The Effect of Deffered Tax Burden, Bonus Compensation, and Debt Agreements on Profit Management

(Empirical Study on Food and Beverage Sub-sector Manufacturing Companies Listed on the IDX in 2018–2021)

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Abstract. This investigation makes use of the variable effects of bonus pay, debt agreements, and deferred tax burden on profit management. These four factors were chosen because there were discrepancies in earlier studies, or what is known as a research gap. The goal of the study is to ascertain the impact of deferred tax burden, bonus remuneration, and debt agreements on the management of profits for manufacturing companies in the food and beverage subsector listed on the IDX in 2018–2021. 30 businesses were utilized as the sample population in this investigation. In order to estimate the value of the dependent variable that is impacted by independent variables, this study used multiple linear regression analysis technique in data processing. (1) Deferred tax burden has a detrimental impact on profit management, according to the research results. (2) Bonus payments have a negative impact on profit management. (3) Debt agreements have a good impact on managing profits.

Keywords: Deffered Tax Burden · Bonus Compensation · Debt Agreements · Profit Management

1 Introduction

The corporation must contend with fierce competition to remain viable on the world stage, particularly given Indonesia's industrial sector. Companies need to have a competitive advantage over rival businesses in order to compete fiercely. Companies must be able to manage their finances effectively, which means that financial management strategies must be able to guarantee the sustainability of the company's business. This is in addition to producing high-quality products for consumers. The company's management is in charge of handling funds in accordance with accountability principles. [1]

The achievement of the firm's profit in the financial accounts that are given can serve as a straightforward indicator of how well a company is performing. The profit information is used by parties interested in a company to decide what actions should be taken to maintain the company's operations. Internal and external parties to the company

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utilize profit information as a foundation for numerous decisions relating to bonuses, remuneration, performance benchmarks for management, and as a basis for calculating tax. Thus, the accuracy of the profit information provided by the company undoubtedly catches the interest of a variety of parties, including investors, creditors, accounting policymakers, and the government, in this case represented by the Directorate General of Taxes. [2]

Deferred tax burden means that every increase in the deferred tax burden, the probability of the company doing profit management will increase. Temporary differences arise from the components of accruals and operating cash flows. It is because of these temporary differences that the deferred tax burden has an effect in an effort to detect the influence of accrual engineering to minimize taxes in profit management. [1]

The management will keep working to enhance the company's profit or profit as much as feasible with the bonus compensation that has a positive impact so that the subsequent financial statements will look nice. In return for their efforts, the management will receive a bonus. Managers act opportunistically when carrying out profit management activities in order to receive hefty incentives because they are internal parties who have access to the company's net profit. [3]

On the other hand, management will be under pressure when the debt agreement has been agreed but the management has difficulty meeting the conditions in the agreement. For this reason, management will do ways to avoid violations of debt agreements because it can result in the provision of penalties in the form of restrictions on the provision of dividends and additional loans. This can be detrimental to the management considering that if there is a restriction on the provision of dividends, investors will be disappointed in their expectations, while if the provision of additional loans will result in an additional budget of interest costs that must be paid and loans to the borrower, therefore the Debt Agreement has a negative effect on Profit Management. [4]

According to (National Association of Certified Fraud Examiners, 1993 in Hairu, 2009), profit management is defined as a deliberate mistake or omission in the preparation of financial statements regarding significant facts and accounting information. As a result, it is misleading when all the information is used to make decisions that will eventually lead readers to replace or alter their opinions or choices. Income smoothing, bathing, and income maximization are three techniques for managing profits. The agency theory method can be used to explain the idea of profit management. According to this theory, the practice of profit management is affected by conflicts of interest between interested parties (principals) and management as the party carrying out interests (agents). [5]

Some of the previous studies include research conducted by Lutfi M Baradja, Yuswar Zainul Basri and Vertari Sasmi. (2013–2015) obtained the result that Deferred Tax Burden has a positive effect on Profit Management disclosure. Then the research conducted by Ratna Eka Puji Astutik (2012–2014) explained that the Deferred Tax Burden has a significant and positive influence on profit management. The results of Anisa Elfira's research. (2009–2012) mentioned in the results of his research Bonus Compensation affects Profit Management. Rehobot Tanami (2007–2009) explained that the results of his research on debt agreements affect profit management practices. Meanwhile, the research results conducted by Veronika Abdi Wijaya and Yulius Jogi Christiawan.

(2009–2013) explained that Bonus Compensation has no significant effect on profit management.

Based on the background description above, the author takes the title: "The Effect of Deferred Tax Burden, Bonus Compensation and Debt Agreements on Profit Management (Empirical Study on Food and Beverage Sub-Sector Companies listed on the IDX in 2018–2021)". The reason why the author chose this research, is because the Food and Beverage sub-sector is one of the Business Sub-Sectors that will always experience growth.

2 Literature reviews

2.1 Agency Theory

The relationship between those who have power, notably managers who are granted authority and investors, who are also frequently referred to as principals, is described by agency theory. According to, agency theory describes a connection or agreement between a principle and an agent. A contractual model between two or more parties, in which one side is referred to as an agent and the other as a principal, can also be seen as a representation of agency theory. [6]

2.2 Profit Management

There are several definitions of profit management, and neither the restrictions on it nor its meanings are clearly stated. Therefore, it can be inferred from the numerous definitions given above that profit management refers to a manager's actions in processing earnings listed in financial statements with the intention of benefiting particular parties. [7]

2.3 Deferred Tax Burden

The income tax burden consists of the current tax burden and the deferred tax burden or deferred tax income. Current tax (current tax) is the amount of income tax owed on Taxable Income in a period. Income Tax is treated as a fee for the company. Therefore, Income Tax must be associated with the profit for which such Income Tax is imposed or taken into account. The process for associating Income Tax with profits for which the tax is imposed is called Tax Allocation. [1]

2.4 Bonus Compensation

Compensation is all forms of income whether in the form of money, direct goods, or indirect goods received or obtained by employees as a reward for services provided to the company. Compensation is a term related to financial rewards received by people through their staffing relationship with an organization. [2]

2.5 Debt Agreement

There are three hypotheses in the theory of positive accounting developed by Watts and Zimmerman. The three hypotheses are as follows. [4]

2.5.1 Bonus Plan Hypothesis

Managers of businesses with specific compensation plans frequently favor strategies that boost current-period profits. If the pay committee of the Board of Directors had not adhered to the selected procedure, the option is anticipated to raise the present value of the bonuses that would have been received.

2.5.2 Debt/Equity Hypothesis

The closer the company is to the credit agreement/regulation limit, the higher the debt/equity ratio. The possibility of credit agreement deviations and expense expenditures increases as credit limits rise. In order to remove credit restrictions and lower the cost of technical faults, managers will select accounting techniques that can increase revenues.

2.5.3 Political Cost Hypothesis

Underlying this hypothesis is the assumption that it is very expensive for the value of information for individuals to carry out “contracts” with other parties in the political process in order to enforce the rule of law and regulation, which can improve their well-being. Thus, rational individuals tend to prefer not to know complete information. The political process is not much different from the market process. On the basis of such information costs and monitoring costs, managers have an incentive to select certain accounting profits in the political process.

3 Research method

This research uses a quantitative descriptive approach method, which is an approach taken to reveal the magnitude and magnitude of an influence and relationship on each variable expressed in the form of numbers by collecting data that is a supporting factor of the influence of variables – the variables in question are and ultimately analyzed using analytical tools that correspond to the variables contained in the study. [8]

Population is a generalized area in which it consists of subjects and objects that have special qualities and characteristics [9] Companies that manufacture products for the food and beverage subsector and are listed on the Indonesia Stock Exchange between 2018 and 2021 make up the population of research objects used in this study. The sampling method employed is called the Purposive Sampling Method, and it involves selecting a sample from a population based on data that must satisfy certain requirements [10]. The number of samples in this study was 18 companies. The following criteria were employed in this study: 1) Food and Beverage Sub-Sector Companies listed on the IDX 2018–2021; 2) Food and Beverage Sub-Sector Companies that regularly submit successive Financial Statements during 2018–2021; 3) Food and Beverage Sub–Sector Companies that had consecutive profits during 2018–2021; and 4) Food and Beverage Sub–Sector Companies that were delisted during the observation period.

The data used is in the form of ratios or interval scales, equations in multiple linear regression as follows

$$Y = \alpha + \beta 1\, X1 + \beta 2\, X2 + \beta 3\, X3 + e \tag{1}$$

Table 1. Descriptive Statistics Result

	N	Min.	Max.	Mean	Std. Deviation
Deferred Tax Burden	68	−1563.19	2134.86	8.7040	333.55750
Bonus Compensation	68	.00	1.00	.7206	.45205
Debt Agreements	68	−560.75	1764.22	110.5126	348.47920
Profit Management	68	−.39	9.53	.1775	1.17140
Valid N (Listwise)	68				

Source: Processed Secondary Data, 2022.

Note: Y = Profit Management; A = Constant; β1,β2,β3 = Regression Coefficient; X1 = Deferred Tax Burden; X2 = Bonus Compensation; X3 = Debt Agreement; e = Residual. This study also applies several tests: 1) Descriptive Statistical Test, 2) Classical Assumption Test, 3) t Statistical Test and 4) Coefficient of Determination Test carried out using SPSS software (Table 1).

4 Finding and Discussion

4.1 Descriptive Analysis

The results of descriptive analysis in this study.

4.2 Classical Assumption Test

Table 2 shows that significancy value as 0.200, means that the data are distributed normal.

4.3 Multiple Linear Regression Analysis Result

Based on the multiple linear regression equation obtained the equation:

$$Y = 0.173 – 1.199\ X1 + 0.121\ X2 – 0.999\ X3 + e.$$

Based on the multiple linear regression equation above, an analysis can be taken that:

a. A constant of 0.173 means that if there is a Deferred Tax Burden, Bonus Compensation and Debt Agreement, Profit Management will increase by 0.173 or 17.3%

b. The Deferred Tax Expense Regression Coefficient (X1) of -3,190 states that any addition to the Deferred Tax Expense will reduce Profit Management by −3,190 or -3.19% (Table 3)

c. The Bonus Compensation Regression Coefficient (X2) of -0.034 states that any addition to the Bonus Compensation will improve Profit Management by −0.034 or −0.03%

d. The Debt Agreement Regression Coefficient (X3) of 0.003 states that any addition to the Debt Agreement will reduce Profit Management by 0.003 or 0.00 %

Table 2. One-Sample Kolmogorov-Simrnov Test

		Unstandardized Residual
N		68
Normal	Mean	.0000000
Parameters[a, b]	Std.	.1665981
Most	Deviation	.081
Extreme	Absolute	.081
Differences	Positive	.−067
Test Statistic	Negative	.081
Asymp. Sig. (2-tailed)		.200[c, d]

a. Test distribution.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
Source: Processed Secondary Data, 2022.

Table 3. Coefficients[a]

Type		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.173	.051		3.376	.001
	Deferred Tax Burden	−3.190	1.980	−.197	−1.611	.112
	Bonus Compensation	−.034	.053	−.081	−.641	.524
	Debt Agreement	.003	.009	.044	.350	.727

a. Dependent Variable: Profit Management.
Source: Processed Secondary Data, 2022.

4.4 T Statistical Test

Based on the Table 4, we can see that.

a. The Deferred Tax Expense variable has a Tcount < Ttable where $-1.611 < 1.667$ with a significance of $0.112 > 0.05$. Then it can be stated that the Deferred Tax Burden has no significant effect on the Profit Management variable.
b. The Bonus Compensation variable has acalculated T < Ttable where $-0.641 < 1.667$ with a significance of $0.524 > 0.05$. Then it can be stated that the Bonus Compensation has no significant effect on the Profit Management variable.

Table 4. Coefficients[a]

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	Bonus Compensation	−.034	.053	−.081	−.641	.524
	Debt Agreement	.003	.009	.044	.350	.727

a. Dependent Variable: Profit Management
Source: Processed Secondary Data, 2022

Table 5. Model Summary

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.214[a]	.046	.001	.18958

a. Predictors: (Constant), Debt Agreements, Deferred Tax Burdens, Bonus Compensation
Source: Processed Secondary Data, 2022

c. The Debt Agreement variable has acalculated T < Ttable where 0.350 < 1.667 with a significance of 0.727 < 0.05. Then it can be stated that the Debt Agreement has a Positive effect on the Profit Management variable.

4.5 Coefficient Determination Test

In the Table 5 95.4% are affected by other variables. Because the Adjusted R Square Value is very small, a Coefficient of Determination Analysis was carried out per Individual Variable X.

4.6 Discussion

4.6.1 The Effect of Tax Burden on Profit Management

Based on the partial test results, the Deferred Tax Burden variable has a Thitung < Ttabel where −1.611 < 1.667 with a significance level of 0.112 > 0.05. A negative T value indicates that variable X1 is not in the same direction as variable Y, so it can be said that deferred tax expense has no significant effect on Profit Management. This indicates that deferred tax burdens cannot detect companies in carrying out profit management. Because if the company lowers its profit, its effect on the deferred tax burden is small so that if you want to detect profit management in the company through the deferred tax burden, it is not effective because the deferred tax burden cannot describe that the company is doing profit management [11].

4.6.2 The Effect of Bonus Compensation on Profit Management

The Company Size Variable has a Thitung Ttabel where −0.641 1.667 with a significance level of 0.524 > 0.05 based on the partial test findings. It may be concluded that Bonus Compensation has no discernible impact on Profit Management because a positive T value shows that Variable X2 and Variable Y do not have a connection that is directional in the same way. The study's findings that the bonus compensation variable has a favorable impact on profit management are inconsistent with earlier studies.

4.6.3 The Effect of Debt Agreement on Profit Management

The Company Size Variable has a Thitung Ttabel of 0.350 1.667 with a significance level of 0.727 0.05 based on the partial test findings. It may be concluded that the Debt Agreement significantly improves Profit Management since a negative T value shows that variable X3 is moving in the same direction as variable Y. According to the study's findings, debt agreement variables have a favorable impact on profit management, which is contrary to studies done by [12] and [4] This outcome indicates that the business will continue to manage its profits whether it is able to pay the interest or not.

5 Conclusion

Based on the results of the discussion in the previous chapter, the following conclusions can be drawn:

1. Based on the Multiple Linear Regression Analysis Test using SPSS, it can be concluded that deferred Tax Burden has no effect on Profit Management.
2. Based on the Multiple Linear Regression Analysis Test using SPSS, it can be concluded that Bonus Compensation has no effect on Profit Management
3. Based on the Multiple Linear Regression Analysis Test using SPSS, it can be concluded that the Debt Agreement has a Positive effect on Profit Management
4. The value of R2 is very small, which is only 4.6% so that 95.4% there are other factors that can affect Profit Management

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