samples are private companies and SOEs that conduct IPOs on the Indonesia Stock Exchange (BEI) from 2008 to 2013

Table 1. List of Sample Size

Years	Number of Companies
2008	15
2009	9
2010	12
2011	13
2012	12
2013	18
Sample size	78

Source: BEI

The sample selection is done purposively (purposive sampling) with consideration to get a representative sample and in accordance with specified criteria. The main criteria that must be met are the sample of public companies and SOEs that conduct IPOs from 2008 to 2013. The selection of data on companies conducting IPOs on the Indonesia Stock Exchange from 2008 to 2013 is based on the consideration that in that period there were no financial turmoil can affect the movement of stock prices to the extreme, which will later bias research results. The data structure used in this study is a combination of time series data and cross section data.

Measurement of Earnings Management

This study uses discretionary accruals (DA) as a measure of earnings management that is detected using the modified Jones model (Dechow et al., 1995). Detection of whether or not there is earnings management is done by the following steps:

1. Calculates the total accrual (TA), using the formula:

$$TAt-1 = NIt-1 - CFOt-1 \dots\dots\dots (1)$$

Information:

- TAt-1 = Total Accrual in period t-1
- NIt-1 = Net Income before extraordinary items in period t-1
- CFOt-1 = Cashflow from operating activities in period t-1

2. Calculates discretionary accruals (DA).

The modified Jones model calculates total accruals deflated by the initial total assets used to reduce heteroscedasticity. The formula used is:

$$TAt-1/At-2 = \alpha (1/At-2) + \beta_1 (\Delta REV_{t-1}/At-2 - \Delta REC_{t-1}/At-2) + \beta_2 (PPE_{t-1}/At-2) + \epsilon_t \dots\dots\dots (2)$$

Information:

- ΔREV_{t-1} = Revenue in period t-1 minus period t-2
- ΔREC_{t-1} = Net Receivables end of period t-1 minus end of period t-2
- PPE_{t-1} = Property, Plant and Equipment end of period t-1
- $At-2$ = Total Assets at the end of period t-2

Furthermore, detecting the existence of earnings management is done by calculating the Discretionary Accrual (DA). DA is calculated by subtracting Total Accrual (TA) with Nondiscretionary Accrual (NDA) which is deflated by total assets. The formula used is:

$$DA_{t-1} = DA_{t-1}/At-2 = TAt-1/At-2 - NDA_{t-1}/At-2 \dots\dots\dots (3)$$

Information:

- DA_{t-1} = Discretionary Accrual at the end of year t-1
- NDA_{t-1} = Nondiscretionary Accrual at the end of year t-1

3. Calculates non-discretionary accruals (NDA).

The next step is to calculate NDA using the formula:

$$NDA_{t-1} = \alpha (1/At-2) + \beta_1 (\Delta REV_{t-1}/At-2 - \Delta REC_{t-1}/At-2) + \beta_2 (PPE_{t-1}/At-2) \dots\dots\dots (4)$$

To determine the value of α , β_1 , and β_2 we use ordinary least squares (OLS) test.

Result and Discussion

Descriptive Statistics

This study uses secondary data from companies listed on the Indonesia Stock Exchange (IDX), based on the results of the study obtained samples survived 6 years of the study period (2008-2013) with sampling techniques in this study using purposive sampling method. The sample companies used in this study are presented in Table 2 as follows:

Table 2. List of Companies Conducting an IPO in 2008

NO	Companies		IPO Date	NET INCOME (Million Rupiah) (t-1)
	IDX Code	Company Name	2008 - 2013	
1	BAPA IJ Equity	Bekasi Asri Pemula Tbk PT	1/14/2008	915.9383
2	TRIL IJ Equity	Triwira Insanlestari Tbk PT	28/01/2008	18,678.1016
3	ELSA IJ Equity	Elnusa Tbk PT	6/02/2008	100,140.0000
4	YPAS IJ Equity	Yanaprima Hastapersada Tbk PT	5/03/2008	13,459.2832

NO	Companies		IPO Date	NET INCOME
	IDX Code	Company Name	2008 - 2013	(Million Rupiah) (t-1)
5	KOIN IJ Equity	Kokoh Inti Arebama Tbk PT	9/04/2008	4,965.7915
6	GZCO IJ Equity	Gozco Plantations Tbk PT	15/05/2008	25,803.1113
7	BSDE IJ Equity	Bumi Serpong Damai PT	6/06/2008	106,564.3660
8	INDY IJ Equity	Indika Energy Tbk PT	11/06/2008	264,969.0625
9	PDES IJ Equity	Destinasi Tirta Nusantara Tbk PT	8/07/2008	7,183.5088
10	KBRI IJ Equity	Kertas Basuki Rachmat Indonesia Tbk PT	11/07/2008	(64,374.3125)
11	ADRO IJ Equity	Adaro Energy Tbk PT	16/07/2008	132,853.0000
12	HOME IJ Equity	Hotel Mandarine Regency Tbk PT	17/07/2008	1,481.2299
13	BYAN IJ Equity	Bayan Resources Tbk PT	12/08/2008	252,740.0000
14	TRAM IJ Equity	Trada Maritime Tbk PT	10/09/2008	37,102.3594
15	SIAP IJ Equity	Sekawan Intipratama Tbk PT	17/10/2008	320.7382
16	TRIO IJ Equity	Trikonsel Oke Tbk PT	14/04/2009	367,272.4405
17	INVS IJ Equity	Inovisi Infracom Tbk PT	3/07/2009	2,847.3853
18	GTBO IJ Equity	Garda Tujuh Buana Tbk PT	9/07/2009	(4,838.0386)
19	BWPT IJ Equity	BW Plantation Tbk PT	27/10/2009	119,809.8828
20	DSSA IJ Equity	Dian Swastatika Sentosa Tbk PT	10/12/2009	281,328.5092
21	BCIP IJ Equity	Bumi Citra Permai Tbk PT	11/12/2009	2,181.0061
22	NIKL IJ Equity	Pelat Timah Nusantara Tbk PT	14/12/2009	72,718.9840
23	GDST IJ Equity	Gunawan Dianjaya Steel Tbk PT	23/12/2009	83,069.8906
24	BUVA IJ Equity	Bukit Uluwatu Villa Tbk PT	12/07/2010	4,591.9478
25	BRAU IJ Equity	Berau Coal Energy Tbk PT	19/08/2010	853,713.0000
26	HRUM IJ Equity	Harum Energy Tbk PT	6/10/2010	767,473.0000
27	ICBP IJ Equity	Indofood CBP Sukses Makmur Tbk PT	7/10/2010	1,078,219.0000
28	TBIG IJ Equity	Tower Bersama Infrastructure Tbk PT	26/10/2010	240,657.0000
29	KRAS IJ Equity	Krakatau Steel Persero Tbk PT	10/11/2010	494,072.0000
30	APLN IJ Equity	Agung Podomoro Land Tbk PT	11/11/2010	35,117.1211
31	BORN IJ Equity	Borneo Lumbung Energi & Metal Tbk PT	26/11/2010	(99,777.0000)
32	WINS IJ Equity	Wintermar Offshore Marine Tbk PT	29/11/2010	100,387.5210
33	MIDI IJ Equity	Midi Utama Indonesia Tbk PT	30/11/2010	3,299.2427
34	BRMS IJ Equity	Bumi Resources Minerals Tbk PT	9/12/2010	(209.2140)
35	MFMI IJ Equity	Multifiling Mitra Indonesia Tbk PT	29/12/2010	8,464.7249
36	EMDE IJ Equity	Megapolitan Developments Tbk PT	12/01/2011	24,505.0311
37	MBTO IJ Equity	Martina Berto Tbk PT	13/01/2011	36,763.9130
38	GIAA IJ Equity	Garuda Indonesia Persero Tbk PT	11/02/2011	515,521.8557
39	MBSS IJ Equity	Mitrabahtera Segara Sejati Tbk PT	6/04/2011	198,304.4080
40	SRAJ IJ Equity	Sejahteraraya Anugrahjaya Tbk PT	11/04/2011	6,005.0849
41	BULL IJ Equity	Buana Listya Tama Tbk PT	23/05/2011	6,617.3220
42	JAWA IJ Equity	JA Wattie Tbk PT	30/05/2011	80,113.7006
43	SIMP IJ Equity	Salim Ivomas Pratama Tbk PT	9/06/2011	970,975.0000
44	MTLA IJ Equity	Metropolitan Land Tbk PT	20/06/2011	69,065.0400
45	ALDO IJ Equity	Alkindo Naratama Tbk PT	12/07/2011	5,253.9330
46	PTIS IJ Equity	Indo Straits Tbk PT	12/07/2011	39,512.2975
47	SDMU IJ Equity	Sidomulyo Selaras Tbk PT	12/07/2011	8,743.4834

NO	Companies		IPO Date	NET INCOME
	IDX Code	Company Name	2008 - 2013	(Million Rupiah) (t-1)
48	STAR IJ Equity	Star Petrochem Tbk PT	13/07/2011	3,584.6822
49	MSKY IJ Equity	MNC Sky Vision Tbk PT	9/07/2012	65,339.0000
50	GLOB IJ Equity	Global Teleshop Tbk PT	10/07/2012	77,652.6444
51	ALTO IJ Equity	Tri Banyan Tirta Tbk PT	10/07/2012	3,242.4267
52	GAMA IJ Equity	Gading Development Tbk PT	11/07/2012	3,937.5586
53	NIRO IJ Equity	Nirvana Development Tbk PT	13/09/2012	108.2028
54	PALM IJ Equity	Provident Agro Tbk PT	8/10/2012	27,163.0670
55	NELY IJ Equity	Pelayaran Nelly Dwi Putri Tbk PT	11/10/2012	57,743.1941
56	TAXI IJ Equity	Express Transindo Utama Tbk PT	2/11/2012	60,196.3660
57	BSSR IJ Equity	Baramulti Suksessarana Tbk PT	8/11/2012	27,231.5124
58	ASSA IJ Equity	Adi Sarana Armada Tbk PT	12/11/2012	9,875.6752
59	WIIM IJ Equity	Wismilak Inti Makmur Tbk PT	18/12/2012	129,382.8972
60	WSKT IJ Equity	Waskita Karya Persero Tbk PT	19/12/2012	171,989.1941
61	BBRM IJ Equity	Pelayaran Nasional Bina Buana Raya Tbk PT	9/01/2013	65,729.9118
62	HOTL IJ Equity	Saraswati Griya Lestari Tbk PT	10/01/2013	16,960.9275
63	SAME IJ Equity	Sarana Meditama Metropolitan Tbk PT	11/01/2013	23,269.2934
64	MAGP IJ Equity	Multi Agro Gemilang Plantation Tbk PT	16/01/2013	1,591.8463
65	ISSP IJ Equity	Steel Pipe Industry of Indonesia PT	22/02/2013	111,191.0000
66	DYAN IJ Equity	Dyandra Media International Tbk PT	25/03/2013	65,229.6134
67	ANJT IJ Equity	Austindo Nusantara Jaya Tbk PT	8/05/2013	903,338.6573
68	MPMX IJ Equity	Mitra Pinasthika Mustika Tbk PT	29/05/2013	373,535.0000
69	DSNG IJ Equity	Dharma Satya Nusantara Tbk PT	14/06/2013	150,675.9135
70	SRIL IJ Equity	Sri Rejeki Isman Tbk PT	17/06/2013	229,309.0120
71	ACST IJ Equity	Acset Indonusa Tbk PT	24/06/2013	52,249.0819
72	SRTG IJ Equity	Saratoga Investama Sedaya PT	26/06/2013	1,816,612.4867
73	NRCA IJ Equity	Nusa Raya Cipta Tbk PT	27/06/2013	91,863.0000
74	SMBR IJ Equity	Semen Baturaja PT	28/06/2013	298,512.5230
75	ECII IJ Equity	Electronic City Indonesia Tbk PT	3/07/2013	125,002.7931
76	MLPT IJ Equity	Multipolar Technology Tbk PT	8/07/2013	30,246.0110
77	CPGT IJ Equity	Cipaganti Citra Graha Tbk PT	9/07/2013	76,290.9957
78	SILO IJ Equity	Siloam International Hospitals Tbk PT	12/09/2013	50,461.2217

Sourcer: BEI 2018.

Based on Table 2 in the total sample of 78 companies for 6 years of observation, it can be seen that during 2008 there were 15 companies doing IPOs, during 2009 there were 9 companies doing IPOs, during 2010 there were 12 companies doing IPOs, during 2011 there were 13 companies that did IPOs, during 2012 there were 12 companies that did IPOs, and in 2013 there were 18 companies that did IPOs.

This study uses discretionary accruals (DA) as a measure of earnings management that is detected using the modified Jones model (Dechow et al., 1995). The following descriptive statistical results are the results of calculating the average DA and profitability of the 78 companies that were sampled in this study. Descriptive statistics of the research variables are presented in Table 3.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
DA	78	-348.41	27.04	-7.0325	44.21533	-6.857	.272
Profitability	78	-.29	2.04	.2697	.40854	2.635	.272
Valid N (listwise)	78						

Source: Processed Data, 2019

Descriptive statistical results show that the average discretionary accrual (DA) which is an indication of earnings management in 78 companies that issued an IPO from 2008-2013 was -7.0325. This indicates that earnings management at 78 companies is low. The minimum value is -384.41 and the maximum value of DA is 27.04. The average value of negative DA indicates that there is a reduction in DA that is lowering income (income decreasing).

Badruzaman (2013) conclude that earning management actions are carried out in several ways in order to meet personal or group interests. The profit variable has a minimum value of -0.29 and a maximum value of 2.04 and an average value of 0.2697. The results of this test indicate that the average profit gained by the company during 2008-2013 was 26.97%.

Normality Test

The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution. As it is known that the t and F test assumes that the residual value follows the normal distribution. The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution. As it is known that the t and F test assumes that the residual value follows the normal distribution

Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		78
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.40772061
Most Extreme Differences	Absolute	.232
	Positive	.232
	Negative	-.200
Test Statistic		.232
Asymp. Sig. (2-tailed)		.000 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: data processed, 2019

If this assumption does not fit then the statistical test becomes invalid for a small number of samples. There are two ways to detect whether residuals are normally distributed or not, namely by chart analysis and statistical tests. The Kolmogorov-Smirnov Test statistic is performed To test whether the data are normally distributed or not. The data normality test results presented in Table 4, it shows that the data are statistically normal, this is indicated by the significance value of 0,000.

Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between the error of the intruder in the t period and the error of the intruder in the t-1 period or the previous period. The autocorrelation test in this study used the Durbin-Watson Test (DW test). A summary of the autocorrelation test results is presented in Table 5 as follows.

Table 5. The Result of Autocorrelation Test

First Equation 1					
K	DL	DU	DW	Criteria	Information
1	1,6063	1,6581	2,038	1,6785<DW<2,315	Autocorrelation Not Available

Source: data processed 2019.

Based on Table 5 it can be seen that the Durbin-Watson (DW) value of 2.038 is greater than the upper limit (du) of 1.6581 and smaller than 4-du (4-1,6581) which is 2.33419. This means that the regression model above does not have an autocorrelation problem indicated by the Durbin-Watson number between du table and (4-du table), so it can be concluded that the regression model in this study is feasible to use.

Independent Sample t-test

We perform the first hypothesis testing (H-1) using an independent one sample t-test (Wonnacott, 1981) to test the tendency for earnings management to be carried out before the IPO process was carried out. The results of the one sample t-test are presented in Table 6.

Table 6. One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
TAsblm (TA _{t-1})	3.814	58	.000	202507.97470	96216.4698	308799.4796

Source: data processed, 2019

Hypothesis 1 (H1) in this study states that the Company conducts earnings management when it will conduct an IPO. The test results above indicate that t arithmetic = 3.814. T table is obtained with df = 58, sig 5% (one tailed) = 2.0025. Because the value of t arithmetic > from t table (3.814 > 2.0025), then Ho is rejected, and H1 is supported by the results of this test, meaning that companies tend to do earnings management when going to do an IPO.

All of the efforts described earlier aim to attract investors and potential investors to participate in IPO stock trading. In the stock market, there are various factors that can influence individual behavior in investment decision making. Beaver (1989) states that decision-making behavior will change as new information becomes available, which can then change the individual's beliefs. Then the question arises whether the signal given by the company and the condition of IPO prices that are underpriced in the IPO stock price stabilization activity is able to influence the decision of investors and prospective investors to bid on the primary and secondary markets.

Paired Sample Test

Testing of the second hypothesis (Ha2) is done using the average difference test of two paired samples (Wonnacott, 1981), with the following formula:

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2} - 2r \left[\frac{s_1}{\sqrt{n_1}} \right] \left[\frac{s_2}{\sqrt{n_2}} \right]}}$$

Information:

X1 = sample average 1

X2 = sample average 2

S1 = standard deviation of sample 1

S2 = standard deviation of sample 2

S12 = Sample variant 1

S22 = Variant of sample 2

r = correlation between two sample

Jones (1991) developed the earnings management model by dividing the company's total accruals into non-descriptive accruals (reasonable accrual rates) and descretionary accruals (abnormal accrual rates). The level of abnormal accruals is what the researchers calculate to determine whether the company practices earnings management or not, while non-descriptive accruals are accrual policies caused by the demands of the company's conditions and occur naturally in line with changes in company assets.

The paired sample test results at 78 companies are to test the maximization of profits when going to conduct an IPO. This test is conducted to determine whether the company is making efforts to maximize profits when it will conduct an IPO. The test is done by using a paired sample test on the variables NDA and DA. Test results are presented in Table 7.

Table 7. Paired Samples Test

	Paired Differences						t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference					
				Lower	Upper				
Pair 1 NDA - DA	263544.85590	163300.90180	18490.18608	226726.19160	300363.52020	14.253	77	.000	

Sourcer: data processed 2019.

Hypothesis 2 (H2) in this study states that the Company maximizes profits when it will conduct an IPO. The test results above indicate that t arithmetic = 14.253. T table is obtained with df = 77, sig 5% (one tailed) = 1.99125. The test results statistically show the value of t arithmetic > from t table (14,253 > 1.99125), then Ho is rejected, and H2 is supported by the results of this test, meaning that companies tend to maximize profits when going to IPO.

IPO company managers try to give signals to investors and potential investors that the company has high quality performance by declaring high profits in the financial statements through earnings management (DuCharme et al., 2004). Then there is a tendency that the initial share price that occurs when the IPO is underpriced (Boulton, Smart and Zutter, 2011). These perceptions and expectations affect investors in buying, holding, or selling shares of listed companies that have not announced earnings (Schipper, 1989; Lako, 2005).

Conclusion and Recommendations

This research was conducted to test the tendency of companies to conduct earnings management before the IPO process. The test results show that companies that have conducted an IPO in 2008-2013 and are listed on the Stock Exchange as many as 78 companies tend to do earnings management to attract the attention of investors at the time of the IPO.

The companies that were sampled in this study numbered 78 companies doing IPO in 2008-2013 and listed on the IDX. The company tends to maximize profits to attract investors' attention during the IPO. The publication of earnings information by a company will be responded positively and tends to be negative by investors in the stock market. This positive or negative reaction will affect aggregate market perceptions and expectations of earnings performance in the same industrial sector that has not yet announced earnings. For further research it is recommended to test the causality between research variables, for example adding company size variables, leverage, or investor behavior.

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