

**THE INFLUENCE OF REAL ACTIVITY EARNINGS MANAGEMENT
TOWARD FIRM'S FUTURE OPERATING CASHFLOW IN INDONESIAN
MANUFACTURING COMPANIES**
(Empirical Study of Companies Listed in BEI from 2009 until 2012)

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Abstract

The financial reporting has an objective to summarize financial performance of the company periodically. One indicator from the financial reporting that commonly used to assess performance is earnings. Stakeholders used earnings in measuring management's performance, determining executive compensation, assessing firms' future prospects to make resource allocations, and firm valuation decisions. Therefore, managers are keen to show better reported earnings in their financial report. In order to achieve the targeted income or to show better reported earnings in their financial report, even though the company doesn't performing really good, commonly managers are tend to manipulate earnings. In manufacturing industry, one feasible method of earnings manipulation is through real earnings management. Real earnings management that has been done by the manager will give direct impact on decreasing the ability of the financial report in predicting the future profitability of the company and, thus, may disadvantaging for the investor and any other stakeholder. The measurement of future profitability can be done by calculating the company's future operating cashflow.

This study aims to prove empirically whether there are significant influence of real earnings management towards firm's future operating cashflow during the year 2009 until 2012, especially for manufacturing companies listed in Bursa Efek Indonesia (BEI) that selected with some criteria. There are three kinds of real earnings management that examined by this research, those are: sales manipulation, overproduction and reduction of discretionary expense. The statistical method used in the research is regression analysis.

From the testing and data analysis, it is revealed that real earnings management has negative impact toward future operating cashflow.

Keywords: Real Earnings Management, Future Operating Cashflow

INTRODUCTION

1.1 Background

The financial reporting has an objective to summarize financial performance of the company periodically. Therefore, financial report will provide important information about the progress that has been achieved by the company. Financial reporting helps the best performer firms in the economy to distinguish them from poor performers and facilitate efficient resource allocation and stewardship decisions by stakeholders. One indicator from the financial reporting that commonly use to assess performance is earnings. Earnings has important role as the measurement of the company's performance. Stakeholders used earnings in measuring management's performance, determining executive compensation, assessing firms' future prospects to make resource allocations, and firm valuation decisions (Xu et.al., 2007). Beside all of that, earnings also can be one factor for fluctuation of stock prices in the stock market. Therefore, managers are keen to show better reported earnings in their financial report.

In order to achieve the targeted income or to show better reported earnings in their financial report, even though the company doesn't performing really good, commonly managers are tend to manipulate earnings (Graham, 2005). According to Scott (2000) there are some motivations of earnings management, such as: bonus purposes, political motivation, taxation motivation, Chief Executive Officer (CEO) replacement, Initial Public Offering (IPO) and the importance of giving company's information to affiliated parties. Those motivations of earnings management could be possibly executed by the manager for either personal or companies benefit purposes.

Any specific activity form the manager that attempt to manipulate earnings whether through applying some accounting principles or by real activities can be classified as earnings management. Along with its development, there were lot of researcher doing research about earnings management and its impact for the company. Healy and Wahlen (1999) brought a definition of earnings management :

“Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.”

Research from Cohen, D., A .Dey, and T. Lys (2008) shows that years after the passage of SOX incident, accrual-based earnings management was declined significantly. Then managers decided to shift from accrual-based to real-based earnings management even though it will be more costly in the long run, but it is more likely harder to be detected (Kothari et. al .2012). For some reasons, this research is also will focus on the real earnings management.

Real earnings management that has been done by the manager will give direct impact on decreasing the ability of the financial report in predicting the future profitability of the company. Since the financial report is the source of information for the

investor to make investment decision, then it can possibly mislead them. The future profitability of the company is one of the measurement tools that used by investor to understand the potential of a company in generating profit for the future through wealth management. According to Subramanyam (1996) one of the measurement of future profitability can be done by calculating by the company's future operating cashflow.

This paper will contributes to the literature and research that related with earnings management. Following the previous research from Graham et. al. (2005), Gunny (2010) and Tabassum et. Al. (2013), this paper will focus in three types of real earnings manipulation and investigate the consequences of those kind of earnings management. Even though there are lot of research documenting if real manipulation occurs in many condition, but there are still little evidence of the effect of the real manipulation on subsequent companies' future operating future cash flows.

1.2 Problem Statement

The real earnings manipulation that executed by the managers definitely will give effect to the companies financial performance. Even though it is more likely to give benefits in the short term, but actually it will also possibly decline the company's financial performance in the future. The indicator of the financial performance that used in this research is operating cash flows. Therefore, the problem statement in this research is:

“Whether real earnings management activities has negative impact on the future operating cash flows of the company? “

1.3 Objectives of the Research

This research has purpose to empirically study the relationship between real earnings management toward companies' future performance.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

2.1 Literature Review

2.1.1 Earnings Management

Schipper (1989) defined earnings management as: “ A purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to, say, merely facilitating the neutral operation of the process).”

Kothari et al. (2005) argued that companies with extreme high performance are more likely engaged in earnings management compared to company that has poor performance. It is proven that the practice of earnings management often provide inaccurate and misleading financial reports because the financial information stated there are not the truth amount which generated from the real business operation (Healy and Wahlen, 1999).

In its development, the role of accrual accounting is believed to have caused some forms of earnings management and it is difficult to distinguish between the manipulated accruals item from the appropriate accrual accounting choice (Dechow and Skinner, 2000). There are some techniques used to manage earnings by the management, those are: big bath, cooking jar reserve, income maximization and income minimization.

Manager as the person who runs the company in daily basis, sometimes, tend to get involved in earnings management practices in order to hide unlawful transactions and thus, face high litigation risk. In another purpose, management intentionally tries to maintain the reputation of the company by showing that their companies are performing well in the market. Obviously, that's because manager will get better compensation such as bonus, job security, stock awards, pension contributions and future promotion. The study also found if managers tend to use accounting accruals to boost upward the earnings and the company will be able to get positive earnings pattern and influence the market perception.

2.1.2 Earnings Management Technique

Earnings Management can be classified into two categories, which are accrual earnings management and real activity based earnings management. Accrual earnings management is a manipulation of accruals with no direct cashflow consequences (Roychowdury, 2006) that involves within GAAP accounting choices that try to "obscure" true economic performance. The examples such as under-provisioning for bad debt expenses and delaying assets write-offs. In the other hand, real earnings manipulation can affect both cash flows and accruals (Roychowdury, 2006). Real earnings manipulation may occur when managers decide to change the timing or structuring of an operation, investment, and/or financing transaction in an effort to influence the output of the accounting system (Gunny, 2010). Real earnings manipulation that has been done by the manager may signal impressive short term performance of the company, however it is potentially will reduce company's value.

When firms change the timing or structuring of real business transaction in intention of doing manipulation to boost earnings, they actually depart from normal operational practices which may deviate from the optimal plan of actions and impose a real cost to the firm (Xue et al., 2007). Accrual earnings management is not accomplished by changing the underlying operating activities of the firm, but through the choice of accounting methods used to represent those activities. In contrast, Real earnings management involves changing the firm's underlying operations in an effort to boost current period earnings. Both type of earnings management attempt to increase or decrease earnings, however, one type affects operations and the other has no effect on operating activities. (Gunny, 2010).

2.1.3 Real Earnings Management

On the basis of documented literature, mainly there are six types of real activities manipulation overall, those are:

- 1) Manipulation in R&D expense
- 2) Manipulation of Sales, General and Administrative (SG&A) expense

- 3) Manipulation in Advertising expense
- 4) Overproduction, or increasing production to report lower cost of goods sold
- 5) Timing the sale of long lived assets and long lived investment to report gain
- 6) Sales manipulation, which is, boost up the sales through increased price discounts or offering lenient credit terms.

Managing real activities is less costly to managers because it is less likely to draw auditor or regulatory scrutiny (Cohen et al. 2008). Real earnings management, as long as it is properly disclosed in the financial statements, cannot influence auditors' opinions or regulators'actions (Kim et al. 2010). Hence, managers could prefer real earnings management to accrual earnings management (Roychowdhury 2006). There are three main focus of the real earnings manipulation in this research, those are: sales manipulation, overproduction, and reducing discretionary expense.

Sales Manipulation

Managers will try to increase or accelerate future sales in the current period in order to reach the targeted earnings by offering interesting and attractive limited time price discount and more lenient credit terms (Roychowdhury, 2006). If the targeted earnings was reached, this short term performance will seems stupendous and managers will get the bonus.

Overproduction

Managers can manage the earnings by doing the high production scale to reach the expected demand. With a big amount of production, the level of fixed overhead also will be divided into huge number of units produced. Hence, the fixed overhead per unit will be lower and so does the total cost per unit.

Reduction of Discretionary Expenses

There are several studies proving that managers cut discretionary expenses to meet earnings target. Discretionary expenditures such as R&D and SG&A are generally expensed in the same period as they incurred. Therefore, managers can decrease reported expense and increase earnings by cutting discretionary expenses. Some example of SG&A expenditures are employee training expenses, repair expense, maintenance expense, quality control, travel expense, research and development expense. If outlays of those kind discretionary expenditures mostly conducted in cash, then, reducing those expenditures will lower cash outflow and has positive effect on abnormal CFO in the current period (Roychowdhury, 2006).

2.1.4 Cash Flows

According to PSAK 2 (revision 2009), statement of cash flow has to report cash flows for a certain period of time and classified into three activities, those are: Activity from operation, activity from investment and activity from financing. Activity from operation decide if company's activity would be able to generate enough cash to settle debts, maintain operational ability of the company, pay dividend and provide new investment without relying on outside resources. Activity from investment reflects the

expensed cash used for purposed resources in generating income and future cashflow. Activity from financing is an activity which affect changes in amount and composition of company's capital and loan.

Cashflow information gives benefits for the stakeholder to make decisions, for example:

- For Managers: Information from cashflow can help the financial manager in preparing budget for the next annual period and timing to decide whether to expand their business.
- For investors: From cashflow information Investor will be able to understand how a company running their operations, where its money coming from and how the money are spent, that will be related to investment decision.
- For Creditors: It also help the creditor in assessing a company's financial ability for payback the loan. This will lead to the willingness of the creditor in lending the money to the company related with its financial strength.

2.1.5 Cash Flows from operation

The amount of cash flows from operating activities is a key indicator of the extent to which the operating activity of the company have generated sufficient cash flows to organize the operating capability of the company, pay dividends, repay loans and make new investment without external financial sources.

Cash flows from operating activities are primarily generated from the principal revenue-producing activities of the company. Therefore, they generally result from the daily transaction and other events which can be determined to net profit or loss. Examples of cash flows from operating activities are:

- 1) Cash receipts from the sale of goods and the rendering of services
- 2) Cash receipts from fee, commission and other revenue
- 3) Cash payment to suppliers for goods and services
- 4) Cash payments to and on behalf of employees

2.2 Previous Research

Dey and Lys (2008) find that a greater regulatory focus on accruals management is associated with an increased managerial propensity to engage in real activities manipulation. They conclude that the more stringent regulatory environment after the passage of the Sarbanes Oxley Act in 2002 lowered accruals management, but increased real activities management.

The use of RM by managers is supported by Graham et al.(2005), who surveyed 401 financial executives about key factors that drive decisions about reported earnings and voluntary disclosure. They report that 78% of the executives interviewed indicated a willingness to sacrifice economic value to manage financial reporting perceptions.

Several studies provide evidence that managers cut discretionary spending to achieve earnings targets. Roychowdhury (2006) investigates some real earnings management; reduction of research and development expenditures, advertising expenditures, and cost of sales. He also develops empirical measures to proxy for RM of discretionary expense, and reports that managers avoid reporting losses by undertaking RM.

Real activities manipulation can assume many forms, including decreased investment in research and development (R&D), advertising, and employee training, all for the purpose of meeting short-term goals (Graham, Harvey and Rajgopal, 2005; Roychowdhury, 2006)

Real activities manipulation is potentially costlier for firms in the long run than accruals management (Cohen and Zarowin, 2010). Because, when manager decided to use real activity manipulation, actually, they bring the company into abnormal operating activity that it should be. Research from Gunny (2005) and Xu (2007) also suggest that abnormal operating activity for the purpose of misrepresentation will have a negative impact on subsequent operating performance. Cohen and Zarowin (2009) also find evidence that firms engaging in real earnings management over-invest, which could adversely affect firms' long-term prospects.

In Indonesia, there are some research about real earnings management that have been done . According to Oktorina and Megawati (2008) companies which did earnings management through real activity manipulation will give impact to the lower availability of abnormal cashflow from operation. Another research from Hariyani (2011) found that companies who did real earnings management will have lower profitability compared to companies who didn't engage in real earnings management.

2.3 Hypothesis Development

There is some indication if real earnings manipulations will have negative impact on future operating cash flows. Even though REM benefits in the current time or short term, but it will impose greater long term cost for the company. In detecting the real activities manipulation, like in the previous research from Roychowdhury (2006), Leggett.et al. (2010), and Tabassum (2013) this research also investigate patterns in CFO that represent cashflow from operations as reported in cashflow statement and relate them with the firm's discretionary expenses and production cost.

The first method of REM is through sales manipulation. Sales manipulation here means if the company offering interesting and attractive limited time price discount and more lenient credit terms. Roychowdhury (2006) explain if the manager decide to use REM in sales manipulation with giving high discount to increase sales volume and meet short term earnings target, therefore, it can lead customers to expect such discount in future period as well. Company who engaging in REM is usually has lower performance compared with the other company who didn't engage in REM. Therefore, there is no guarantee if company would be able to give such high price discount in the future period compared in the period when they committing in REM. They may suffer loss or decreased income if they keep cutting the profit margin of their product by giving such high price discount in the next period. So, if the company cannot provide same discount in the future period in order to fulfill customer's expectation, then there will be a risk that company's sales will decrease. Their customer will change to company's competitors who have better performance and able to provide lower price or higher amount of discount. Then, it concludes that sales manipulation will give effect in reducing the margins on future sales that also will give negative impact for cash inflow from operation in the future.

The second method of REM is overproduction. If manager decide to use REM in overproduction to decrease the cost of goods sold valuation, thus, it will decrease the future cashflow from operation. In the normal operation usually company has their own budget and capacity of production. But when company attempt earnings management, it means that company shifted from their normal business operating activity, for this example overproduction. When company did overproduction, they obviously produce their product beyond their capacity and also they need more massive amounts of materials compared with their normal business activity. Therefore, company who attempt overproduction may surpass their budget capacity in providing materials needed to be produced. This second method is actually related with the first method of REM which is sales manipulation by giving more lenient credit terms. Giving more lenient credit terms, means if the company may have cash shortage due to the delayed payment from the customer. In the other hand, company who attempt REM through overproduction need more cash to buy materials needed from suppliers. If the amount of cash is not sufficient enough to cover the payment to supplier, the only way to buy materials is using debt to supplier. Hence, in the future period company have to pay bigger amount of debt than usual and, thus, lower the cashflow from operation in the future period.

The third method of REM is reducing discretionary expense in the current period. Discretionary expenses in here are like research and development expenses (R&D) and selling, general and administrative expenses (SG&A). Expenses such as: salary expense, depreciation, and taxation also will be excluded from discretionary expense in this research. Even though the company will get higher earnings in the current period for reducing such expenses, but actually it will give lower operating cashflow in the future. For example, if manager decide to reduce discretionary expense such as advertising expense, the company will lack of sales and potentially decrease their market share. In manufacturing industry, it is important to have a good advertisement in order to attract customers and boost their sales. If a company reduce their advertising expense, then, they cannot compete with their competitors in terms of selling their product. Therefore, company engaging in REM by reducing their discretionary expense will have effect on lower future operating cashflow.

This research examines whether there is an affect of real earnings manipulation toward firm's future performance which indicated by future operating cash flows. Then, the hypotheses would be:

H1: Real earnings management has negative impact on firm's future operating cash flows

RESEARCH METHODOLOGY

3.1 Population and Sample

Population of this research is from the manufacturing companies that registered in Indonesian Stock Exchange (IDX). This research uses purposive sampling to select its sample. So, criteria from the sample is:

1. Manufacturing companies which is registered from year 2009 - 2013 in IDX and published their financial report.

2. Companies that have all the information needed for the focus in this research (e.g. Abnormal cashflow, production cost, discretionary expense , and etc.) and
3. Companies who continually using Indonesian Rupiah (IDR -Rp) for their currency in their published financial report over the year of research.

This research uses manufacturing companies as the sample because companies in manufacturing industry is more inclined to do real earnings manipulation through cashflow from operation rather than any other industry (Megawati et.al., 2008). Moreover, there is still minimum regulation from the government related with the economic policy for the manufacturing companies which lead to bring opportunity for the manager to make certain policy for accounting estimation (Sanjaya, 2010).

3.2 Data Collection Method

Data that will be used in this research is the secondary data , that is financial report, from the manufacturing companies in Indonesia that taken from the Indonesian Stock Exchange (www.idx.co.id) and Indonesian Capital Market Directory (ICMD) from year 2008 until 2013.

3.3 Operational Definition and Measurement of Research Variables

3.3.1 Independent Variable

Independent variable is a variable that affects or can caused the change or the emergence of dependent variable. The independent variable in this research is Real Earnings Manipulation (REM). Real Earnings Manipulation is the actions from managers that deviated from normal business practices, motivated by managers' desire to mislead at least some stakeholders into believing certain financial goals have been made in the normal course of operation (Roychowdhury, 2006).

Following from the previous research from Roychowdhury (2006) and Tabassum (2013), this research also will use 3 kinds of real earnings management, those are: cashflow from operation, cost of production and discretionary expenditures.

Model for Sales Manipulation

Sales manipulation is measured by examining abnormal level of operating cashflow. Sales manipulation can be done by giving more lenient credit term and offering discount, thus, the abnormal CFO will be lower compared to sales. The following model was formed by Dechow et.al (1998) and also used by Tabassum (2013) from the previous research. This model gives normal level of CFO compared to sales, and the residual of this model gives abnormal CFO (ABN_CFO).

$$\frac{CFO_t}{A_{t-1}} = \gamma_0 + \gamma_1 \frac{S_t}{A_{t-1}} + \gamma_2 \frac{\Delta S_t}{A_{t-1}} + \varepsilon$$

Where:

CFO = Cash flows from operation

A_t = total assets at the end of period t ,

S_t = sales revenue during period t

$\Delta S_t = S_t - S_{t-1}$. (change in sales)

There will be an indication of real earnings management if the value of this residual in this model has negative value. The negative value means if the company has lower operating cash flow than its normal, thus, indicating if the company engaged in real earnings management through sales manipulation. Therefore, higher the negative value of this residual ,so does, higher the value of real earnings management through sales manipulation.

Model for Measuring Overproduction

In measuring the overproduction, this research also use the model that developed by Dechow et.al (1998). This model was developed and used by various researcher, such as: Roychowdhury (2006) , Gunny (2010), and Tabassum (2013). Since this model measures normal production cost, the residual of this model will give abnormal production cost (ABN_PROD).

$$\frac{PROD_t}{A_{t-1}} = \beta_0 + \beta_1 \frac{S_t}{A_{t-1}} + \beta_2 \frac{\Delta S_t}{A_{t-1}} + \beta_3 \frac{\Delta S_{t-1}}{A_{t-1}} + \varepsilon$$

Where:

PROD = COGS + Δ INV

COGS= Cost of Goods Sold

Δ INV = Change in inventory

S_t = Sales during time t

A_t = Total assets at time t

There will be an indication of real earnings management if the value of this residual in this model has positive value. The positive value means if the company has production cost more than its normal production cost, thus, indicating if the company did the real earnings management through overproduction.

Model for Measuring Abnormal Level of Discretionary Expense

R&D and SG&A are components of the total discretionary expenditures. The following model was first developed by Dechow et.al (1998), then this model also used by previous researcher like Roychowdhury (2006), Gunny (2010), and Tabassum (2013).

This model measures normal level of discretionary expense. When applying this model to the data from the selected companies, the residual will be taken as level of abnormal discretionary expenses (ABN_DISEXP). If the residual has lower value, then the value of abnormal lower discretionary expense will be higher.

$$\frac{DISEXP_t}{A_{t-1}} = \alpha_0 + \alpha_1 \frac{S_t}{A_{t-1}} + \varepsilon$$

Where, DISEXP = total discretionary expenditures measured as sum of R&D, Advertising and SG&A expenses minus salary expense, depreciation expense, and taxation expense.

There will be an indication of real earnings management if the value of this residual in this model has negative value. The negative value means if the company has lower discretionary expense than its normal, thus, indicating if the company did real earnings management with reducing discretionary expense. Therefore, higher the negative value of this residual ,so does, higher the value of real earnings management through reduction of discretionary expense.

Following the previous research from Tabassum et.al. (2013), the model for REM would be:

$$REM = (-)ABN_CFO + ABN_PROD + (-)ABN_DISEXP$$

The overall proxy of real earnings management will be determined by the sum up of three residuals which are ABN_CFO, ABN_PROD and ABN_DISEXP. Higher value of REM indicating that company engaged in real earnings management from sales manipulation, overproduction and reduction of discretionary expense. Therefore, the value of ABN_CFO and ABN_DISEXP will be multiplied by -1 in order to make it in same direction and enables the model to catch overall effect of real earnings management through those three kind of activity.

3.3.2 Dependent Variable

Dependent variable is a variable that will be affected by the independent variable. The dependent variable in this research is the future performance of the company. There are multiple ways to measure the firm future performance, but related with the previous research, this research will measure firm performance with future cash flow from operation (CFO_{t+1}). Cash flow information can enhance the comparability of the reporting of operating performance by different enterprises, because it eliminates the effects of using different accounting treatments for the same transactions and events. The amount of cash flow arising from operating activities is a key indicator of the extent to which the company's operations is well performed or not. Therefore, this research will use cash flow from operating activities one year ahead as the measurement of future performance.

$$CFO_{t+1} / assets$$

3.3.3. Control Variable

Control variable is a variable that is held constant, which is not allowed to change unpredictably during the research. This study uses operating cash flow from the current year (**CFO_t**) and profitability in the current year (**ROA_t**) as the control variables. The research from Leggett et.al (2008) found that ROA has impact on the Cash Flow for one year ahead.

DATA ANALYSIS

This chapter discuss about hypothesis testing of the research. First part of this chapter provide general description of the sample, then followed by the discussion of the data analysis and discussion of the result from the research.

4. 1 Description of the sample

The criteria for the sample in this research came from manufacturing companies which registered in Bursa Efek Indonesia (BEI) in period 2009 - 2012. After some kind of elimination for data that didn't fulfill the criteria, then obtained 312 sample of companies data.

The final number of the sample from this research is 312 companies which came from four period of financial reporting in year 2009-2012. The dependent variable in this research is operating cashflow one year ahead (CFO+1) which has minimum value -0,363674 and maximum value for ,627711, whereas its mean value and standard deviation is 0,08499435 and 0,140478977 respectively.

In this research real earnings management (REM) value came from the accumulation of residuals from three proxy, which are: sales manipulation (ABN_CFO), overproduction (ABN_PROD), and reduction of discretionary expense (ABN_DISEXP). It has minimum value of -1,782830 and maximum value of 1,003450. Mean value of this variable is -0,0000022 and standard deviation is 0,394800251.

The first control variable in this research cash flow from operation (CFO) has minimum value -0,282663 and maximum value 0,572864. The negative sign of this variable means if some companies cannot generate cash from their operation. This variable has mean value 0,08314882 and standard deviation 0,118198864. The second control variable for this research is return on asset (ROA). From the observation of the sample, ROA has minimum value and maximum value -0,673400 and 0,570700 respectively. Minus sign in ROA is because some companies suffer losses in the selected period of analysis. Mean value of ROA is 0,10335929 which means if there is 10.34% return on asset of Indonesian companies. Last, this variable has 0,150360201 for standard deviation.

The result from normality test using Kolmogorov-Smirnov shows the value for 1,172 and value of Asymp.Sig. For 0,128. The criteria for normal distribution of data is when Asymp. Sig. Value > 0.05. Therefore, we can say if the data used in this study is normally distributed.

The criteria for the data can be accepted for free of multicollinearity if the Tolerance value is greater than 0,10 and the VIF value is lesser than 10. From the result of the multicollinearity test that has been done, the tolerance value of REM is 0,581 and CFO is

0,372 whereas ROA is 0,503. All of the independent variable has tolerance value higher than 0,1 which pass the first criteria. In the other hand, the result shows us if the each variable also has VIF value for REM, CFO and ROA for 1,721, 2,688 and 1,989 respectively. That means if those value is less than 10, and pass the second criteria. Then, we can conclude if there is no multicollinearity between independent variables that used in this research.

From the result of the heteroscedacity test using scatterplot, it shows if the plot is unclear, unstructured and didn't make any certain pattern. That means if there is no Heteroscedacity (Homoscedascity occurred).

From the autocorrelation test that has been done using Durbin-Watson, the value for DW is 2,005. Then this DW value compared with the value of t table with 5% significance, number of sample 312 (n) and 3 independent variable (k=3).Therefore, we got the dL value is equal to 1,80076 and dU value is equal to 1,82672. The criteria for no autocorrelation is when the value of $dU < DW < 4-dU$. Then from the result we got $1.82672 < 2,005 < 2,17328$ ($4-1.82672$). Therefore, we can say if there is no autocorrelation in the data used.

From the result of multiple regression analysis we got the regression equation for this research, then this would be:

$$CFO_{t+i} = 0.020 - 0.039REM + 0.412CFO_t + 0.003ROA_t + \varepsilon_t$$

Where:

CFO = Cash flow from operating activities

REM = Real Earnings Manipulation

PROFIT = Earnings from the company

Based on the results obtained, Real Earnings Management (REM) which using 3 measurements such as sales manipulation, overproduction and reduction of discretionary expense that used in this research have negative coefficient and significant level of 0.043. This significant level is smaller than alpha ($0.043 < 0.05$), which means this hypothesis is accepted. Therefore, there is negative impact of Real Earnings Management toward firm's future operating cash flows in the manufacturing companies in Indonesia which is listed in Bursa Efek Indonesia for period 2009 -2012.

Based on the regression analysis REM has $\beta = -0.039$ which means if REM has negative impact on future operating cash flows. If companies tend to do more real earnings manipulation, whether in this study using 3 kinds of measurement, then it will decrease the operating cash flows in the future. This negative impact of real earnings manipulation toward future operating cash flows may occur because within the company who did real earnings manipulation, they will have tendency to do real earnings manipulation throughout the year. Then it will cause the shift or deviation of its underlying activity business operation (Gunny, 2010). From this deviation it may cause several impact to the company. Roychowdhury (2006) found that real earnings management will impose greater long term cost which also resulting of lower operating

cash flow. For example, if company gives high price discount and lenient credit terms, then it will lower cash inflow in the future.

Based on the result of multiple regression the F-value is 92,483 with significant level of 0,000 and less than 0,05. Then it can be concluded if the model that used in this research is acceptable. The coefficient of determination (adjusted R-square) is 0,469 which means 46.9% changes of future operating cashflow (CFO_{t+1}) is explained by three independent variable which is Real Earnings Management (REM), Operating Cash Flow in the current year CFO_t and Return on Asset (ROA_t). The rest changes (53.1%) is explained by other variable that is not included in this research.

5.1 Conclusion

This study investigates the impact of real earnings management on future operating cash flow of the firm by taking three measurement of real earnings management which is sales manipulation, overproduction and reduction of discretionary expense and using two control variables. From the testing and data analysis, it is revealed that real earnings management has negative impact toward future operating cashflow. It is in accordance with the alternate hypothesis and be accepted.

5.2 Limitation and Suggestions

This research want to seek the impact for future operating cash flows, which means one year ahead, then limitation of this research is unable seek the impact within the latest year. It is because of some companies still haven't submit their financial reporting to the BEI in year 2014. Suggestion, for the next researcher who observe this kind of topic may use longer time period and more number of sample than this research.

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