

## The Analysis of Accounting Students Perception to the Financial Statements Reporting

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### Abstract

This study aims to determine perceptions and differences in perceptions between accounting students to earnings management. Research was done in some of University in West Sumatera. The data used in this study are the primary data. The population in this study are accounting students in University in West Sumatera. Technique sampling in this study using purposive sampling. Measurement scale which is The Likert scale is used. Data testing is done using parametric and non-parametric statistic. using SPSS assistance for windows 22. Empirical results prove that (1) there are differences in perceptions of senior and junior accounting students to earnings management (2) there are differences in perceptions of man and woman accounting student to earnings management (3) there is no differences in perceptions of well economically and non-well economically students to earnings management.

**Keywords:** *ethics, perceptions, accounting students, earnings management*

### Introduction

Financial statements are information used by various stakeholders of the company to find out the performance of a company in decisions making process. The responsibility of financial reporting rests to the company manager. Usually, managers use their knowledge as an internal party in a company who knows the real condition of the company in preparing financial reports so they can provide reliable information about the company's financial position for external users.

Nevertheless, information asymmetry can occur when internal parties, especially managers have more access to the information. The information asymmetry between managers and external stakeholders causes managers to use their privilege in financial reporting to achieve their personal benefits. The opportunistic actions of management in misleading external users of financial statements commonly called earnings management.

Earnings management often occurs and can create a problem in financial reporting of a company. Earnings management can be in the form of manipulations in accounting records, intentional errors, or inadequate application of accounting principles. This is practiced by management and often results in inaccurate and misleading information on financial statements (Aini, A., Takiah, M., Hamid, P., & Jenny, T, 2013) . Earnings management is related to the poor quality of financial reporting by deceiving users of financial statements.

Earnings management has enlivened the press and news media so long. Sulistiawan, et al (2011) stated that the accounting scandal cases related to earnings management, including management cases occurred in Indonesia. In the United States, the Enron Corporation case, revealed in 2001 was a major case related to earnings management where the company manipulated the company's financial statements by recording a profit of 600 million US dollars but in reality the company was suffering losses. This manipulation action was driven by the desire of the company's management in order to keep the value of its shares and in demand by the investors.

In Indonesia the case of earnings management occurred in several well-known companies, including PT Kimia Farma, Tbk, PT Perusahaan Gas Negara, and PT Ades Alfindo. At PT Kimia Farma, Tbk. was indicated to

do profit inflation in the first semester of 2002 financial statements which were also reported in the 2002 Bapepam annual report. Motivation was behind the desire of the directors to increase profits (Permatasari, Y, 2014).

In its preparation, financial statement cannot be separated from the behavior of accountants in the company which related to the selection of accounting policies. One factor that must be improved to enhance the quality of financial reporting in Indonesia is the ethics and positive attitude of Indonesian accountants. With a variety of reasons and goals, both right and wrong, sometimes the presentation of financial statements made by accountants deviates from the ethics and positive attitude of an accountant. Not surprisingly, since long ago ethics has always highlighted accountants in presenting financial statements.

Although professional standards require an accountant to present impartial information, various studies reveal differences in perceptions among various parties regarding earnings management ethics. Some consider earnings management practices acceptable, while others consider earnings management practices as a serious ethical violation

The environment has a high influence for an accountant on their understanding and perception about ethics. The world of accounting education also has a significant influence on the ethical behavior for accountant and prospective accountant. Therefore, understanding of a prospective accountant as well as prospective workers is very important. The existence of ethics education also has an important role in the development of the accounting profession in Indonesia. Study which contain ethics are inseparable from the mission that has been hold by higher education accounting as a higher education subsystem, and higher accounting education is also responsible for teaching related to ethics knowledge which students must have so that students have a complete personality as prospective professional accountant.

Therefore, researchers try to do research on aspects of earnings management to obtain information about individual perceptions, especially students about this practice.

### **Problem Statements**

From the description that has been described, the researcher is eager to analyze the ethical perceptions of students towards earnings management. The main problems in this study are:

1. Is there the differences in accounting students' perceptions on earnings management practices before and after taking business ethics courses.
2. Is there the differences in accounting students' perceptions of earnings management practices between male and female students.
3. Is there the differences in accounting students' perceptions of earnings management practices between economically capable students and non economically capable students

### **Research Objectives**

The aim of this research are:

1. To analyze differences in accounting students' perceptions on earnings management practices before and after taking business ethics courses.
2. To analyze differences in accounting students' perceptions on earnings management practices between male and female students.
3. To analyze differences in accounting student perceptions on earnings management practices between economically capable and non economically capable students.

The importance of this research is to conclude student perceptions and analyze the perspective of accounting students towards the ethics of preparing financial reports, especially on earnings management practices. The results of the study can be used as a reference for the occurrence of earnings management practices and can be use a reference and additional knowledge in the accounting study.

## **Literature Study**

### **Ethics**

The term ethics in Indonesian derived from the Greek language; *ethos* which means habit or character. Ethics also comes from French: *etiquette* or in Indonesian is interpreted with *etiquette*. *Etiquette* means how to get along, well behave, Ethics is a pattern of good behavior and habits which can be accepted in a person's social environment. Depending on the situation and perspective, one can judge whether the ethics used are good or bad (Dedy, KPA, 2019)

### **Perception**

Ou Qiyong (2017) define perception as selection during which we convert the environment stimulation into meaningful information about their environment. Matlin [9], defines more broadly, stated ethics as a process which involves previously acquired knowledge and then interpreted by a combination of external factors (visual stimulus) and ourselves (prior knowledge).

### **Earnings Management**

Phillips, Pincus and Rego (2010) define earnings management as a managerial policy strategy in reporting accounting earnings related to choice, accounting methods and operating cash flow. García Lara et al. (2005) states that earnings management is a management practice that is carried out intentionally and opportunistically with the aim of reporting the desired value, different from the original. Next Scott (2009) describes earnings management as an accounting choice or action that can influence earnings to achieve certain goals.

### **State of the Art**

Watts and Zimmerman (1978) explain earnings management occur when managers make accounting discretionary with or without restrictions and this practice is done to increase the value of the company. Whereas Davidson, Stickney and Weil (1988) define that earnings management is the process of making intentional actions within the limits of generally accepted accounting principles to produce the desired level of earnings reporting. Schipper (1989) defines earnings management as the behavior of intentionally changing the financial statements with the aim of obtaining personal gain. However, the definition more widely used by researchers is that earnings management is "manipulation of corporate financial statements by managers based on their own judgment, with the aim of confusing users of financial statements about the economic reality of the company or to influence the value of contracts that depend on financial statements" (Healy, PM and Wahlen, 1999)

There are different views on earnings management practices and it rise to an ethical dilemma. On the one hand, earnings management is seen as an action that should not be done because the existence of earnings management information that does not fully reflect the state of the company and obscure the true value of the company. These actions can cause stakeholders to make wrong decisions. On the other hand, earnings management is considered as something reasonable and is a rational action to take advantage of flexibility in the provisions for financial reporting (Inggarwati Komala dan Kaudin Arnold, 2010)

Cahyani Siska Dewi (2013) stated that there were differences in perceptions regarding the ethics of preparing financial statements between accounting students and management students. Accounting students have a greater perceived value in the ethics of preparing financial statements. This is due to the different knowledge held by accounting students from non-accounting students (management students), in terms of knowledge and courses taken by the two students.

Clikeman et al. (2010) tested student perceptions and concluded that gender and national origin did not have significant differences. Greenfield, et, al, (2008) who used 376 senior business students to test for the effects of

one's moral character on the decision to commit to earnings management. The authors adapted the earnings management practice used by Clikeman and Henning (2000). A 20-questions survey was used with half dealing with one's realism and the other half examining relativism of respondents. The results indicated that people with idealistic ethical characters are less likely to engage in earnings management. It was also posited that there is a negative relationship between personal financial benefit and one's moral character.

### **Hypothesis**

H1: There is no differences in accounting students' perceptions on earnings management practices before and after taking business ethics courses

H3: There is no differences in accounting students' perceptions on earnings management between male and female students

H2: There is no differences in accounting students' perceptions on earnings management among students who have a capable economic background and non-capable economically student

### **Research Method**

#### **Population, Samples and Sampling Techniques**

The population of this research is all accounting students. The research sample was taken through a purposive sampling method, which is the chosen by the researcher with certain requirements. The selected students are accounting students in several universities in West Sumatra, both PTN and PTS, namely UNP and UPI-YPTK Padang. Students who are sampled are beginning and final level students or students who have taken business ethics courses and which have not taken.

#### **Data Collection Procedure**

This study uses a survey method which obtain the data by questionnaire distribution to Accounting students at the two universities used as research samples. Before the questionnaire was distributed, a Pre-Test questionnaire was conducted with the aim of testing respondents' understanding of the questionnaire. Next, a total of 120 real questionnaires were distributed to accounting students. The questionnaire was distributed to students in a room and the researcher explained the research topic and then explain how to fill out the research questionnaire. After being filled out, the researcher immediately collect the research questionnaire so that it can increase the return rate of the questionnaire.

#### **Variable Definition and Operationalization**

Operational variables are definitions given to variables to measure these variables through giving meaning, as well as an operation. Operational Definitions The variables used by the author in conducting the research preparation are:

#### **Ethical Perception of Students**

An ethical perception of accounting students towards earnings management practices, are the ethical views of accounting students towards earnings management practices carried out by managers in terms of the length of time of study, economic background and gender of students used as research samples. Likert scale with a value of numbers 1 to 5 is given to each question in the questionnaire to determine the level of ethical perceptions of students towards earnings management practices.

### Ethics in Financial Statements Reporting

It is the ethics of preparing financial statements viewed from earnings management, that is the act of manipulating operational decisions and accounting manipulation according from the viewpoints and perceptions of accounting students,

### Data Analysis Method

This study uses validity and reliability tests, descriptive statistical analysis, Classic assumption tests, and hypothesis testing to analyze and test data. mean, standard deviation is used in statistical analysis. While the normality test, multimillionaire, hereterokedesticity test and colloration test are used in the classical assumption test. Whereas different test is used in hypothesis testing to test two different conditions and situations or things

### Result of the Study

In this study, the research questionnaire was distributed at two universities in the city of Padang. Due to the ease of access, the authors then distributed questionnaires to Accounting students at Universitas Negeri Padang and Putra Indonesia University - YPTK UPI. A total of 180 respondents were obtained from Accounting students from both universities who had filled out and returned the research questionnaire.

**Table 1. Tabulation Data**

| Hypothesis | Group: A                       | Group: B                           |
|------------|--------------------------------|------------------------------------|
| 1          | Senior Students: 60            | Junior Students: 60                |
| 2          | Male Students: 50              | Female Students: 50                |
| 3          | Well Economically Students: 50 | Non-Well Economically Students: 50 |

### Descriptive Statistics

A Likert scale of perception from 1 to 5 was used to evaluate the ethical preparation of financial statements. With the highest average value of 5, descriptive statistical calculations show the mean / average perception of senior students is 3.3213. While junior students have an average mean in point of 2.7298. The average perception value of male students is 2.8290 and female students are 3.1414. well economically students have an average perception value of 2.6600 while non-well economically students have an average perception of 2.8079.

**Table 2 Descriptive Statistic Table**

| Students                               | Mean   | Median |
|--|--------|--------|
| Senior                                 | 3,2313 | 3,1220 |
| Junior                                 | 2,7298 | 2,6591 |
| Male                                   | 2,8290 | 2,8164 |
| Female                                 | 3,1414 | 3,1864 |
| Well Economically Suidents             | 2,6600 | 2,5739 |
| Non Well Capable Economically Students | 2,8079 | 2,6581 |

### Normality Test

Normality test is carried out by Kolmogorov Smimov. This test conducted to determine the of data. If the data is normally distributed, then hypothesis testing done by independent t-test or parametric statistics. However, if the data are not normally distributed, the tests are carried out by non-parametric statistics.

**Table 3 Normality Distribution**

| Hypothesis | Group                          | Significance | Description     |
|------------|--------------------------------|--------------|-----------------|
| 1          | Junior Students                | 0,055        | Significant     |
|            | Senior Students                | 0,063        | Significant     |
| 2          | Male Students                  | 0,000        | Not Significant |
|            | Female Students                | 0,000        | Not Significant |
| 3          | Well Economically Students     | 0,000        | Not Significant |
|            | Non-well Economically Students | 0,000        | Not Significant |

The normality test table shows the data of the student groups in hypothesis 1 was normally distributed, while the student groups in hypotheses 2 and 3, the data was not normally distributed. Therefore hypothesis testing conducted on hypothesis 1 is independent sample t-test while for hypotheses 2 and 3 it were tested with non-parametric testing namely mann-whitney.

### 1. Hypothesis Testing

Three hypotheses were proposed in this research. The first hypothesis states "There is no difference in perceptions of earnings management between students who have taken business ethics courses and who have not taken". The second hypothesis is "There is no difference in perception of earnings management between male and female students". While the third hypothesis is "There is no difference in perceptions of earnings management between well economically students and non-well economically students.

The test results are shown in the following table 4

**Table 4. Hypotheses Test Table**

| Hypotheses | Significance | Description     | Mean Rank Group.1         | Mean Rank Group.2             |
|------------|--------------|-----------------|---------------------------|-------------------------------|
| 1          | 0,000        | Significant     | 42,67 (Senior)            | 51,43 (Junior)                |
| 2          | 0,014        | Significant     | 43,37 (Male)              | 57,63 (Female)                |
| 3          | 0,205        | Not-Significant | 46,98 (Well-Economically) | 54,31 (Non-well Economically) |

The hypothesis can be accepted if the significance value  $> 0.05$ . The significance value of hypothesis 1 and hypothesis 2 is  $< 0.05$  so hypotheses 1 and 2 are "rejected". While hypothesis 3 which states there is no difference in the ethical perceptions of students towards earnings management between well economically students and non-well economically students is "accepted".

### Discussion

#### There is differences in accounting students' perceptions on earnings management practices before and after taking business ethics courses

Test result by using SPSS 22 result  $P$  value or significance value of 0.000.  $P$  the value  $< 0.05$  was obtained so that  $H_0$  rejected or may be concluded that there are difference in the perception of earnings management between students who have and have not taken the course of business ethics. Perception and ethical behavior of students is influenced by education which has been taken. Similarly, the accounting education has a profound impact on the behavior of the prospective accountant and manager. In accounting education, ethics contents

included in the curricula of the courses taken by students. For example, subjects were studied ethics are business ethics.

Lessons on ethics has been long studied by students before students come to college level. They get lessons on ethics from childhood both through formal and informal education in house and in the neighborhood they grew up. This result is in line with the research result Yulianti and Fitriany (2005) stated that the final year students tend to have more positive attitudes regarding financial reporting.

**1. There is differences in accounting students' perceptions on earnings management practices among male and female students**

Male and female have behavior that is typical of the mindset, feeling. Mindset of men approaching the problem, while the woman approached the problem of wear in the feeling. The influence of ethical differences between men and women occurs when decision making indicates that women have a higher level of moral development than men. In the work environment, men will compete for success in various ways even though this will violates existing rules including practice earnings management because they view achievement as competition. Whereas women are more likely to comply with the rules and be less tolerant of individuals who break the rules.

Woman accounting students more sensitive to any issues and less tolerant than male students to ethical behavior. Therefore woman students looked earnings management as unethical behavior conducted by a company.

**2. There is no differences in accounting students' perceptions on earnings management practices among well economically students and non-well economically students**

From the psychology view point, not-well economically person commonly appreciate money more than the well economically person. But however the economic background doesn't drive them to have bad ethical and moral behavior. That condition doesn't determine their perception or drive them to do unethical practices especially in financial statement reporting.

## **Conclusion**

1. There is a differences in accounting students' perceptions on earnings management practices before and after taking business ethics courses
2. There is a differences in accounting students' perceptions on earnings management practices among male and female students
3. There is no differences in accounting students' perceptions on earnings management practices among well economically students and non-well economically students

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