

EVIDENCE OF A SHIFT IN THE ACCRUAL EARNINGS MANAGEMENT AT ASIAN COUNTRIES

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ABSTRACT

The issue of research is a shift of earnings management in Asian countries for ten years, ie 2000 to 2009. Ten-year period is expected to show earnings management practices that occur within that time frame. The time was chosen upon considering the bias of the IFRS performance transition to adopt. The mandatory of the IFRS was tested based on two groups, that is, the countries of the post-IFRS and the countries of the pre-IFRS. The Asian countries was chosen upon considering have experienced a great growth in the time period, so divided into Anglo and Continental. Earnings management shows the quality of financial reporting. The higher the earnings management, the lower the quality of financial reporting. Measuring the earnings management based on the accrual based. The results showed that statistically there is no earnings management shifting on the country group adopted IFRS in the first group (post-IFRS and Anglo). The results showed that statistically there is a shift of earnings management for ten years in the third group (pre-IFRS and Anglo), because the impact of economic scale, not depend on adopted IFRS.

Keywords: IFRS, a shift of earnings management, Asian countries, business system

1. Introduction

Standard adoption process of international finance causing the question about, whether the new standard is better or equal to the actual domestic standards? This issue is the topic of this paper. This paper will examine the management shift profits during the adoption process on countries of post-adoption and management shift profits to countries pre-adoption. The assumption if decreasing of earnings management reshuffle happens due to effect of international financial reporting standards (IFRS), so the IFRS is qualified. The other side, if there isn't shift management of income due to IFRS' adoption, it is considered the same quality with domestic standards.

Pascan (2015) stated that the adoption of IFRS phenomenon's standard changes was conducted in 2002, the impact needs to be researched. This is appropriate with Prochazka (2016), Suryaningsum (2012), Suryaningsum (2013), and Hamidah, et al (2015). Leuz (2010) conducted empirically test about the urgency of adopting IFRS with earnings management. This research was carried out on the grounds that the difference in approach to the regulation of report regulation approaching will be more impact on the role of reporting practices. Leuz's research (2010) uses the accrual basis income management. Leuz (2010) stated that the accrual-based earnings management for countries that adopting standard international accounting which is slower have higher accrual earnings management score than countries which is adopting international accounting standards early.

This research takes the position that the impact of IFRS on earnings management is still debated. Arguments are constructed in this research is IFRS has different characteristics with domestic standards. Domestic standards in the countries of Asia before the adoption of IFRS accounting

standards generally refers to American accounting standards. IFRS principles known to have the characteristics base. Base principle that accounting principles are not regulated in detail. Base principle of making the manager has discretion in applying professional judgment. This is according to Schipper (2003) which stated that in general the International Accounting Standards provide guidelines for the application of accounting principles that is more lenient than the Financial Accounting Standards Board. This is in line with Tendeloo and Vanstraelen (2005) also states that company adopters of IFRS did not show changes in earnings management. IFRS is not better than Germany's domestic standards. Results of research conducted by Barth et al (2011) stated that the the accounting of American companies generally have a relevance value greater than companies IFRS. The study compared the companies that applying IFRS, domestic standards, and companies that apply US standards. The results are companies that apply IFRS has greater comparability than applying non-US domestic standards. Moreover, it is stated that the overall comparability is greater for companies that adopt IFRS are mandatory, the common law firms, and companies in the country that a strong law enforcement. The relevance of the best value, is in the accounting firms that are in America. Furthermore, conclude that the adoption of IFRS still leaves a significant difference in the results.

This research uses the characteristics of the state as a tool of analysis. The state as adopters of IFRS needs to be compared. The state will be grouped into four groups: the first group of countries that early adopt IFRS applying the Anglo, the second group is the country that early adopt IFRS applying the Continental, a third group of countries that had not adopted applying the Anglo, and the fourth is a state that had

not adopted Continental system. This is in accordance with Suryaningsum (2012, 2013), Suryaningsum et al (2010), Jogiyanto, et al (2009a, 2009b). Achjari, et al (2010), Achjari and Suryaningsum (2008, 2011) states that the characteristics of the different countries in establishing its economy is influenced by the characteristics of the state of governance in each country. This is consistent with the statement Hotlousen (2009) that many factors affect the quality of financial reporting in addition to standard. Standard alone is not able to create quality accounting information. This is according to research Leuz (2010) which states that the countries in the group common law, have a lower accrual (which Averages the quality of financial reporting is high) than code law countries. La Porta et al. (2002) states that the legal system affects the magnitude of earnings management, Leuz (2003) states that the legal system relating to the magnitude of earnings management and investor protection.

This research area is the Asian countries during the period of ten years, ie 2000 to 2009. The period 2000 to 2009 are selected by considering time of the adoption process. Selection of this year's group is intended to avoid any bias because of the adoption of IFRS transition. Considerations election year groups is based on initial observations it is known that the whole of Malaysia and Hong Kong companies applying IFRS in 2007. In 2006 most companies of Malaysia and Hong Kong are already applying IFRS and the rest are still using local standards, while Singapore and the Philippines applying IFRS since 2005. While Bangladesh and Pakistan in 2009, the whole company is already applying IFRS, although in the previous years there are companies that have not applied IFRS.

The period 2007-2009 are selected, because during the year 2007-2009 when Malaysia, Philippines, Singapore, and Kazashtan already implementing IFRS simultaneously. On this basis, then chosen the year of observation 2007-2009. For 2009 there are additional companies in Pakistan and Bangladesh are implementing IFRS in full.

Asian area selected for their diversity in the process of adoption of IFRS interstate. This is consistent with Yurisandi and Puspitasari (2015), Hou, et al (2014), Miller (2014), Munteanu et al (2014), Luthan, et al (2015), Suryaningsum (2013), Suryaningsum (2013), and Leuz (2010). The phenomenon of adopting IFRS is a hot issue to be researched. IFRS already enacted since January 1994, but the Asian countries are just beginning to adopt in 2004-2005. Early adopters are Singapore and Hong Kong, followed by Malaysia and the Philippines in 2006. In 2009 Bangladesh and Pakistan began to follow. For Indonesia and Korea are fully adopt IFRS in 2012. The same thing been conducted Hamidah et al (2015), which examines international interest in adoption at Indonesia.

This research is important to reveal a shift in earnings management due to the phenomenon of immediacy adoption of IFRS and busines system. Newness in this research is the incorporation of IFRS adoption immediacy variable with business systems. This incorporation produce four groups. Four of the group include the first group (post-IFRS and Anglo), 2nd group (post-IFRS & Continental), 3rd group (pre-IFRS and Anglo), and the 4th group (pre-IFRS & Continental). Four groups of cells is an original idea of this research.

2. Hypothesis Development

Profit information plays a significant role in the process of decision-making by users of financial statements. Manager has a strong interest in the selection of accounting policies to manage earnings, so that looks good financially. Manager can choose the accounting policies of the existing accounting standards in order to maximize their utility and market value of the company. This is called earnings management. Healy and Wahlen (1998) gives the definition of the management profits from the viewpoint of bodies settler standards, namely: Management profit occurs when managers use judgment in financial reporting and in preparing the transaction to modify the financial statements and misleading shareholders about the economic performance of companies, or to affect some pop-contractual (contractual outcomes) that depend on reported accounting figures. This is according to Schipper (2003, 2005), while Healy and Wahlen (1999) review the terms of its links with the standard-setting. Encouragement to postpone the recognition of good performance can arise for several reasons, such as profit has exceeded the upper limit of the bonus program for managers (Cohen et al (2010) and Cohen et al (2008). According to Suwardjono (2011), (2009a), (2009b) accounting standards have implications for the life of economic, busines, and social. the study of Barth et al (2008 and 2006) concluded that the adoption of IFRS by companies non-US is a step that needs to be developed to be able to improve the comparability with US companies and still leaves a significant difference.

Leuz (2010) conducted empirical testing of urgency adopt IFRS accrual earnings management only. Leuz (2010) divides the three and five clusters on IFRS adopters, these clusters are tested by the condition of accrual-based profits management. According to Othman and Zeghal (2006) that in the legal system of Anglo and Continental influences financial patterns and forms of corporate governance. IFRS are considered high quality if it is able to provide a higher quality of financial statements, in other words there is a shift management decreasing profits. Therefore, further testing is based on the formulation of the research question asked is "Is there a shift in the management of accrual earnings at Asian countries for ten years (2000 to 2009) between companies in a group of the 1st (states post-IFRS & Anglo), 2nd group (countries pre-IFRS & anglo), and the 3rd group (countries pre-IFRS & Continental)? "

3. Research Design

3.1 Sample

Osiris database as a sources is provided by the Faculty of Economics and Business UGM. Data were collected in July 2011 to December 2011. The scope of the research is Asia. Following will be described sample selection criteria of the company.

- The study was conducted in the Asian region.
- Years of observation was in 2000 until 2009.
- Sample company is a manufacturing company based Global Industry Code Standard (GICS) with the following criteria: industry templates and closed in late December (koda industry sector 40 which issued the financial industry).

d. Business system countries on a sample company must be the same as the system business country where the sample companies (eg for countries applying the its domestic business Anglo-American then sample are companies that have the same business system ie Anglo-American). This is due to avoid bias due to business systems unequal.

e. Sample companies meet the criteria of sufficiency the data, for the measurement of each variable, the variable measurements accrual earnings management.

The data per year amounted to 8294 because the data required is 2000 s.d. 2009, so the data is entirely obtained amounted to 91 234. After checking the data and calculating the earnings management (real activity and accrual basis) then all the data obtained from a number of 47,669 samples to be used in analyzing the difference between the year earnings management in countries hasten to adopt IFRS. Additional in 2000 have been selected for the 2001 already there are countries that implement IFRS in full. The The state is a country Kazakshtan. The state of Kazakhstan is a country that urgently adopt IFRS since 2001.

3.2. Collecting Data

Data collection techniques are the study of secondary data collection techniques. Files that are required in This research are as follows.

1. The header account that contains data template companies including business system used by the company.
2. The header contains data company name, company address, web address and email of the company, years of existence, the stock exchange a place to sell shares of the company, accounting standards used by the company in 2000 to 2010.
3. Coda industry and a description that contains the data group type of industry and company description.
4. Detailed global format, which contains data the income statement and balance sheet 2000 to 2010.
5. Statement of cash flows 2000 to 2010.

3.3. Operational Definition

The dependent variable in this research is the detection power management, profits and auditors. The independent variable level of immediacy includes adoption of IFRS and business system. Earnings management is management actions that deviate from normal business practices conducted with the main objective to achieve the profit target (Cohen and Zarowin 2010; Roychowdhury, 2006).

The independent variables in This research is the immediacy of the adoption of IFRS. Tia divided into two groups of countries that have adopted IFRS and praIFRS group. Other independent variables are business system. Tia grouped into two business Anglo and Continental systems.'

3.4. Variable Measurement

Measurement of Dependent Variables

Earnings management is proxied by discretionary accruals. Here is the measurement of accrual earnings management that follows the model and Sivaramakrishnan Kang (1995).

$$AK_{it}/A_{i,t-1} = \varphi_0 + \varphi_1(\delta_1 REV_{it}/A_{i,t-1}) + \varphi_2(\delta_2 EXP_{it}/A_{i,t-1}) + \varphi_3(\delta_3 GPPE_{it}/A_{i,t-1}) + v_{it}(1)$$

Dengan $\delta_1 = AR_{i,t-1} / REV_{it}/A_{i,t-1}$; $\varphi_2 = APB_{i,t-1} / EXP_{i,t-1}$; $\varphi_3 = DEP_{i,t-1} / GPPE_{i,t-1}$

Value of non discretionary accruals company i on t period (AND_{it}) obtained from the following equation.

$$AND_{it} = \varphi_0 + \varphi_1(\delta_1 REV_{it}/A_{i,t-1}) + \varphi_2(\delta_2 EXP_{it}/A_{i,t-1}) + \varphi_3(\delta_3 GPPE_{it}/A_{i,t-1}) \quad (2)$$

The equation to finding the value of non discretionary accruals company i on t period (AD_{it}):

$$AD_{it} = TA_{it}/A_{i,t-1} - [\varphi_0 + \varphi_1(\delta_1 REV_{it}/A_{i,t-1}) + \varphi_2(\delta_2 EXP_{it}/A_{i,t-1}) + \varphi_3(\delta_3 GPPE_{it}/A_{i,t-1})] \quad (3)$$

Explanation:

$$TA_{it} = LB_{it} - AKO_{it}$$

TA_{it} = Total Accrual companies i, on t period

LB_{it} = net profit before extra items, discontinued operations, and changes in accounting policies of companies i, on t period.

AKO_{it} = Operating cash flow i, on t period.

A_{it-1} = total assets of the company i, on t period.

DEP_{i,t-1} = depreciation and amortization expense i, on t period.

AR_{i,t-1} = the company's trade receivables i, on t period.

REV_{it/Ai,t-1} = the company's revenue i, on t period.

APB_{i,t-1} = current assets - accounts receivable - cash - current liability company i, on t period.

EXP_{i,t-1} = net sales - operating profit - depreciation costs of companies i, on t period.

GPPE_{i,t-1} = Gross fixed assets of the company i, on t period

Measurement of Independent Variables

Table 3

Independent Variables and Measurement

Independent variables	Measurement
Immediacy adoption of IFRS	Immediate adoption of IFRS = 1 Do not Immediate adoption of IFRS = 0
Business systems	Anglo = 1 Continental = 0

3.5. Analysis Tool for Testing Hypotheses

Testing to shift in the accrual earnings management is done by tool an independent analysis of samples t-test. Analysis tools have been selected for This research is not experimental and data are independent. To test the quality of the shifting financial statements for ten years of analysis tools used independent samples t-test on each of the following groups.

1. The 1st group (post-IFRS and Anglo) conducted different test management group earnings in year pre-adoption and post-adoption. Additional analyzes were performed to examine differences in earnings management in the group in 2000-2004 compared with earnings management group in 2007-2009.
2. The 2nd group, namely the post-IFRS & Continental, not be tested shifting quality of financial reports because no country is included in the group.

4. Results and Discussion

There are thirty countries in the region, but the country is being sampled in this research amounts to eighteen countries. Eighteen countries are countries that have capital markets. These countries are Bangladesh, China, Hong Kong, Vietnam, Japan, Kazakhstan, Republic of Korea, Kyrgyzstan, Malaysia, Mongolia,

Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan, India, Indonesia, and Thailand.

3rd group is a group of post-IFRS and Anglo entering Philippines (2001-2004), Hong Kong (2001-2005), Malaysia (2001-2005), and Singapore (2001 -2004) before the adoption of IFRS. These countries are removed from the 3rd after these countries to apply IFRS, ie in 2005 for the Philippines and Singapore, in 2006 for Malaysia and Hong Kong, in 2009 for Bangladesh and Pakistan.

Table4
Accrual Earnings Management Shifts 2000 - 2009

Explanation	Earnings Management	Statistic Grup			
		Years	N	Average	Standart Deviation
ⁱⁱ Group 1 (IFRS& Anglo)	Accrual	Pra-IFRS	2.705	-0,0050	0,506
		IFRS ¹	4.159	-0,0549	3,239
ⁱⁱ Group 1 (IFRS& Anglo)	Accrual	2000 - 2004	2.620	-0,0039	0,514
		2007 - 2009	3.175	-0,0622	3,691
ⁱⁱ Group 3 (praIFRS& Anglo)	Accrual	2000 - 2006	22.542	0,0117	0,226
		2007 - 2009	12.604	0,0021	0,249
ⁱⁱ Group 3 (praIFRS& Anglo)	Accrual	2000 - 2005	17.902	0,01301	0,230
		2007 - 2009	15.604	0,00217	0,249
Group 4 (praIFRS& Kontinental)	Accrual	2000 - 2006	2.936	-0,0076	0,276
		2007 - 2009	2.078	-0,0225	0,793
Group 4 (praIFRS& Kontinental)	Accrual	2000 - 2005	2.936	-0,0089	0,300
		2007 - 2009	2.078	-0,0225	0,793

Explanation	Years	Levene's Test for Equality of Variances	T-test for Equality of Averages	
		Sig p-value	Average Difference	Sig. p-value
ⁱⁱ Group 1 (IFRS& Anglo)	Pra-IFRS	0,231	0,0499	0,275
	IFRS ¹			
ⁱⁱ Group 1 (IFRS& Anglo)	2000- 2004	0,230	0,0583	0,211
	2007 - 2009			
ⁱⁱ Group 3 (praIFRS& Anglo)	2000 - 2006	0,357	0,0095	0,000*
	2007 - 2009			
ⁱⁱ Group 3 (praIFRS& Anglo)	2000 - 2005	0,140	0,0108	0,000*
	2007 - 2009			
Group 4 (praIFRS& Kontinental)	2000 - 2006	0,092	0,01483	0,174
	2007 - 2009			
Group 4 (praIFRS& Kontinental)	2000 - 2005	0,176	0,01361	0,2205
	2007 - 2009			

¹Description: IFRS countries consists of Kazakhstan since 2000, Singapore and the Philippines since 2005, Malaysia and Hong Kong since 2006 that the number of samples of companies that have applied IFRS is 4159 (2000-2009 in Asian countries).

ⁱⁱThe purpose of examining the shift of income management in applying the group Anglo business then the

Management of accrual earnings in the 3rd group (pre-IFRS and Anglo) occurs statistical difference.

In the year 2010 is not used as the basis of preliminary observations, because there are many companies in the group pre-IFRS began using IFRS that would negatively affect the validity of the study. In the case of the sample across the enterprise to include all categories of firm size, small to large companies. It aims to avoid sample selection bias. This prejudice will lead to the results only occur on a data object is selected and can not be generalized to other objects that are different. For example, the research sample contains only a sample of large companies, so it is questionable whether the results can be generalized to small enterprises (Jogiyanto, 2010). This is because the issue involves the value of accrual earnings management, due to the depreciation more appropriate use a sample that contains manufacturing companies who use a lot of fixed assets are depreciated. If the sample is mixed with other firms outside of manufacturing, for example in the service industry it will lower the level of testing. Another cause is at service firms don't have the same structure of fixed assets with the companies in the manufacturing industry (Hartono, 2010). The samples were selected by *Global Industry Code Standard*, with a coda 10 (energy), 15 (materials), 20 (industrials), 25 (consumer discretionary), 30 (consumer staples), 35 (health care), 45 (informations technology), 50 (telecom services), and 55 (utilities).

Testing shift accrual earnings management.

Testing shift accrual earnings management performed twice with different cut-off time in order to get consistent results. The test results management shift profits accrued for ten years(2000 s.d. 2009) showed evidence that for the 1st group (IFRS & Anglo) and the 4th group (pre-IFRS & Continental) were not statistically different.

The first and second test results showed statistically there is a shift in the management of accrual earnings for the 3rd group (pre-IFRS and Anglo). Both of these tests demonstrate consistent results. During the period of ten years, has occurred decrease in accrual earnings management. In the year 2000 to 2006 showed an average of accrual earnings management greater (0.0117) than in 2007-2009 (0.0021). This is consistent, when tested by deleting 2006 as the year cut-off. The result is decreased in the year 2007-2009. From 2000-2005 showed an average of accrual earnings management greater (0.01301) compared to 2007-2009 (0.00217). From the point of view of the theory of signaling that signals the success or failure of management submitted to the owner. Submission of financial statements can be considered a signal of whether the agent has acted in line with the contract. In an agency relationship, the manager has the asymmetry of information to external parties such as investors and creditors. The information asymmetry occurs when a manager has the

company's internal information are relatively more and know the information relatively more rapidly than external parties. This conditions provide an opportunity for managers to use the information that learned to manipulate financial reporting in an effort to maximize their own welfare. Profit information plays a significant role in the process of decision-making by users of financial statements. Manager has a very strong interest in the selection of accounting policies to manage earnings in order to look good financially. Manager can choose the accounting policies of the existing accounting standards in order to maximize their utility and market value of the company.

The 3rd group (pre-IFRS and Anglo) includes countries with strong economies and has strong political stability, among others, Japan, Taiwan, and Korea. Accrual is done tends to fall as a result of the stronger economic position of these countries are reflected in companies that have the better performance. The condition of a company that has a good performance does not need to act earnings management. This is in accordance with Roychowdury (2006). Other factors such as described by Holthousen (2009). Holthousen (2009) states that the accounting information is not only a function of the standard, but also as a result of the interpretation, auditing, litigation regulatory, environmental and obey the rules.

The test during the period which is ten the year could also be explained in terms of busines system. Taiwan is one of the countries members of the 3rd group (pre-IFRS and Anglo). Taiwan, which are common law countries are able to reduce earnings management behavior in common law countries.

The existence of research evidence which states that the legal systems and the country has no correlation with the characteristics of companies Countries with legal institutions, customary law (common law) Anglo-American provide better protection to creditors than the legal institutions Civil Continental European (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). Vaaler et al. (2008) investigated the countries that are in the common law turned out to have a good financial performance and corporate strategy are favoring the rights of creditors. This legal institutional factors as the backbone of the country in supporting the expectations and the company's strategic decisions. So we can say that the act of doing earnings management is one of the strategic decisions.

If it properly to have a higher quality, then IFRS should to lower the earnings management made by the company. In fact, in This research proved IFRS are not able to reduce earnings management. It is proved that the group of accrual earnings management and real activity in the group of post-and pre-IFRS IFRS is the same. Except for a different company suspected and the average accrual earnings management to companies suspected of post-IFRS is greater than the pre-IFRS. It can be interpreted that IFRS has a quality that can be said to be the same as the domestic standard.

Other evidence in This research is not a shift in the management of profit in the period of ten years for the post-IFRS group. It can be concluded that the IFRS does not provide assurance as a high-quality standard.

Contributions the policy of this research need to evaluate in making policies at the national scale of each country based on the average overall earnings management companies in each country in Asia. This research presents a

map of the number of earnings management of each country (descriptive statistics). This map shows how companies in each country doing a good earnings management and accrual estate activity. The earnings management both accrual and large estate activity has varied between countries.

This research identifies the size of each management profit for each country. Moreover, it can be inferred from empirical testing already completed with the magnitude of earnings management in each country for the entire sample reflects the condition of the country's economic scale. In normal conditions (for example, for each of the countries applying IFRS pre-busines Anglo and Continental) will have varying accrual earnings management. In this condition the greater Average earnings in the management of all the companies in each country it can be concluded the greater the economic scale that country. This proves the large economic scale spurring the magnitude a scale of enterprises. The scale of companies in these countries is very large Anglo, compared a scale of enterprise in Continental countries.

On the financial performance of certain conditions, such as the condition suspect it will show that is contrary to normal conditions (the whole company). On the condition of the suspect it will prove, that the greater the average management in the country, it will cause decline the economies of scale in this country.

Besides the state policy in spurring growth, seen from the number of samples obtained in each country. Increasing number of samples in a country, then this is an indicator conducive conditions state policy in spurring growth of the company.

5. Conclusion

This research deals with inter-country (Asian countries) testing. There are some disadvantages of this research. This research is not able to control some of the circumstances mentioned below because beyond the capabilities of this research. This weakness is as follows:

1. The first related to the study sample. Samples were taken with the criteria of closing the end of December in order to avoid differences in the time range of measurement and recognition of income and expense. Then, the implications in a number of samples that can be used for many companies in Asia, which has closed the book aside in December. In practice, each Asian country has a different time of closing the books.
2. Secondly, the absence of member countries included in group 2 (post-IFRS & Continental).

Based on the testing of research is successful, concluded as follows:

1. In a shift of the accrual earnings management are declining on the 3rd group (pre-IFRS and Anglo). The decline in 2007 s.d. 2009, can be interpreted that the Anglo busines systems group (China, Taiwan, Korea, Japan) increasing conditions have implications on the economic and financial performance of companies in these countries. The companies that have good financial performance does not require performing earnings management.
2. There is no a shift in the management of accrual earnings for the 1st group (post-IFRS and Anglo) and the 4th

group (pre-IFRS & Continental). Accrual earnings management in the 1st group (post-IFRS and Anglo) is the same in the post-IFRS and pre-IFRS. IFRS can be interpreted to have same quality as the domestic standard.

3. There is no a shift in accrual earnings management for group 4 (pre-IFRS & Continental). Continental system has a tendency perform accrual management higher than Anglo.

6. Recommendation

Further research can be carried by testing at the company that has the company's criteria suspect. The test results obtained for the company's criteria suspect may be different by the test of the whole enterprise. Companies suspected itself only amount to no more than 5% of the total company. Perhaps by comparing the company's soundness test results were mixed, but not carried because in accordance with the purpose of This research is to inference based on the total number of companies and photographing the suspect company. The purpose is to prove the companies as a suspect have a tendency to perform earnings management.

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