

# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Indonesia is one of countries that provides space to the citizen such as individual and entity to take part in taxation activities called as self –assessment. For individual and entity taxpayers, paying the taxes means reducing the economic capacity of taxpayers therefore entity tax payers will try to pay the smallest amount of possible tax, meanwhile the government needs funds from the tax revenue to settle the government (Tundjung, 2015).

As the companies, they always consider the profit earned, because it can be information for many parties either outsider or companies themselves. The information is able to determine how successful the companies are. By knowing that the companies have high profit, it can be a measurement tool to estimate the investment risk for the owner, creditor and investor.

According to Wiryandari (Rizqi, 2019) financial statement is one of the financial information that provided to outsiders because the financial statement is aimed to provide and give the information to outsiders such as the investors and creditors in making decisions related to the investment. The information of financial statement has an important role in knowing how the companies' performance is. Most big companies decrease the profit that they report or show to the outsider. To manage the profit the companies have earned, management always apply the methods according to the accounting policy to handle the

earnings management of those companies. Earnings management is an attempt to manipulate and adjust the figures in the financial statement using the accounting methods and techniques used in such businesses. In each business, there are a variety of methods for managing earnings. (Rizqi, 2019).

Companies in food and beverage sector in Indonesia are growing rapidly, the growth of companies have stated and listed down on Indonesia stock exchange period by period. Those food and beverage companies have good prospects in the future because the companies provide the needs that used daily. Food and beverage companies also still have good profit in every condition compared to other sectors.

According to Levita Supit (Waseso, 2020), chairman of the Indonesian Franchise and Licensing (WALI), there are many business opportunities in food and beverage sector in the future because those are supported by most citizen that build and run their own businesses then offering their partnership with others. That factor is able to support Indonesia market in the future. It cause effect which the companies become the target for the outsider to invest and the companies have to provide the information about the financial statement.

Financial statement also provides the earnings information by which if the companies generate earning, they have to report and pay tax to the government. However, most companies try to manage and manipulate the amount of earnings in purpose to minimize the amount of tax should be paid. This actually have been done by most companies, therefore it can occurs the misappropriation of funds and state has less amount of tax revenue. Many cases related to earnings

management that occur in the country in purpose to make the financial statement presented look good to outsiders and the managers will get the bonus from it.

According to Ramadhani (2014), Indonesia Exchange Stock has found misstated in PT. Inovisi Infracom's financial statement in September 2014. There were eight items in the INVS financial statement that needed to be fixed in the company report dated February 25th, 2015. Indonesia Stock Exchange requested that the company revise the valuation of fixed assets, net earnings per share, business segment results, financial instrument categories and the total of liabilities in business segment data. Indonesia Stock Exchange also said that issues such as cash compensation to staff and payments of party debt were misrepresented in the cash flow statement by management. Employees totaled Rp. 1,9 trillion. However, in the third quarter of 2014, the amount paid to workers in compensation fell to Rp. 59 billion. INVS management had previously updated the financial statements for the period of January to September of 2014. In the conclusion, there are changes of value which is decreasing in the value of fixed assets Rp. 1.16 trillion from Rp. 1.45 trillion.

There are some factors that can effect the earnings management practice in the company such as the level of the profitability, the deferred tax expenses and tax planning. As an investor, he should research about the company and its profitability before doing the investment. The measurement tools used are ROA.

According to Satya and Amertha (2013), Return on Assets ( ROA ) is the ratio that company use to determine the level of profit and also can affect the earnings management practices. It will shows that the company performance is

in good condition or bad condition, and It prompts managers to control earnings by increasing accounting income or vice versa, depending on the state of the company's performance. The food and beverage companies have showed that it can grow rapidly and many investors will do research about the companies aim to do the investment. Therefore, some companies will do the earnings management for the financial statement that will be shown in the public.

Based on the above explanation, the writer is interested in conducting research with the title “ **The Effect of Deferred Tax Expense, Profitability and Tax Planning toward Earnings Management in Food and Beverage Comanis Listed on Indonesia Stock Exchange**”.

## **1.2 Problem Limitation**

The writer makes problem limitation as follows :

1. The research object is Food and Beverage companies listed in Indonesia Stock Exchange.
2. The research data period is year 2015 – 2019.
3. The independent variables are Deferred Tax Expense, Profitability and Tax Planning and dependent variable is Earnings Manangement.
4. In this research, the writer will use Return on Assets ( ROA ) ratio to measure Profitability.
5. In this research, the writer will use Tax Retention ( TRR ) to measure Tax Planning.

### **1.3 Problem Formulation**

The writer also will make the problem formulation based on the problem limitation above, as follows :

1. Does deferred tax expense have significant effect toward earnings management?
2. Does profitability have significant effect toward earnings management?
3. Does tax planning have significant effect toward earnings management?
4. Do deferred tax expense, profitability and tax planning simultaneously have significant effect toward earnings management?

### **1.4 Objective of the Research**

According to the problem formulation above, the objectives of this research are as follow:

1. To identify the Significant Effect of Deferred Tax Expense partially toward Earnings Management in the Food and Beverage Companies Listed on Indonesia Stock Exchange.
2. To identify the Significant Effect of Profitability partially toward Earnings Management in the Food and Beverage Companies Listed on Indonesia Stock Exchange.
3. To identify the Significant Effect of Tax Planning partially toward Earnings Management in the Food and Beverage Companies Listed on Indonesia Stock Exchange.

4. To identify the Significant Effect of Deferred Tax Expense, Profitability and Tax Planning simultaneously toward Earnings Management in the Food and Beverage Companies Listed on Indonesia Stock Exchange.

## **1.5 Benefit of the Research**

The writer will divide the benefit of the research into two parts which are theoretical benefit and practical benefit.

### **1.5.1 Theoretical Benefit**

Based on the research objectives, the research is expected to generate theoretical benefit as follows :

1. For writer, this research is expected to enhance the knowledge of the writer about the the Effect of Deferred Tax Expense, Profitability and Tax Planning toward Earnings Management in Food and Beverage companies Listed on Indonesia Exchange Stock.
2. For other research, this research is expected to be used as an overview and reference in doing the next researches regarding the effect of deferred tax expense, profitability and tax planning toward earnings management in Food and Beverage companies listed on Indonesia Exchange Stock.

### 1.5.2 Practical Benefit

The practical benefit of this research as follows:

1. For companies, this research is expected to build up the information about how to manage the proper financial statements and to find out how much effect the deferred tax expense, profitability and tax planning toward earnings management in Food and Beverage companies.
2. For investors, this research is expected through the results of the research, that can help the investor to make investment decisions toward earnings management.

### 1.6 System of Writing

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

#### **Chapter I : Introduction**

In this chapter, the writer will explain about background of study, problem limitation, problem formulation, objectives of research, benefit of the research, which includes the theoretical and practical benefit and systems of writing. In this chapter will provide the issue regarding the topic in this *skripsi*.

#### **Chapter II : Literature Review**

This chapter will describe theoretical background, previous research, framework of thinking regarding the topic and

hypothesis development. The writer will also explain some theories related with this research such as definition of tax, function of the tax, the Deferred Tax Expense, Profitability, Tax Planning and Earnings Management.

**Chapter III : Research Methodology**

This chapter will describe information regarding the research design, population and sample, data collection method, operational variable definition and variable measurable, and data analysis method that will be applied in this research. In this chapter, the writer will explain that the data analysis method used is quantitative method.

**Chapter IV : Data Analysis and Discussion**

This chapter will explain the result and discussion regarding the research. The data analysis results the descriptive statistics, the result of data quality, classic assumption test and the hypothesis testing.

**Chapter V : Conclusion**

In this chapter, it will provide the conclusion of the research, suggestions and recommendations for the further research.