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EFFECT OF RETURN ON ASSETS AND DEBT TO ASSETS RATIO ON EARNINGS MANAGEMENT

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Abstract

The purpose of this study was to examine and analyze the effect of Debt to Assets Ratio and Return On Assets on earnings management in automotive companies listed on the Indonesia Stock Exchange.The population used isautomotive companies listed on the Indonesia Stock Exchange, while the samples that meet the criteria are sixcompany. This research approach uses associative research. The analysis technique used is multiple linear regression analysis. The results show that the independent variables in this study have a simultaneous effect on earnings management and partially the Debt to Assets Ratio and Return On Assets variables have no and no significant effect on the management of automotive companies listed on the Indonesia Stock Exchange.

Keywords: *Earnings Management, Debt to Assets Ratio, Return on Assets*

1. INTRODUCTION

Earnings management is an engineering financial reporting within certain limits that does not violate financial reporting standards. This is done by management by utilizing its authority in choosing accounting methods permitted by the standard. Management makes a lot of use of financial reporting standards by implementing standards that accelerate their adoption. In addition, the standard is also used as a tool to report the condition of the company. The flexibility contained in accounting standards ultimately causes the action to be legal by itself(Sari, 2015).

Automotive companies listed on the Indonesia Stock Exchange from 2014 to 2018 have decreased Return On Assets, while earnings management has decreased, according to (Wardani & Isbela, 2015) stated that increasing the company's Return On Assets, earnings management will decrease where increasing profitability indicates good company performance, and shareholders will also receive benefits for increasing company performance, besides that managers will also benefit if the company's performance increases, so that managers not motivated to take earnings management actions.

2. RESEARCH METHODS

This study uses an associative and quantitative approach to determine the relationship or influence of Debt to Assets Ratio, firm size and Return On Assets on earnings management. Regression analysis is used to explain the Debt to Assets Ratio, company size and Return On Assets to the management of the previous period is increased or decreased, by using the regression equation, namely: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$.

3. RESULTS AND DISCUSSION

1. Effect of Debt to Assets Ratio on Earnings Management

Based on the results show that partially the Debt to Assets Ratio has no effect on earnings management in automotive companies listed on the Indonesia Stock Exchange.This indicates that the Debt to Asset Ratio is not able to improve earnings management because when debt increases, the existing earnings management decreases where the Debt to Assets Ratio in automotive companies listed on the Indonesia Stock Exchange has increased while earnings management has decreased. This shows a decrease in profits where the company's ability to pay debts with company assets is getting smaller.

Debt to Assetsprovide impetus for firms to manage earnings as a result of the adverse consequences associated with default on debt repayment. The use of external debt financing will also result in the possibility

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of additional external monitoring by creditors such as that provided by external investors or shareholders to protect their investment interests.

According to(Sudana, 2011)states that “Debt to Assets Ratio or Debt Ratio is one of the leverage ratios that shows how much the company's financing is financed by debt. DAR measures the proportion of funds sourced from debt to finance company assets. The greater the DAR, the greater the portion of the use of debt in financing investment in assets, which means that the company's risk will also increase.

The results of this study are in line with the results of previous research conducted by (Gunarti, 2015) concluding that the Debt to Assets Ratio has no effect on earnings management. While the results of this study are not in line with the results of previous research conducted by(Savitri, 2019)and(Naftalia, 2013)concluded that the Debt to Assets Ratio has an effect on earnings management.

2. Effect of Return on Assets on Earnings Management

Based on the results show that partially Return On Assets has no effect on earnings management in automotive companies listed on the Indonesia Stock Exchange, this is due to a decrease in Return On Assets in companies and followed by a decrease in earnings management. This shows thatWith the increasing return on assets of the company, it will not affect earnings management where increasing profitability indicates good company performance, and shareholders will also receive benefits for increasing company performance, besides that managers will also benefit if the company's performance increases, so that managers are not motivated to take earnings management actions(Wardani & Isbela, 2015).

*Return on assets*generally used to measure company profitability. Return on assets shows the company's ability to generate profits from the assets owned by the company. The higher the return on assets, the assets owned by the company are used as much as possible so that they can make a profit. The company's profit is very high, there is a possibility that the next year's profit will decrease. The company does not want investors' interest in buying company shares to decrease. Shareholder satisfaction increases with stable company earnings. In order to avoid investors' lack of interest in company shares, companies that have high profitability tend to carry out earnings management(Wardani & Isbela, 2015).

According to(Fahmi, 2016)stated that "The ratio of Return On Investment (ROI) or return on investment that in some other references this ratio is also written as return on total assets (ROA). This ratio looks at the extent to which the investment that has been invested is able to provide a return of profit as expected. and the investment is actually the same as the company's assets that are invested or placed".

The results of this study are in line with the results of previous research conducted by (Gunarti, 2015) concluding that Return On Assets has no effect on earnings management. The results of this study are not in line with the results of previous research conducted by(Prasadhita, 2017)and(Agustin & Hermanto, 2015)concluded that profitability has a significant effect on earnings management.

4. CONCLUSION

The value of$f_{hitung}$of 4.407 with a significant level of 0.011. While the value of$f_{tabel}$is known to be 2.51. Based on these results, it can be seen that$f_{hitung} > f_{tabel}$(4,407 > 2,51) meansH_0rejected. So it can be concluded that the variable Debt to Assets Ratio, company size and Return On Assets have a significant effect on earnings management in automotive companies listed on the Indonesia Stock Exchange.

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