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Moderation Of Creative Accounting With Profitability That Impact On Company Value

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Abstract

The aim of this study is to evaluate how profitability impacts firm value, with creative accounting acting as a moderating factor. The sample for this research was drawn from food and beverage companies listed on the Indonesia Stock Exchange (IDX), using purposive sampling which resulted in a sample of 15 companies. Data was collected from financial statements as secondary data sources. The analysis was performed using MRA regression with the aid of PLS 4.0 software. The findings reveal that profitability has a positive and significant effect on firm value. However, when moderated by creative accounting, the impact of profitability on firm value becomes negative and significant.

Keywords: Profitability, Creative Accounting, Company Value

INTRODUCTION

The emergence of companies in the industry, along with the current economic situation, has led to intense competition among manufacturing companies. This competition in the industrial sector drives each company to enhance its performance to achieve its goals. The primary objective of publicly listed companies is to increase shareholder wealth by raising the company's value (Fauziah and Asandimitra, 2018). The value of the company becomes an attractive focus because an increase in company value

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translates to greater shareholder prosperity. The company's value represents its performance, which can shape investors' perceptions of the company.

Several elements can impact the value of a company, such as profitability and creative accounting. Profitability is defined as the extent to which a business entity can generate income, whether from sales, assets, or owned share capital. This profitability represents the degree to which a company can generate profits from all the resources it possesses.

The importance of profitability in creating the long-term sustainability of a business cannot be overlooked, as it indicates a bright future prospect for the company. Therefore, every company will strive diligently to improve its profitability; the higher the level of profitability, the stronger the business's sustainability.

In the field of economic accounting, there is a technique known as Creative Accounting. Creative Accounting involves making estimates or adjusting financial statements using accounting techniques, laws, and guidelines to achieve the desired outcomes. The focus on this practice has increased in accounting, as if it has become routine for companies to engage in it as long as it does not violate established laws. Creative Accounting is a component of accounting, but it can also be involved in accounting scandals (Narsa, 2019). Manipulating profit seems like an old trend in the accounting world, but it is not something that can be allowed without first understanding the patterns employed by each executive.

In its application, Creative Accounting indeed continues to generate conflicting perceptions. Some researchers consider the steps involved in Creative Accounting to be unethical and often used as a tool to distort financial facts. This causes frustration for those who rely on such data. Nevertheless, if we refer to positive accounting theory, Creative Accounting activities are actually not illegal as long as they are in accordance with widely recognized accounting principles and as long as there is no information asymmetry between shareholders and managers.

There are several loopholes commonly exploited in Creative Accounting, such as leveraging legal elasticity or imperfections, using discretionary and ongoing accounts, creating false transactions or manipulations, and arranging accounts so that financial ratios appear favorable. These are the tricks used by accountants to craft financial reports as desired. Creative Accounting is performed to avoid tax responsibilities, generate financial data to secure credit from banks or maintain bank trust, and deceive shareholders into believing they are achieving optimal profits to obtain incentives and meet the company's strategic goals.

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LITERATURE REVIEW

Signaling Theory

Signaling Theory is often understood in various ways. The core of this theory is the positive reaction that arises due to the signals generated by existing information. Financial reports are crucial information for decision-making. Financial statements serve as signals that provide strong indications to investors and other relevant parties in making decisions.

If the announcement is positive, the market will react immediately when the announcement is received. The main indicator of this reaction is a surge in stock trading volume. When the information is announced to the public, various market entities buzz with interpretations and analyses. They try to determine whether this is good or bad news. If the information is assessed as good news for investors, changes in stock trading trends will be unstoppable, and similarly, the stock market reacts to positive news.

Company Value

A company is an entity that organizes and manages various resources to produce goods and services for sale (Valensia & Khairani, 2019). The existence of a company is necessary because if an entrepreneur had to make separate contracts with employees, capital owners, landowners, and other resources for each stage of production and distribution, the process would become highly inefficient and costly. Instead, entrepreneurs typically make large, long-term contracts with the workforce, which include wages and other benefits. Companies exist to reduce these transaction costs.

The significance of company value cannot be overlooked. As the value of the company increases, shareholder welfare also improves. Stock rewards are a key focus for company owners, where this increase reflects shareholder welfare. Shareholders with privileges represent an opportunity for the company to gain profits as the stock price rises. The market price of stocks serves as a silent witness to investment decisions and asset management (Fauziah and Asandimitra, 2018).

Profitability

Profitability refers to a company's ability to generate profit and measures how efficiently the company operates and utilizes its assets (Valensia & Khairani, 2019). Yuniastuti (2019) states that profitability reflects management's performance in managing the company. To measure profitability, several indicators can be used, such as operating profit, net profit, return on investment/assets ratio, and return on equity ratio.

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This study uses Return on Equity (ROE) to measure profitability. ROE is a ratio that compares net profit after tax with equity capital and is used to assess the rate of return on investment for shareholders. For a company, profitability is often considered more important than simply pursuing high profits, as high profits do not always reflect operational efficiency. An increasing ROE ratio indicates more optimal or efficient performance. A rising ROE ratio can enhance the company's equity value, strengthen its ability to generate net profits related to dividends, and tend to lead to an increase in stock prices (Nugroho & Widiasmara, 2019).

Creative Accounting

According to Khatri (2015), Creative Accounting practically exploits the flexibility in accounting principles or standards to manipulate the recognition, valuation, and presentation of accounting information in unusual ways. This practice is carried out to achieve the objectives of those preparing the financial statements (i.e., management) rather than meeting the needs of those who will use the reports, such as shareholders and creditors.

In practice, there are various views on Creative Accounting. Some researchers argue that Creative Accounting is an unethical practice and is considered a manipulation of financial information that can mislead users of financial statements. However, according to positive accounting theory, Creative Accounting is deemed acceptable as long as the practice does not violate generally accepted accounting principles and does not create information asymmetry between owners (principals) and management (agents) (Hussein et al., 2020).

Hypothesis

The Impact of Profitability on Company Value

Profitability is a company's ability to generate profit and measures operational efficiency and the use of its assets (Nugroho & Widiasmara, 2019). In this study, Return on Equity (ROE) is used to measure profitability, which is a significant ratio for company owners (common shareholders). ROE reflects the rate of return on investment for shareholders. Generally, the assumption is that a higher ROE indicates better company performance, as it shows that the company's profits are increasing. Conversely, a low or negative ROE indicates that the company is experiencing losses.

In other words, ROE reflects the profit that shareholders will receive. An increase in ROE reflects improved company performance, as it indicates potential profit growth.

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Investors often view an increase in ROE as good news from the company, which can enhance their confidence. As a result, company management will find it easier to attract capital through stock issuance. If demand for the company's shares increases, the stock price in the capital market is likely to rise. Research by Valensia & Khairani (2019) indicates that profitability has a positive and significant impact on company value. Based on the above description, the researcher proposes the following hypothesis:

H1: Profitability has a significant positive effect on accounting conservatism.

The Effect of Profitability Moderated by Creative Accounting on Company Value

Creative Accounting can be considered a less reliable accounting method because it often undermines the reliability of financial information. Since managers have an information imbalance—where outsiders find it difficult to know the details—there may always be an effort to maximize profits through "creative accounting." The real issue is the lack of clear and comprehensive disclosure regarding the considerations in establishing accounting policies. As a result, financial reports are considered to have fundamental limitations and are inadequate for decision-making.

According to a study by Kamau, Namusonge, and Bichanga (2016), tax management has a significant impact on the implementation of Creative Accounting. Therefore, the hypothesis proposed in this study is:

H2: Profitability moderated by Creative Accounting has a negative and significant effect on company value.

RESEARCH METHODOLOGY

This study utilizes secondary data accessed through (www.idx.co.id), specifically financial reports of companies in the food sector for the period 2021-2023. The population for this study includes all companies in the food and beverage sector. The sampling method used is purposive sampling, which resulted in 15 companies being selected as samples from a total of 42 companies in the sector.

The data analysis technique applied in this study is Multiple Regression Analysis (MRA) using PLS 4.0 software, with the aim of examining the relationship patterns between variables and understanding both the direct and indirect effects of a set of exogenous variables on endogenous variables..

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RESULTS AND DISCUSSION

Research Results

Table 1. Research Results

Keterangan	R Square	R Square Adjusted	Original Sample	T Statistik	P Values
Nilai Perusahaan	**0.738**	**0.701**			
Profitabilitas -> Nilai Perusahaan			0.281	2.743	**0.006**
Profitabilitas x Creative Accounting -> Nilai Perusahaan			-0.308	2.202	**0.028**

From Table 1 above, it can be seen that the R-Square value for the profitability variable is 0.738, indicating that it is relatively high. The Adjusted R-Square value shows that profitability can explain 0.701 or 70.1% of the variance, with creative accounting as a moderating variable. The remaining 29.9% can be explained by other factors not included in this study.

Table 1 indicates that the significance value for profitability is 0.006, which is less than 0.05. The parameter coefficient of 0.281 suggests that the effect is positive on the endogenous variable. Thus, the first hypothesis (H1) is accepted, meaning that profitability has a positive and significant effect on company value.

Table 1 also shows that the significance value for profitability is 0.028, which is less than 0.05. The parameter coefficient is -0.308 and is negative. This negative coefficient indicates an inverse relationship between profitability and company value when moderated by creative accounting. Therefore, H2 is accepted, meaning that profitability has a negative and significant effect on company value when moderated by creative accounting.

The parameter coefficient value for the effect of profitability on company value when moderated by creative accounting is -0.308, which is lower compared to the coefficient for profitability on company value, which is 0.281. This indicates that creative accounting as a moderating variable can weaken the relationship between profitability and company value.

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DISCUSSION

The Impact of Profitability on Company Value

The hypothesis test results indicate that profitability (ROE) has a positive and significant effect on company value. In other words, the higher the ROE, the higher the company value. This is because the ROE ratio reflects the rate of return on investment for shareholders. A higher ROE suggests better company performance, as it indicates greater profits. Conversely, a low or negative ROE indicates that the company may be experiencing losses.

ROE reflects the profit that shareholders will receive. An increase in ROE signifies a better potential for the company, as it indicates the possibility of higher earnings. Investors often interpret an increase in ROE as a positive signal, which can strengthen their confidence in the company. This makes it easier for the company's management to attract capital through stock issuance. When demand for the company's shares increases, the stock price in the capital market tends to rise indirectly.

The Effect of Profitability Moderated by Creative Accounting on Company Value

The results of the hypothesis test reveal that profitability, when moderated by creative accounting practices, has a negative and significant impact on company value. This finding suggests that higher profitability, if achieved through the use of creative accounting, leads to a decline in the perceived value of the company. Creative accounting is widely regarded as an unethical practice, as it undermines the reliability and credibility of financial information. One of the key concerns with creative accounting is the lack of transparency in the decision-making processes used to establish accounting policies. Managers, who often have access to privileged information not available to external stakeholders, may manipulate profits to present a more favorable financial position. This manipulation can distort the true economic reality of the company, eroding trust among investors and other stakeholders.

Moreover, financial statements generated under such practices are perceived as inherently flawed and insufficient for informed decision-making. The lack of clarity and integrity in financial reporting diminishes the utility of these reports as a basis for evaluating a company's performance or future potential. Consequently, companies engaging in creative accounting face increased scrutiny and risk a loss of investor confidence, ultimately harming their reputation and market value. This underscores the importance of ethical financial reporting practices and the adoption of transparent

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accounting policies to ensure that financial information remains reliable, credible, and valuable for all stakeholders.

When a company engages in creative accounting, the profits reported may not fully align with accepted accounting principles, signaling to investors that the financial reports reflect management's interests. This can lead investors to become disinterested or even withdraw their investments, which impacts stock prices and company value.

Creative accounting is a method used to manipulate figures in financial reports. Although this method does not violate existing laws or accounting standards, it often conflicts with moral ethics, as it can mislead users of financial statements.

CONCLUSION

The conclusion of this study is that the profitability variable (ROE) has a positive and significant effect on company value, meaning that the higher the ROE, the higher the company value. However, when profitability is moderated by creative accounting practices, its effect on company value becomes negative and significant. In other words, higher profitability, when reinforced by creative accounting, leads to a lower company value.

These findings indicate that although profitability is an important factor in optimizing company value, creative accounting practices can undermine investor confidence and reduce the overall company value.

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