THE EARNINGS MANAGEMENT IN ISLAMIC PERSPECTIVE

MANAJEMEN LABA DALAM PERSPEKTIF ISLAM

Trie Nadilla
Faculty of Islamic Economics and Business - IAIN Lhokseumawe
Email: trienadilla@iainlhokseumawe.ac.id

Abstract

As the business world evolves, every entity must be able to compete with the company's products in their own business fields. The quantity of profit obtained is one of the measuring instruments that may be used to measure the company's performance. The quantity of profit obtained is one of the measuring instruments that may be used to measure the company's performance. Profit management appears to have established a global business culture practiced by all companies. Although profit management practice theory is still regarded lawful when it does not conflict with Generally Accepted Accounting Principles (GAAP), but if viewed from Islamic business ethics then the practice of profit management is a practice that is considered not in line with the values contained in Islamic business ethics.

Keyword : *earning management; financial statement; Islamic perspective.*

Abstrak

Seiring berkembangnya dunia bisnis, setiap entitas harus mampu bersaing dengan produk perusahaan di bidang usahanya masing-masing. Besaran laba yang diperoleh merupakan salah satu alat ukur yang dapat digunakan untuk mengukur kinerja perusahaan. Besaran laba yang diperoleh merupakan salah satu alat ukur yang dapat digunakan untuk mengukur kinerja perusahaan. Manajemen laba tampaknya telah membentuk budaya bisnis global yang dipraktikkan oleh semua perusahaan. Meskipun teori praktik manajemen laba masih dianggap halal apabila tidak bertentangan dengan Prinsip Akuntansi yang Berlaku Umum (GAAP), namun jika dilihat dari etika bisnis Islam maka praktik manajemen laba merupakan praktik yang dianggap tidak sejalan dengan nilai-nilai yang terkandung di dalamnya. etika bisnis Islami.

Kata kunci: *manajemen laba; laporan keuangan; perspektif Islam.*

A. INTRODUCTION

Developments in the business world require that every entity can compete with the products produced by the company in accordance with its business field. Therefore, companies tend to always present good financial statement information to show investors. One of the measuring instruments that can be used to determine the company's performance is the amount of profit obtained. The higher profit figures from

year to year are assumed that the company is able to manage resources to get maximum profits. Earnings have been as one of the patterns in performance measurements that are part of the financial statements that show an increase or decrease in equity from various sources of transactions except transactions with shareholders. This profit information can in practice affect the behavior of users of financial statement information, especially investors and creditors. This profit information is needed by investors and creditors as the basis for decisions on the rate of return on the capital they invest (Marzuqi & Latif, 2010).

The phenomenon of earning management is very interesting to research because it can give an idea of the behavior of managers in reporting their business activities in a certain period, namely with the possibility of the emergence of profit management carried out by managers by engineering their company's profits to be higher, lower or always the same for several periods, because of certain motivations that encourage them to manage or regulate financial data, especially reported profits.

Earning management is a condition in which management intervenes in the process of preparing financial statements for external parties so that it can flatten, raise, and lower profits (Schipper, 1989). Healy and Wahlen (1999) stated that earnings management occurs when management uses certain decisions in financial reporting and the preparation of transactions that change financial statements. It aims to mislead users of financial statements about the state of the company's economic performance, as well as to influence the contractual income that controls the reported accounting figures.

According to Sutiyoso (2008) Profit management is a serious problem faced by practitioners and academics. Where profit management seems to have become a corporate culture practiced by all companies around the world. Not only in countries with unorganized business systems, this managerial engineering activity is also carried out by companies in countries whose business systems have been organized, such as the United States. In addition, the consequences caused by managerial engineering activities not only destroy the economic order, but also the ethical and moral order of a country.

As a result of this, indirectly the ethics, morals and responsibilities of business people are doubtful of integrity and credibility including accountants who should be at the forefront of detecting profit management and regulators who should prepare

adequate regulations to create a clean and healthy business life. In this case, the manager as the manager of the company knows more about the internal information and prospects of the company in the future than the owner (shareholders). Therefore, as a manager, the manager is obliged to give a signal regarding the condition of the company to the owner. However, the information conveyed is sometimes not in accordance with the actual company conditions. This condition is called information asymetry.

While information asymmetry is high, stakeholders do not have sufficient resources, incentives, or access to relevant information to monitor managers' actions, providing an opportunity for profit management practices to occur. The existence of information asymmetry will encourage managers to present information that is not real, especially if the information is related to measurements of manager performance (Halim, Meiden, Tobing, 2005).

In general, this controversy occurs between practitioners and academies who basically question whether earning management can be categorized as fraud or not. Practitioners rate profit management as cheating, while academics assess earning management cannot be categorized as cheating. There is a strong enough argument expressed by each party to defend this opinion. But while each party is trying to reveal the logical reason there is actually one common thread in between these two revenues, that is, both parties agree that earning management is an attempt to change, hide, and delay financial information. In different perspectives and arguments, some parties express opinions differently. On the one hand, earning management is not a form of profit manipulation if it is still done in the corridor of accounting principles.

On the other hand, profit management is a form of profit manipulation, because profit management is always based on motivation to obtain personal profits by giving an idea of the company's performance that is not actually, even though the performance described is short-term performance (Riduwan, 2010). Islamic perspective with regard to earning management, which includes the act of income smooting (profit leveling) is an action that can mislead users of financial statements by presenting inaccurate or incompatible information (Wahyudin, 2003 in Ibrahim 2010). The Islamic ethical system is embedded in two main values, namely unity (tawhid) and justice (justice). These two main values have a big impact as guidelines in carrying out economic activities and business transactions. With the two main values in the Islamic ethical

system, it can limit the practice of accrual earning management and real earning management.

Based on the description above, this study will explain and explore earning management in islamic perspective, this is considered important based on the many controversies that occur about earning management both in terms of accounting and in terms of ethics. This is an interesting topic for the author to conduct this research.

B. LITERATURE REVIEW

1. FINANCIAL STATEMENT

Financial Statements according to statement of financial accounting standards/PSAK 1 (2015) financial statements are structured presentation of the financial position and financial performance of the entity. An entity urgently needs financial statements as a means of information on the financial position and results that have been achieved by an entity.

Financial statements are part of the financial reporting process. Financial statements consist of financial position statements, capital change statements, income and loss, cash flow statements and notes on financial statements. Where the Notes on the financial statements contain additional information related to the report, such as financial information of the indsutry and geographical segments and disclosure of the influence of price changes. The presentation of financial statements aims to provide information to interested parties in making decisions related to the investment of their funds in the entity.

2. DEFINITION OF EARNING MANAGEMENT

Definition of earning management created by Davidson, Stickney, dan Weil (1987), Schipper (1989), National Association of Fraud Examiners (1993), Fisher dan Rosenzweig (1995), Lewitt (1998), serta Healy dan Wahlen (1999).

Davidson, Stickney, dan Weil:

> *"Earnings management is the process of taking deliberate steps within the constrains of generally accepted accounting principles to bring about desired level of reported earnings."*

Schipper:

> *"Earnings management is a purposes intervention in the external financial reporting process, with the intent of obtaining some private gain (a opposed to say, merely faciliting the neutral operation of the process)."*

National Association of Certified Fraud Examiners:

> *"Earnings management is the intentional, deliberate, misstatement or omission of material facts, or accounting data, which is misleading and, when considered with all the information made available, would cause the reader to change or alter his or judgement or decision."*

3. MANAGERIAL MOTIVATION

Conceptually there are three motivations that can explain why a manager makes that managerial effort, namely capital market motivation, contractual (bonuses or managerial compensation and debt), and antitrust or other government regulations (Sulisyanti, 2008).

Capital Market

Currently the business world has undergone a change in orientation in finding funds. The business world no longer relies on banks or other financial institutions to meet the needs of operational and investment funds but prefers to use funds obtained from the capital market (stock market oriented). In companies going public there is a separation of ownership and management. This encourages information asymmetry between company managers and external parties who do not have access and adequate sources of information. As a party who controls more information than other parties, the manager will behave opportunistically, namely prioritizing his interests over the interests of others.

Contractual Motivation

Therefore, in general, the motivation of this contract arises because of agreements between managers and other parties based on managerial compensation (managerial compensations) and debt agreements (debt convenants). Bonus motivation is a boost for the manager in reporting the profit he earns to obtain the bonus calculated on the basis of the profit. Furthermore, violations of debt covenant violations prove the

use of accruals by raising profits in the company's annual financial statements in violation of the agreement. Companies that are declared in violation of debt agreements will significantly increase profits so that the debt-to-equity ratio and interest coverage at the specified level.

The Agency Interest

The relationship that exists between the company and the government is also a trigger for agency problems between the two parties. Conceptually, using profit as the basis for calculating this tax will make the greater the profit earned by the company, the greater the tax that must be paid to the government. Conversely, the smaller the profit earned by the company, the smaller the tax that must be paid to the government. This means that the greater the company's profit, the greater the obligations that must be borne and completed by the company.

This is the beginning of the agency problem between the company and the government. Managers tend to always try to minimize their obligations, including the obligation to pay taxes. For managers, the smaller the tax to be paid to the government, the smaller the obligation.

4. AGENCY THEORY

Jensen and Meckling (1976) define agency theory as an interplay between agent and principal. The agent is the party who gets the order, while the principal is the party who issues the order, the supervisor, who adds value and input to the agent's task execution. Stephen A. Ross, Ph.D. (1973) When one party, labeled as the agent, acts for, on behalf of, or as a representative for the other, designated as the principal, in a specific realm of decision issues, an agency relationship has formed between the two (or more) parties. According to Eisenhardt (1989), agency theory is based on three human nature assumptions: (1) people are generally self-interested (self-interested), (2) humans have limited thinking power when it comes to future views (bounded rationality), and (3) humans always avoid risk (risk averse). Agents will act opportunistically, prioritizing their personal interests, based on the concept of human nature (Haris, 2004).

C. METHODOLOGY

Library research is a series of actions related to library data gathering methods such as notes, books, papers and articles, journals, and data analysis utilizing descriptive qualitative approaches using data collection strategies in this study (Arikunto, 2010). And use the findings of the analysis as a theoretical foundation for resolving issues in the research.

The goal of the literature review activity is to determine the best theory or foundation for thinking to help with problem resolution. To answer this research challenge, this literature review was conducted by utilizing as many relevant library items as possible.

In addition, it is also intended to find out the extent to which research has been carried out on the problem to be studied and to believe that the research to be pursued is possible because it is supported by existing theories. The scope of the literature study includes identifying, explaining, and systematically describing documents containing information related to the issues discussed.

The writer uses this strategy to look for literature relevant to the research, particularly theories about earnings management and Islamic business ethics, in order to examine numerous textual sources of data and analyze how Islamic business ethics views earnings management. The author focuses on books and journals on earning management, Islamic business ethics, agency theory, and asymmetric information in this literature review.

D. RESULT AND DISCUSSION

1. EARNINGS MANAGEMENT PATTERNS

The patterns of earnings management according to Sulistyanto (2008) include the following:

Income Increasing

The company's efforts to arrange for the current period's profit to be higher than the actual profit. This effort is carried out by playing the current period's income to be higher than the actual income and or the current period's costs to be lower than the actual cost.

Income Decreasing

The company's attempts to ensure that the profit for the current period is lower than the actual profit. This is accomplished by pretending that the current period's revenue is lower than the actual income and/or pretending that the current period's costs are higher than the actual costs.

Income Smoothing

The company's attempts to maintain consistent profitability over a long period of time. This is accomplished by pretending that the current period's revenue and expenses are higher or lower than the actual income and expenses. The pattern followed in earnings management is to report using certain procedures so that the financial statements given can be used to generate profits or smooth a manager's financial strategy.

2. EARNINGS MANAGEMENT PERSPECTIVE

Earnings management is viewed by practitioners as a problem that must be addressed immediately since it has a substantial impact on the company's profits and stakeholder decisions. This is due to the fact that this engineering effort is just the result of a wide range of generally recognized accounting rules. As a result, some believe that the best way to remove earnings management is to make changes to commonly used accounting standards.

Earnings Management as Fraud

The more the number of numbers and components that are engineered, the higher the rate of financial statement users making errors. Alternatively, the poorer the quality of the financial statement information, the more erroneous and poor-quality judgments made by stakeholders will be. As a result, the validity and quality of the information given in the financial statements has a significant impact on the accuracy and quality of stakeholder decisions. As a result, financial statements must be prepared to meet specific qualitative requirements in order to convey information whose authenticity can be relied upon.

Earnings Management Not Fraud

Meanwhile, other parties have the perception that earnings management is not fraud committed by company managers. Especially if this activity is carried out by managers within the framework of generally accepted accounting principles. The accounting principle which states that managers must fully disclose all information in financial reporting is also not able to make users of financial statements know whether the company is carrying out earnings management or not. Accounting does not require a company to always recognize and record a transaction or event according to the actual event. Or in other words, the company does not always have to inform the actual profit earned during a certain period in its financial statements.

However, there is actually a common thread between the two opinions, namely the agreement that earnings management is a managerial effort to influence the information in financial statements. This effort is carried out in accordance with the wishes of the manager so that the engineering pattern can increase profits, smooth profits, or decrease profits. This is done by increasing or decreasing the income and expenses of the current period.

In addition, these two opinions actually agree that there are parties who are harmed by earnings management. The difference is that one opinion states that managerial efforts are carried out in violation of accounting principles while the other opinion states that management is actually a reflection of the flexibility of accounting standards. Therefore, there are those who say that the effort to eliminate earnings management is an attempt to correct the applicable accounting standards.

3. ISLAMIC PERSPECTIVE ON EARNINGS MANAGEMENT

Efforts made by the company to maintain consistent profitability over time. This is accomplished by simulating current-period income and expenses to be larger or lower than actual income and expenses. Earnings management follows a pattern of reporting using certain strategies so that the financial statements given can be utilized to generate profits or smooth a manager's financial strategy.

Financial managers that work in earnings management perform financial reporting that has been altered in order to increase profits. For example, when a corporation achieves a high level of profitability, the amount of profit reported is

reduced in order to attract political attention. This is not permitted since it lacks an element of truthfulness. Generally Accepted Accounting Principles (GAAP) control the practice of earnings management.

In the Qur'an it has been explained: This has been explained in the Surah al-Baqarah: 188

> *"And do not let some of you eat up the wealth of others among you in a false way and (do not) take the property to the judge, so that you may eat some of the property of others by sin, even though you know."*

Profit in Islam is not only dependent on how to maximize the quantity value of the profit, but also on the existence of harmony with the desired quality value in human and Islamic nature, as defined by the principles and business objectives set forth in the laws of *muamalah.*

Profits allowed by Islam are profits that are obtained fairly, do not harm and reduce the rights of both parties who make buying and selling transactions. From research conducted by Muhammad Faisol (2013), it is concluded that earnings management is a deliberate action by managers by taking advantage of the opportunities that exist in accounting principles (permissible) for certain interests. This (earnings management) occurs as a result of the asymmetric relationship between managers, shareholders, and parties who have an interest in the company.

To get a net profit from the elements of usury and fraud, Islam determines the basic principles in the transaction mechanism, including:

a. The principle of mutual pleasure in transactions is a process that occurs when the ownership of the goods to be sold is clear, excluding prohibited items, and the pricing is clear.
b. The principle of ease or taawun in transactions shows that the profits obtained are not solely for the personal interests of the seller (self-oriented), but are also expected to provide benefits to others and cover the needs of the community.

4. CONCLUSIONS

Earnings management is a critical issue that practitioners and academics are grappling with. Earnings management appears to have established a corporate culture practiced by all organizations worldwide. In the end, earnings management was reduced

since it has a negative connotation, including regulating, modifying, playing games, arranging, and manipulating profit data to achieve certain objectives.

Even while the practice of earnings management is still regarded legal on a theoretical level when it does not conflict with GAAP, it is recognized as a behavior that is not in keeping with the ideals included in Islamic business ethics.

REFERENCES

Arikunto, S. (2010). Metode peneltian. *Jakarta: Rineka Cipta*.

Arisandy, Y. (2020). Manajemen Laba Dalam Prespektif Islam. *JURNAL ILMIAH MIZANI: Wacana Hukum, Ekonomi, dan Keagamaan*, *2*(2).

Halim, J., Meiden, C., & Tobing, R. L. (2005). Pengaruh Manajemen Laba pada Tingkat Pengungkapan Laporan Keuangan pada Perusahaan Manufaktur yang Termasuk dalam Indeks LQ-45. SNA VIII Solo , 117-135.

Healy, Paul M., and James. M. Wahlen. (1999). "A Review of the Earnings Management Literature and Its Implications for Standard Setting". Accounting Horizon, No 13. PP 365-383.

Eisenhardt, K.M. 1989. "Agency theory; an assessment and review". Academy of Management Review, 14: 57- 74.

Ibrahim, A. (2010). Income Smoothing dan Implikasinya terhadap Laporan Keuangan Perusahaan dalam Etika Ekonomi Islam. Jurnal Media Syariah Vol. XII No. 24 , 102-119

Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure. Journal of Financial Economics Vol. 3 No. 4 , 305-360.

Khairani, H. (2015). Etika bisnis islam tentang manajemen laba.

Marzuqi, A. Y., & Latif, A. B. (2010). Manajemen Laba dalam Tinjauan Etika Bisnis Islam. Jurnal Dinamika Ekonomi dan Bisnis Vol. 7 No. 1 , 1-22.

Muhammad Faisol "Manajemen Laba , Apakah Termasuk Fraud?" diakses dari http://semangadmu.blogspot.co. id/2022 /11/manajemen-laba- apakah-termasuk-fraud.ht

Ningsih, S. (2016). Pengelolaan Laba Melalui aktivitas-aktivitas riil perusahaan perspektif islam. *Iqtishadia*, *8*(1).

Nugroho, B. Y., & Eko, P. U. (2012). Board characteristics and earning management. *BISNIS & BIROKRASI: Jurnal Ilmu Administrasi Dan Organisasi*, *18*(1).

Ross, Stephen. 1973. The Economic Theory of Agency: The Principal's Problem. American Economic Review. Vol. 63, No. 2, hlm: 134-139.

Riduwan, A. (2010). Etika dan perilaku koruptif dalam praktik manajemen laba: Studi hermeneutika. *Jurnal Akuntansi dan Auditing Indonesia*, *14*(2).

Sulistyanto, S. (2008). *Manajemen Laba (Teori & Model Empiris)*. Grasindo.