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Analysis of Earnings Management in Cosmetics and Household Sub-Sector Companies

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ABSTRACT

Every company was founded with the aim of making a profit and maximizing the company's wealth. This study aims to determine the company's earnings management. Earnings management is an option used by company managers in meeting the company's needs in terms of improving performance by regulating company profits for a certain period. Profit is an important component in performance appraisal. The financial report contains a description of management's performance which then becomes the basis for determining investment. The object of research is the cosmetics and household needs sub-sector companies listed on the IDX. The method used as the basis for calculating earnings management is using the Healy model in the 2015-2019 financial statements. The Healy model is a fairly simple earnings management calculation model performed by comparing the average total accruals divided by the total accruals of the previous period. The data used is secondary data obtained from the IDX official website. Data collection techniques in this study using literature study. The data analysis technique used begins with collecting data in the form of financial statements and calculating descriptive accruals. The calculation results are used as the basis for earnings management analysis.

INTRODUCTION

The consumer goods industry sector continues to grow because consumer products are always needed in human life. The increase in the consumption sector was due to an increase in each of the existing sub-sectors, one of which was the cosmetics and household needs sub-sector. The Ministry of Industry (2018) explained that the national cosmetic industry recorded a growth increase of 20% or four times the national economic growth in 2017. The Minister of Industry, Airlangga, has placed the cosmetics industry as a mainstay sector as stated in the National Industrial Development Master Plan

(RIPIN) in 2018. 2015-2035. The domestic Cosmetics industry increased by 153 companies in 2017, so that currently the number has reached more than 760 companies. The Central Statistics Agency (2019) released that the Indonesian economy in the first quarter of 2019 grew by 5.07% (yoy), an increase compared to the first quarter of 2018 which was 5.06% triggered by the large household consumption which reached 56.82% of the total Gross Domestic Product (GDP) growth structure by expenditure.

Sales of cosmetic products and household goods that have increased can attract investors to invest their capital in this company. Investors

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usually analyze the company first as a consideration before investing. Investors can analyze financial statements from data available on the stock exchange. BEI is the party that organizes the system or means for trading securities, and as a medium for disseminating information on the stock exchange from listed companies to the public. The prospect of capital market growth in Indonesia is getting faster because it is driven by the large number of foreign investors who enter the Indonesian capital market. The capital market is useful for investors to invest in companies that sell their shares

Profit is one of the important components in the assessment of financial performance. Financial statements containing a description of the company's performance will then be used by users of financial statements who always focus on the level of profits owned by the company to assess the performance of management in managing the company. Earnings management is carried out by managers if the desired profit level cannot be achieved.

Earnings management arises because of the desire to improve the performance of companies with large profits and there is a conflict of interest between the owner/holder (principal) and manager/management (agent) as a result of not meeting maximum utility between them. Management takes advantage of the flexibility allowed by the Financial Accounting Standards (SAK) for the selection of accounting methods or policies in reporting earnings, namely by practicing earnings management or earnings management.

Earnings management is the result of freedom in the application of accrual accounting that may occur. Accounting standards and oversight mechanisms reduce this freedom. However, it is not possible to exclude options due to the complexity and diversity of business activities. In accrual accounting, estimates and valuations are needed. This causes the manager's freedom in setting accounting numbers. Although this freedom provides a more informative picture of a company's business activities, it also allows managers to beautify financial reports and perform earnings management. Management has more information than owners or parties related to the company. Management performs earnings management to achieve the desired level of profit by utilizing the information it knows and the decisions taken before investors or creditors know the information. Earnings management is often seen as commonplace for the accounting profession and has become a common phenomenon in a number of companies. The consequences of earnings management are also

often viewed negatively, because the principles or practices of earnings management often obscure or cover up facts that should be known by the public.

Measurement of a company's earnings management can be done by using the earnings management detection model. Abdurrahim (2015: 105) explains that many studies have succeeded in proving that earnings management practices are widely practiced by management. Ronen and Sadan (1975), found that management performs earnings management through profit and loss items before extraordinary items; compensation, incentives, pension costs, research and development costs, sales, advertising costs. Smith (1976) and Kamin and Ronen (1978) and Dhaliwal et al. (1982), stated that companies controlled by managers have a higher tendency to practice earnings management than companies managed by owners. Research on earnings management generally uses accrual-based measures in detecting the presence or absence of manipulation. Accrual is a basis that is often used by researchers to detect because among other bases, the accrual basis is considered simpler and easier. The advantage of the total accrual approach is that it has the potential to reveal ways to decrease or increase profits because these methods have received less attention from outsiders. Earnings management measurement models include the Healy model, The Anggelo model, The Industry Model, Jones model and the modified Jones model.

Healy's (1985) model is a relatively simple model because it uses total accruals as a proxy for earnings. In addition, the resulting discretionary accruals have the potential to reveal patterns of increasing or decreasing profits. The author intends to use Healy's (1985) model to analyze earnings management in this study in cosmetics and household goods sub-sector companies listed on the IDX. The author chooses a cosmetics and household needs company because of the high popularity of this company among the general public and the increasing growth of cosmetic and household needs companies so that it makes the author interested in detecting the presence or absence of earnings management in cosmetic and household needs sub-sector companies. in Indonesia.

MATERIALS AND METHODS

Data analysis technique in this research is quantitative data analysis technique. Researchers use data in the form of numbers on the company's financial statements to perform

calculations and analyze the existence of earnings management by the company.

1) The calculation of earnings management using the Healy method

$$DACit = TAit / A(it-1)$$

$$TAit = Earn - CFO$$

Earnings management can be measured by discretionary accruals with the following calculations:

$$DACit = \frac{Earn - CFO}{A(it - 1)}$$

Information :

DACit = company i's discretionary accruals in period t

TAit = Total accruals of company in period t

Earn = Net profit

CFO = Operating cash flow

Ait-1 = Total assets of company in period t-1

2) Determination of earnings management pattern prediction

Empirically the value of discretionary accruals can be zero, positive, or negative. The results of discretionary accruals and earnings management trend graphs are the basis for analyzing earnings management patterns in companies. If the results of the descriptive accruals obtained show zero, then earnings management is carried out with an income smoothing pattern. If the results of discretionary accruals are

negative, the company is indicated to reduce profits (income minimization), while if the results of discretionary accruals are positive, the company is indicated to increase profits (income maximization).

RESULTS AND DISCUSSION

The results of the calculation of earnings management with the Healy model in the cosmetics and household needs sub-sector companies listed on the Indonesia Stock Exchange are as follows.

PT Kino Indonesia Tbk in 2015-2020 tends to increase profits to attract investors and get capital from banks or third parties. Only in 2017 did the company reduce profits due to taxation motivations.

PT Mandom Indonesia Tbk in 2015 increased profits significantly due to the change of CEO related to the performance appraisal of the new CEO, in addition to attracting investors and obtaining capital from banks or third parties. Only in 2016-2019 earnings management carried out by the company tended to not significantly increase or decrease. This is done by the company so that reported earnings tend to be stable and not too volatile because investors generally prefer relatively stable earnings. However, in 2020 happened unexpectedly with a very significant decline far from previous years. This year the company is also experiencing the economic impact of the current pandemic. So that the company's profit fell very significantly so that the company suffered a loss.

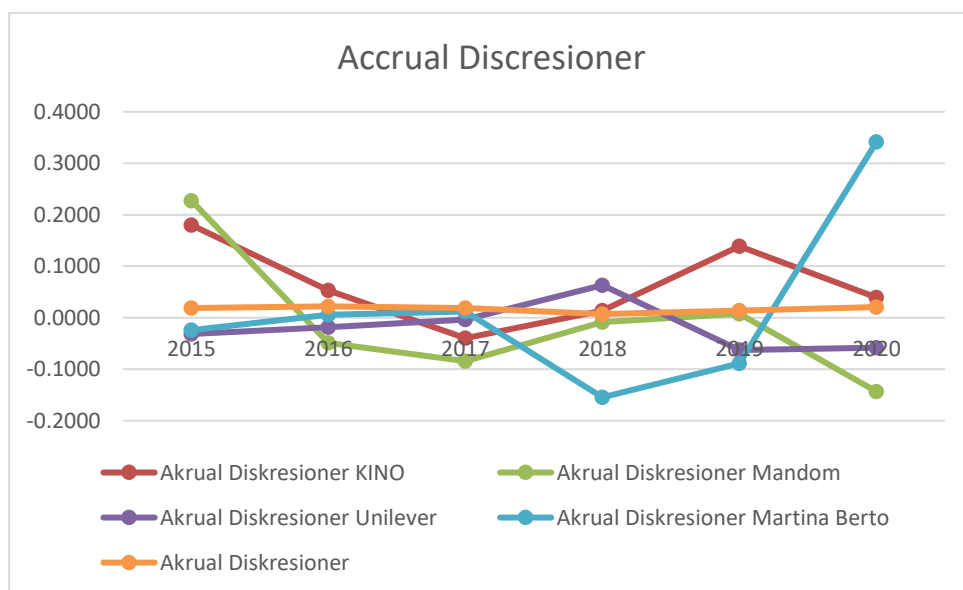


Figure 1
Discretionary Accrual Graph in
Cosmetics and Household Companies Sub-Sector in 2015-2020

PT Unilever Indonesia Tbk in 2015-2016 tended to reduce profits due to the tax motivation of the company. In 2017-2018 the company's profits tend to be increased to attract investors and there is a motivation for long-term contracts. In 2017 the company lowered due to tax motivation. Although there was fluctuating earnings management in 2015-2020, the value of discretionary accruals was not too significant below 0.1. This shows that the company's earnings management is not large.

PT Martina Berto Tbk in 2015 made a decrease in profit but not too significant. The decline in profit in 2015 is thought to be due to taxation motivation. In 2017-2020 the company tends to increase profits, this is due to the motivation of long-term contracts and various new production cooperation agreements made by the company as well as credit agreements made by the company. In 2018 the company decreased profits very significantly, this profit decline was also carried out by the company in the following year, although it was not as significant as in 2018. This decrease in profit was carried out by the company due to tax problems in the company. On the other hand, in 2020 the company increased profits very significantly compared to previous years. This is because the company has a contract motivation and expansion in the medium and long term.

PT Mustika Ratu Tbk in 2015-2020 tends to increase profits due to debt contract motivation or avoid violating debt and interest agreements because in that year the company's profits tend to decrease.

Figure 1 shows that earnings management carried out by companies in the cosmetics and household needs sub-sector varies widely. The high earnings management carried out by the company will have an impact on the company's performance (profit) in the following year. Increasing current year's profit will have a negative impact on the company's performance (profit) in the next period.

PT Mandom's discretionary accruals in 2015 were the highest compared to 5 other companies during the 2015-2019 period. The high earnings management is in line with the high performance (profit) of the company that year. In the following year the company's performance (profit) decreased drastically by 336% from the previous year. This was also experienced at PT Kino Indonesia Tbk in 2015-2016 and at PT Unilever Indonesia in 2018. Positive earnings management tends to reduce profits in the following year. In 2019-2020 there was a very significant increase far above other companies in PT Martina Berto's discretionary accruals, which means that the company's performance (profit) was also the highest in that period.

CONCLUSIONS AND SUGGESTION

The results of the research that has been done show that PT. Kino Indonesia Tbk. (KINO) carried out positive earnings management or increased profits in the 2015 to 2019 period; PT Mandom Indonesia Tbk. (TCID) carried out positive earnings management or increased profits in the 2015 and 2019 periods and carried out negative earnings management by reducing profits in the 2016-2018 period; PT Unilever Indonesia Tbk. (UNVR) carried out positive earnings management or increased profits in the 2018 period, and carried out negative earnings management or decreased profits in the 2015-2017 and 2019 periods; PT. Martina Berto Tbk. (MBTO) performs positive earnings management or increases profits in the 2016-2017 period, as well as performs negative earnings management or decreases profits in 2015, 2018 and 2019; PT. Mustika Ratu Tbk. (MRAT) carried out positive earnings management or increased profits in the 2015-2020 period.

Cosmetics and household needs sub-sector companies listed on the Indonesia Stock Exchange (IDX) in the 2015-2020 period carry out earnings management with different motivations, including long-term contract motivation, tax motivation, political motivation, and an initial public offering.

The author's suggestions that are expected to be useful are as follows. Managers' motivations in carrying out earnings management should not be detrimental to the company as well as investors and creditors. In carrying out earnings management, it should not be based on the original purpose of manipulating financial statements. Earnings management carried out must be in accordance with the policies applied in the company and do not violate generally applicable regulations. For further earnings management research, independent variables can be added such as audit quality, CEO turnover, and changes in rules in preparing financial statements.

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