

## **Leverage dan Real Earning Management (Studi pada Perusahaan Manufaktur di Bursa Efek Indonesia Periode 2013-2017)**

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(Diterima: 21 Juni 2019, direvisi: 19 Juli 2019, dipublikasikan : 30 Agustus 2019)

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### **ABSTRACT**

*Every firms needs capital in carrying out its business activities, this is very related to the firm's funding decisions. This funding decision raises leverage if the firms in its operations uses a source of funds that creates a fixed burden, namely debt, with the expectation of additional benefits in the form of tax savings greater than the fixed costs that must be incurred, thereby increasing firm profits. Profit becomes very important for creditors and shareholders, because profits are used as a reference used to evaluate the condition of the company. But in practice, managers take certain actions by manipulating financial statements to mislead those who have an interest in the firm, especially the firm's performance. The purpose of this study is whether leverage affects the real earnings management by using three measurements, namely Abnormal Cash Flow, Abnormal Production Cost, Abnormal Discretionary Expenses using Multiple Linear Regression. Regression results show that leverage has a significant positive effect on abnormal cash flow, leverage has a significant negative effect on abnormal discretionary expenses, leverage has a significant negative effect on abnormal production costs.\*

**Keywords** : leverage, real earning management, abnormal cash flow, abnormal production cost, abnormal discretionary expenses.

### **INTRODUCTION**

Healy and Wahlen (1999) explain that managers use valuations in financial statements and manipulate transaction structures to mislead some of the stakeholders concerned with company performance. One motivation that can be a trigger for the emergence of earnings management is the motivation to achieve certain profit targets or profit maximization so that the company gets a good assessment by investors. Graham et.al (2005) explains that managers prefer to manipulate earnings through real economic decisions or real activities than accounting accruals. Accrual earnings management is carried out at the end of the period when the manager knows the profit before it is engineered, so that the manager can know how much manipulation is needed to achieve the profit target (Kim and Sohn, 2012)

Earnings management in real activities is carried out by involving changes in the company's operating activities in order to increase revenue on the current cash flow with the aim of avoiding reporting losses that are carried out using factors that affect earnings reported by management. In addition to the impact on increased profits, real activities manipulation has

an impact on reported cash flows that are lower than they would have been or normal if there was no real activity manipulation. Techniques that can be performed in earnings management in real activities include sales manipulation, overproduction, and discretionary cost reduction (Ryochowdhury, 2006).

Several previous studies have explained that leverage reduces the actions of earnings management (Jelinek, 2007 and Wasimullah et al. 2010). Jelinek (2007) explains that increasing leverage reduces opportunities for earnings management, because the use of leverage creates debt repayment. Debt repayment causes managers to pay interest and principal costs incurred for the use of debt provided by creditors. This results in the company being monitored by creditors and creditors will provide a limit to managers for funding decisions that are not optimal or low return (Jensen, 1986)

Zamri et al. (2013) menjelaskan bahwa *leverage* berpengaruh *negative* terhadap manajemen laba dengan menggunakan proksi *abnormal cash flow*. Hasil penelitian Zamri et al (2013) sejalan dengan *control hypothesis* atas adanya utang (Jensen, 1986). Berdasarkan hasil penelitian tersebut dijelaskan bahwa utang menimbulkan konflik keagenan antara kreditur dan manajer. Konflik timbul ketika perusahaan memiliki prospek pertumbuhan yang rendah (*low growth*) dan memiliki *free cash flow* yang besar, sehingga manajer membuat kebijakan dengan menggunakan *free cash flow* tersebut untuk mendanai proyek yang menghasilkan *return* rendah. Hal ini menyebabkan kreditur memberikan kontrol kepada manajer berupa batasan, agar *free cash flow* tersebut digunakan terlebih dahulu untuk membayar bunga dan pokok pinjaman daripada harus di investasikan pada proyek yang menghasilkan *return* yang rendah, sehingga hal ini secara tidak langsung mengurangi kesempatan manajer untuk melakukan tindakan manajemen laba (Jensen, 1986).

Berdasarkan latar belakang, maka penelitian ini akan menguji dan menganalisis kembali apakah *leverage* dan dividen berpengaruh terhadap manajemen laba melalui aktivitas rill dengan menggunakan proksi yaitu *abnormal cash flow*, *abnormal production cost*, dan *abnormal discretionary expenses* pada perusahaan manufaktur yang terdaftar pada Bursa Efek Indonesia (BEI) periode 2012-2017.

## LITERATURE REVIEW

Differences in interests between agents and principals involved in contractual relationships can cause agency problems due to the misalignment of interests. Agency problems actually arise when principals find it difficult to ensure that agents act to maximize the welfare of the principal and there is a possibility that the agent (manager) does not always act in the best interests of the principal, whereas on the other hand the principal (shareholders or creditors) wants the agent to act accordingly with their interests, giving rise to inconsistencies between the interests of the principal and the agent.

According to Schipper (1989) earnings management is an intervention with specific objectives in the external financial reporting process, to obtain some personal benefits. According to Assih et al., (2000) defines earnings management as a process carried out deliberately within the limits of the General Accepted Accounting Principles (GAAP) to lead to the level of reported earnings. This study follows the research of Rychowdhury (2006) and

Zamri et.al (2013) which is using abnormal cash flow operations, abnormal production costs and abnormal discretionary expenses to explain earnings management variables through real activity manipulation

These three variables are used because these three earnings management actions affect the firm's cash flow, this is in line with Roychowdhury's (2006) research which revealed that the three earnings management techniques through real activities have an impact on the firm's cash flow. Sales manipulation and overproduction will cause lower cash inflow while reduction of discretionary expenses will cause higher cash inflow. Megginson (2008: 529) explains the use of debt gives rise to covenants. Debt covenants are contractual agreements that specifically regulate financial constraints related to debtors, so that debt becomes a control for managers to perform earnings management actions due to debt covenants, with the existence of debt covenants, agency costs also decrease.

According to Jensen (1986) debt is an effective control for managers so that they carry out operational activities, so that the higher the level of corporate leverage, the lower the earnings management action on the real activity. Research by Jelinek, (2007), Wasimullah et al. (2010), Ghosh and Jain (2000), Zamri et al. (2013) also supports this. Based on the description and results of previous studies, the hypothesis in this study:

- H<sub>1</sub> : leverage has negatif negative effect to abnormal cash flow
- H<sub>2</sub> : leverage has negatif negative effect abnormal production cost
- H<sub>3</sub> : leverage has negatif negative effect abnormal discretionary expenses

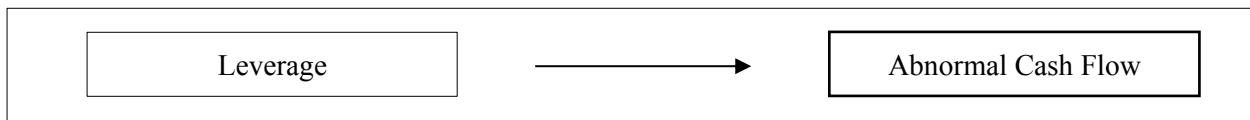


Figure 1.

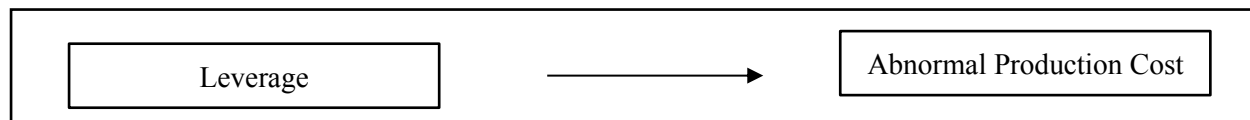


Figure 2.

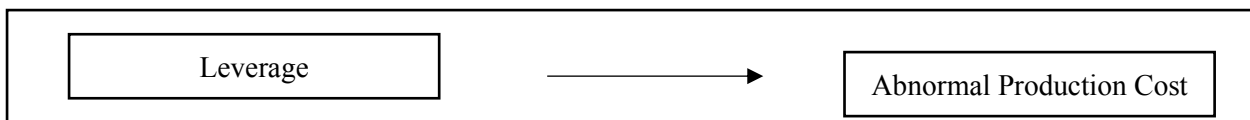


Figure 3.

## METHODS

This research used a quantitative approach in which the variables studied can be identified influence, and can be measured clearly the relationship between one variable with other variables. This research uses quantitative approach because the research data are numerical and statistical analysis (Sugiyono, 2012: 23).

Quantitative research method that used in this research is multiple linear regression method, which is parametric inferencial statistical tool to find the influence of two or more

independent variable to one dependent variable with cross section data form. The systematic analysis in this study is as follows:

$$RES_{REM} = \alpha + \beta_1 LEV_{it} + \varepsilon_{it}$$

$RES_{REM}$  = Proxi that used to measure manipulation in real activities, namely RES\_CFO, RES\_PROD, RES\_DISEXP

The type of data is secondary data. Secondary data were taken through the Indonesia Stock Exchange website, [www.idx.co.id](http://www.idx.co.id) and in the form of data on annual financial statements of manufacturing companies for the period 2012 -2017. The population used manufacturing companies listing on the Indonesia Stock Exchange in 2012-2017. Samples were taken using a purposive sampling method, based on certain criteria chosen in accordance with the research design, namely manufacturing companies listing on the Indonesia Stock Exchange in 2012-2017 that had a profit compared to total assets t-1, namely  $\leq 0.005$ . Data collection methods in this research are literature study and documentation methods.

Tabel 1. Operational Definition of Variables

Variabel Independen	
Leverage	Leverage is proxy by using the ratio of total debt to total assets, where this ratio measures the proportion of funds sourced from debt to finance the company's assets. The ratio of total debt to total assets is calculated using the formula: $LEV_{it} = \frac{Total\ Debt\ it}{Total\ Assets\ it}$
Variabel Dependen	
Abnormal Cash Flow	The estimated value of the "normal" level of cash flow is using a regression model and the value is absolute. The regression model is as follows : $CFO_{it} / A_{it-1} = \beta_1 [1/A_{it-1}] + \beta_2 [Sales_{it} / A_{it-1}] + \beta_3 [\Delta Sales_{it} / A_{it-1}] + \varepsilon_{it}$
Abnormal Production Cost	The estimated value of the "normal" level of production costs is using a regression model and the value is absolute. The regression model is as follows : $Prod_{it} / A_{it-1} = \beta_1 [1/A_{it-1}] + \beta_2 [Sales_{it} / A_{it-1}] + \beta_3 [\Delta Sales_{it} / A_{it-1}] + \beta_4 [\Delta Sales_{it-1} / A_{it-1}] + \varepsilon_{it}$
Abnormal Discretionary Expenses	The estimated value of the "normal" level of discretionary costs is using a regression model and the value is absolute. The regression model is as follows: $DISEXP_{it} / A_{it-1} = \beta_1 [1/A_{it-1}] + \beta_2 [Sales_{it} / A_{it-1}] + \varepsilon_{it}$

## RESULT & DISCUSSION

Results of descriptive statistics for the period of observation shown in Table 2:

**Table 2. Descriptive Statistics of Indicators**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ACFO	193	.0013	.1785	.049783	.0417620
ADISEXP	193	.0000	.3081	.068147	.0634805
APROD	193	.0001	.4243	.089364	.0792777
LEV	193	.0848	.9129	.508361	.1734232
Valid N (listwise)	193				

**Table Model Regression 1**

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.072	.070		1.021	.309		
LEV	.038	.018	.159	2.111	<b>.036</b>	.895	1.117

a. Dependent Variable: ACFO

**Table Model Regression 2**

Model2	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.524	.098		5.322	.000		
LEV	-.080	.025	-.220	-3.172	<b>.002</b>	.895	1.117

a. Dependent Variable: ADISEXP

**Table Model Regression 3**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.489	.129		3.783	.000		
LEV	-.060	.033	-.132	-1.805	.073	.895	1.117

a. Dependent Variable: APROD

Based on table model regression 1 show that leverage have positive significant to abnormal cashflow with significance level of  $0.036 < 0.05$ , then H1 is rejected. Table model regression 2 show th at leverage have negative significant to abnormal discretionary expenses with significance level  $0.002 < 0.05$ , then H2 is accepted. Table model regression 3 show that leverage have negative significant to abnormal production cost with significance level  $0.073 < 0.10$ , then H2 is accepted. This research in line with Zamri et.al (2013) positive association between leverage and abnormal cashflow is also supported by the reason of to avoid debt covenant violations reasons (Dichev and Skinner, 2002; Beatty and Weber, 2003), then this research in line with Wasimullah et al., 2010 and Jelinek 2007 that leverage limit the abnormal production cost and discretionary expenses. This finding is also in line with control hypothesis for debt (Jensen, 1986). According to the theory, debt can be used to reduce agency cost where managers may have the power to control the firm's cash flow.

## CONCLUSIONS

Financial statement one of the most important thing to value how manager manage their firm, because financial statement is using by creditor and shareholders. Managers must increase the trust held by creditors and shareholders by reporting financial statements that in accordance with the actual conditions of the firm, while the confidence of reditors and shareholders increase, managers more easily to get funding to make both long-term and short-term investments and make investors and candidates investors to continue to invest in the firm.

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