CHAPTER I

INTRODUCTION

1.1 Background of The Study

Financial statements are made to assess the company's financial performance. Financial statements are made by the management to determine the economic condition of the company. In the statement of Financial Accounting Standard (PSAK), it is explained that the financial statements are an accounting process used to communicate with the owners of the shares to find out the increase or decrease in the company's performance. The information that is often used to know the performance of the company is profit. Profit information is information that is important to shareholders in order to make economic decisions within the company, so earnings management is made.

Profit is often used as a measurement of the company's achievements which is a reflection of management performance. Looking at the various functions of a profit, most investors pay great attention to the profit presented in the financial statements without noticing how the profit is generated. This has provided an opportunity for management to practice earnings management. As a party that knows more information about the company, management often conducts earnings management to maximize its profit.

Financial statements no longer reflect a company's fundamental value as a result of the company's way of engineering information through earnings management practices. As a result, financial statement engineering has become a contentious issue as a source of information misuse that can harm stakeholders. As a result, the information provided is sometimes not in accordance with the company's actual conditions. This condition is known as asymmetry information which is a condition where there is an imbalance of information acquisition between management as an information provider and stakeholders.

Agriculture is one of Indonesia's potential sources of wealth. Agricultural culture is a type of community culture that is based on agriculture. Plantations, forestry, animal husbandry, and fishing are all examples of object agriculture. Agriculture is a biological resource utilization activity that humans engage in to produce food. Agriculture's presence in Indonesia has a positive impact on society. As a result, agriculture must be preserved and maintained so it will be better in the future.

The agricultural sector is becoming increasingly important in national economic growth. It has been demonstrated that the agricultural sector's gross domestic product (GDP) has continued to expand significantly during the last five years. During the period 2015-2019, Agriculture sector GDP consistently shows a positive trend. In 2015, the GDP of the Agricultural Sector was Rp. 906.8 trillion, and continued to increase to Rp. 936.4 trillion in 2016. In 2017 and 2018, the GDP of the Agricultural Sector again increased to Rp 969.8 trillion and Rp. 1,005,4 Trillion. At the beginning of 2019 (Quarter I), the GDP performance of the Agricultural Sector was still showing a positive trend. Compared to the previous Quarter (Quarter IV of 2018 or Q to Q), the GDP of the Agricultural Sector grew by Rp. 40.4 trillion or 19.67% (Rp. 245.7 trillion vs. Rp. 205.3 trillion) and even grew the highest compared to other sectors. Likewise, compared to the first Quarter of 2018 (y on y), the GDP of the Agricultural Sector at the beginning of this year improved and grew by 1.15% (Rp 245.7 trillion vs. Rp 242.9 trillion) (Kementrian Pertanian Republik Indonesia, 2019).

Along with the growth of GDP in the agriculture sector, there are factors that affect the income of agricultural companies, which is earnings management. Earning management is the activity of managing profit in accordance with the desired by certain parties, such as company managers (Wisudaningtyas,2019). Furthermore, earnings management is defined as the activities of managers in financial statements, either by manipulating data or information financial and accounting methods, whose purpose is to obtain profit (Aditama & Purwaningsih, 2019). Earning management can be based on specific purposes and objectives, one of which is to minimize the profit reported by the company, the purpose of which is to minimize the tax expense paid company. This is because, there are differences in interests between companies and the government. The company wants to pay as little tax as possible in order to not reduce the profit earned, while the government wants to optimize tax payments to finance government spending. The profit difference causes the manager to implement profit management (Eka et al., 2016).

In Indonesia, one of the profit management phenomena occurred at PT Garuda Indonesia, Tbk related to mis-recording in the 2018 financial statements. The incident started from PT Garuda Indonesia's error in posting the value cooperation contract with PT Mahata Aero Teknologi, where the Rp3.41 trillion is shown as receivables, but PT Garuda Indonesia, Tbk is shown as miscellaneous income. This resulted in PT Garuda Indonesia, Tbk posted a net profit of Rp11.33 billion in the financial year 2018, not in accordance with the third quarter 2018 report that has been recorded a loss of Rp16.72 billion.

According to Suandy, 2011 in Aulia et al 2019, current tax is the amount to be paid by the Taxpayer. The tax amount must now be calculated by the taxpayer based on taxable income multiplied by the tax rate, then paid by himself and reported in the Notification Letter (SPT) in accordance with the prevailing tax laws and regulations. Taxable income or fiscal income is obtained from the results of fiscal correction to net profit before tax based on commercial financial statements.

Current tax expense is the tax expense that must be borne company in the current year, that is determined by regulation taxation as well submitted in the tax return corporate income. This tax expense using effective tax rates multiplied by the taxable income tax or taxable income obtained from financial reports commercial or after accounting profit fiscal corrections are made (Junery et al., 2016).

Deferred tax expense is the result of multiplying the length of time by the marginal tax rate. The difference in time arises due to certain discretionary accruals policy applied so that there is a difference in the time of revenue recognition or costs between accounting and taxes. The deferred tax expense is used as a measure in detecting earnings management because the accrual policy is the way managers do earnings management and the deferred tax expense reflects the accrual policy with the magnitude of the time generated. By using the accounting profit difference information with taxable income indicated by deferred tax burden and current tax expense. This is done because it assumes that deferred tax loads can be used to measure the choice of discretionary managers well. And also, earnings management practices can pose a difference in tax registration (Utami & Malik, 2015).

Deferred tax is a tax expense to be paid by the taxpayer in the future. Deferred tax expense is a burden arising from temporary differences between the profit of the accounting (profit in financial statements for external parties) with fiscal profit (profit used as the basis of tax calculation). It can be interpreted now and deferred tax is very affecting earnings management. The higher the tax burden to be paid then the smaller the profit to be accepted by the company. If the tax burden is low then the received profit is greater.

The size of the company also plays an important role in the company doing earnings management practices. Small company sizes are considered to do more earnings management practices than large corporations. This is because a small company tends to want to show the company's condition that is always performing well for investors to invest in the company. Unlike small companies, large companies will usually be more cautious about financial reporting, because large companies are more concerned by the community (Dayanti, 2012).

The size of the company does not affect earnings management but has a negative relationship so that it can be concluded that the larger the size of the company then the motivation to do reduced earnings management. The reputation of auditors has no effect on earnings management, this is because the management of the company still has a desire for the Journal of Sciences Accounting Scientific 77 shows a good performance in the eyes of prospective investors so that the size of big4 or non-big 4 cannot significantly limit the practice of earnings management that occurs in the company. Management ownership has significant negative impact on management (Susanto & Majid, 2017) .

The company size is one of the driving factors of earnings management practice. The larger the company gets the attention of many parties especially the Government and the public. The company will calculate a profit margin and perform earnings management actions to attract investors to embed shares in the company. Large or small size companies will encourage the practice of earnings management. Large companies carry out earnings management practices to avoid drastic fluctuations in profit, while small companies will increase the amount of their profits to attract investors to invest so that the company will continue to evolve (Kusumawati, 2019).

According to Medyawati and Sri Dayanti that the size of the company has a significant effect on the management of profit depends on how large the company is while in the company's opinion, Rakhmat Susanto, that the size does not affect the earnings management. Then this research is made to know whether the size of the company can affect earnings management.

Earnings management is the engineering action of financial statements, especially in order to engineer the company's profit to fit the desired. Certain motivations may encourage managers to report on activities or financial statements in accordance with what is desirable or said to be inappropriate by their actual circumstances. The action of this profit-making will negatively affects the quality of profit that decreases and affects the decision-making based on profit data or overall financial statements (Panjaitan & Muslih, 2019).

Earnings management can be influenced by several factors. In writing this scientific work uses three factors, namely the deferred tax expense, current tax expense, and the size of the company as an independent variable. The factor is chosen because it affects a large part of the company's profit. Based on PSAK No. 46, taxes are now the amount of income tax owed on taxable profit for a period. The tax expense is now the amount of tax payable by the taxpayer (Sutadipraja et al., 2020).

The phenomenon that occurs is that there is basically no one who likes to pay taxes, because the tax is an expenditure without cons of direct achievement, so that taxpayers tend to try to pay tax as small as possible, and tax avoidance as long as it is possible rules (loop holes). Some large and well-known companies are paying taxes with little or no amount as evidence that many companies do not pay the appropriate taxes (Hidayat, 2018).

Based on the background, researcher is interested in conducting research that variables have a significant effect on earnings management with the title "**The Effect of Current Tax Expense, Deferred Tax Expense, and Company Size towards**

Earnings Management in Agriculture Companies listed in Indonesia Stock Exchange period 2015-2019".

1.2 Problem Limitation

In order for this research to be done more focused, perfect, and profound, the authors look at the problem of research raised need to be limited variable. Researchers focus solely on:

1. Independent Variable ratio is limited to current tax expense, deferred tax expense, company size and dependent variable is limited to earnings management.
2. Object of the research is limited to agriculture company listed on IDX.
3. Period of the research is limited for the year 2015-2019.

1.3 Problem Formulation

In accordance with the above background, researchers will do the research of problem identification as follow:

1. Is there any significant effect of Current Tax Expense towards Earnings Management?
2. Is there any significant effect of Deferred Tax Expense towards Earnings Management?
3. Is there any significant effect of Company Size towards Earnings Management?

4. Is there any significant effect of Current Tax Expense, Deferred Tax Expense, and Company Size towards Earnings Management?

1.4 Objective of The Research

Based on background of the study and problem formulation. It can be found that the research objectives are as follows:

1. To analyze whether Current Tax Expense has significant effect on Earnings Management.
2. To analyze whether Deferred Tax Expense has significant effect towards Earnings Management.
3. To analyze whether Company Size has significant effect towards Earnings Management.
4. To analyze whether Current Tax Expense, Deferred Tax Expense, and Company Size has significant effect towards Earnings Management.

1.5 Benefit of The Research

In the benefit of the research and problem formulation above, the benefits of this research are as follows:

1.5.1 Theoretical Benefit

The benefit of this research is to increase the science and compare the theories studied at the time of study in taxation accounting. Researchers hope that in this research can be used as a reference for researchers who will conduct specific research on the influence of deferred tax expense, current tax expense, and the size of the company against profit-management.

1.5.2 Practical Benefit

1. For Author

   The benefits of researchers in order to know whether deferred tax expense, current tax expense and company size can affect the earnings management in agriculture company listed in IDX period 2015-2019.

2. For Readers

   The benefit for the reader is to be able to use this research as a reference tool that will conduct the study about the effect of deferred tax, current tax, the size of the company against earnings management.

3. For Company

   This research can be used as consideration for managers to carry out earnings management and current tax expense, deferred tax expense and company size can affect earnings management.