American Research Journal of Humanities Social Science (ARJHSS)
E-ISSN: 2378-702X
Volume-04, Issue-07, pp-35-39
www.arjhss.com

Research Paper Open Access

The Effect Of Other Comprehensive Income (OCI) Disclosure, Deffered Tax Expenses And Capital Adequacy Ratio (CAR) On Earnings Management

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ABSTRACT: This study aims to analyze earnings management factors at banking of Indonesia in 2015-2019.This study is a quantitative study using secondary data in the form of banking financial statements listed on theIDX for the period 2015 – 2019. This study uses research objects 215 banking companies in the period 2015 –2019 by using purposive sampling to determine the object. This study uses multiple linear regression to answerthe hypothesis.Based on the robust regression of research results with research objects 215 banking companies2015 – 2019 shows only deferred tax expense variables that affect earnings management practices. Meanwhile,other comprehensive income (OCI) and capital adequancy ratio (CAR) variables show no effect on earningsmanagement. The effect of deferred tax expense is due to differences in regulations in fiscal and commercialfinancial statements.

Keywords : Earnings Management, Deferred Tax Expense, Other Comprehensive Income (OCI), CapitalAdequancy Ratio (CAR)

I. INTRODUCTION

Investors or potential investors will pay attention to the profits obtained based on the financial statements reported by the company, often these profits are not considered from where and how to get them. This makes managers or management aware of the importance of profit targets that must be owned or achieved in the accounting period , due to whether the company's performance is able to develop or not judged by the profits earned (Sa'diyah and Hermanto, 2017) . Profit in the financial statements have an important role in achieving the including company management knows more about the company's financial condition than the owners which resulted in management will practice manipulation of earnings or profit management.

This underlies the need for accounting standards that can reduce gaps that can trigger earnings management practices, so that earnings management practices in companies can be reduced or limited. The mandatory implementation of PSAK 1 requires a change in standards in the presentation of financial statements, where the change is the obligation to present and report other comprehensive income items in the income statement and notes to financial statements. With more and more information provided in the financial statements, it is expected to reduce or even eliminate information asymmetry which has an effect on reducing earnings management practices .

Capital adequancy ratio (CAR) is a requirement determined by Bank Indonesia (BI) for the minimum capital that must be met by banks in Indonesia. The government through Bank Indonesia Regulation No. 14/18/PBI/2012 requires that the minimum capital adequacy for commercial banks is 8%. A decrease in the CAR value indicates a decline in the bank's financial performance. BI uses financial statements to assess a bank's CAR. This assessment causes managers to carry out earnings management in order to meet the criteria required by BI. In addition, companies that have a high leverage ratio due to the large amount of debt compared to the assets owned by the company are suspected of carrying out earnings management because the company is threatened with default, which is unable to meet debt repayment obligations on time.

The company's profit target which aims to have a positive impact on investors makes the company achieve the profit target. where the methods used one of which is to suppress or reduce the burden, one of which is the tax burden . If the company considers taxes not as a burden, the company managers will not take action to manipulate tax payments. In contrast to companies that consider tax is a burden that can reduce company profits and affect cash flow when paying taxes, where this will affect the company's performance and managers in the eyes of shareholders. With the existence of these conditions will make the company will look for ways to minimize the cost of tax paid. One way to reduce tax costs is to take advantage of the standard difference in the preparation of accounting profit and loss with taxation profit and loss (fiscal income). It can be a potential for managers to manage earnings by way of reducing the impact on the net income taxes paid his company .

Based on the explanation above, the researcher wants to analyze the practice of earnings management in banking in Indonesia in 2015-2019. The factors that the researcher examines include the disclosure of OCI, deferred tax expense and banking performance as proxied by the Capital Adequacy Ratio (CAR).

II. LITERATURE REVIEW

2.1 Agency Theory

Salno&Baridwan (2000) explained that the practice of earnings management is always related to agency theory. Agency theory explains that earnings management practices are influenced by several factors, including the emergence of conflicts between principals and agents in the form of conflicts of interest. Conflicts of interest arise because both parties desire to obtain and maintain the expected level of prosperity so that it affects the resulting policies.

Jensen and Meckling (1976) explained that the influence between the agency is a contract between one or more between the agent and the principal, and the principal gives delegation to the agent in the form of abilities and rights in a decision making.

2.2 Earning Management

Sugiri (1998) classifies the definition of earnings management into narrow and broad, namely 1. Narrowly, earnings management is associated with the chosen accounting method, meaning that managers' behavior is only in the discretionary accrual section to form the desired profit. 2. Broadly speaking, earnings management is the result of the manager's activities in reducing or increasing profits without any increase or decrease in the long-term profit of the unit.

There are 3 hypotheses that are suspected to be the basis for managers to practice earnings management (Watts & Zimmerman, 1986). The first hypothesis is the bonus plant hypothesis, where managers are motivated to increase profits to get bonuses. The second hypothesis is the debt (equity) hypothesis, where managers are motivated to play with profits to delay debt and receivables. The third hypothesis is the political cost hypothesis, where managers are motivated to increase or decrease profits through accounting methods to violate government regulations related to taxes.

2.3 Other Comprehensiv Income (OCI)

Rima PutriSuryaningWahyu (2014) stated that other comprehensive income is the total income after deducting expenses that are not included in the income and expenses of the company's main and non-main activities because they are not recognized in accordance with other Financial Accounting Standarts (FAS).

2.4 Capital Adequacy Ratio (CAR)

CAR is seen as one of the EM instruments used by banks with the background that the minimum CAR ratio set by Bank Indonesia is 8%. If a bank cannot meet this minimum ratio, then the bank can be classified as an unhealthy or problematic bank (Fricilia and Hendro, 2015).

2.5Deferred tax expense

Deferred tax expense is defined as an expense that arises due to differences in regulations, both differences in the timing of recognition and the method of recognizing certain results and expenses, in accounting profit and fiscal profit (Suandy, 2011).

2.6 Conceptual framework

Based on the theoretical basis and previous research, this research has similarities with several previous studies, namely the same - the same in researching earnings management, where one of the measurement variables used is accrual earnings management. However, the difference between this study and previous research is that one dependent variable is added so that it can compare the practice of earnings management whether using accrual earnings management or real earnings management, besides that the independent variables used are also different from previous research.

The conceptual framework developed in this study is as follows:

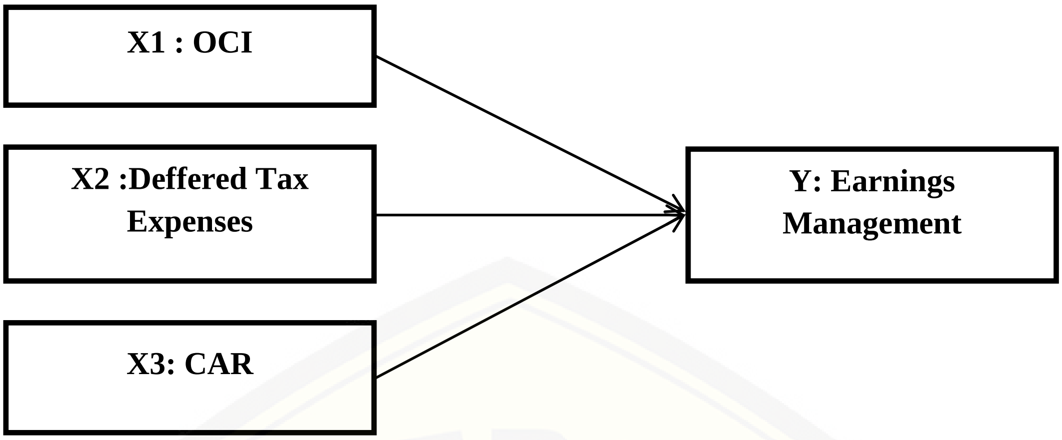

Figure 1: Conceptual Framework

2.5 Research hypothesis

The research hypothesis is as follows:

1. Other Comprehensive Income (OCI) disclosures affect earnings management
2. Deferred tax expense affects earnings management
3. Capital adequacy ratio (CAR) affects earnings management

III. METHOD

The design in this research is based on explanation (explanatory research). In this study, the researchers wanted to examine the relationship between the dependent variable is earnings management with independent variables that Other Comprehensive Income (OCI), deferred tax expense and banking performance with proxy Capital Adequacy Ratio (CAR). The data used in this research is annual report data . The annual report data uses the 2015 – 2019 period and is obtained from www.idx.co.id and the company website.

Sampling criteria for this study include; 1.Banking companies that have been listed on the Indonesia Stock Exchange in 2015 - 2019. 2. Banking companies that publish annual reports for the period 2015 - 2019. 3. Data on the research variables studied are available in full in the company's annual reports published in 2015 - 2019..

IV. RESULT

4.1 Instrument Test

on the normality test carried out (attachment 1 attached) it is known that the normality test for all variables, both the dependent variable (profit management) and the independent variable (Other Comprehensive Income, Deferred Tax Expense and CAR) showed abnormal results because the significance value was below 0.05 . This is due to the data outliers. *Outliers* are data that deviate too far from the rest of the data in a data set. The presence of data *outliers* this will make an analysis of a series of data to be biased, or does not reflect the actual phenomenon. The term *outliers is* also often associated with extreme values, both large and small extremes. One way to normalize the data is to transform the data in the form of Log (10).

Based on the normality test carried out after the data transformation (attachment 2 attached) it is known that for the normality test after the data transformation, only the Earnings Management variable (LogY1) and the deferred tax expense variable (Log X2) have normalized data because their significance is above 0.05. Meanwhile, Other Comprehensive Income (LogX1) and CAR (Log X3) are not normally distributed because the significance value is below 0.05.

In addition to using the data transformation method, another way to normalize the data is to use a method of eliminating data outliers. One way to eliminate outlier data is to use the z score test. Where the data is said to be abnormal if it exceeds a score of 3 and is between 4. Based on the results of the z score (Appendix 3 (attached) it is known that the data which is an outlier data is data no. 2,15,21,47,48,61,62,73,125, 151,152,155, 173,177.181, so that the data will be deleted and the *Kolmogorov-Smirnov* normality test again performed .

The results of the normality test conducted after removing the outlier data (attachment 4 attached) again showed abnormal results. The reason why the data is not normal after the data transformation is done is that the data oultiers that appear cause large residuals. Therefore, another method is needed to deal with *outliers*, namely the *Robust* Regression Method (MRR). MRR is a method used to overcome *outlier* data without eliminate *outlier* data.

There are various kinds of MRR including *M* (*Maximum Likelihood Type*) estimation, *S* (*Scale*) estimation, *MM* estimation (*Method of Moment*), *LTS* estimation (*Least Terimmed Square*) and *LMS* estimation (*Least Median Square*). This research will use MRR using S estimation because the best method used is *S* estimation method . Robust regression results can be seen from table 3.1 .

Table 3.1 Robust Regression Results With Variables Y1 and X1, X2, X3

Dependent Variable: Y1
Method: Robust Least Squares
Date: 06/12/21 Time: 10:08
Samples: 1 215
Included observations: 215
Method: S-estimate
S settings: tuning=1.547645, breakdown=0.5, trials=200, subsmpl=4,
refine=2, compare=5
Random number generator: rng=kn, seed=1765997502
Huber Type I Standard Errors & Covariance

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-214.2726	34.70072	-6.174875	0.0000
X1	-0.247010	0.487640	-0.506541	0.6125
X2	6362,254	1388,632	4.581670	0.0000
X3	124.6365	126.1127	0.988294	0.3230

	Robust Statistics		
R-squared	0.037988	Adjusted R-squared	0.024310
Scale	238.4425	Deviance	56854.82
Rn-squared statistic	21.96314	Prob(Rn-squared stat.)	0.000066

	Non-robust Statistics		
Mean dependent var	-747.4307	SD dependent var	4369,772
SE of regression	4453,346	Sum squared resid	4.18E+09

4.2 Hypothesis testing

Hypothesis testing is used to determine the significance of each independent variable on the dependent variable. The hypothesis test used in this study is the t test (partial). The t test was carried out to determine the significant effect of the independent variable on the dependent variable partially (Ghozali, 2014: 23). This test uses a significance level (α) = 0.05 or 5%, with the criteria if the sig.> 0.05 then H0 is accepted and Ha is rejected, meaning that individually the independent variable has no significant effect on the dependent variable. Predict that if the sig.≤ 0.05 then H0 is rejected and Ha is accepted, it means that individually the independent variable has a significant effect on the dependent variable.

Based on hypotesting result, we concluded that Destination Image on Visiting Decisions The results of testing the influence of the destination image variables on the visiting decision obtained a significance value of 0.000 which is smaller than the specified significance level of 0.05 so that it means that the destination image has a significant effect on the decision to visit the Kota Lama Semarang tour.

The results of testing the influence of the variable word of mouth on the decision to visit obtained a significance value of 0.000 which is smaller than the specified level of significance, namely 0.05, so it can be interpreted that word of mouth has a significant effect on the decision to visit the Kota Lama Semarang.

V. DISCUSION

Based on the results of hypothesis 1 test, it is known that the OCI presentation variable has no effect on earnings management. This could be because the OCI value disclosed by the company is too small, so that its contribution to earnings management is difficult to prove.

Based on the results of hypothesis 2 test it is known that Deferred Tax Expenses affect earnings management . This can be caused due to differences between the financial statements of commercial regulations and fiscal financial statements. Companies can take advantage of the differences to manage their profits by using the amount of deferred tax expense in the commercial income statement but will be corrected in the taxable income statement.

Based on the results of hypothesis 3 test , it is known that the performance proxied by CAR does not affect earnings management . This can be because Corporate Governance in banking has been carried out well. This has an impact on the determination of the obligation to meet the minimum value limit of the CAR ratio set by Bank BI does not affect earnings management.

VI. CONCLUSION

Based on the results of the analysis carried out, the following conclusions were obtained:

1. Hypothesis (H1) is not accepted or (H0) is accepted which states that other comprehensive income (OCI)disclosure has no effect on earnings management.
2. Hypothesis (H 2) is accepted or (H0) is not accepted which states that deferred tax expense has an effect on earnings management.
3. Hypothesis (H3) is not accepted or (H0) is accepted which states that the performance proxied by CAR has no effect on earnings management.

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