

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The company conducts activities to provide goods and services with the purpose to obtain profit. Every company cannot be separated from the information needed in the form of accounting information. The parties in relation with the information presented in the financial statements are internal and external parties that support the sustainability of a company. The financial statements are one of the main sources of information and communication way used to connect interested parties within the company to obtain financial information. The financial statements are the managers' main tool for presenting the effectiveness of goal achievement and for carrying out the responsibility function within the organization. The purpose of the financial statements is to provide information about the financial position, performance, and changes in financial position that give benefit for users in economic decision-making. One of the most important information in the financial statements is the company's net income that is used as the basis for calculating the company's earnings in a certain year. The financial statements are means to explain the using of the owner's resources. One of the important measurements in the financial statements to measure performance is income. The financial statements are summaries of a process of recording the financial transactions that occurred during the year concerned.

Financial performance of a company describes financial condition and progress in achieving the company's goal. Financial performance of a company illustrates financial condition that is analyzed using financial analysis tools so it can be identified how good and bad of financial condition of a company is which reflects the

performance in certain period. It shows that financial performance is an indicator that is required by company management to measure the effectiveness of company performance. Besides, financial performance is an indicator that will be used by investors before doing investment. Many things become a benchmark performance of a company, one of which is the company's ability to generate profits.

Earnings information is a major concern for assessing performance or management accountability. In addition, earnings information also helps the owner or other parties in assessing company's earnings power in the future. The different interest of financial statement users, between internal and external parties, may cause company earnings manipulation done by management. Management is flexible to decide the alternative in recording any transactions as well as to choose the existing options with the same accounting treatment. Tax motivation is one of supporting items that encourages management to carry out profit management. The company would prefer an accounting method that can earn lower reported profit than it should be, so that the payable tax will be lower. Earnings management is the management intervention in the financial reporting process in order to give benefit to managers. Earnings management as an ability to manipulate the available options and to make the appropriate choices in order to achieve the expected profit.

The importance of earnings information for the users of financial statements requires the earnings information, which reflects the actual condition of economy and finance. However, the manager, who is responsible for making financial statement, often pervert the authority to do earnings value manipulation for obtaining some private gain. The action to manipulate earnings value in financial statement of a company is called earnings management. It is used by manager as a way to show a good performance in gaining maximum profit for the

company and try to give positive impression for investors. Efforts to manipulate earnings information by managers is done by manipulating components in the financial statements, either by changing the size of profit and to hide or delay the disclosure of certain components. Earning management action is not merely the fault of management. This is because Financial Accounting Standard allows management to choose various alternative of accounting method to manage company's profit.

However, it cannot be denied that this manipulation makes the financial statement being irrelevant to take economy decision. It is caused that information in earning value has been adjusted with manager's interest. The earning value manipulation, which is done by management, is hard to detect by users of financial statement. Whereas, this management action can bring negative impact to all of parties. Therefore, financial statement users should have understanding and knowledge about various indicators that can predict manager to do earning management. As a result the possibility of false financial statement can be noticed. Some earning management predictors are income tax and asset. Tax planning related to manipulation process of business and transactions the taxpayer is done to make the tax debt in minimal amounts, but it is still within tax regulations. However, tax planning can also be interpreted as planning of tax obligations fulfillment completely, correctly, and on time so it can optimally avoid waste of resources. This tax planning will give chance for managers to lower the value of earnings in order to make the tax imposed on company become smaller.

The income tax to profit ratio, asset and profit of some basic industry and chemicals companies in Indonesia Stock Exchange can be seen as follows:

Table 1.1 Income Tax, Asset and Profit in Year 2012-2016

Company	Year	Effective Tax Ratio	Asset (Billion Rp)	Profit (Billion Rp)
PT Charoen Pokphand Indonesia, Tbk	2012	25.95%	12,348	2,680
	2013	36.48%	15,722	2,528
	2014	20.61%	20,862	1,747
	2015	24.44%	24,685	1,837
	2016	77.94%	24,805	2,221
PT Japfa Comfeed Indonesia, Tbk	2012	27.01%	10,961	1,074
	2013	39.85%	14,917	640
	2014	47.89%	15,730	332
	2015	36.97%	17,159	468
	2016	28.77%	19,251	2,065
PT Indal Aluminium Industry, Tbk	2012	30.43%	612	23
	2013	126.33%	765	5
	2014	45.45%	897	22
	2015	96.55%	1,330	29
	2016	61.11%	1,339	36

Source : Indonesia Stock Exchange (2018)

From table above, it can be known there is increasing of profit of PT Charoen Pokphand Indonesia, Tbk, PT Japfa Comfeed Indonesia, Tbk and PT Indal Aluminium Industry, Tbk in year 2012-2016. The companies present the increasing of profit in order to shows the good financial performance to investors and stakeholders. The assets also increase in year 2012-2016. It shows the good financial position of the companies. The increasing of assets can show that the companies can develop the business activities in the future. However, the increasing of profit is not in line with effective income tax rate. It shows that the companies does not pay the income based on actual net income. It indicates that companies conduct earning management in order to make efficient tax payment. The companies use many ways and method in accounting and tax for decreasing of income tax.

Based on this background study, then the writer is interested to conduct the research with title as follows : **“The Impact of Income Tax and Asset on Earning Management at Basic Industry and Chemicals Companies Registered in Indonesia Stock Exchange”**

1.2 PROBLEM LIMITATION

The writer makes problem limitation as follows:

1. The research object is basic industry and chemicals companies in Indonesia Stock Exchange
2. The independent variables are income tax and asset and dependent variable is earning management.
3. The research period is year 2012-2016.

1.3 PROBLEM FORMULATION

Problem formulation in this research are as follows:

1. Does income tax have impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange partially?
2. Does asset have impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange partially?
3. Do income tax and asset have impact on earning management in basic industry and chemical companies registered in Indonesia Stock Exchange simultaneously?

1.4 RESEARCH OBJECTIVE

The objective of doing this research are as follows:

1. To know whether income tax has impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange partially.

2. To know whether asset has impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange partially.
3. To know whether income tax and asset have impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange simultaneously.

1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1 THEORETICAL BENEFIT

1. This research can give benefit in understanding the theory of accounting, financial and tax.
2. This research can be used as reference for other researchers in conducting research with same topic.

1.5.2 PRACTICAL BENEFIT

1. This research is expected in giving suggestion for the company in conducting corporate governance in paying the proper amount of tax based on tax regulation.
2. This research is expected in giving the information to investor in understanding the factors that have impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange

1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows :

Chapter I : Introduction

This chapter provides preliminary insights like background of study, problem formulation, research focus, research objective, benefit of the research and systems of writing. This chapter describes about the increasing of profit is not in line with effective income tax rate. It shows that the companies does not pay the income based on actual net income. It indicates that companies conduct earning management in order to make efficient tax payment.

Chapter II :Literature Review and Hypothesis Development

This chapter consists of theoretical background. The theoretical background describes the theory used in this research such as definition of tax, tax function, tax collection system, tax type, income tax subject, income tax subject, income tax object, asset, asset recognition, measurement of asset, earning management, element of earning management, earning management technique, motives of earning management. It also includes the analysis of previous research, hypothesis development, research model, as well as the framework of thinking of the paper.

Chapter III :Research Methodology

This chapter consists of research design, research object, data collection method and data analysis method. The research design is using quantitative research method and associative analysis method. The data collection used in this research is the documentation technique. The data analysis method and hypothesis test in this research is to know whether income tax has impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange, to know whether asset has impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange, and to know whether income

tax and asset have impact on earning management in basic industry and chemicals companies registered in Indonesia Stock Exchange.

Chapter IV :Data Analysis and Discussion

This chapter consists of general view of research object, data analysis and discussion about the income tax, asset and earning management. The research object in this research is basic industry and chemicals companies that registered in Indonesia Stock Exchange. In data analysis and discussion, it describes the result of data quality testing and result of hypothesis testing.

Chapter V :Conclusion

This chapter contains the conclusion, the implication and recommendations.

