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Can the Reclassification of Other Comprehensive Income Narrow the Opportunities for Creative Accounting: Earnings Management and Income Smoothing?

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ABSTRACT

So far, research in Indonesia examines that the factors that influence creative accounting are the application of Good Corporate Governance, leverage, company size, and political connections, while research on the effect of other comprehensive income (OCI) as a result of the application of fair value accounting has not been widely carried out. This study finds evidence that aggregate OCI accumulation does not affect earnings management and income smoothing. However, testing on group OCI items that will be reclassified to net income has a negative effect. Asset realization commitment increases the negative effect of OCI on earnings management and income smoothing. Creative accounting through OCI can be done through a policy of delaying the realization time and or reducing the real amount of assets realized to get the net profit value according to the interests of management and the subjectivity of determining the fair value of assets and liabilities.

Keywords: Other Comprehensive Income (OCI); Creative Accounting; Earnings Management; Income Smoothing.

INTRODUCTION

Creative accounting is an act of manipulating financial reporting by the presenter by using an understanding of standard knowledge, interpretation, and accounting techniques to achieve goals according to their interests (Indonesian Institute of Accountants, 2019). Creative accounting still occurs in many countries and is a topic that is always interesting to be studied by accounting researchers in various parts of the world [11], including Indonesia. A recent study [36] found evidence that as many as 64.58% of the property, real estate, and construction companies in Indonesia during the 2016 - 2019 period indicated creative accounting in the form of income smoothing. Likewise, [12] study found evidence that 61.64% of companies conducting IPOs in the 2017 – 2019 period were indicated to be doing creative accounting in the form of earnings management. Creative accounting actions are not in line with the philosophy of the purpose of financial statement presentation, which is to provide users with fair, honest, and quality information for decision-making. Creative accounting violates business ethics because it can mislead users on information related to the company to outsmart and deceive users, which has the potential for users to make wrong decisions.

The application of fair value accounting in Indonesian accounting standards since convergence with International Financial Reporting Standards (IFRS) in Indonesian Financial Accounting Standard (SAK) Effective June 1, 2012, which converged the first time with IFRS Effective January 1, 2009), has led to OCI recognition and is presented in the income statement along with net income (traditional). Convergence to IFRS has proven to be able to increase the value relevance of accounting information content in Indonesia [18]. OCI only adjusts historical value to fair value and if fair value is greater than the historical value it is only unrealized revenue, and in the period in which it arises is not related to cash flows and has no effect on profit. The standard requires companies to present OCI in the income statement in two groups, OCI items that will be reclassified to net income, and OCI items that will not be reclassified to net income. The OCI group that will be reclassified to net income means that the asset (liability) will be realized (assets are sold or liabilities are paid off), and the sale of these assets can affect net income through the recognition of revenue from the realization of assets.

Flexibility in choosing accounting policies in IFRS provides wide opportunities for companies to do creative accounting [19]. Creative accounting through OCI takes the form of 1) Subjectivity in determining the fair value of assets and liabilities that give rise to OCI, and 2) Flexibility in timing and amount of realization of assets and liabilities that were presented as OCI in the previous period. Time delays and reductions in the amount of realized assets (shifted from the planned ones as presented in the OCI group to be reclassified) are creative accounting loopholes to obtain net profit value through the recognition of income from asset realization according to interest. In line with the form of creative accounting through the timing of the occurrence of an economic transaction that affects financial statements [2]. Accounting standards do not clearly regulate the company's commitment to realize assets in the amount and period as planned in the previous period.

The purpose of accounting standards presenting OCI in financial statements is to increase value relevance because OCI accommodates the presentation of assets (liabilities) at fair values that are more representative and respond to volatility in the external environment than at historical values or carrying values [4], but it turns out that behind this good goal, OCI with its characteristics can be a gap to take creative accounting actions, such as the results of research in Israel [8] and China [45] which provide empirical evidence that OCI has a positive effect on management. profit. Although this evidence is not consistent, research in Indonesia [7] produces contradictory evidence, namely that OCI has a negative effect on earnings management.

Various previous studies have concluded that creative accounting actions are influenced by factors of Good Corporate Governance (GCG) implementation [15], level of leverage [37], company size [16], and political connections [44]. The fruit of the application of fair value accounting is the emergence of OCI, and since Indonesian accounting standards converge with IFRS, the income statement not only presents net income but also presents OCI. OCI represents unrealized income that arises due to the adjustment of assets (liabilities) from historical values to fair values. The appearance of OCI in the income statement invites researchers to prove the effect of OCI on creative accounting actions. [7] initiated research in Indonesia on the effect of OCI presentation on creative accounting actions in manufacturing companies on the Indonesia Stock Exchange for the 2014-2015 period. Besides OCI, other independent variables are firm size, operating cash flow, and firm size. Creative accounting in this study was measured by the earnings management version of the Modified Jones Model and resulted in the finding that OCI had a significant negative effect on earnings management, and the level of leverage had a positive effect on earnings management while operating cash flow and firm size had no significant effect. But unfortunately, this research by [7]: 1) only uses OCI values in the aggregate and does not use OCI disaggregation which accommodates the policy of presenting OCI items separately: OCI items that will be reclassified to net income and OCI items which will not be reclassified to net income, 2) does not involve conformity a plan with the reality of realizing assets that previously formed OCI values, 3) does not involve GCG implementation factors, 4) does not involve political connection factors, 5) only measures creative accounting by one proxy, namely earnings management with modified Jones model, 6) only uses company manufacturing as its object, and 7) only has a short research period of two years.

This study develops research [7] with novelty as a form of development in the form of: 1) not only using aggregated OCI values but also disaggregated OCI, in line with the standard policy of presenting OCI items separately, namely: OCI items that will be reclassified to net income and OCI items which will not be reclassified to net income, 2) involves asset realization commitment as a moderator of OCI influence on creative accounting, 3) involves GCG implementation, 4) involves political connection factors, 5) creative accounting is measured by two proxies, namely discretionary accruals following [37] and modifications to the measurement of income smoothing following [41], 6) the object is not only manufacturing companies but all sectors listed on the IDX, and 7) the research period is in line with the application of IFRS, which is longer, namely 2016 – 2020.

The reason this study does not only use aggregated OCI values but disaggregates OCI into two groups, items that will be reclassified to net income and OCI items that will not be reclassified to net income, because this is in line with the standard policy on presenting OCI items separately based on whether or not the potential is realized, the OCI reclassification is more related to creative accounting than the aggregate OCI because the OCI reclassification shows the potential for OCI to affect net income and cash flows. This research involves the commitment to realize assets as a moderating effect of OCI on creative accounting, because it shows the suitability of the realization plan as reflected in the presentation of OCI in the previous period, with the fact that realization in the current period affects net income and cash flows. The company can delay the realization time and or reduce the number of realizations from the planned. This is the background for the addition of OCI reclassification as an independent variable and realization commitment as a moderating variable, as the development of previous research on OCI and creative accounting. This study involves the application of GCG factors and political connections because these two variables are also factors that influence creative accounting based on the research of [15] and [44], but these two variables have not been included in the research of [7]. Creative accounting is measured by two proxies, namely discretionary accruals and income smoothing to clarify the effect of OCI on two different measurements in creative accounting actions. The object of this research is to all sectors of companies listed on the IDX with a longer research period so that the research results can be more generalized.

The results of this study are useful as an addition to the academic literature in the form of empirical evidence of the influence of OCI on creative accounting, which adds to previous empirical evidence of factors that influence creative accounting actions such as the application of GCG, leverage levels, profitability, political connections, and company size. The results of this study are expected to be considered by management to avoid the practice of creative accounting because it can damage the image and public trust in the company. Likewise, for Public Accounting Firm (PAF), it can be taken into consideration in providing an appropriate opinion if it detects a creative accounting action by its client because it will reduce the credibility and integrity of the accountant in the eyes of the public. For investors, it is useful as a consideration in assessing performance by involving OCI reclassification items, not only net income. The results of this study are useful for Indonesian Accounting Standard Boards (DSAK IAI), as input in regulating the certainty of the amount and timing of asset realization in the previous period, presenting fair value adjustments as group OCI which will be reclassified to net income to close the gap in creative accounting practices.

Creative Accounting

Agency theory [17] states that there are differences in interests between management and owners. Management seeks to beautify financial statements through creative accounting to create a positive image in the market, which leads to an increase in stock prices and equity funding, but on the other hand, owners and potential investors rely on honest financial statement information so as not to make wrong decisions and can predict the returns of future investments from the previous period's financial statements as they are without creative accounting actions [21; 22; 27; 28].

Positive accounting theory [43] shows that one of the causes of financial manipulation by company management is that they want to get big bonuses because of good company performance. The profit generated by the company from year to year is one sign that the company is in a good performance. The greater the profit generated by the company, the greater the bonus that will be received by the company's management [27; 28].

There are two different sides of opinion regarding creative accounting, this is an act that violates or does not violate. Creative comes from the Latin "Creatus" which means an idea, concept, or process of creation, thus creative accounting means the creative idea of applying accounting and producing accounting output and is not an act of fraud [2]. Creative accounting does not violate accounting standards, because it takes advantage of gaps in standards in the form of flexibility in the choice of methods and estimates in the application of accounting [14], including the timing of economic events that affect the position of assets, liabilities, and equity [2]. Creative accounting is the selection of accounting policies that may not violate accounting standards, but are contrary to the objectives of accounting standards, namely providing fair, objecttive, and value-relevant information for all users' interests, which aims to produce financial statements and business images according to the interests of one party [6].

Creative accounting is indeed an act that does not violate the law but can mislead users of financial statements in making decisions because it does not reflect the fairness and actual conditions that occur in the business processes of companies reporting financial statements [35]. Creative accounting is not illegal, but this action is unethical because it can harm the content of information that is fair and objective for users and reduces the usefulness of the information in decision-making. One form of creative accounting is income smoothing, which is the normalization of profit values following certain trends as desired by reducing profit fluctuations, reducing profits in high periods, and adding them to lower periods [39].

Factors that influence the occurrence of creative accounting actions include poor GCG implementation practices [15], company size [16], profitability and tax regulations [14], political connections [44], dividend payout pressure [5], and the level of leverage [37]. Companies that have a high level of leverage will use their profits more to pay their obligations and interest expenses to creditors. Creditors will take strict supervisory actions if the company has a low profit so that the company will minimize the creative accounting actions they have taken.

The motivation of company management to do creative accounting is to give a positive impression about the company's financial health [11], to increase the value of the company and provide satisfaction to its shareholders [21; 22], and to maximize management profits, especially to get bonus [37]. Managers, through their power and authority, take advantage of loopholes in accounting standards to reduce fluctuations in income through profit reserves during periods of high performance to be used during periods of low performance, due to compensation motivation [13]. Creative accounting can be done by increasing the total assets in the statement of financial position through a mark up on the amount of inventory and increasing profit in the income statement through mark-up income [3]. Creative accounting, although legal and acceptable, is a financial crime and hampers the economy as a whole, especially in the current era of digital evolution [11]. According to an independent auditor in Public Accounting Firm (PFA) Jakarta, creative accounting actions taken by company management can reduce the reliability of financial reports, and professional and statutory auditor ethical standards can mediate this influence [32]. A study conducted [1] found evidence that Multipurpose Cooperatives and Savings and Loans Cooperatives in East Java carried out creative accounting in the form of income smoothing measures to reduce earnings fluctuations so that they looked stable and looked low risk. Likewise, research on conventional commercial banks listed on the Indonesia Stock Exchange, proves that income smoothing has a significant effect on reserves for impairment losses, stability, and bank soundness [42].

This study uses two proxies for measuring creative accounting, namely the discretionary accrual model modified by Jones [37; 12] and the income smoothing model modified by the Eckel Index [36; 41] with formulation as follows: The first step is to remove the cash element from net income to get the accrual value:

$$TAc = NI - CFO$$

Next, calculate the regression coefficient value from the following equation (variables are scaled in total assets):

$$\frac{TAc}{TAs} = \alpha_0 + \alpha_1 \frac{(\Delta Rev - \Delta Rec)}{TAs} + \alpha_2 \frac{PPE}{TAs} + \varepsilon$$

After the regression coefficient is known, then the non-discretionary accrual value is calculated using the following regression equation:

$$\frac{NDAc}{TAs} = \alpha_0 + \alpha_1 \frac{(\Delta Rev - \Delta Rec)}{TAs} + \alpha_2 \frac{PPE}{TAs} + \varepsilon$$

By knowing NDA, the value of discretionary accruals (DA) can be known:

$$DA = \frac{TAc}{TAs} - NDAc$$

TAc: total accrual, NI: net income, CFO: cash flows operation, TAs: total asset, ΔRev: revenue change, ΔRec: receivable change, PPE: fixed assets, NDAc: non-discretionary accrual, DA: discretionary accrual.

Income smoothing is the practice of averaging the value of profit between periods by minimizing fluctuations in the value of profits to get a stable profit value between periods. Income smoothing can be measured by the Eckel Index [10] with the following formulation. The first step is to calculate the coefficient of variation of changes in net income after tax:

$$CV\,\Delta\,LBSP = \frac{\sigma^{LBSP}}{\bar{X}^{LBSP}}$$

Then calculate the coefficient of variation of changes in net income:

$$CV\,\Delta\,PB = \frac{\sigma^{PB}}{\bar{X}^{PB}}$$

Then calculate the value of the Eckel Index as a proxy for income smoothing (IS):

$$IS = \frac{CV\,\Delta\,LBSP}{CV\,\Delta\,PB}$$

σ^{LBSP}: Standard deviation of net income after tax, $\bar{X}^{LBSP}$: Average of net income after tax. σ^{PB}: Standard deviation of net sales, $\bar{X}^{PB}$: Average of net sales. CV Δ LBSP: coefficient of variation of change in net profit after tax; CV Δ PB: coefficient of variation of change in net sales.

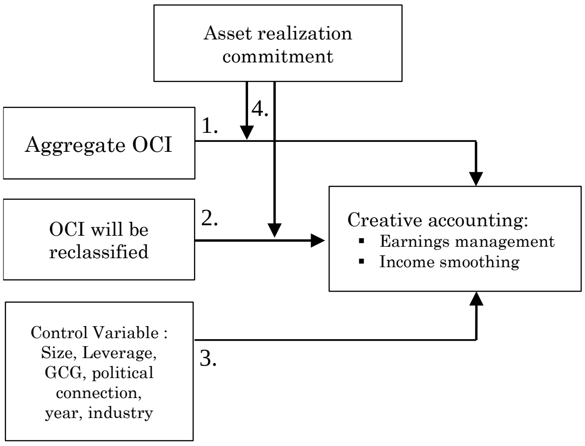
Other Comprehensive Income (OCI)

Other comprehensive income (OCI) is the unrealized gain (loss) that arises due to an increase (decrease) in the fair value of an asset (liabilities) from its historical value or carrying amount at the date of presentation of the financial statements. Assets (liabilities) adjusted historical (carrying) values to fair values. PSAK No.1 SAK Effective as of January 1, 2018 states that OCI items include: 1) available-for-sale financial assets, 2) cash flow hedging contracts, 3) revaluation of property, plant and equipment and intangible assets, 4) defined benefit plan liabilities, and 5) translation of financial reports from business units in foreign countries. OCI is presented in the income statement in detail per item and is grouped based on the plan to be reclassified to net income and not to be reclassified to net income. Items that are not reclassified to net income mean that they will not be realized so they are immediately reclassified to retained earnings. The position of the presentation of OCI in the income statement is after or below net income (traditional), and then attributable to owners of the parent entity and non-controlling interests [34].

The characteristics of OCI based on research results in Indonesia include: its emergence is caused by internal and external factors, internal factors in the form of asset ownership, and external factors in the form of macroeconomics such as interest, inflation, and exchange rates, therefore OCI has low persistence and OCI has high volatility, higher than net income and comprehensive income [30]. OCI has a relevance value for users, which is indicated by its effect on stock returns [24] and its ability to predict future earnings [31], also, OCI reclassification can be used to assess future cash flow prospects [25]. OCI can be used to modify the ROA [23] and ROE [26] formulas to assess the company's financial performance and the effectiveness of asset utilization [24]. Certain items in companies with large financial asset ownership can be used for earnings management [40].

Relationship OCI with Creative Accounting

In the presentation period, OCI is not related to transactions involving cash flows and does not affect net income, because it only adjusts the fair value of assets (liabilities) from historical values at the date of presentation of the financial statements. However, for certain items in OCI, in the next presentation period the gain (loss) is realized so that the asset (liability) realization transaction involves cash flows and income from the realization of the asset (realized gain from the increase in fair value from historical value) will affect the net income of the realized period. OCI items that are planned to be realized in the next period, in the presentation period are included in the group "to be reclassified to net income". Reporting entities can perform creative accounting through OCI by 1) delaying (or realizing early) and/or, 2) reducing (increasing) the number of assets realized to get the desired profit value [8], and 3) the flexibility in determining the fair value of assets whose difference from historical values is assessed as OCI, the magnitude of the OCI value will affect the amount of total comprehensive income [45]. So far, no policy regulates the certainty of the timing and amount of assets that are adjusted to OCI, so this loophole can be used to modify net income for tax avoidance purposes [29]. A large and positive comprehensive income can obscure a minimal net income and even a net loss. Creative accounting through OCI in the form of income smoothing can be realized gradually over several periods, to obtain stable profits between periods. When operating sales decrease, asset realization is carried out in large quantities, to cover the decrease in operating sales in generating the desired net income. Commitment to realizing assets according to the planned amount and time is thought to be able to narrow the creative accounting gap through OCI, thus the conceptual framework of this research is as follows Figure 1.



Study results:
1. [7; 8; 45].
2. Originality of this research.
3. [5; 15; 37].
4. Originality of this research.

Figure 1. Research conceptual framework

The hypothesis in this study is as follows:

H1.a.: Aggregate OCI has a negative effect on earnings management.

H1.b.: Aggregate OCI has a negative effect on income smoothing.

H2.a.: Group OCI items that will be reclassified to net income have a negative effect on earnings management.

H2.b.: Group OCI items that will be reclassified to net income have a negative effect on income smoothing.

H3a.: Asset realization commitment increases the negative effect of OCI on earnings management.

H3b.: Asset realization commitment increases the negative effect of OCI on income smoothing.

RESEARCH METHOD

This type of research is to prove the hypothesis by utilizing moderated regression analysis (MRA), which is based on the phenomenon of creative accounting actions due to information asymmetry and differences in stakeholder interests (agency theory as a grand theory). The application of fair value accounting to improve financial statements in accurately representing actual conditions to increase value relevance resulted in the emergence of OCI as unrealized income due to the difference between fair value and historical value and presented this OCI in the income statement along with net income as real income. realized. Whether OCI affects the creative accounting proxy and whether the commitment to implement it according to the plan moderates the effect of OCI on the creative accounting proxy, will be tested in this study. The population of this study was 674 publicly traded companies listed on the Indonesia Stock Exchange in the period from 2016 to 2020, the sample was selected using a purposive sampling technique with the following details:

Table 1. Sample Selection Criteria

Sample Selection Criteria	Number of Companies
The population of companies listed on the IDX for the period 2016 – 2020.	674
Minus:	
1. Presenting financial statements in USD.	(44)
2. Not routinely presenting financial reports during the research period.	(12)
3. Not presenting OCI in the income statement.	(27)
4. Presenting OCI but not separating in reclassification.	(60)
Number of selected samples	531
Number of observed data (531 companies multiplied by 5 years)	2.655

The dependent variable in this study is the action of creative accounting (CA), which in this study was measured by two proxies, namely 1) discretionary accruals (DA) using the modified Jones model (Dechow et al., 1995) following the research [37; 12] and 2) income smoothing (IS) using the Eckel index (Eckel, 1981) following [36; 41]. The independent variable in this study is aggregated OCI, OCI items will be reclassified to net income, and OCI items will not be reclassified to net income. The moderating variable is the commitment of the realization plan (OCI reclassification) with the realization fact. Control variables to increase the feasibility of the model (adjusted R and significance F) based on previous research are the practice of implementing GCG, political connections, leverage levels, and company size.

Model for hypothesis testing 1.a and 1.b:

$$EM_{i,t} = \alpha_0 + \beta_1 OCI_{i,t-1} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 KOMIN_{i,t} + \beta_5 KINS_{i,t} + \beta_6 POL_{i,t} + \beta_7 YEARS + \beta_8 INDUSTRY + \varepsilon \quad (1.a).$$

$$IS_{i,t} = \alpha_0 + \beta_1 OCI_{i,t-1} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 KOMIN_{i,t} + \beta_5 KINS_{i,t} + \beta_6 POL_{i,t} + \beta_7 YEARS + \beta_8 INDUSTRY + \varepsilon \quad (1.b).$$

H1.a. accepted, if the coefficient $\beta_1 OCI_{i,t-1}$ in equation 1.a is negative and significant at the 5% level. H1.b. accepted, if the coefficient $\beta_1 OCI_{i,t-1}$ in equation 1.b is negative and significant at the 5% level.

Model for hypothesis testing 2.a and 2.b:

$$EM_{i,t} = \alpha_0 + \beta_1 ROCI_{i,t-1} + \beta_2 TROCI_{i,t-1} + \beta_3 SIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 KOMIN_{i,t} + \beta_6 KINS_{i,t} + \beta_7 POL_{i,t} + \beta_8 YEARS + \beta_9 INDUSTRY + \varepsilon \quad (2.a).$$

$$IS_{i,t} = \alpha_0 + \beta_1 ROCI_{i,t-1} + \beta_2 TROCI_{i,t-1} + \beta_3 SIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 KOMIN_{i,t} + \beta_6 KINS_{i,t} + \beta_7 POL_{i,t} + \beta_8 YEARS + \beta_9 INDUSTRY + \varepsilon \quad (2.b).$$

H2.a. accepted, if the coefficient $\beta_1 OCI_{i,t-1}$ in equation 2.a is negative and significant at the 5% level. H2.b. accepted, if the coefficient $\beta_1 OCI_{i,t-1}$ in equation 2.b is negative and significant at the 5% level.

Models for hypothesis testing 3.a and 3.b:

$$EM_{i,t} = \alpha_0 + \beta_1 ROCI_{i,t-1} + \beta_2 TROCI_{i,t-1} + \beta_3 KOMIT_{i,t} + \beta_1 ROCI_{i,t-1} * KOMIT_{i,t} + \beta_2 TROCI_{i,t-1} * KOMIT_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 KOMIN_{i,t} + \beta_6 KINS_{i,t} + \beta_7 POL_{i,t} + \beta_8 YEARS + \beta_9 INDUSTRY + \varepsilon \quad (3.a).$$

$$IS_{i,t} = \alpha_0 + \beta_1 ROCI_{i,t-1} + \beta_2 TROCI_{i,t-1} + \beta_3 KOMIT_{i,t} + \beta_1 ROCI_{i,t-1} * KOMIT_{i,t} + \beta_2 TROCI_{i,t-1} * KOMIT_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 KOMIN_{i,t} + \beta_6 KINS_{i,t} + \beta_7 POL_{i,t} + \beta_8 YEARS + \beta_9 INDUSTRY + \varepsilon \quad (3.b).$$

H3.a. accepted, if the coefficient $\beta_1 OCI_{i,t-1}$ in equation 3.a (after being moderated by KOMIT) has a larger coefficient with a significance of 5% than the coefficient $\beta_1 OCI_{i,t-1}$ in equation 2.a before being moderated. H3.b. accepted, if the coefficient $\beta_1 OCI_{i,t-1}$ in equation 3.b (after being moderated by KOMIT) has a larger coefficient with a significance of 5% than the coefficient $\beta_1 OCI_{i,t-1}$ in equation 2.b before being moderated.

The measurement of the dependent, independent, moderating and control variables is described in the following Table 2.

Data Analysis

Table 3 shows the results of the calculation of the Discretionary Accrual and Eckel Index as many as 531 sample companies during 2016 – 2020 (n = 2,655 data observe). Observe data for company i for period t, 531 companies during 2016 – 2020, n = 2,655, which have a positive DA value or are indicated to carry out earnings management as much as n = 1,573 or 59.25%, while those with a negative DA value or do not perform earnings management are n = 1,082 or 40.75%. This finding is not much

Table 2. Research Variables and Measurement

<table>
<tr><th>Variable</th><th>Measurement</th></tr>
<tr><td colspan="2">Dependent Variable</td></tr>
<tr><td>Creative accounting (CA)</td><td>Creative accounting is proxied by:
1. Discretionary Accrual (DA) is measured with a modified Jones Model [9; 37; 12]
$DA = \frac{TAc}{TAs} - NDAc$
2. Income Smoothing (IS) is measured with modified Indeks Eckel-IE [10; 36; 41]
$IE= \frac{CV\ \Delta\ LBSP}{CV\ \Delta\ PB}$</td></tr>
<tr><td colspan="2">Independent Variable</td></tr>
<tr><td>Other Comprehensive Income ($OCI_{t\text{-}1}$)</td><td>Total of 5 OCI items, namely fair value adjustment of the carrying value of assets (liabilities): financial assets available for sale, financial statement translation, hedging, defined benefit, and revaluation of property, plant, and equipment [20]
$= \frac{OCI_{i,t\text{-}1}}{\text{Total asset}_{i,t\text{-}1}}$</td></tr>
<tr><td>Reclassifications of OCI ($ROCI_{t\text{-}1}$)</td><td>OCI items presented in the group to be reclassified to net income [31]
$= \frac{\text{Reclasifications of } OCI_{i,t\text{-}1}}{\text{Total asset}_{i,t\text{-}1}}$</td></tr>
<tr><td colspan="2">Moderating Variable</td></tr>
<tr><td>Asset realization commitment (KOMIT)</td><td>The suitability of the plan with the fact that assets have been realized in period t which was previously planned at t-1 through the presentation of OCI items in the group that will be reclassified to net income. Commitment to realizing assets is indicated by the coefficient value $\beta_1 ROCI_{t\text{-}1}$ on net income t in the following equation:
$NI_t = \alpha_0 + \beta_1 ROCI_{t\text{-}1} + \beta_2 ROCI_{t\text{-}2} + \beta_3 ROCI_{t\text{-}3} + \varepsilon$

The higher the coefficient $\beta_1 ROCI_{t\text{-}1}$ and significance at the 5% level, indicating the higher the commitment to realizing assets in the period as planned. On the other hand, the lower coefficient of $\beta_1 ROCI_{t\text{-}1}$ is supported by a lower coefficient value compared to periods t-2 and t-3, indicating that there is a delay or delay in the realization of the planned time.</td></tr>
<tr><td colspan="2">Control Variable</td></tr>
<tr><td>Company size (SIZE)</td><td>The size of the company going public [31]
= Ln Total Asset</td></tr>
<tr><td>Leverage (LEV)</td><td>Leverage level of publicly traded companies [31]
$= \frac{\text{Total Liabilities}_{i,t}}{\text{Total asset}_{i,t}}$</td></tr>
<tr><td>Good Corporate Governance (GCG)</td><td>The number of members of the board of commissioners outside the company (KOMIN).
$= \frac{\text{Number of members from outside the company}}{\text{Total members of the board of commissioners}}$
[38; 33]
Number of shareholdings by institutional (KINS).
$= \frac{\text{Number of shares owned by the institution}}{\text{Total number of shares}}$
[38; 33]</td></tr>
<tr><td>Political Connections (POL)</td><td>Shareholding by the government and a parent entity controlled by the government.
$= \frac{\text{Number of shares owned by the government}}{\text{Total number of shares}}$
[44]</td></tr>
<tr><td>YEAR</td><td>Multiple dummy variables based on the period of the year of this study, namely for 5 years from 2016 to 2020.</td></tr>
<tr><td>INDUSTRY</td><td>Multiple dummy variables based on the classification of industry types in the IDX are 9 industrial sectors.</td></tr>
</table>

different from the results of [36] which found that 61.64% indicated doing creative accounting in the form of earnings management. Company i in period t (n = 2,655) which has an Eckel Index value above 1 or is indicated to have income smoothing as much as n = 1,551 or 58.42%, while those with an Eckel Index value are below 1 or do not perform income smoothing as much as n = 1,104 or 41 ,58%. This finding is not much different from the results of [12] research which found that 64.58% indicated doing creative accounting in the form of income smoothing.

Table 3. Results of Calculation of Discretionary Accrual and Eckel Index of 531 companies during 2016 – 2020 (n = 2.655 observed data)

Creative Accounting	Proxied by	Proxy Value Criteria	Observe company data i period t, n = 2.655	
			n	Percentage
Earnings Management	Discretionary Accrual (DA) Modifiasi Jones [37; 12].	If the DA value is positive (above 0), then it is indicated to carry out earnings management.	1.573	59,25%
		If the DA value is negative (below 0), then it does not carry out earnings management.	1.082	40,75%
		Amount	2.655	1
Income Smoothings	Indeks Eckel (IE) [36; 41].	If the IE value is above 1, then it is indicated to make income smoothing.	1.551	58,42%
		IE value below 1, then it does not do income smoothing	1.104	41,58%
		Amount	2.655	1

Table 4. Descriptive Statistics Results

Variable	n	Mean	Min	Max	SD
DA	2.655	0,5095	-7,5918	9,3822	0,0136
IS	2.655	0,5041	-0,0622	2,2131	0,6255
OCI (agregate)	2.655	0,0442	-0,7616	0,1503	0,0268
ROCI	2.655	0,0263	-0,3558	0,5445	0,0123
TROCI	2.655	0,0334	-0,1171	0,6183	0,0134
KOMIT	2.655	0,8971	-0,2113	1,4553	0,6439
SIZE	2.655	6,3282	1,4182	14,1325	0,8817
LEV	2.655	0,4215	-0,0729	0,8431	0,1861
KOMIN	2.655	0,3466	0,2262	0,3415	0,0261
KINS	2.655	0,6023	0,0000	0,8904	27,433
POL	2.655	0,1462	0,0000	0,8412	0,0368

Table 4 shows the results of descriptive statistics. The mean DA shows that the average value of discretionary accruals as a proxy for earnings management actions during the study period is 0.5095 and the mean value of IS is 0.5041 indicating that the average value of income smoothing is. The mean TROCI of 0.0334 is greater than the mean ROCI of 0.0263, this means that the number of ownership of the sample companies during the study period on OCI items that will not be reclassified to net income is more than the group that will be reclassified. This is because OCI items such as post-employment benefit actuarial differences are owned by the company due to legal obligations regarding pension fund ownership, as well as OCI items revaluation of tangible fixed assets, although the frequency of occurrence is not as frequent as the defined benefit actuarial difference items, the revaluation value is very large. The mean KOMIT is 0.8971. This means that the company's promise in the previous period to realize assets in the next one-year period is proven. The promise is manifested in the historical value adjustment to the fair value of assets presented in the OCI group which will be reclassified to net income, and the fact of realization in the following one-year period is manifested in the value of income from the sale of realized assets. The mean KOMIT of 0.8971 shows the average OCI t-1 reclassification coefficient on net income t of 0.8971, and this is a large value, the company is right to realize it in the next period which is not too long from the presentation of the OCI reclassification, this means the realization not postponed.

Table 5 shows the results of the correlation analysis. ROCI is negatively correlated with DA (-0.028**) and IS (-0.031**), the greater the value of OCI items presented in the group to be reclassified to net income, the lower the value of DA and IS, because OCI reclassification provides information in the period presentation of OCI, the potential for OCI to be realized and affect net income and cash flows through realized gains. Aggregate OCI is positively correlated with SIZE (0.857***), the larger the company, the more economic transactions that occur and affect changes in the position of assets, liabilities, and equity, the more assets are valued at fair value, and the more fixed assets are revalued, the more adjusted defined benefit liabilities, the more hedging transactions, and foreign business units, thus affecting the amount of OCI recognized and presented. Two GCG proxies, namely KOMIN and KINS negatively correlated with DA and IS, KOMIN negatively correlated with DA (-0.356***) and IS (-0.381***), KINS negatively correlated with

DA (-0.314***) and IS (0.329***). The better implementation of GCG encourages companies to present financial statements fairly and reduce or avoid creative accounting practices through earnings management or income smoothing. This is in line with the political connection which is proxied by government share ownership which is also negatively correlated, the greater the political connection, the smaller the value of DA (-0.013) and IS (-0.015). KOMIT is negatively correlated with DA (-0.652***) and IS (-0.684***), the more the company is committed to the amount and timing of asset realization, the lower the value of DA and IS.

Table 6 shows the results of moderated regression analysis (MRA). Aggregate OCI has no effect on DA (0.011) and IS (0.008). ROCI has a negative effect on DA (-0.029**) and IS (-0.022**). OCI reclassification provides information in the OCI presentation period, the potential for OCI to be realized and affects net income and cash flows through realized gains. TROCI has no effect on DA (0.010) and IS (0.007) because TROCI does not affect net income and cash flows in the OCI presentation period or future periods. OCI items that are included in the TROCI group will affect retained earnings, due to changes in equity. KOMIT has a negative effect on DA (-0.661***) and IS (-0.682***). KOMIT increases the negative effect of ROCI on DA (-0.288**) and IS (-0.211**). In equations 1, 2, and 3 the coefficient of ROCI's influence on DA is greater than on IS, as well as for the adjusted R2 value. Tests on the control variables show that SIZE has a positive effect on DA (0.491**) and IS (0.509**). LEV has a negative effect on DA (-0.371***) and IS (-0.314***). KOMIN has a negative effect on DA (-0.545***) and IS (-0.581***)). KINS has a negative effect on DA (-0.402***) and IS (-0.388***). POL has a negative effect on DA (-0.082**) and IS (-0.084**).

Table 7 shows a summary of hypothesis testing from the results of multiple linear regression analysis and moderated regression analysis (MRA). H1 which states that aggregate OCI has a negative effect on the two creative accounting proxies, H1 is rejected. H2 which states that the group OCI items that will be reclassified to net income have a negative effect on the two creative accounting proxies, H2 is accepted. H3 which states that asset realization commitments increase the negative effect of OCI on the two creative accounting proxies, H3 is accepted.

Table 5. Correlation Analysis Results

Variable	DA	IS	OCI Agr.	ROCI	TROCI	KOMIT	SIZE	LEV	KOMIN	KINS	POL
DA	1,000	-	-	-	-	-	-	-	-	-	-
IS	0,277***	1,000	-	-	-	-	-	-	-	-	-
OCI Agr.	0,012	0,009	1,000	-	-	-	-	-	-	-	-
ROCI	-0,028**	-0,031**	0,511***	1,000	-	-	-	-	-	-	-
TROCI	0,007	0,006	0,499***	0,415***	1,000	-	-	-	-	-	-
KOMIT	-0,652***	-0,684***	0,004	0,001	0,001	1,000	-	-	-	-	-
SIZE	0,492***	0,431***	0,857***	0,054**	0,028**	0,033**	1,000	-	-	-	-
LEV	-0,139**	-0,145**	0,003	0,001	0,001	0,614***	0,582***	1,000	-	-	-
KOMIN	-0,356***	-0,381***	0,005	0,010	0,004	0,552***	0,482***	0,211**	1,000	-	-
KINS	-0,314***	-0,329***	0,016	0,011	0,009	0,481***	0,442***	0,256**	0,081**	1,000	-
POL	-0,013	-0,015	0,001	0,001	0,002	0,339***	0,485***	0,315**	0,114**	0,128**	1,000

*** The correlation coefficients were significant at 1%, ** at 5%, and * at 10%.

Table 6. Moderated Regression Analysis Results

Variable	Panel A		Panel B		Panel C	
	(1.a) Y = DA	(1.b) Y = IS	(2.a) Y = DA	(2.b) Y = IS	(3.a) Y = DA	(3.b) Y = IS
OCI_{t-1}	0,011	0,008	-	-	-	-
$ROCI_{t-1}$	-	-	-0,029**	-0,022**	-0,288**	-0,211**
$TROCI_{t-1}$	-	-	0,010	0,007	0,020	0,018*
$KOMIT_t$	-	-	-0,661***	-0,682***	-0,713***	-0,707***
$ROCI_{t-1}$* $KOMIT_t$	-	-	-0,114**	-0,121**	-0,118**	-0,143**
$TROCI_{t-1}$* $KOMIT_t$	-	-	0,018*	0,017	0,025*	0,032*
$SIZE_t$	0,402**	0,452**	0,517**	0,534**	0,491**	0,509**
LEV_t	-0,148**	-0,142**	-0,186**	-0,195**	-0,371***	-0,314***
$KOMIN_t$	-0,387***	-0,362***	-0,431***	-0,373***	-0,545***	-0,581***
$KINS_t$	-0,308**	-0,311**	-0,306***	-0,312***	-0,402***	-0,388***
POL_t	-0,011	-0,014	-0,024*	-0,021*	-0,082**	-0,084**
YEAR	YES	YES	YES	YES	YES	YES
INDUSTRY	YES	YES	YES	YES	YES	YES
Adjusted R^2	0,3921	0,3883	0,5157	0,404	0,7723	0,6631
F-Statistics	3,1945	3,0118	4,8901	4,3211	5,0287	5,6604

*** The regression coefficients were significant at 1%, ** at 5%, and * at 10%.

Table 7. Summary of Hypothesis Testing

Hypothesis	Criteria	Test result	Conclusion
The effect of aggregate OCI on 2 creative accounting proxies. (See Table 6 Panel A).			
H1.a. Aggregate OCI has a negative effect on earnings management.	Coefficient β_1OCI in equal 1.a negative and significance on level 5%.	Coefficient β_1OCI eq. 1.a = 0,11 positive and not significance.	H1.a rejected
H1.b. Aggregate OCI has a negative effect on income smoothing.	Coefficient β_1OCI in equal 1.b negative and significance on level 5%.	Coefficient β_1OCI pada eq. 1.b = 0,08 positive and not significance.	H1.b rejected
Effect of OCI reclassification on 2 creative accounting proxies. (See Table 6 Panel B).			
H2.a. Group OCI items that will be reclassified to net income have a negative effect on earnings management.	Coefficient β_1ROCI in equal 2.a negative and significance on level 5%.	Coefficient β_1ROCI eq. 2.a negative (-0,029**) and sig. 5%.	H2.a accepted
H2.b. Group OCI items that will be reclassified to net income have a negative effect on income smoothing.	Coefficient β_1ROCI in equal 2.b negative and significance on level 5%.	Coefficient β_1ROCI eq. 2.b negative (-0,022**) and sig. 5%.	H2.b accepted
Moderation of realization commitment in the effect of OCI reclassification on creative accounting. (Table 6 Panel C).			
H3a. Asset realization commitment increases the negative effect of OCI on earnings management.	Coefficient β_1ROCI in equal 3.a (after moderated KOMIT) has a value greater than equal 2.a before being moderated (sig. 5%).	Coefficient after moderated (-0,288**) has a value greater than equal 2.a before being moderated (-0,029**), sig 5%.	H3.a accepted
H3b. Asset realization commitment increases the negative effect of OCI on income smoothing.	Coefficient β_1ROCI in equal 3.b (after moderated KOMIT) has a value greater than equal 2.b before being moderated (sig. 5%).	Coefficient after moderated (-0,211**) has a value greater than equal 2.b before being moderated (-0,022**), sig 5%.	H3.b accepted

Table 8 shows the results of the regression analysis of realized commitments, namely the sensitivity of net income and realized profits for the current period to the realization of OCI in the previous period.

Table 8. Commitment Realization Regression Analysis Results

	Net Income$_t$	Asset realization gain$_t$
Reclassification OCI$_{t-1}$	0,651***	0,873***
Reclassification OCI$_{t-2}$	0,029**	0,038**
Reclassification OCI$_{t-3}$	0,005	0,011
F-Statistics	11,366	14,709
Adjusted R^2	0,6142	0,7826

*** The regression coefficients were significant at 1%, ** at 5%, and * at 10%.

The OCI$_{t-1}$ Reclassification coefficient is significant at the 1% level and has a higher coefficient than the OCI$_{t-2}$ Reclassification and OCI$_{t-3}$ Reclassification coefficient, this means that the company does not delay the realization of assets than planned in the previous period. Realization is carried out in the next period, not delayed in the next two or three periods. The creative accounting gap through OCI was not utilized by the company, there was no time delay or reduction in the number of realizations. As for the differences that arise from the OCI reclassification with the fact of realization, due to the impact of changes in fair value between the date of presentation of the reclassification and the date of realization, this change is due to external factors beyond management's control, such as the influence of macroeconomic fundamentals, global market conditions, socio-politics and so on.

RESULTS AND DISCUSSION

Aggregate OCI has no effect on creative accounting, both on earnings management proxies and income smoothing. Following the existence of OCI itself, which is not related to cash and net income in the OCI presentation period, it is "only" an adjustment to the fair value of assets (liabilities) from the carrying value or historical value in the period of presentation of the financial statements. This is because several OCI items that are included in the group will not be reclassified to net income, and have a high frequency of occurrence and large nominal values, such as defined benefit liabilities and fixed asset revaluation. This has an impact on dominating the characteristics of OCI, related to its nature which is not related to cash and net income, so it cannot be used as a medium for earnings management and income smoothing. This result is in line with the research [7].

The group OCI that will be reclassified to net income has a negative effect on creative accounting, both on earnings management proxies and income smoothing. This means that the OCI reclassification presentation policy narrows the opportunity to do creative accounting because it clarifies when and how many assets are realized. The higher the coefficient of planning to realize assets t-1 with the reality of realizing assets in period t, the greater the negative coefficient of OCI on creative accounting, this means that there is less opportunity for earnings management through OCI. Companies in Indonesia are consistent in realizing assets at the amount and time according to the plan, as presented in the previous period's income statement at the OCI group which will be reclassified to net income. Empirical evidence that OCI has a negative effect on creative accounting is in line with the findings in China [45].

Asset realization commitment increases the negative effect of OCI on creative accounting, both on earnings management proxies and income smoothing. The greater the OCI reclassification coefficient on net income for the next period indicates management's commitment to realizing assets (liabilities) in the amount and period as previously planned in the presentation of the income statement for the group of OCI items to be reclassified. The higher the realization commitment, the stronger the negative influence of OCI on creative accounting, meaning that it narrows the opportunities for earnings management and income smoothing through OCI. The value of Adjusted R2 and the coefficient of the effect of OCI reclassification on earnings management is greater than the effect on income smoothing, this means that the profit (loss) of asset realization is more dominant as income accruals which play a role in increasing the value of discretionary accruals in period t of realization, rather than being reserved as a medium of income smoothing.

Firm size has a positive effect on creative accounting. The bigger the company, the more economic transactions that occur, so there are more opportunities for creative accounting transactions. This is in line with the findings of [16] and [5]. The level of leverage has a negative effect on creative accounting. The company will avoid creative accounting in the presentation of financial statements because of the supervision by the creditor as one of the funding parties. Creditors want fair, honest, and objective presentations. This finding is in line with the evidence provided by [37]. The number of independent commissioners, the number of institutional shareholdings, and political connections have a negative effect on creative accounting. The existence of a supervisory function carried out by independent commissioners, institutional shareholders, and the government encourages management to present fair and representative financial reports according to actual conditions, and not to practice earnings management and income smoothing. This empirical evidence supports the results of the study [15].

CONCLUSION

The purpose of this study is first, to analyze the effect of aggregate OCI on creative accounting. Second, to analyze the effect of group OCI which will be reclassified to net income on creative accounting. Third, to analyze the moderating role of asset realization commitments in the effect of OCI on creative accounting. The results showed that aggregate OCI had no effect on creative accounting. However, when OCI is aggregated into groups that will be reclassified to net income and groups that will not be reclassified to net income, OCI groups that will be reclassified to net income have a negative effect on creative accounting. The reclassification of OCI in the previous period has an effect on net income for the current period. Asset realization commitment increases the negative effect of OCI on creative accounting, both on earnings management proxies and income smoothing. Thus, for the question "Can I Do Creative Accounting Using OCI?", the answer is "Yes, you can", through delaying the realization time and or reducing the real amount of realized assets to get the net profit value according to management's interests, through income from asset realization. Meanwhile, the gap from the subjectivity of determining fair value which has an impact on the magnitude of the OCI value is more attached to the OCI items presented as a group that will not be reclassified to net income (but to retained earnings), such as revaluation items of property, plant, and equipment and defined benefit actuarial differences. Both fair values have higher management subjectivity than OCI items presented as a group to be reclassified to net income, such as gains (losses) on the realization of financial assets, cash flow hedges, and translation of financial statements of overseas business units. The fair value of financial assets available in the capital market, and the exchange rate are also clearly known to determine the fair value of cash flow hedges and the translation of financial statements. Moreover, the amount of OCI that comes from the group that will not be reclassified to net income (item revaluation of property, plant, and equipment and defined benefit actuarial differences), does not have any impact on net income and cash flows in the presentation of the current period and subsequent periods.

The opportunity to do creative accounting through OCI proved not to be done by all companies. This is shown from the results of the sensitivity analysis of OCI t-1 reclassification proven to have a significant effect on NI t, with the dominant coefficient being greater than OCI t-2 and t-3, this means that in period t-1 planning asset realization at t, it is proven realized in the near future, not postponed in the next longer period. Creative accounting loopholes through OCI by choosing a policy of delaying the realization time and or reducing the real amount of realized assets are not used by management to create accounting information, through income from asset realization. This is because the income from asset realization (OCI item at t-1) is small when compared to the total operating income, except for financial sector companies with significant investment ownership in financial assets. The management of earnings management and income smoothing through OCI in the form of delaying the time of realization or realizing it early, adding or reducing the number of realizations, and realizing it gradually over several periods, is not carried out by management. The OCI reclassification presentation policy makes financial statements more transparent and can improve the application of fair value accounting with the emergence of OCI and its presentation in the income statement, transparency and accurate representation can increase the value relevance of financial statements, to overcome agency costs from conflicts of interest and information asymmetry.

The implication for management is that the results of this research are input in presenting fair financial statements, free from the results of creative accounting actions through OCI realization policies because they can damage the image and public trust in the company. The implication for investors is that the results of this study can be taken into consideration in making investment decisions, that in interpreting the income statement not only using net income in predicting returns and cash flow prospects for the coming period but also involving OCI information. OCI indeed in the current period only transient gains from fair value adjustments. However, for OCI items presented in the group to be reclassified, it has the potential to be realized in the next period which can increase profitability. Investors do not only use net income as the only information for decision-making as a precautionary measure of earnings as indicated by the results of earnings management and income smoothing. Adjustment of income from accrual elements presented in the statement of cash flows of operating activities (CFO) can be combined with net income as a basis for consideration. This study has proven that the OCI reclassification narrows the opportunities for earnings management and income smoothing through OCI realization policies. Implications for DSAK IAI, as a study material in regulating the certainty of the amount and timing of asset realization in the previous period, the fair value adjustment is presented as group OCI which will be reclassified to net income to close the gap in creative accounting practices.

The limitation of this study in measuring the sensitivity of net income for the current period with the reclassification of OCI in the previous period does not involve macroeconomic impacts that affect changes in the fair value of assets and liabilities in the realization period. Suggestions for future researchers to involve macroeconomic impacts in measuring the consistency of OCI realization according to the presentation that will be reclassified in the previous period. Suggestions for management to avoid the practice of creative accounting because it can damage public trust in the company. Suggestions for Public Accounting Firms (PFA) to provide an appropriate opinion if it detects a creative accounting action by its client because it will reduce the credibility and integrity of the accountant in the eyes of the public. A suggestion for DSAK IAI is to clearly regulate the amount and time of realization of assets that in the previous period are presented with fair value adjustments as group OCI which will be reclassified to net income. The clarity of the rules for the amount and timing of asset realization increases the suitability of the plan and the facts of asset realization, which can cover creative accounting opportunities through the timing of realization.

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