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Original Article

Reflection the Meaning of Earning Management Practices on Financial Statement Users

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Abstract - *Financial statements are commonly used as a tool to convey actual company information and the main objective of knowing the company's profit. From here, the manager of a company will be given the trust to manage company resources in order to get the maximum profit possible. Managers who engage in earnings management practices are motivated to be proactive to look for loopholes in an effort to improve their own welfare. The practice of earnings management is the intervention of the management itself. Moreover, in the financial reporting process, most of the benefits themselves.*

This study aims to identify how earnings management practices and financial statement actors are able to interpret earnings management practices in companies in the service sector and whether there are differences between the meanings of earnings management practices between one company and another, it is between state-owned companies (post offices) and private companies (JNE). The approach in this study uses a qualitative approach with the type of case study research. The findings stated that every company that carries out earnings management has its own reasons, including efforts to achieve productivity targets, profit income, and fixed production cost efficiency, as well as communicating private information.

Keywords - *Earnings Management, Financial Statements.*

I. INTRODUCTION

Financial statements are the key where we can know the condition of a company. In the preparation process, there must be an estimate of the valuation of the report. Therefore, when the financial statements are read, they are not confusing and can be understood by the readers. Financial statements are also used as a tool to convey actual company information and with the main objective of knowing the company's profit. From here, it is the manager who is entrusted with managing the company's resources in order to get the maximum profit possible.

Actions taken by managers will affect the condition of the company through the selection of accounting methods. It is not uncommon for managers to tend to take actions that are more beneficial to certain parties, which are commonly referred to as Earnings Management (Rice Lee, 2016).

Earnings management is an action taken by managers to manipulate and beautify the results of the company's financial statements so that it benefits the company's management. Earnings management can be said to be good because it is a tool to communicate more accurate information to management and can have a bad impact if it results in a decrease in reliability (Rahmawati, 2012: 122).

Managers who engage in earnings management practices are motivated to be proactive to look for loopholes in an effort to improve their own welfare. There are several examples of cases that occurred abroad, such as the financial case of Enron, Worldcomwhich brought down KAP Arthur Anderson, which occurred in the United States. Then in Indonesia, as in the case of Kimia Farma, the Company is suspected of making a markup on its financial statements, namely inflating its profit by Rp. 32.668 billion. This case dragged the KAP auditing this company even though it was this KAP that took the initiative to report the overstated.

The practice of earnings management is the intervention of the management itself. Moreover, in the financial reporting process, most of the benefits themselves. This is evidenced from several previous studies regarding the practice of earnings management which mostly uses a quantitative approach. Lavenia and Nicken (2016), Rice Lee (2016), Eka Sri Kusworo (2016), and alsoLilikPurwanti (2015). In his research, many have proven that earnings management practices are actually carried out by managers. There are also those who determine several factors that affect earnings management.

II. LITERATURE REVIEW

A. Agency Theory

The theoretical basis used as the basis in this research refers to agency theory and prospect theory where the agency theory itself explains the conflict of interest between management and company owners that occurs both principal and agent trying to achieve the level of welfare they want so that it can encourage earnings management practices (Priya June and Gayatri, 2016).

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What supports this research is prospect theory. So far, previous research has been based more on agency theory and positive accounting theory, but in this study, the researcher wants to add a little. Difference by basing it on the prospect theory developed by scientists from the United States, namely Daniel Kahneman and Amos Tversky (1979) in Ditya (2016) because the theory This suggests that individuals focus on the advantages and disadvantages of a particular reference point. Here what is meant by focusing on the reference point is the calculation of identical profits that is varied. Burgsthaler and Dichev (1997) and Ditya (2016) also explain that prospect theory is used to avoid small losses by reporting small profits, avoiding large profits by reporting small profits, and avoiding small losses by reporting large profits. This can be related to the research that we will take from the perspective of users of financial statements, where this research is the manager of the post office and the JNE office.

B. The Definition of Earning Management

Earnings management practice itself is an action to regulate profits in accordance with what is desired by certain parties, especially the company management (IrhamFahmi, 2013: 158). Earnings management practice is actually based on the various goals and purposes contained therein. Management practice actions are to take short-term benefits without disturbing the proper process. Many impetuses for carrying out management practices by the management of the company, including wanting to show the shareholders the performance of the company's performance which is getting better and better, and to maintain it because of its outstanding achievements.

Another motivation for earnings management practices is to increase long-term debt contracts, which consist of an agreement to protect creditors from the actions of managers with good loan interest, dividends, additional loans, or lowering working capital or shareholders (Rahmawati, 2012: 114).

C. Previous Researchers

a) Alifatur dan khanifah. (2018). The test results that have been carried out during the observation period are in the indexed Islamic Commercial Banks to practice earnings management in the financial statements. This is evidenced by the results of the discretionary accrual (DA) for three years which are negative and positive, discretionary accrual (DA), which has been analyzed, has an average below zero. In other words, the average DA value is negative, and this means Indonesian Islamic Commercial Banks In 2015-2017, earnings management was carried out by reducing the profit rate.

b) Mayasari et al. (2019). The results of the analysis showed that managerial ownership does not have a negative effect on earnings management, but oppositely, it has a positive effect on earnings management, while company size does not have any effect on earning management.

C. Joni et al. (2018). When tested simultaneously, it shows that institutional ownership, the composition of independent commissioners, the composition of the board of directors, firm size, and leverage have a significant effect on earnings management. Company size is a research variable that has a dominant influence on earnings management because the larger the size or scale of the company, the easier it will be for companies to obtain sources of funding, both internal and external.

III. RESEARCH METHOD

The approach used in this study is a qualitative approach. The type of research used in this study is a case study. Qualitative research focuses on extracting in-depth information in a problem context that requires interaction with the object of research to reveal facts on the ground (Creswell, 2015:58).

This case study research was conducted with multiple sites because it was conducted at two research locations, namely: The first is the post office in the Lawang area. Precisely on Jl. Thamrin no.27 Lawang District, Malang Regency, East Java. The second is the JNE Office Jl. Thamrin Blok BN, Lawang. Researchers try to uncover cases through real contexts that occur in the field to present readers with a comprehensive explanation.

In qualitative research, the researcher acts as a data collector at the time of initial observation and research. Initial observations are carried out by identifying cases that actually occurred and finding relevant research focuses. The presence of researchers in qualitative research is absolute and is a key instrument in qualitative research. Researchers are tasked with obtaining data directly through research informants by using their five senses and the tools needed to listen to the information provided by the informants on the reality that is carefully examined.

In this study, data collection was carried out using purposive sampling. Purposive sampling is intended to obtain data through key informants who understand the research focus well; in this case, researchers will use key informants who know the Company's Financial Statements. The following are informant data in this study:

Table 1. Informant's Data

No	Name (Hidden)	Position	Office
1	Human (H1)	Finance Manager	Post Office
2	Human (H2)	Finance Manager	JNE

In this study, interviews were conducted with a semi-structured model. From the semi-structured model, the interview can be carried out more freely. The purpose of this type of interview is to find problems more openly with the informants. Researchers also need to listen carefully and record what the informants say.

This research was also assisted by digital recording devices and written/electronic recording media. The interview guide used is only an outline of the problems to be asked, which are related to the meaning of earnings management in the informant's company. Then how their financial statements are, how to recognize and measure the level of earnings management that occurs, and how management decisions are made regarding the view of earnings management which is issued.

IV. RESEARCH FINDINGS AND DISCUSSION

Exploring the meaning of earnings management from the informant's point of view is an effort to explore informants' awareness of how to interpret earnings management in service companies so that later a thorough and pure understanding will be obtained.

A. Company Overview

a) Pos Indonesia

History records the existence of Pos Indonesia for a long time, and the first Post Office was established in Batavia (now Jakarta) by Governor General GW Baron van Imhoff on August 26, 1746. Pos Indonesia has undergone several changes in status starting from the PTT (Post, Telegraph, and Telephone) Bureau. . This business entity which is led by a Head of Service, is not commercial in nature, and its function is more directed at providing public services. Developments continued to occur until its status became a State Post and Telecommunications Company (PN Postel).

Observing the development of the era in which the postal and telecommunications sectors developed very rapidly, in 1965 it changed to the State Post and Giro Company (PN Pos and Giro), and in 1978 it changed to PerumPos and Giro, which has since been confirmed as the sole business entity in organizing postal and giro post services for both domestic and foreign relations. For 17 years, with the status of Perum, then in June 1995, it changed to a Limited Liability Company under the name PT Pos Indonesia (Persero).

With the passage of time, Pos Indonesia has now been able to show its creativity in the development of the Indonesian postal sector by utilizing its network infrastructure, which reaches around 24 thousand service points that reach 100 percent of cities/districts, almost 100 percent of sub-districts and 42 percent of sub-districts/villages, and 940 remote transmigration sites in Indonesia. One of them is in the Malang Regency, Lawang City, which is located on Thamrin Street No. 31 Lawang, Malang, East Java 65211.

b) JNE

Since its establishment 20 years ago, JNE Malang, which was founded on December 1, 1999, by Hj. Darmini, together with 10 employees on Jl Hamid Rusdi No. 131, is growing along with the progress of infrastructure on Earth Arema. The progress of the city of Malang, which is currently one of the tourist destinations in Indonesia, provides a good climate for the shipping and logistics business. This can be seen from the growth of JNE Malang shipments which consistently increase by 30% every year. This growth certainly cannot be separated from the development of the JNE network to the sub-district level in Malang. As of March 2019, according to H2, JNE Malang now has 60 JNE service points. One of them is a branch office in Malang district, Lawang city, precisely on JalanThamrin Blok BN Lawang, Malang.

H2 said that his party would continue to explore customer needs in the current digital era so that JNE Malang is not only a delivery service but also a business partner who can help smooth the business of sellers in Malang City. Delivery of retail customers in Malang is dominated by fashion, cosmetic, and food products, while for corporate customers, it is still dominated by documents, as well as products from manufacturing companies.

From the two companies, we can see that the goals of the two companies are the same, that is, public services. Especially for delivery services, whether in the form of letters/documents, goods, or in the form of money, both domestically and abroad.

B. Recognition and Measurement of Earnings Management

Earnings management occurs because of the preparation of financial statements using the accrual basis. Transactions or other events are recognized when they occur, not when cash or cash equivalents are received or issued. Every manager tends to choose earnings management policies by controlling accrual transactions because these accounting policies provide management flexibility to make accounting judgments that will affect reported earnings.

H1 states that: "earnings management is carried out for efforts to achieve productivity targets, profit income, and fixed production cost efficiency". While H2 states that: "earnings management is carried out especially for the pattern of equal distribution of company profits to communicate private information". From this, it is found that each company has different goals in communicating earnings management.

In addition, these two opinions actually agree that earnings management is a managerial effort to influence the information in the financial statements. In the accounting research literature, there are various notions of the quality of company earnings, usefulness in decision making. Shipper and Vincent (2003). The problem that needs to be solved is how to evaluate whether the company has earnings management practices or not. This is important because it provides a very broad economic impact in a country. Many previous researchers have created a model to measure earnings management. In the existing literature, we can find various models such as Healy (1985), DeAngelo (1986), Jones (1991), industrial models (Dechow and Sloan (1991)), Khotari (2005), Stubben (2010), and new approach models. Dechow et al. (2011). Almost all of these models use the discretionary accrual approach as a proxy in measuring earnings management, where the next method enhances the previous method.

H1 states: "Companies are free to determine and choose accounting methods and standards as needed to determine policies for transactions or events that are recognized and disclosed in the financial statements". While H2 also states: "All decisions are in the hands of managers but the choice of time and method can affect accounting profit.". The findings above can be concluded that the two companies recognize earnings management with different bases and policies within each company in determining the measurement method. Completing data and documents from both companies, they use the accrual-based calculation method.

C. Earnings management is detrimental or profitable?

a) Aggrieved party

Earnings management is a controversial area. The informants argue that earnings management behavior is unacceptable on the grounds that earnings management means a reduction in the reliability of financial statement information. Investors may not receive sufficiently accurate information about earnings to evaluate the return and risk of their portfolio (Ashari et al., 1994) (Assih, 2004). The results of Dewi's research (2005) show that the market reacts more to the quantitative value of earnings than to the qualitative value.

The general purpose of financial reporting is to provide useful information for business and economic decision-makers. Earnings management is indeed detrimental because the information presented is not useful for decision-making and does not describe the reality of the actual condition of the company.

H1 states: “At some point, the company may lose the ability to continue financial engineering resulting in the company experiencing financial difficulties”. And H2 argues that by using false financial statements or information that is not appropriate, the next decisions will be wrong. Mistakes as above will harm the stakeholders concerned but indirectly must be borne by the public who do not have a direct relationship with the company.

b) Beneficial Party

Different perspectives assume that income smoothing is a management effort to satisfy shareholders by reducing the company's risk (Trueman, 1988). Wang (1994) stated that smoothing is precisely an action that managers should take. Gordon (1964) in Michelson et al. (2000) stated that stable earnings increase shareholder satisfaction. In addition, Beidleman (1973) in Michelson et al. (2000) stated that income smoothing expands the company's stock market so that it has a positive impact on its share price. They assume that income smoothing has information value on reported earnings. The results of his study provide evidence indicating that flattened earnings are also preferred by the market because companies with flat earnings series are considered to have a lower risk.

Understanding earnings management motivation by management should be addressed carefully. H1 argues: "The impact of earnings information in decision making must be felt by shareholders". Earnings management that is carried out is not solely based on the interests of its own utility but is based on the interests of the company. Protect the company from pressure from the policymakers, which in the end is also to maintain the continuity of the company's operations. That is, the motivation is based on the desire to run the company's operations in a sustainable manner (going concern concept). According to Halim et al. (2005), the larger the company, the greater the opportunity for managers to carry out earnings management where large companies have more complex operational activities. In addition, large companies are also required to meet higher investor expectations.

V. CONCLUSION

1. Management behavior carried out by management apparently contains different understandings in each company. They consider earnings management to be commonplace by managers for the benefit of the company, including efforts to achieve productivity targets, profit income, and fixed production cost efficiency, as well as communicating private information.
2. On the other hand, the understanding of earnings management motivation has different assessments, some are detrimental, and some are beneficial, so it must be handled more carefully. According to the informant, the beneficiaries are more to the shareholders, while the disadvantaged are the stakeholders.

VI. SUGGESTION

1. Further research would be better if listening directly to the responses of stakeholders and also shareholders on earnings management behavior so that a more comprehensive solution regarding earnings management can be obtained.

2. The informants studied did not provide a broad meaning, so researchers had to dig deeper, looking for gaps so that the informants would comment on the questions given.

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