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EFFECT OF DEBT TO EQUITY RATIO AND INCOME SMOOTHING OF EARNINGS MANAGEMENT IN BAKRIE LAND DEVELOPMENT TBK

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Abstract

To perform earnings management, the company need some analysis and ratio in the financial statements. Financial ratios can be used to Determine in earnings calculations. In this research, we use the Debt to Equity Ratio and Income Smoothing to know how big influence of the ratio to earnings management at PT. Bakrieland Development. Tbk. Data collection techniques is to use a secondary Data Obtained from the financial statements of PT. Bakrieland Develpoment, Tbk in the period 2009 - 2016, the data is taken from the website www.idx.go.id. Debt to Equity Ratio and Income Smoothing are Independent Variables (X) while Profit Management is Dependent Variable (Y). Linear Regression is used to analyze research data.

Keywords: Earning Management, Debt to Equity Ratio, Income Smoothing.

1. Introduction

Each company expects its business to grow and would need the support of the company's management capabilities in doing some discretion to the financial plan. The problem that usually arises is how companies acquire funds and use the funds in accordance with their needs. Coupled with the economic growth that leads to a free-market economic system, in which every company must compete and find ways to win this competition.

Management as a company official has an interest to make efforts to improve the quality of earnings. Wiryandari and Yulianti (2009) stated that the quality of profit to reflect the continuation of earnings (sustainable earnings) in the future, where it is determined by the accrual and cash component which can reflect the real company's financial performance. The more quality corporate profits, the more interested investors to be one part of the owner of the company. To do profit planning, companies can take some wisdom in accounting.

Companies can use ratios in the financial statements, such as by using the ratio between debt and equity (Debt to Equity Ratio) and smoothing of income (Income Smoothing). Companies can connect to various estimates contained in the financial statements so that operations can be interpreted. Based on the results of research by Heikal, Gaddafi and the Ummah (2014), states that the Debt to Equity Ratio (DER) has a negative effect significant profit growth automotive companies listed on the Jakarta Stock Exchange. While on the other research conducted by Gunawan and Wahyu (2013), states that the Debt to Equity Ratio (DER) effect on earnings growth trading company in Indonesia. Based on this, the research was conducted to discuss the proceedings with the title Effect of Debt to Equity Ratio and Income Smoothing Against Profit Management at PT. Bakrieland Development Tbk.

2. Literature Review

Debt to Equity Ratio

Debt Equity Ratioa ratio that compares the amount of debt to equity, this ratio is used by the analysts and investors to see how much debt compared with equity company owned by the company or its shareholders. The company has many needs to run its operations, particularly with regard to funding for the company to run properly. The funds are always needed to cover all or part of the costs involved. Funds are also needed for expansion or business expansion and new investments, which means that within the company should always be available funds in a certain amount that is available when needed.

Debt to equity ratio (DER)at each company would vary, depending on the characteristics of the business and the diversity of its cash flow. Company with a stable cash flow typically has a higher ratio of the ratio of cash that is less stable. This ratio shows the relationship between the number of long-term loans granted to the creditors with the amount of equity capital provided by the owners of the company. It is commonly used to measure a company's financial leverage.

By doing calculations DER, It can be seen how much the company assets financed by debt or how debt affects the asset management company. The higher this ratio the debt funding with more and more, it is increasingly difficult for companies to obtain additional loans because the company feared not being able to cover its debts with its assets. Conversely the lower this ratio, the smaller the company is financed from debt. The standard measurement for assessing whether or not the ratio of the company used the average ratio of similar companies.

From the measurement results, when the ratio is high, it means funding with more and more debt. Thus, it is increasingly difficult for companies to obtain additional loans because the company feared not being able to cover its debts with its assets.

According to Gunawan and Wahyu (2013), Debt to Equity Financial Leverage Ratio is considered as a financial variable because theoretically indicates the ratio of a company so the impact on stock price volatility. Debt to Equity Ratio is high have a negative effect on the performance of the company due to debt levels higher mean interest expense will be greater which means reduced profits, by contrast, the level of Debt to Equity Ratio is low indicates better performance, because it causes the rate of return the higher it is. According to Marietta (2013), Debt to Equity Ratio (DER) is a company's ability to meet all of its obligations, which are addressed by how big a part of their own capital is used to pay the debt. The greater the proportion of debt used for capital structure of a company, the greater the amount of its liabilities. The increase in debt will ultimately affect the size of net profit to shareholders including dividends to be received.

Debt to Equity Ratioprovides an overview of the structure of the capital owned by the company, so it can be seen the level of risk of non-collection of a debt by investors. The greater the value of Debt to Equity Ratio, means the greater the amount of assets financed by the owner of the company and the smaller the value Debt to Equity Ratio, means the smaller the amount of assets financed by the owner of the company.

The amount of the ratio of Debt to Equity Ratio (DER) will affect the level of achievement of the company's profit. The higher the Debt to Equity Ratio indicates the greater the burden on companies to outsiders, it is impossible to reduce the company's performance, because the level of dependence on outside parties is increasing.

Long-term debt is a solution to increase the capital of the company. However, if not managed properly will have an impact on the company's ability to generate profits, due to increased interest expenses raised by long-term debt. The increase in long-term debt will certainly have an impact on the increase in the total debt of the company, so the higher the company's assets dibelanjai by debt. Obviously this will have a negative impact on the sustainability of the company in the future.

To determine the value of fairness Debt to Equity Ratio (DER) in a company, it can refer kepadaPeraturan Minister of Finance 169 / PMK.010 / 2015 of which states:

- Article 1, paragraph 1:

For the purposes of the Income Tax calculation determined the size of the ratio between debt and capital for corporate taxpayer who is established or domiciled in Indonesia whose capital is divided into shares.

- Article 2, paragraph 1:

The magnitude of the ratio between debt and capital referred to in Article 1 (1) shall be a maximum of four compared to one (4: 1).

Based on the Regulation of the Minister of Finance, the determination of the value of Debt to Equity Ratio (DER) is 4: 1. Where if DER larger than such provision, the interest costs on the debt can not be recognized as an expense in the income tax that will lead to the growing of a company's taxable income. Likewise, if the DER is smaller than such provision, the interest costs can be recognized so far taxable profit.

Income Smoothing

In a business profit is the most important thing for both internal and external parties. Profit is often used as a reference forward mundurya a company. At present the company has a substantial profit can be said that the good performance of the company and vice versa. Ratings profit on enterprise is not only done in the first period alone, but several periods. Therefore, the movement of profits from period to the next should be increased. But the increase in income that is too high or too low is not good that the action will be taken on the profits of the company. Actions taken are income smoothing.

According Alfatooni & Nikbakht (2010), by Income Smoothing company more attractive to investors than companies that have a higher profit fluctuations. This will attract investors to their shares to the company, because they thought that the company is very stable finances.

According to Black, Pierce, and Thomas (2017), Income Smoothing can be done with the approach accrual rather than cash flow because it will get different results than other commonly used sizes. In this case, a calculated Income Smoothing can be performed using several factors on the balance sheet of financial statements, in which the calculation of Income Smoothing usually obtained by using some of the factors contained in the computation of earnings (loss) of the company.

Many factors cause the company's income smoothing. In his research Peranasari & Dharmadiaksa (2014), states that the factors that led to the company income smoothing is as follows:

1. Profitability. Profitability as a reference for investors to invest in a stable so that profitability will make the appeal for investors to invest in the company. Management therefore be encouraged to undertake income smoothing so that the company's profitability remained stable and rated well by investors.
2. Financial Risk. The higher the financial risk to the company, the higher the likelihood of companies in smoothing laba.Perataan company profits could be used to avoid a debt contract.
3. Operating leverage, Operating leverage at companies that will either benefit the company in financial terms so that the Management should report favorable operating leverage, then why do smoothing earnings of the company.
4. The value of the company, Income smoothing will cause a decrease in earnings variability. Earnings were up and down will cause the investors are not interested to invest that income smoothing will help the company in lowering earnings variability. Stable profit will make stock prices tend to be stable.
5. Ownership structure. Managerial ownership in the ownership structure, causing tend Management income smoothing.
6. Company size. The size of the company can affect the size of the company in doing income smoothing. The bigger the company the meal will tend income smoothing because large companies have an interest to external parties so that the smoothing of income necessary to maintain confidence.

According to Hanafi & Hastuti (2012), states that the factors that led to the company practice of income smoothing is financial risk and public ownership. Financial risks will indicate how likely the company can recover its debts. Therefore the company income smoothing can be rated as good and will fulfill its obligations. In addition more and more shares held by the public, the greater the likelihood that the company will carry out smoothing earnings.

Utomo & Siregar (2008), revealed that income smoothing is divided into two, namely:

1. Naturally Income Smoothing ie naturally yangterjadi income smoothing is a process carried out by the Management directly without any manipulation.
2. Intentionally Income Smoothingie income smoothing deliberate and occurs because of interference on the part of management. This income smoothing can occur in the form of real income smoothing and artificial profits.
3. Rill income smoothing, a management action to control economic events that directly affect the company's profit in the future.
4. Artificial income smoothing, a management effort to flatten labadengan manipulation.

Profit Management

According Sulistyanto (2008) there is a difference on the practice when reporting profits, managers will tend to delay profit recognition. Therefore, the financial statements are often used as an indicator of performance evaluation, the possible earnings management behavior can occur because the Management has more information and more accurate than on the principal while the usual pattern of earnings management are:

1. Taking a bath is performed manager by shifting the cost of dicretionary accruals coming period to the current period or shift income dicretionary accruals current period to the next period, the pattern is done by managers to maximize compensation or bonuses to be received in the next year due to face the fact that bonuses this year was not acceptable.
2. Income minimization is intended for the purposes of the tax considerations that minimize the tax liability of the company.

According Nastiti & Gumanti (2011) Profit Management is a way for management to make a determination of interference in the company's profit. Earnings management is usually done for private purposes of management.

According Narfiah (2013) Management earnings (earnings management) in the narrow sense is only concerned with the selection of accounting methods. And can be defined as behavior management to "play" with the discretionary component of accruals in determining the amount of earnings. Meanwhile, in the broad sense, earnings management is an action manager to increase or decrease in reported earnings at this time on a unit where the manager who will be responsible, without resulting in an increase or decrease in the probability of the unit's long-term economy.

According to the order and Herawaty (2010), earnings management is any management actions that may affect the numbers of reported earnings where earnings management can be measured by using Proxi Discretonary acrual (DA). Thus, the measurement of earnings management allows managers to intervene in the process of preparing the financial statements, so that the earnings reported in the financial statements do not reflect the value or condition of the real company.

Based on the description above can be concluded that the earnings management is a management intervention on the financial statements in the form of choices made by the Management of the accounting policies that allowed the external financial reporting process to achieve the objectives / specific purpose, so as to reduce the credibility of the financial statements.

Motivation and opportunities that are owned by the manager, made the earnings management practice manager at the company's financial statements. But in practice earnings management, the manager must do it carefully so as not easily known by others. Setiowati (2007) states that there are three earnings management techniques that may be made by management, among others:

1. Leveraging Opportunity To Make Accounting Estimates
2. Earnings management ways to affect the judgment against estmasi earnings through accounting among others estimate the level of bad debts, estimated period of depreciation of fixed assets or intangible asset amortization, the estimated cost of the warranty, and others.
3. Change the Accounting Method. Management has the opportunity to change the company's accounting methods in accordance with the conditions of the company during the period. Changes in accounting

methods should be disclosed clearly and the reasons are rational in the notes to financial reporting. Example: to change the depreciation of fixed assets from depreciation methods digit year straight line depreciation method.

4. Shifting the Cost or Income Period. In the IFRSs requires the company to use the accrual basis for recording the financial statements (except for the statements of cash flows), thus providing an opportunity for management to manipulate the company's financial statements. An example is accelerating or delaying spending on research and development to the next accounting period, accelerating or delaying the promotional expenditures until the next period.

3. Methods

Types of Research

This type of research is quantitative data, in the form of secondary data from the financial statements of companies listed on the Jakarta Stock Exchange (JSX). In this case it was calculated by using the values in the financial statements of the company.

Place and Time Research

The research was done by downloading the financial statements. Bakrieland Development Tbk., On the website www.idx.co.id. The financial statements which will be the object of our study is the financial statements in the year 2009-2016.

Conceptual Framework

Research Design

We did this study to analyze a significant influence over the DER and Income Smoothing in determining profit Management. For the variables associated with this study include:

1. The independent variable (independent variable), are variables that affect the dependent variable / bonded. In this study, the independent variables are Debt to Equity Ratio and Income Smoothing.

DER = Total Lialibilities / total Equity

EARN = (EBT EBT t- t-1) / total Assets

2. The dependent variable (dependent variable), are variables that affect the independent variable. In this study, the dependent variable is Profit Management.

EM = (N1-Nt-1) / Market Value of Equity t-1

EM : Profit management
N1 : Changes in corporate profits in t
Nt-1 : Changes in corporate profits in year t-1
Market Value of Equity: The market price of shares of the company at the end of the year t-1
If EM ≥ 0.01 Earnings management company is deemed to be rated 1,
If EM ≤ 0:01 Company considered earning management rated 0

Thus the design of our study are as follows:

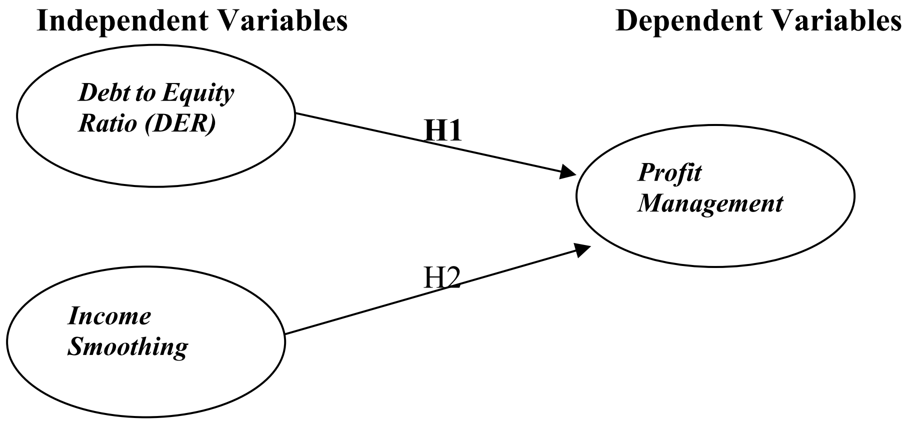

Figure 1 Theoretical Framework

Source: Researcher data, 2019.

Operational Description of Study Variables

Operational Description of an explanation of the variables that determine the outcome operationally, in practice, obviously within the scope of the research object. Here is a table for a description of instrument operation and on the variables that we do.

Table 1 Operational Description of Study Variables

Variables	Operational Description
Profit management	Management interventions to the financial statements, which form the selections made by the Management of the accounting policies, which are permitted under the external financial reporting process to achieve the objectives / specific intent, so as to reduce the credibility of the financial statements

Source: Literature Review, 2019.

Table 2. Instrument Research Variables

Variable Element	Concept	Indicator	Scale
Debt to Equity Ratio	*Debt to equity ratio* a ratio that compares the amount of debt to equity, this ratio is used by analysts and investors to see how much debt the company when compared to equity held by the company or its shareholders	*DER*	ratios
Income Smoothing	*income Smoothing* a company policy to smooth profits in the period.	Profit	ratios

Source: Literature Review, 2019.

Population and Sample

The population that will become the object of this study are all companies that have listed on the Jakarta Stock Exchange (JSX) in 2009-2016. As for sampling which will be the object of research is PT. Bakrieland Development Tbk and has published all financial reports in the Jakarta Stock Exchange (JSX) and has been reported in the KPP obligations.

Selection of the sample in this study using purposive sampling method with the following criteria:

1. The company is listed on the Jakarta Stock Exchange (JSX) during the years 2009 to 2016 and not in delisting during the observation period.
2. The company owns Debt, Equity and earnings in financial statements during the period of observation.
3. The Company publishes annual financial statements (annualy report).
   Determination of the year under consideration recent data obtained in the study in 2009-2016.

4. Results and Discussion

Data Analysis Research

Data collected ie the ratio of the financial statements at. Bakrieland Development Tbk., The Debt, Assets, Equity, Earnings before tax (EBT) and net profit (EAT). Data is taken from quarterly financial statements from the period 2009-2016, so that we get the number of samples is 96 samples, data collection can be seen in the attachment.

Data Interpretation

Descriptive statistics

Table 3 shows the results of descriptive statistics of each variable, namely DER, EARN and EM.

Table 3. Descriptive Statistics

	N	Minimum	maximum	mean	Std. deviation
DER	32	.5496368	1.4874444	.855501931	.2473145025
EARN	32	-.0819148	.0659304	-.002720056	.0281681295
EM	32	-.1375582	.1485347	-.004839346	.0559696991
Valid N (listwise)	32				

Source: Output SPSS, 2019.

Based on table 5.1, the number of data observations is as much as 32 quarterly. DER value has an average 0.855501931. EARN has an average -.002720056 and EM as -.004839346.

Classical Assumption Test

The results of non-parametric statistical test Kolmogorov-Smirnov, EM significance level as the dependent variable is 0.912 (greater than 0.05) so that the relationship between independent and dependent variables is fairly normal.

Table 4. One-Sample Kolmogorov-Smirnov Test

		Residual unstandardized
N		32
Normal Parametersa, b	mean	.0000000
	Std. deviation	.01053621
Most Extreme Differences	Absolute	.129
	positive	.119
	negative	-.129
Test Statistic		.129
Asymp. Sig. (2-tailed)		.192c

a. Test distribution is Normal.
b. Calculated from data.
c. Significance Lilliefors Correction
Source: Output SPSS, 2019.

Test Multicolinearity

All independent variable tolerance value greater than 0.10 and VIF is less than 10. It can be concluded that the regression model are non-existence of multicollinearity.

Table 5. Coefficients

Model	Coefficients unstandardized		standardized Coefficients	t	Sig.	collinearity Statistics	
	B	Std. Error	beta			tolerance	VIF
(Constant)	.004	.007		.523	.605		
DER	-.004	.008	-.017	-.474	.639	.998	1,002
EARN	1,950	.070	.981	28 040	.000	.998	1,002

a. Dependent Variable: EM
Source: Output SPSS, 2019.

Autocorrelation Test

Autocorrelation test results for EM as the dependent variable showed durbin-watson value 2.421. This value is greater than the du = 1.8261 and (4-du) = 2.1739 so that it can be concluded that there is a problem in the regression model autocorrelation.

Table 6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.982a	.965	.962	.0108934731	2,421

a. Predictors: (Constant), EARN, DER
b. Dependent Variable: EM
Source: Output SPSS, 2019.

Test Hesteroskidasitas

From these test results find that the dots spread randomly. So no matter hesteroskidasitas in the regression model.

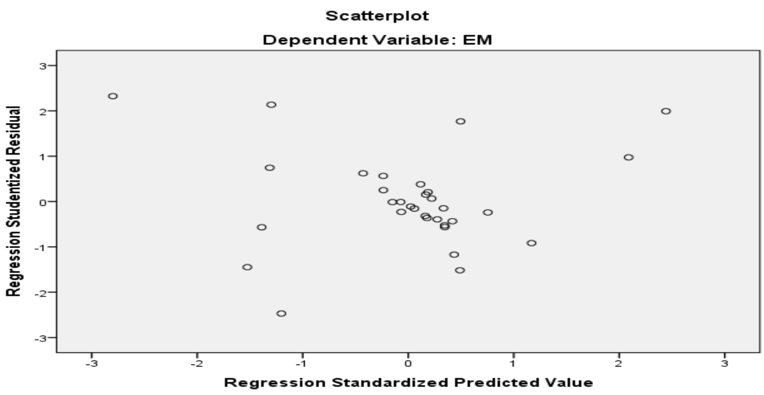

Figure 2. Scatterplot

From the above data explains that there is influence between the Debt to Equity Ratio and Income Smoothing on Earnings Management.

Test Partial

Table 7. Coefficientsa

Model		Coefficients unstandardized		standardized Coefficients		
		B	Std. Error	beta	T	Sig.
1	(Constant)	.004	.007		.523	.605
	DER	-.004	.008	-.017	-.474	.639
	EARN	1,950	.070	.981	28 040	.000

Dependent Variable: EM

Source: Output SPSS, 2019.

If seen from Table 7, can be summed up as follows:

1. DER influence on the EM (earnings management). DER thinking about t value of -0.474 and sig of 0.639 which means greater than 0.05. Thus, the DER has no significant influence on earnings management.
2. Influence of Income Smoothing against EM (Gain Management). EARN has a t value of 28.040 and sig of 0.000 which is smaller than 0.05. Thus, Income Smoothing significant influence on earnings management.

Table 8. ANOVA

Model		Sum of Squares	Df	mean Square	F	Sig.
1	Regression	.094	2	.047	394 671	.000b
	residual	.003	29	.000		
	Total	.097	31			

a. Dependent Variable: EM

b. Predictors: (Constant), EARN, DER

Source: Output SPSS, 2019.

From Table 8 we can conclude that a significant difference between the independent variable (DER and Income smoothing) with dependent variable (earnings management) where it has been on the acquisition value of sig 0.00 (less than 0.05).

Table 9. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982a	.965	.962	.0108934731

Source: Output SPSS, 2019.

Table 9 we can see that the value of R Square of 0965, which means 96.5% of independent variables influence to dependent variable, and the remaining 3.5% is influenced by other variables that are not included in this study. This is evidenced by the results of which can be seen from Table 8, where the sig value less than 0.05, which means a significant difference between the independent variable on the dependent variable.

5. Conclusion

Based on the purpose of research and discussion that has been described, it can be concluded that, Debt to Equity Ratio (DER) no significant effect on earnings management. This happens because the PT. Bakrieland Development Tbk., Suffered losses in the last 4 years, income smoothing significant influence on earnings management. This shows that PT. Bakrieland Development Tbk., Seeks to protect its financial condition so it is considered necessary to conduct Income Smoothing, Debt to Equity Ratio (DER) and Income smoothing significantly affect earnings management. This shows that PT. Bakrieland Development Tbk., It is necessary to analyze its financial statements for each period.

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