

The Impact of Accounting Knowledge and Unethical Decision on Earnings Management

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Abstract

Previous study have attempted the chairmen on board and senior manager implemented the earnings management based on their professional knowledge and educational background of accounting. Motivated by this findings, this study aimed to examine the effects of accounting knowledge on unethical decision in earnings management. Research conducted using experimental method with accounting and management students as participant. The results give conclusive evidence to state that accounting students exhibit the higher degree to manage the earnings than management students. Accounting students were exercised earnings management using different accounting choice. This findings highlight accounting knowledge and accounting choice are important factors of unethical issues of earnings management.

Keywords: *earnings management, accounting knowledge, unethical decision*

Introduction

Incentive is an important way to motivate employees in the company. The earnings target and the price of stock have contribution on incentive earnings (Wang, L., Florence, G, R; Hu, E, & Sun, Y, 2017). In order to get incentive earnings, manager performs earnings management to get incentive earnings or reward through selection accounting choice, such as accounting methods, accounting estimate. Healy and Wahlen (1999) state manager inflate the earnings in selection of choice accounting principles and maintaining stock price to get their own personal benefits. Earnings management in process of financial reporting due to the availability of accounting methods, decision of judgmental operational like faster or later recognition and shipping schedule (Dechow and Skinner (2000). This behavior is not illegal but at times managers need to consider in ethical manner. Experimental accounting study examined accounting background professional and employee tend to choose decision with a lower level ethical development and moral reassoning (Tull, 1982; Armstrong, 1984, 1987; Ponemon, 1988, 1990; Shaub 1989; Ponemon and Gabhart, 1990; Ponemon and Glazer, 1990).

Earnings management occurred by reason of the conflict between principal and agents. This conflict is identified as agency theory which exists when principal cannot put all the control and monitor the agent activities, therefore the principal do not know whether those activities in accordance with their goals (Imhoff, 1978).

Research conducted by Elias (2004) provided that CPA employee in company with high standard of ethic consider earnings management activities as more unethical. Other research found that age, gender, educational background effects ethical decisions (e.g. Deshpande, 1997; Henle et al. 2005; Campbell and Minguez-Vera, 2008; Lane, 1988; McCabe et al. 1991, Gray et al. 1994). Deshpande (1997) state that manager at the older age give significantly more unethical behavior than younger manager, frequent to get special care, take a day off with illness reasoning, wrapping error, counterfeiting reports. Henle et al. (2005) found that men tend to do unethical behavior than women. Campbell and Minguez-Vera (2008) examined the monitoring quality and company's financial performance is affected by composition between men and women. Motivated by this finding, this study aimed to examine the effects of

accounting knowledge on unethical decision in earnings management. This research is intended to contribute to the earnings management and ethics literature. The rest of the article is organized as follows. Compared with management background, earnings management by accounting background are more frequent because of earnings incentive. The following hypotheses were established:

H1. Participants with an accounting background tend to be more amenable to exercise earnings management than participants with a management background

Methods

This experimental research involve students as participant. All participant divided in to two groups, accounting and management students. This study uses a 2 x 2 between-subject design by manipulating options for earnings management and providing favorable comparative information. Participant were given a case about consideration of earnings management acceptability. The experiments were carried out in a laboratory and run using a personal computer.

Participants take part in the experiment voluntarily and incentives are given in return for their participation. Participants randomly assigned to one of four experimental groups. Experimental material adopted from research Brown, T. J. (2014). Experimental material assumes students as division managers. They were informed that their division had mildly exceeded the target of earning set by the main office, but the guarantee estimation cost of the new product had not yet determined.

Participants are provided with a range of possible number for this estimate. Then, participants are also informed that companies usually estimate the burden by accruing the median of the range of values possible for estimation, but, if they are just above the lower end of the range, they will surely meet the revenue benchmarks made by the head office. If the profit target misses, participants are informed that they will lose the bonus substantially and may need to lay off workers in their division.

After the above information, participants were showed articles about earnings management actions ever taken, where earnings management actions are more ethical or more terrible than the conditions they are experiencing at this time. In the "no choice" condition, participants are had to choose the number they want to get. In the "no choice" condition, participants are had to assume that they have determined the cost of the guarantee just above the lower limit of the value range.

After participants conduct earnings management decisions, all participants are notified that their estimates have been randomly selected for additional review. Participants are told to write a few sentences that justify the amount they decided on for the guarantee fee. This justification is asked to all the participant. Writing the justification compels participants to consider the decisions they have made more carefully, and reflects how earnings management might be questioned. Participants who do not make choices should not be affected. Participant then answers questions designed to measure their beliefs about the acceptance of earnings management actions and answers a various of questions that quantify their assessment of the general ethics of accrual management, their beliefs about the company's future performance, the reliability of accounting estimates, and the likelihood of regulators questioning their estimates.

Results and Discussion

Table 1 Statistic Descriptive

	N	Mean	Std. Deviation
Manajemen	35	1695714285,7143	656457900,24183
Akuntansi	42	1345238095,2381	685103652,81374

Table 2 Homogeneity Levene's Test

F	Sig.
,448	,505

The homogeneity Levene's test table showed that significant >0.05 that define the research sample has homogeneity variance.

Table 3 Independent Sample test

		t	df	Sig. (2-tailed)	Mean Difference
Earnings Management	Equal variance assumes	2,278	75	,026	350476190,47619

From the table above mean difference of expense reported between accounting student and management student is 350,476,190.48, and level of statistical significance is 0.05. This results means, there is differences decisions between accounting student and management student in term of implementing the earnings management. Descriptive statistics table shows that means of expense reported by accounting student is 1,345,238,095.23 lower than reported by management students, 1,695,714,285.71. In conclusions, accounting students tend to exercise earnings management more than management students.

Conclusions

The objectives of this study are to investigate the effects of accounting knowledge on unethical decision in earnings management. Using 2×2 between-subject design experiment by manipulating options for earnings management and providing favorable comparative information. Participant were given a case about consideration of earnings management acceptability. The findings are able to explain earnings managements act in different personal background and knowledge.

The results give conclusive evidence to state that compared with management background, earnings management by accounting background are more frequent because of earnings incentive. In the experiment accounting students exhibit the higher degree to manage the earnings than management students accounting students. Accounting students were exercised earnings management using different accounting choice. This findings highlight accounting knowledge and accounting choice are important factors of unethical issues of earnings management.

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