

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Every companies want to achieve the best performance in their business industry. In order to do that, companies compete strongly by showing its potential advantages from the others. One of the way to analyze their performance is through its financial report. Financial report is an accounting information that give information about the company's financial whether profit or loss (Mahariana & Ramantha, 2014). This report is being prepared by the internal accountant and submitted to the shareholders. The purpose is to convince the shareholders that their investment are being used properly and earn profit. It also can encourage new investors to invest and expand the company. The second purpose which it is needed as requirement in applying credit proposal to bank. Company usually apply credit proposal for seeking emergency fund.

The importance of financial report and high expectation of shareholders give internal accountant pressure. Hence, it arises conflicts and encourage them to do earning management. Earning management is an effort to manipulate income information by changing components in financial statements and hiding or delaying disclosure of certain components. Although according to International Financial

Reporting Standards (IFRS), managements are allowed to determine various alternative of accounting methods to manage profits. But earning management make the financial reports unreliable in decision making. It is because the income data information has been adjusted to the desirability of the manager (Widiatmoko & Mayangsari, 2016).

Table 1.1 Deferred Tax Expense, Profitability, Information Asymmetry and Earning Management in Year 2017-2019

Company	Year	Deferred Tax Expense	Profitability	Information Asymmetry	Earning Management
PT. Sekar Laut Tbk (SKLT)	2017	0,00061480	0,03610134	1,14705882	0,00784935
	2018	0,00370671	0,04275980	0,95652174	0,02920773
	2019	0,00319414	0,05682984	1,07692308	0,03829044
PT. Akasha Wira International Tbk (ADES)	2017	0,00694924	0,04551340	1,07692308	- 0,04607064
	2018	0,00808261	0,06009248	1,12222222	0,03478869
	2019	0,00795622	0,10200334	1,05633803	0,06417535
PT. Industri Jamu dan Farmasi Sidomuncul Tbk (SIDO)	2017	- 0,00799127	0,16902012	0,85714286	0,01914764
	2018	- 0,00320407	0,19889844	1,04444444	0,06421156
	2019	0,00334446	0,22836084	1,03703704	0,07096982

Source: Prepared by the Writer (2021)

The table above shows that there is an increasing number of earning management of PT. Sekar Laut Tbk, PT. Akasha Wira International Tbk and PT. Industri Jamu dan Farmasi Sidomuncul Tbk during year 2017-2019. The deferred tax expense also increases as the earning management increases at the same time. Deferred tax expense happens due to temporary differences between commercial financial reports and fiscal financial reports It is also known as the result of future income tax that needed to be showed in the financial reports. The deferred tax expense

automatically effect the profit or loss of the company. When the deferred tax expense number arise, the profit of the company will reduce. The small amount of profit is not satisfying for the shareholders so the internal accountant do earning management and increase the profit. That is why based on the table above, the profitability number arise as the number of earning management arise. Meanwhile, the table also shows that the information asymmetry has different effect toward earning management. Information asymmetry is the imbalance of information distribution between internal accountant and external parties such as shareholders. Therefore, the lesser the information presented by the accountant, the higher number of earning management.

According to previous research, Haryanto (2015), the result of research shows that deferred tax expense have positive effect towards earning management. The other research done by Andreani Caroline Barus (2015), the result of the research that deferred tax expense and assymetry information have no effect towards earning management. However, Dini Widyawati (2019) shows that information asymmetry and profitability have positive effect towards earning management. In the results of previous studies, there is still inconsistencies that make writer to take the topic of earning management with some of these variables.

This research also focus in consumer goods companies sector which provides fundamental goods for consumer. It is one of sectors that give biggest impact to the economic growth. From 2018 data, it contributes 19.82% to the gross domestic product (GDP) with a growth of 4.25%. This number helps in increasing productivity, investment, export and employment. Based on the above background, writer is

interested in doing research about **“The Effect of Deferred Tax Expense, Profitability and Information Asymmetry toward Earning Management at Consumer Goods Companies listed on Indonesia Stock Exchange.”**

1.2 Problem Limitation

The problem limitation in this research are:

1. The research object is consumer goods companies listed on Indonesia Stock Exchange.
2. The independent variable of this research are deferred tax expense, return on investment and information asymmetry and dependent variable is earning management.
3. The data to be researched is taken from the year 2017 to 2019.

1.3 Problem Formulation

Based on the background of study above, the problem formulation in this research are:

1. Does deferred tax expense have significant effect towards the earning management at consumer goods companies listed on Indonesia Stock Exchange?

2. Does return on investment have significant effect towards the earning management at consumer goods companies listed on Indonesia Stock Exchange?
3. Does rasio market to book value have significant effect towards the earning management at consumer goods companies listed on Indonesia Stock Exchange?
4. Do deferred tax expense, return on investment and rasio market to book value simultaneously have significant effect toward the earning management at consumer goods companies listed on Indonesia Stock Exchange?

1.4 Objective of the Research

The research objective are as follows:

1. To analyze whether deferred tax expense has significant effect towards the earning management at consumer goods companies listed on Indonesia Stock Exchange.
2. To analyze whether return on investment has significant effect towards the earning management at consumer goods companies listed on Indonesia Stock Exchange.
3. To analyze whether ratio market to book value has significant effect towards the earning management at consumer goods companies listed on Indonesia Stock Exchange.

4. To analyze whether deferred tax expense, return on investment, and ratio market to book value simultaneously have significant effect toward the earning management at consumer goods companies listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefit of research can be separated into two kinds of benefit, which are:

1.5.1 Theoretical Benefit

The theoretical benefit from the research are giving knowledge and better understanding on how the company do the earning management and factors that effected it.

1.5.2 Practical Benefit

Meanwhile, the practical benefit of this research such as :

1. Company

Through this research, it shows that every company have ever done this earning management before. Although that, company need to make the reasonable and responsible financial report to the internal (shareholder) and external (creditors).

2. For reader

The research can be used as reference that guide further research about deferred tax expense, information asymmetry, profitability towards earning management.