

## 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 10 years, i.e., 2000-2009. The 10 years 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 10 years in the third group (pre-IFRS and Anglo) because the impact of economic scale, not depend on adopted IFRS.

**Key words:** IFRS, a shift of earnings management, Asian countries, business system, IFRS performance, continenta

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### 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 study. This study 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 (2013) and Triyuwono *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 (2010) research 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. This is in accordance with Suryaningsum (2013), Giri *et al.* (2009a-c). Achjari *et al.* (2009), Achjari and Suryaningsum (2008) 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 (Hotlhausen, 2009) that many factors affect the quality of financial reporting in addition to standard. La Porta *et al.* (2000) and Leuz *et al.* (2003) states that the legal system affects the magnitude of earnings management.

This research area is the Asian countries during the period of 10 years, i.e., 2000-2009. The period 2000-2009 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 Kazashstan 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), Muller (2014), Munteanu *et al.* (2014), 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 (Triyuwono *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 business 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 and Continental), 3rd group (pre-IFRS and Anglo) and the 4th group (pre-IFRS and Continental). Four groups of cells is an original idea of this research.

**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 (1999) 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 and Zarowin, 2010; Cohen *et al.*, 2008). According to Suwardjono (2011, 2009) accounting standards have implications for the life of economic, business and social. the study of Barth *et al* (2006, 2008) 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 10 years (2000-2009) between companies in a group of the 1st (states post-IFRS and Anglo), 2nd group (countries pre-IFRS and anglo) and the 3rd group (countries pre-IFRS and Continental)".

**MATERIALS AND METHODS**

**Research design**

**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). Busines system countries on a sample company must be the same as the system busines country where the sample companies (eg., for countries applying the its domestic busines Anglo-American then sample are companies that have the same busines system, i.e., Anglo-American). This is due to avoid bias due to busines systems unequal. 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 has ten to adopt IFRS. Additional in 2000 have been selected for the 2001 already there are countries that implement IFRS in full. The state is a country Kazakshtan. The state of Kazakhstan is a country that urgently adopt IFRS, since, 2001.

**Collecting data:** Data collection techniques are the study of secondary data collection techniques. Files that are required in this research are as follows. The header account that contains data template companies including busines system used by the company. 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 2000-2010. Coda industry and a description that contains the data group type of industry and company description. Detailed global format which contains data the income statement and balance sheet 2000-2010. Statement of cash flows 2000-2010.

**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 busines 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 busines system. Tia grouped into two busines Anglo and Continental systems.

**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 Kang and Sivaramakrishnan (1995):

$$\begin{aligned}
 Ak_{i,t} / A_{i,t-1} &= \varphi_0 + \varphi_1 (\delta_1 REV_{it/Ai,t-1}) + \varphi_2 (\delta_2 EXP_{it} / A_{i,t-1}) + \\
 \varphi_3 (\delta_3 GPPE_{it} / A_{i,t-1}) &+ v_{it} \quad \delta_1 = AR_{i,t-1} / REV_{it/Ai,t-1}; \quad \varphi_2 = \\
 APB_{i,t-1} / EXP_{i,t-1}; \quad \varphi_3 &= DEP_{i,t-1} / GPPE_{i,t-1}
 \end{aligned}
 \tag{1}$$

Value of non discretionary accruals company i on t period (AND<sub>it</sub>) obtained from the following Eq. 2 and 3:

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

$$\begin{aligned}
 AD_{it} = TA_{it} / A_{i,t-1} &= \left[ \begin{aligned} &\varphi_0 + \varphi_1 (\delta_1 REV_{it/Ai,t-1}) + \varphi_2 (\delta_2 EXP_{it} / A_{i,t-1}) + \\ &\varphi_3 (\delta_3 GPPE_{it} / A_{i,t-1}) \end{aligned} \right]
 \end{aligned}
 \tag{3}$$

Where:

- TA<sub>it</sub> = LB<sub>it</sub>-AKO<sub>it</sub>
- TA<sub>it</sub> = Total Accrual companies I, on t period
- LB<sub>it</sub> = Net profit before extra items, discontinued operations and changes in accounting policies of companies i, on t period
- AKO<sub>it</sub> = Operating cash flow i, on t period
- A<sub>it-1</sub> = Total assets of the company i, on t period.
- DEP<sub>i,t-1</sub> = Depreciation and amortization expense i, on t period
- AR<sub>i,t-1</sub> = The company's trade receivables i, on t period
- REV<sub>it/Ai,t-1</sub> = The company's revenue i, on t period
- APB<sub>i,t-1</sub> = Current assets-accounts receivable-cash-current liability company i, on t period
- EXP<sub>i,t-1</sub> = Net sales-operating profit-depreciation costs of companies i, on t period
- GPPE<sub>i,t-1</sub> = Gross fixed assets of the company i, on t period

**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 10 years of analysis tools used independent samples t-test on each of the following groups.

**RESULTS AND DISCUSSION**

There are 30 countries in the region but the country is being sampled in this research amounts to 18 countries. The 18 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.

**Testing shift accrual earnings management:** Testing shift accrual earnings management performed twice with different cut-off time in order to get consistent results. The result of testing shift accrual earnings management is stated in Table 1.

The test results management shift profits accrued for 10 years (2000 s.d. 2009) showed evidence that for thest group (IFRS and Anglo) and the 4th group (pre-IFRS and 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 10 years, has occurred decrease in accrual earnings management. In the year 2000-2006 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). 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.

Table 1: Accrual Earnings Management Shifts 2000-2009

Explanation	Statistic group				
	Years	N	Average	SD	Sig. p-vlaues
Group 1 (IFRS and Anglo)	Pra-IFRS	2,705	-0.0050	0.506	0.275
	IFRS <sup>1</sup>	4,159	-0.0549	3.239	
Group 1 (IFRS and Anglo)	2000-2004	2,620	-0.0039	0.514	0.211
	2007-2009	3,175	-0.0622	3.691	
Group 3 (praIFRS and Anglo)	2000-2006	22,542	0.0117	0.226	0.000*
	2007-2009	12,604	0.0021	0.249	
Group 3 (praIFRS and Anglo)	2000-2005	17,902	0.0130	0.230	0.000*
	2007-2009	15,604	0.0021	0.249	
Group 4 (pra IFRS and Kontinenta)	2000-2006	2,936	-0.0076	0.276	0.174
	2007-2009	2,078	-0.0225	0.793	
Group 4 (pra IFRS and Kontinenta)	2000-2005	2,936	-0.0089	0.300	0.2205
	2007-2009	2,078	-0.0225	0.793	

\*Significant value

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).

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 *et al.*, 1998). Vaaler *et al.* 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.

## 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: 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. Secondly, the absence of member countries included in group 2 (post- IFRS and Continental).

Based on the testing of research is successful, concluded as follows: 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 business systems group (China, Taiwan, Korea, Japan). 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 and 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. There is no a shift in accrual earnings management for group 4 (pre-IFRS and Continental). Continental system has a tendency perform accrual management higher than Anglo.

## RECOMMENDATIONS

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.

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