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DETECTION OF EARNING MANAGEMENT USING EXPERIMENTAL APPROACH

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Abstract:

This study aims to prove that managers will alter accounting policies to increase the earning when there is a debt contract, reduce the earning when associated with corporate income tax and can increase the earning when there is a Bonus scheme. The experiment was conducted by using Controlled laboratory experiment. Subjects/participants were 108 of the fourth-semester students of the accounting department. The dependent variable is the decision to choose/determine the accounting policy, while the independent variable is the treatment: the contract of debt, Corporate Income Tax, and Bonus scheme. The experimental design uses a 1x4 factorial design (the students vs. the decision to choose the earning without treatment, the decision to choose the earning associated with the debt contract, the decision to choose the earning associated with the Corporate Income, and the decision to choose the earning associated with the Bonus scheme). The data analysis method used One Way ANOVA to determine the presence/absence of the different response of the subjects/ the subjects choose/ determine policies that can increase/ decrease profits as a result of the treatment provided. Furthermore, the thorough effect of each treatment was investigated using post hoc test scheffe method. The findings show that managers choose policies that can: raise the earning when associated with debt contracts, decrease the earning when associated with corporate income tax, increase the earning when associated with bonus contracts.

Keywords: detection, earnings management, experiment

Index Terms: About four key words or phrases in alphabetical order, separated by commas.

I. INTRODUCTION

Research on earnings management has been widely practiced. Some researchers used the discretional accrual approach for detecting the presence of earnings management, but the research findings remain inconsistent as exemplified by following some research on this.

1. Research conducted by Aprina & Khairunnisa, (2015) entitled the influence of company size, profitability, and bonus compensation on earnings management in 2012-2014, using discretionary accruals revealed that company size and profitability affected earnings management, while bonus compensation did not affect profit management.
2. The research conducted by Syahreza, Pratomo, & Yudowati, (2016) entitled the influence of independent commissioners and audit committees on earnings management in 2010-2013, using discretionary accruals revealed that independent commissioners have a significant effect on earnings management, while audit committees do not affect earnings management.
3. The research of Dewi & Ulupui (2014) showed that income tax has a negative effect on earnings management, while firm size shows a positive influence on earnings management.

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4. The findings of Wijaya & Christiawan's research (2014) showed that bonus compensation does not affect earnings management, while leverage and tax have a positive effect on earnings management of manufacturing companies.
5. Based on the research results of Jannah & Mildawati, 2017, company assets proxied by company size have a positive effect on earnings management. Income tax has a negative effect on earnings management. The corporate governance mechanism proxied by institutional ownership, managerial ownership has a positive effect on earnings management, while the proportion of independent commissioners and audit committees does not affect earnings management.
6. The results of the study of Putri & Titik (2014) showed that managerial ownership, leverage, firm size do not influence earnings management.

The results of the above studies revealed that there are inconsistencies in the findings regarding the influence of several independent variables comprising: company assets (company size), managerial ownership, and leverage on earnings management. The measurement of the dependent variable (earnings management) uses an accrual-based approach model. Earnings management research often focuses on management by using discretionary accruals. In this accrual-based model, the researcher estimates the discretionary component of reported income (Chen, 2010).

Research on earnings management mostly uses the Jones model and the modified Jones model (Nurlette & Sumekar, 2021; Setiadi et al., 2022). The examples of previous studies indicated that earnings management research with discretional accrual approach based on secondary data as the evidence of earnings management. The use of the Jones model and the modified Jones model has proven to be ineffective in capturing earnings management (Chen, 2010).

Chen's review (2010) reveals that: first, the modified Jones model is still the best approach to detect earnings management compared to all other methods in education circles; the practicality of this prominent model is undeniable. Second, the modified Jones model occasionally cannot detect earnings management. Consequently, it is essential to use another approach at the same time to detect earnings management in other aspects and compare the results with the modified Jones model. In other words, to use only the results obtained from one particular model is not enough to prove anything (Chen, 2010); third, efforts to find better methods for detecting earnings management are still on the way. Although many people conclude that the modified Jones model has a problem, there is still no alternative to replace it (Chen, 2010).

Earnings management is an aspect of management behavior in deciding to change specific policies so that the reported earnings conform to their motivations. The modified Jones model is ineffective in revealing earnings management because it is based on secondary data. Thus, this study tries to detect earnings management by using primary data with a laboratory experimental approach.

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II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Definition Of Profit Management

Earnings management affects the quality of reported earnings because profits do not reflect actual economic performance. Earnings management is a manager's action to increase (decrease) the current reported earnings of a unit which is the responsibility of the manager without concerning the increase (decrease) in long-term economic profitability (Fischer and Rosenzweig, 1995). Scott (2009: 403) defines earnings management as follows: Earnings management is a manager of accounting policies, or actions affecting earnings, so as to achieve particular reported earnings objectives (earnings management is the selection of accounting policies by a manager, or activities that affect profits, so as to achieve some specific purpose of reported profits). Earnings management is the managers' selection of accounting policies of the existing Financial Accounting Standards and obviously to maximize the utility and or market value of the company. The practice of earnings management leads to the reducing reliability of profits due to the refraction of earnings measurement in earnings management is so that reported earnings are not actual.

B. Management Pattern

The pattern of profit management, according to Scoot (2009: 405) comprises the followings:

1. Taking a Bath. It occurs during the period of organizational pressure or at the time of reorganization, such as a new CEO turnover. In this pattern, the company's profits in the current period are shallow (not loss) or extremely high compared to the previous or after period profits. Taking a bath technique recognizes the existence of costs in the future period and losses in the current period when unprofitable and unavoidable adverse conditions occur in the current period. Consequently, management removes some assets and imposes future cost estimates. As a result, profits in the following period will be higher than they should.

2. Minimization. This method is similar to taking a bath but more subtle. Income minimization is usually performed when the company's profitability is very high with the intention of not getting political attention. The policy taken could be in the form of abolition of intangible capital goods and assets, loading of advertising expenditures, research and development expenses, and others.

3. Income Maximization. It aims to obtain a bigger bonus, increase profits, and avoid violations of long-term debt contracts. Maximization income is carried out by speeding up the recording of income, delaying costs and removing costs for other periods and is performed when the profit is declining. The action on income maximization is intended to report a high net income to get a big bonus. This pattern is carried out by companies that violate debt agreements.

4. Income Smoothing also called income smoothing is carried out by making accounting profits to be relatively consistent (flat or smooth) from period to period. In this case, management intentionally decreases or increases profits to reduce the turmoil in earnings

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reporting, so the company looks stable or not at high risk. Managers will effectively save their current income for possible use in the future. Companies perform it by leveling reported earnings to reduce the too high-profit fluctuation because investors generally prefer relatively stable profits.

C. The Motivation for Profit Management Practices

1) Manager performs earnings management practices because of the motivation of debt contracts, financial reports for tax purposes and compensation to the bank. According to Scott (2009: 406), various motivations underlying managers in performing earnings management are:
2) Bonus Scheme. Many companies try to spur and improve employee performance; in this case, the manager, by setting a policy of giving bonuses. After reaching a predetermined target, profit is often used as an indicator of the evaluation of company managers by determining the level of the obligatory profit to be achieved in a certain period.
3) Other Contractual Motivations. Managers have the urge to choose accounting policies that can fulfill contractual obligations.
4) Political Motivations. To reduce political cost and supervision, the government usually gives special attention to companies that are in the public spotlight because of their number of employees, dominance in the market share in the marketing of certain industrial products, and so forth. Management profits are carried out by increasing profits. To obtain easiness and facilities from the government, for example, subsidies, protection from foreign competitors and minimize the demands of trade unions, earnings management is prepared by reducing profits.
5) Taxation Motivations. Earning management aims to affect the amount of tax that must be paid to the government. In this case, managers try to reduce the profit so that the obliged tax burden that must be paid decreases. Concerning taxation issues, managers usually prepared more than one type of financial report for different purposes.
6) Change of CEO. One of the objectives of earning management is to generate excellent performance. In the case of manager turnover which usually ends in the year of duty, the manager will report high profits so that the new CEO will feel very hard to reach that level of profit.
7) Initial Public Offerings (IPO). Earning management in financial statements aims to influence the market, specifically the perception of investors in order to go public. Thus financial report-making companies tend to increase profits as an effort to maximize the proceeds of the company's initial public offering. If the company has gone public, the objectives of profit management are not only to increase profits but also reduce profit in a certain period so that the reported earnings are not volatile (income smoothing) for creating market perceptions that the company has been stable or not at high risk.
8) To Communicate Information to Investors. Managers perform earnings management to make the company's financial statement looks better. It is due to the tendency of investors

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to use financial statements in assessing a company. In general, investors are more interested in the company's future financial performance and use current reported profits to review future possibilities.

D. Previous Research

Some previous studies on earnings management include:

1) Research by Aprina & Khairunnisa (2015) entitled effect of firm size, profitability, and bonus compensation to earnings management in 2012-2014, using discretionary accruals revealed that company size and profitability effect on earnings management, while bonus compensation does not affect earnings management.
2) Research by Syahreza's, Pratomo, & Yudowati (2016) entitled influence of independent directors and audit committee on earnings management in 2010-2013, using discretionary accruals, revealed that independent commissary has a significant effect on earnings management, audit committee but it has no effect on earnings management.
3) Research by Dewi & Ulupui's, (2014) showed that income tax has a negative effect on earnings management, while firm size shows a positive influence on earnings management.
4) The findings of Wijaya & Christiawan's research in 2014 showed that bonus compensation does not affect earnings management, while leverage and tax have a positive effect on earnings management of manufacturing companies.

E. The Development of Hypotheses

Effects of Debt Contracts on Profit Management

In developing the business, management requires funds obtained through bank/creditor loan. The loan provision takes into account the ability of prospective customers/debtors to pay off their obligations in the future. One of the considerations is the financial statements of prospective customers/debtors by focusing mainly on financial performance as outlined in the income statement. High profit is assessed as excellent financial performance and vice versa, low profit is assessed as poor financial performance. The prospective customer/debtor will try to demonstrate excellent financial performance so that the proposed loan can be approved. Thus, the first proposed hypothesis of this study is:

H_1: subject will change/choose accounting policies that can increase profits when there is a debt contract.

Effect of Income Tax on Profit Management

The company's financial performance in the form of higher profits will be subject to higher income taxes. Conversely, the company's financial performance in the form of lower profits will be subject to lower income tax. Management as a private party tends to make accounting policies that can save tax. Thus, the second proposed hypothesis of this study is:

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H2: subjects will change accounting policies that can reduce profits when related to corporate income tax.

Effect of Bonuses on Profit Management

Management performance is reflected in financial performance. Meanwhile, the bonus scheme is calculated based on the company's financial performance. The company's financial performance is indicated by earnings performance. Higher profits indicate that management will get higher bonuses. In contrast, the lower rate shows that management will get a smaller bonus. Thus, the third proposed hypothesis of this study is:

H3: subjects will change accounting policies that can increase profits when there is a bonus contract.

III. RESEARCH METHOD

Research Type

This study employs controlled laboratory experiment conducted by manipulating independent variable in the controlled situation so that the degree of its causality effect on the dependent variable can be examined and proven (Bordents and Abbott, 2008).

Research Subject

The experiment subject of this research is the students of Accounting Management Study Program of the Accounting Department of the State Polytechnic of Malang. The subjects were 81 third year students currently at least in the fifth semester based on the consideration that they have accomplished such required courses as Financial Accounting 1 & 2, Intermediate Accounting 1 & 2 and Tax Accounting. Grouping the students' composition is based in the grouping result determined by the Accounting Management Study Program using the matching group approach as proposed by Sekaran dan Roger (2010).

Research Variable

The dependent variable in this research is the decision (the implementation/determination of accounting policy) concerning the preparation of Profit and Loss Statement while the independent variables are in the form of the treatment of debt contract, corporate income tax, and bonus contract.

Experimental Design

The experimental design of this research is factorial design involving two or more independent variables – each of which is at least two levels or factors (Shadish et al., 2002). The design used 1x4 factorial (student vs. decision to choose profit-loss without any treatment, the decision to choose profit and loss concerning debt contract, the decision to choose profit-loss concerning the corporate income tax and decision to choose profit-loss concerning the bonus contract.

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Tasks of the Subjects

The subject acted as the management of a company listed on the Indonesia Stock Exchange and has the authority to make decisions related to the accounting policies to be applied in preparing financial statements, specifically the income statement related to debt contracts, corporate income tax, and bonus contracts.

Base Line Conditions

The subject read the income statement and without changes in the accounting policies used in preparing financial statements, particularly the profit and loss statement (without treatment). This comprehensive profit and loss statement is the profit that should have reached IDR 10,320,000 and was prepared by applying the principle of consistency, especially regarding inventory costing while using the FIFO method. However, Research & Development Costs, previously budgeted Promotion Costs will be issued at the end of the 2017 period.

Debt Contract

Subjects were allowed to make decisions to choose accounting policies to realize the budget by the end of 2017 or defer expenditures in 2018. The method of determining the cost (inventory costing method) used FIFO or weighted average, when the company proposed for a bank loan, so the profit and loss calculation in the report will be higher or lower than it should be.

Corporate Income Tax

Subjects were allowed to make decisions to choose accounting policies for realizing the budget by the end of 2017 or defer expenditures in 2018. The method for determining the cost (inventory costing method)) used FIFO or Weighted Average, when subjects should consider the income tax (Tax Savings), so that the calculation of the income in the report will be lower than it should be.

Bonus Contract

Subjects were given the opportunity to make decisions to choose accounting policies for realizing the budget by the end of 2017 or defer expenditures in 2018 and the method of determining cost (inventory costing method) used FIFO or Weighted Average, if there is a scheme (if corporate profit is higher, then the bonus will be bigger and vice versa). The tasks of the subjects in this experiment are attached.

Pilot Test & Manipulation Check

The purpose of the pilot test is assessing the experimental design and the possible improvements needed so that the actual experiment can be carried out correctly and the threat of mortality can be avoided. Therefore, manipulation check was carried out by adapting Ghost (1997) instrument which consists of 4 statements about the clarity level of the experimental tasks, the confidence level of the answers given, the involvement level and attention level during the experimental process. The lowest scale is one, and the highest is ten. If the results of the pilot test showed a good average (above 6) for the clarity level of the experimental tasks,

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the confidence level of the answers given by the subject, the involvement level during the experimental process, and the attention level of the subject during the experimental process then the experimental design does not require any revision and is ready to be used for the experiment/learning process.

ANOVA Assumption Test

According to Hair et al. (2006), ANOVA remains robust against deviations from three ANOVA assumptions comprising: independence during observation, normality, and variance homogeneity, however, experimental technical procedures have taken into account of and anticipated the possibilities that can interfere the internal validity to fulfill the observation independence. Normality tests performed using the One-Sample Kolmogorov-Smirnov Test, and variance homogeneity of the dependent variables tested used the Levence's statistical test.

Method of Analysis

The method of analysis to determine the differences in the knowledge of each group used a one-way analysis of variance (One-way ANOVA). Testing the hypothesis using the post hoc test of scheffe method. Technically, the F (One-way ANOVA) and post hoc test of scheffe tests were performed using SPSS for Windows version 18.0.

IV. RESEARCH FINDINGS AND DISCUSSION

Results of the Pilot Test

The pilot test was given to 27 the fourth-semester students of the accounting department of the State Polytechnic of Malang. The results of the pilot experimental test in **Table 4.1** below show that the clarity level of the design of the subject's task is 6.75, confidence level of the answers given is 6.6, the involvement level is 7.45, and the attention level is 7.7. The results of this experimental pilot test are rated as adequate, because the clarity of each designed task, the confidence level of the answers given, the involvement level, and the attention level of the subjects of research is above 6. The results of the pilot test showed that experimental design could be used for experiments.

Table 4.1. The Average Level of Clarity, Confidence, Engagement, and Attention of the Results of the Pilot Test

	N	Minimum	Maximum	Mean	Std. Deviation
Clarity	27	3.00	10:00 a.m.	6.7500	2.04875
Confidence	27	3.00	10:00 a.m.	6.6000	1.84676
Involvement	27	5.00	9:00	7.4500	1.05006
Attention	27	5.00	10:00 a.m.	7.7000	1.55935
Valid N (list wise)	27				

Manipulation Check Results of Experimental Implementation

Manipulation Check aims to find out whether the case/experimental scenario describes the real conditions based on such indicators as the level of clarity, confidence, involvement, and attention of the subjects in the experiment so that it can measure what should be measured

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based on the subject's response to the list of questions. The manipulation check question adopts from Ghost (1997) which consists of 4 questions with a scale of 0 to 10. Questions related to the level of clarity of the experimental task and the level of confidence in the response given are determined by the requested tasks in the experiment, the level of subject involvement in the experiment and the level of attention of the subjects in this experiment.

The results of the experimental manipulation check one presented in Table 4.2 below show that the effectiveness of the experimental design is considered as adequate. It is indicated by the average level of clarity of the subject in understanding the experimental assignment that is 7.44 with the lowest score of 5.0, and the highest score of 10, the average level of the subject's confidence in the answers given is 7.50 with the lowest score is 5.0, and the highest is 10, the average level of subject involvement is 7.65 with the lowest score is 5.0 and highest is 10, the subject's average level of attention during the experiment is 8.00 with the lowest score is 5.0 and the highest is 10.

Table 4.2. The Results of Experimental Manipulation Check I

	N	Min	Max	Mean	Std. Deviation	Variance
Clarity	108	5.00	10:00 a.m.	7.4423	1.14470	1.310
Confidence	108	5.00	10:00 a.m.	7.5000	1.03848	1.078
Involvement	108	6.00	10:00 a.m.	7.6538	1.04571	1.094
Attention	108	6.00	10:00 a.m.	8.0000	1.13759	1.294
Valid N (List Wise)	108					

The results of the manipulation check show that the level of task clarity increases, the subject's level of confidence in the answers given, the level of subject involvement, and the level of attention of each subject are above the value of 6. It reveals that the level of clarity, confidence, involvement, attention is considered as adequate, so the answers taken by the subject in making a decision are the results of measurements that measure what should be measured in this experiment.

Statistical Description

The subjects in this experimental study were 108 students of the 4th semester in the Accounting Department of State Polytechnic of Malang. The design of the subject tasks consists of 3 treatments comprising Debt Contract, Corporate Income Tax, Bonus Contract, and profit-loss without treating the subjects as a control group. Each design is given at random, and each decision given is presented in the following Table 4.3.

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Table 4.3. Statistical Description

Description

Decision					
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean
					Lower bound
Debt Contract	27	8.8889	1.01274	.19490	8.4883
Corporate Income Tax	27	2.1852	1.07550	.20698	1.7597
Bonus Contract	27	9.2222	.89156	.17158	8.8695
profit without change	27	4.5926	1.08342	.20850	4.1640
Total	108	6.2222	3.13954	.30210	5.6233

The table shows that 27 students, without any treatment, made an average decision of 4.59 which means choosing the right profit. Twenty-seven students treated by debt contract commonly decided at 8.89. The average of the decisions is above the expected profit. Regarding the Corporate Income Tax, the 27 students made an average decision of 2.18, and an average of the decisions is under the expected profit. Related to the scheme, the 27 students commonly made decisions equal to 9.22 which is above the expected profit. The standard deviation of each decision group is lower than two which indicates a relatively small deviation.

ANOVA ASSUMPTION TEST RESULTS

Independent Observation

Subjects who participated in this experiment have the same opportunity to get a task experiment I, II, III, and IV, therefore the 108 participated subjects were given the tasks of the experiment randomly. The answers/decisions taken by all subjects were not influenced by other people so that the measurement process in this experiment has fulfilled one of the assumptions of ANOVA namely independent observation.

Multivariate Normality

Although ANOVA is robust, there are multivariate normality assumptions (Hair et al., 2006). This study, however, tested the normality using the One-Sample Kolmogorov-Smirnov Test. The results of the normality test presented in the following Tables 4.4, 4.5, and 4.6 show that the probability value is above 0.5. It indicates that all experiment data meet the normality assumptions, so it has met one of the ANOVA assumptions.

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Table 4.4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Debt Contract
N		27
Normal Parameters [a, b]	Mean	8.8889
	Std. Deviation	1.01274
Most Extreme Differences	Absolute	.210
	Positive	.143
	Negative	-.210
Kolmogorov-Smirnov Z		1093
Asymp. Sig. (2-tailed)		.183
a. The distribution test is Normal.		
b. Calculated from data.		

Table 4. 5. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		PPh
N		27
Normal Parameters a, b	Mean	2.1852
	Std. Deviation	1.07550
Most Extreme Differences	Absolute	.198
	Positive	.198
	Negative	-.146
Kolmogorov-Smirnov Z		1,029
Asymp. Sig. (2-tailed)		.240
a. The distribution test is Normal.		
b. Calculated from data.		

Table 4. 6. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Contact Jonus
N		27
Normal Parameters a, b	Mean	9.2222
	Std. Deviation	.89156
Most Extreme Differences	Absolute	.290
	Positive	.191
	Negative	-.290
Kolmogorov-Smirnov Z		1.507
Asymp. Sig. (2-tailed)		.21
a. The distribution test is Normal.		
b. Calculated from data.		

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Test of Homogeneity of the Variance

The results of Leven's test of homogeneity of variance presented in **Table 4.7** below. The dependent variable in each cell formed by independent variables show that its variance is the same as the result of Leven's test of homogeneity of variance = 0.552; p-value = 0.648/insignificant at the significance level of 0.05.

Table 4.7. Test of Homogeneity of the Variance

Decision			
Levene Statistics	**df1**	**df2**	**Sig.**
.552	3	104	.648

Based on the results of the homogeneity of the variance test, the experiment has fulfilled the assumption of Homogeneity of Variance, because each group of subjects has the same variant so that it has fulfilled one of the ANOVA assumptions.

Hypothesis Testing Results

The results of hypothesis testing using one-way ANOVA presented in **Table 4.8** show that the value of F = 304.101, with p = 0.000. It shows that the shared decision for changing the accounting policy between groups (inter-cell) and within the groups is different because of the different given treatment. In other words, the results of this ANOVA test show differences in the decisions made by subjects to change accounting policies as a result of the variety of provided treatments (debt contract, corporate income tax, and bonus contract).

Table 4.8 ANOVA

Decision					
	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Between Groups	946.741	3	315.580	304.101	.000
Within Groups	107.926	104	1.038		
Total	1054.667	107			

The results of further testing – Post Hoc Tests – using Scheffe method presented in Table 4.9 and 4.3 clearly show that the average group of subjects with treatment on decision contract is different from the group of subjects without any treatment. The average difference is 4.29630 and is significant at the probability value of 0.05. The difference/average value of the favorable decision of 4.29630 is the difference with the average between groups of subjects with treatment decisions of debt contracts that is 8.8889 with the average decision of subject group without treatment that is 4.5926. It means that the group of subjects treated with a debt contract decides to choose a policy that can increase the profit from the expected profit. This test results support hypothesis 1 (one).

Furthermore, the average decision of the group of subjects without treatment was different from the group of subjects with the treatment of Corporate Income Tax. The average difference is 2.40741 and is significant at the probability value of 0.05. The difference in the average value of a favorable decision of 2.40741 is the difference between the mean decisions of the group

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of subjects without treatment of 4.5926 with the average decision of the subject group with the treatment of Corporate Income Tax of 2.1852. It means that the group of subjects who get treatment of Corporate Income Tax decides to choose a policy that can reduce profits from the profits that should. This test results support hypothesis 2 (two).

While the average decision of the subject group with the treatment scheme is different from the group of subjects without treatment. The average difference is 4.62963 and significant at the probability value of 0.05. Differences of the average value of a favorable decision of 4.62963 is the difference between the average of the decision of the subject group given the treatment scheme (9.2222) with an average decision group of subjects without treatment (4.5926), which means the group of subjects who received treatment scheme decided to choose policies that can increase profits from the expected profits. This test results support hypothesis 3 (three).

Table 5.9 Post Hoc Tests Multiple Comparisons

Dependent Variable: decision Scheffe

da (I) Treatments	(J) Treatments	Mean Difference (IJ)	Std. Error	Sig.
Debt Contract	Corporate Income Tax	6.70370 *	.27725	.000
	Bonus Contract	-.33333	.27725	.696
	profit without change	4.29630 *	.27725	.000
Corporate Income Tax	Debt Contract	-6.70370 *	.27725	.000
	Bonus Contract	-7.03704 *	.27725	.000
	profit without change	-2.40741 *	.27725	.000
Bonus Contract	Debt Contract	.33333	.27725	.696
	Corporate Income Tax	7.03704 *	.27725	.000
	profit without change	4.62963 *	.27725	.000
Profit without change	Debt Contract	-4.29630 *	.27725	.000
	Corporate Income Tax	2.40741 *	.27725	.000
	Bonus Contract	-4,62963 *	.27725	.000

*. The mean difference is significant at the 0.05 level.

Discussion

The previous analysis shows that hypotheses 1, 2 and 3 are supported. Hypothesis 1 states that subjects will change/choose accounting policies that can increase profits when there is a debt contract. This finding proves that the behavior of the management is not independent, but it is influenced by the interest to obtain a bank loan. When the company requires a loan, the management will implement policies or methods that can increase profits. High or increasing company profits are expected to give an impression or convincing to the Bank that the company is a prospective debtor that has a high ability to repay the loans. Eventually, Bank/Creditor by taking into account the company performance will provide the submitted loans.

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Hypothesis 2 states that subjects will change accounting policies that can reduce profits when related to corporate income tax. This finding also proves that the behavior of the management is not independent, but it is influenced by tax interests. Regarding tax, the management seeks to plan tax, so the company pays a tax that is supposed to be paid to the government or known as tax savings. Tax savings can be carried out by implementing tax planning by applying accounting policies and other policies without violating applicable tax laws. This finding proves that management is motivated to perform tax planning to save tax. It supports the concept suggested by Scott (2009) that one of the motivations of management to perform earnings management is tax motivation. Tax planning is expected to affect the amount of tax to be paid to the government.

Hypothesis 3 states that subjects will change/choose accounting policies that can increase profits when there is a bonus contract. This finding proves that the behavior of management is motivated by bonuses. Schemes can be a motivation for management. Many companies set specific targets to motivate performance. Achievement of predetermined targets is one indicator of bonus/incentive. When there is a bonus contract, the management of the company will strive to improve its performance both by implementing real policies or activities that can increase company profits, so that the bonuses will be increased (Scott, 2009).

The proofs of the three proposed hypotheses show that earnings management occurs by the concept/theory and simultaneously shows that research with an experimental approach is more able to capture earnings management behavior.

V. CONCLUSIONS

Based on the results of the analysis in this experimental study, the following conclusions can be drawn:

1. The management will apply accounting policies or real activities that can increase profits when the company will apply for a loan from the bank,
2. The management will implement accounting policies or real activities that can reduce profits when related to taxation,
3. The management will implement accounting policies or real activities that can increase profits when there is a bonus contract.

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