INFORMATION ASSYMETRI, LEVERAGE AND EARNINGS MANAGEMENT (EMPIRICAL STUDY ON MINING COMPANIES LISTED AT INDONESIA STOCK EXCHANGE)

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ABSTRACT

Earnings management is a management action to use a method of intentional accounting in the preparation of its financial statements with a separate purpose that resulted in misleading information provided to stakeholders. Earnings management is an agency problem. Agency theory implies the occurrence of information asymmetry between agents and principals that can motivate management to make earnings management. Agency problems also occur between management and creditors, this is supported by positive accounting theory which states that leverage is one thing that can motivate management to make earnings management. Based on the explanation, this research aims to find out how the influence of Information Asymmetry and Leverage to Earnings Management at mining company listed in Indonesia's Stock Exchange (IDX) in 2014-2016 partially and simultaneously. The research method used is descriptive verification. The population of the research are Mining Companies listed in Indonesia Stock Exchange which amounted to 42 and 31 samples were drawn using purposive sampling technique, based on criteria. The unit of analysis is a financial report and uses multiple linear regression analysis at a significance level of 5%, processed with Eviews 8.0 program. The results showed that the average value of information Asymmetry, Leverage and Earnings Management at mining companies in 2014-2016 showed different changes. Partially Information Asymmetry variable proxied by SPREAD has a positive influence on Earnings Management, whereas, the Leverage variable which is proxied by DAR has negative influence to Earnings Management. Simultaneously, the Asymmetry of Information and Leverage variables affect the Earnings Management.

Keyword: *Information Asymmetry, Bid Ask Spread, Leverage, Debt to Asset Ratio (DAR), Earnings Management.*

INTRODUCTION

The development of the world of investment in developing countries including Indonesia is growing rapidly. It is even predicted that developing countries will become investment targets for 2017. This is due to the relatively good political stability of developing countries, also supported by large economic growth and governance reform. Until now, investment is no longer a foreign thing in the Indonesian economy. Indonesians are increasingly interested in investing. This can be seen from the large number of Indonesians who invest in the capital market. Investments are investments for one or more assets owned and usually long term in the hope of obtaining future benefits (Sunariyah, 2010: 4). While those who make investments are referred to as investors.

In general, the main goal of investors when they decide to invest their funds is to get a return or return on investment. Of course the process of finding profits by making investments is something that requires deep analysis and calculation by not ruling out the precautionary principle (Fahmi, 2015: 264). Investors certainly do not want to be wrong in choosing a company that will be used as a place to invest, therefore investors will usually assess the financial performance of the company that he will choose as an investment land. The company's financial performance can be seen from the financial statements issued by the company. The capital market must create a mechanism that can protect the interests of the party surplus funds (investors), namely by providing complete and correct information, so that it can comprehensively understand the state of the stock exchange issuers from various aspects, especially financial aspects, especially financial statements and the development of its activities in the stock exchange. effects (Mabrurah, et al, 2017).

The two fundamental qualities that a financial report must possess are relevance and faithful representation. To be relevant, the information presented in the financial statements must be able to make a difference to the decisions that will be taken. Relevant quality in the financial statements is fulfilled if the financial statements have predictive value, can be confirmed, and their contents are material. Whereas to have an honest presentation quality, the financial statements must be presented as is complete, neutral and error free.

The financial statements made by the company usually consist of income statements, owner's equity reports, balance sheets, cash flow statements, and notes to financial statements. One of the company's financial statements that is most considered by investors in assessing the company's financial performance is the income statement. This is because the main focus in financial reporting is information about available company performance by measuring earnings (earnings) and components (Fahmi, 2015: 22). The income statement can help investors to predict the level of profitability of the company and the value of its investment in the future.

Earnings management according to Hery (2017: 50) can be interpreted as an accounting trick where flexibility in preparing financial statements is used or utilized by managers who seek to meet profit targets. Earnings management can be done by taking a bath, income maximization, income minimization and income smoothing. Earnings management practices carried out by management will reduce earnings quality and financial reporting. This will create a distortion of the actual financial information.

Information asymmetry is one factor that causes earnings management. Information asymmetry can occur when management has more information than information that is known to shareholders. The greater the information asymmetry, the greater the chance of earnings management. This results in managers having the opportunity to manipulate the company's performance for its own sake. When associated with an increase in company value, when there is information asymmetry, managers can give signals about the condition of the company to investors in order to maximize the value of the company's stock through disclosure of accounting information (Manggau, 2016).

In addition to information asymmetry, another factor that influences earnings management is leverage. In running its business, companies need to get funds. One source of funding that can be used by companies is through debt. Leverage is a ratio that measures how much the company is financed by debt.

The leverage ratio illustrates the relationship between a company's debt and assets and capital. The greater this ratio, the greater the company's debt. Companies that have high leverage ratios due to the large amount of debt compared to assets owned by the company, allegedly do earnings management because the company is threatened with default, namely unable to meet debt payment obligations in time (Utari and Sari, 2016). The use of debt as a source of funding can also increase the rate of return of the company rather than funding relying solely on capital. This can motivate managers to make earnings management to gain creditor trust in providing loan funds. However, increasing debt can also make management unable to make earnings management if the creditor carries significant control over the company.

METHODOLOGY

According to Sugiyono (2015: 147), descriptive statistics are statistics used to analyze data by describing data that has been collected as it is without intending to make conclusions that apply to the general or generalization. Descriptive statistics provide an overview or description of a data that is seen from the mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (distribution gap) (Ghozali, 2016: 19). In this study, the writer will describe the average, maximum, and minimum values of the information asymmetry (SPREAD), leverage (DAR) and earnings management (DA) variables.

Then a classic assumption test will be carried out. Classical assumption test is a requirement that must be fulfilled so that the regression equation can be said as a good regression equation, meaning that the regression equation produced will be valid if used to predict (Ghozali, 2013: 103). According to Purwanto and Sulistyastuti (2011: 198) this classic assumption test aims to test the regression model errors used in the study, the classical assumption test is done as a condition to meet the regression equation which is good so that the resulting equation is valid if used to predict, the regression model is said either not just seen from the goodness of fit of a model, but must be free from the deviation of classical assumptions. Classic assumption test is done by heteroscedasticity test, normality test, autocorrelation test, and multicollinearity test, there are no definite provisions about which test sequence must first be fulfilled, the analysis can be carried out depending on the available data (Sunjoyo, et al., 2013: 54).

Further data processing by performing multiple linear regression analysis. If the parameters of a functional relationship between one dependent variable and more than one variable are to be estimated, then the regression analysis done is related to multiple regression (Nazir, 2013: 463). This study uses multiple linear regression method to find out whether there is an influence between information asymmetry and the average as X variable on earnings management as Y variable. The next step will be done t statistical test and simultaneous test (F test). The statistical test t basically shows how far the influence of one independent variable on the dependent variable considers other independent variables constant (Ghozali, 2013: 62). Test Statistics F basically shows whether all the independent variables included in the model have a joint or simultaneous effect on the dependent variable (Ghozali, 2013: 61).

Subsequent data processing was carried out by testing the coefficient of determination (R^2). The Determination Coefficient (R^2) basically aims to measure how far the ability of the model in explaining the variation of the dependent variable. The coefficient of determination is between zero and one. A small R^2 value means the ability of independent variables to explain the variation of the dependent variable is limited. The determination coefficient value which is close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable. In general the coefficient of determination for cross section is relatively low because of the large variation between each observation, while for time series data usually has a high determination coefficient (Ghozali, 2013: 59).

RESULT

Earnings management variables proxied by discretionary accruals show an average value of 0.027589. The maximum value of discretionary accruals is 2,204364 at SMR Utama Tbk (SMRU), while the minimum value of discretionary accruals is -0,256361 at Perdana Karya Perkasa Tbk (PKPK). The information asymmetry variable proxied by SPREAD shows an average value of 4.846875. The maximum value of SPREAD is 34.48276 at the Main SMR Tbk (SMR), while the minimum value of SPREAD is 0.000000 in Baramulti Suksessarana Tbk (BSSR), Bumi Resources Tbk (BUMI). Central Omega Resources Tbk (DKFT), and Mitra Investindo Tbk (MITI). The leverage variable proxied by the debit to assets ratio shows the average value of 0.49813. The maximum value of debt to assets ratio is 1,897679 on Bumi Resources Tbk (BUMI), while the minimum value of debt to assets ratio is equal to -0.016134 at Cakra Mineral Tbk (CKRA).

The results of the classical assumption test are that the companies studied were normally distributed, there were no symptoms of heteroscedasticity in the regression model, there were no positive and negative autocorrelations and the regression models formed were

$$Y= -2.65459873597 + 0{,}144385811694\,X_1 - 2{,}59306476536\,X_2$$

where X1 is information asymmetry, X2 is leverage, and Y is earnings management.

While the results of testing the hypothesis obtained asymmetry information partially have a positive effect on earnings management, leverage has a partial negative effect on earnings management and together or simultaneously information asymmetry and leverage variables have a significant effect on earnings management variables. For the coefficient of determination, R2 is 0.300346 which means that the variability of the dependent variable is earnings management can be explained by the independent variable, the information asymmetry and leverage in this study is 30.03%, while the remaining 69.97% is explained by other variables outside the research model.

CONCLUSION

Based on the results of data analysis can be concluded partially the independent variable information asymmetry has a positive effect on corporate earnings management, the higher the information asymmetry, the higher the company's earnings management, this condition applies the opposite. Partially also leverage independent variables have a negative effect on corporate earnings management, the higher the leverage, the lower the company's earnings management, this condition applies the opposite. And based on the results of the study shows that simultaneously independent variables of information asymmetry and leverage affect the company's earnings management.

Some suggestions for the Company, to the management to pay attention to the information asymmetry measured by the difference between the bid price and the company ask price (SPREAD). Companies are advised to minimize the occurrence of information asymmetry by providing signals regarding financial information on the company's condition to investors in order to maximize the value of the company's shares through disclosure of accounting information. Leverage is measured by debt to assets ratio by finding an alternative financing that is cheap, if it is in the form of loans, then look for loans with low interest rates and with flexible payment terms, also looking for creditors who participate in controlling the company's performance. so that the loan becomes profitable for the company.

While some suggestions for Investors and Prospective Investors are investors and potential investors to view financial statements and financial information related to the company to be invested, then analyze how the earnings management practices in the company. This can be used as a basis for making the right decisions to sell or buy shares or invest in a company. Analysis can be seen from the value of SPREAD and debt to asset ratio, because in this study the two ratios proved to have an effect on earnings management.

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