

The effects of the implementation of earning management and subsidy policy: A case study of government company

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OIDA International Journal of Sustainable Development, Ontario International Development Agency, Canada

ISSN 1923-6654 (print) ISSN 1923-6662 (online) www.oidaijsd.com

Also available at <http://www.ssrn.com/link/OIDA-Intl-Journal-Sustainable-Dev.html>

Abstract: Profit management is a policy which is done to affect the level of company profitability or a form of management intervention in presenting the financial statements that can flatten, raise and lower of the profit/loss statement. Technical implementation is done by taking advantage of opportunities, making accounting estimates, changing the method of accounting, shifting the cost and revenue period, hence the company's profit can be smaller or larger as expected. Factors motivating earning management among others are bonus plan, long-term debt contract or debt covenant, political and taxation motivations, and the placement of company's management.

This paper is a case study of State-Owned Enterprises (SOEs) that is The National Electricity Company (PLN). PLN shows its undergoing losses due to lower electricity rates compared to the basic cost of supply. That is way the government provides a financial aid or subsidies through the state budget subsidies which the amount is very big, for example in 2014 and 2015, respectively around IDR 103.3trillion and IDR 101.2trillion. Accounting records on the financial aid can be carried out by the following alternatives :(a). as operating income and (b). as additional to government's shares subscription. The second alternative depends on interpretation, the definition used, accounting estimation opportunity and expected financial reporting objectives. Recording as operating income as it is conducted so far in which PLN gained the profit in the amount of IDR 3.2trillion in 2014 and had loss in the amount of IDR 29.52013 trillion in 2015. If the financial aid is recorded as additional to government's shares subscription, the PLN suffered IDR 100.1trillion losses in 2014 and IDR 130.7trillion in 2015.

From earning management point of view, the recording of subsidies as operating income provides a positive perception that PLN has been successfully in managing the company in a better financial performance. On the contrary, if the recording of subsidies is consider as an addition to share subscription, the perception would appear that PLN is in unhealthy of financial performance and management fails to manage the company.

These conditions provide a challenge or impetus of management to seek for more realistic efforts to improve its financial performance, instead of expecting state budget subsidies. In addition, tariff adjustment effort will be easier to disseminate to consumers because the burden of the loss was very high. For comparison, in other countries such as TNB and Petronas in Malaysia, they are not a record in statement of income (loss) about the subsidies on operating revenues.

This paper suggested that the alternatives that are used in recording the financial aid or subsidies of the state budget must be based on policy on using a definition that does not violate the applicable accounting standards. The important one its implications for public perception able to decrease the impact on decision-making relating to the public interest, the interests of the company's internal matters, and responses of the parties that are lack of full understanding of the information related to the financial statements. It needs a formulation from state-owned enterprises policy on earning management which having eligible reliability and relevance. Hence the financial statements can be presented fairly, beneficial and sustain to both internal and external parties of the company

Keyword: Accounting Theory; Agency Theory; Earning Management; State-Owned Enterprises; Subsidies; Income Statement.

Introduction

Earning management is widely practiced in the business world for certain interests. This is in line with Healy and Wallen (1999) in Haryanto (2012) that stated earning management occurs when managers use judgment in financial statement and the preparation of transactions to alter the financial statement, thereby misleads the stakeholders about the economic performance of companies or to influence the outcomes associated with contracts that depend on accounting numbers. In general, the measure of earning management occurs due to various considerations such as: management interests, the interests of employees, operational needs, the interests of shareholders or dividends, debt covenant, preparation of an initial public offering (IPO), tax management, profit sharing with business partners, and government interference. The current research also refer the earning management and implication with public perception (see Assagaf, 2015).

The management of company conducts creative accounting that makes financial accounting of company's financial profile look better or worse than realistic conditions. Company's management interests in the best profitability in a hope of: (i). optimizing tantiem or bonus acquisition of directors, (ii). the success of achieving financial performance contract required by the shareholders, (iii). facing the election of directors, (iv). the orientation of salary increases & additional facilities and others, (v). the interests of employees, (vi). to fulfill of the demands of the union, and (vii). Employee motivation by providing production services or bonuses, facilities and other incentives.

Operational interest is direct evidence low level of profitability, due to limited cash flow if it should pay a certain amount of certain amount to the shareholders. The interests of shareholders who want a certain level of dividends or achieve certain targets per share dividend required by the owner of the company, so that the level of profitability that is served is better than reality. Meeting the interests of the covenant or agreement in the closing credits of the banks or other financial institutions such as global bond sales in international markets, and so on. Company's interest in preparing to go public or initial public offering (IPO) tends to present a level of profitability that can attract investors or prospective shareholders.

The interest of revenue sharing among the parties in a partnership, including private companies who have permission to manage natural resources owned by the state, allowing the presentation of lower profitability level than its reality. Positive accounting theory, principles-based agency theory and measurement reliability and relevance became every dizzy in assessing treatment of earnings management and public perception. Measurement reliability and relevance of financial statements as an important factor to meet the interests of the parties to interpret figures financial report as owners or shareholders, management, creditors, investors, employees, and government.

Government or political interests related to grow than the economic stability, such as banks that are restricted in the acquisition of profitability, but oil and gas companies engaged in the government control price because it is very strategic to support the state budget. Based on the above description, the earning management has an important role to public perception in assessing the financial performance of the company. This is in line with several empirical studies as proposed by Scott (2006: 346-355) and Ayres (1994) as cited by Chen (2012). Earning management as creative accounting practises is usually done in the form of actual management, the application of new accounting policies that is more favorable, the change of the method of accounting based on the available alternatives and recognized even be able to use terms and definitions that are designated as accounting policy with the aim of achieving certain financial performance targets as it is expected. For example transaction of state budget aid to state enterprise or state-owned companies that suffers from losses.

Accounting treatment and the determination of the term or transaction title initiated from SOE proposal then fixing budget item in the state budget. The accounting treatment can be done with an alternative: (i) as a consumer subsidy, are reported as revenue in the income (loss); and (ii) in addition to the inclusion of the government, reported as equity in the balance sheet. Both of these alternatives result is the same when viewed from the equity balance, but on the financial performance the results are different. The term subsidy generates positive profitability, while the term equity generates negative profitability or harmful.

Whether it is realized or not, the selection of alternatives for the purpose of influencing the appearance of SOE profitability, then such action is predicted as earning management action if the purpose is to influence the reality of SOE's financial statement performance. Management is considered successful in achieving a healthy financial

performance not undergoing a loss, directors and employees earn bonuses, coping the election of directors, preparing an IPO, taxation, distribution of dividends, and other interests which are expected by the decision makers.

Earning management practices have the disadvantage seen from the aspects of reality disclosure or the disclosure of financial performance, so that the presentation of additional information is necessary to support the perception of stakeholders. When it is viewed as a system of record-keeping or accounting standards, it seems there is nothing wrong because the recording treatments are all based on a written policy management and possess a rational reason when choosing a more favorable alternative or in accordance with the desired target.

In general, earning management is done for a variety of interests whose pattern is to impose losses for the current period profit to gain the next period income, lower profits, raise profits, and income leveling. Lowering profit made by the charge of the future cost, the abolition of fixed assets and others in the hope of better future financial performance. Lowering profit is made when a high level of profitability, do not want to attract attention, save for the future earnings when a decline in profitability happens, and so on. Actions that can be carried out are accelerating the depreciation of assets, research and development expenses are charged as expenses, maintenance cost is treated as operating costs and other ways so that the profit declines. Raising profits is carried out by taking deposits of past earnings or take a future by way of charge of the future, intended to keep the price of the stock price declines, and others in line with the interests or goals achieved by management. Income leveling is done to maintain the stability of the financial performance; it is due to the fact that investors or shareholders expect the stability of the company's performance, compared to the fluctuations which are likely containing risk. Management actions are carried out by playing a combination between the patterns of lowering or raising the earnings.

Based on the above reasons, the implications of earnings management may lead to bias public perceptions due to the fact that the performance indicators informed by the company's financial statements show that company is in healthy condition but the reality is not like what is shown because the liquidity still depends on government subsidies and accumulating indebtedness. Problems that arise are how the policy of earning management treatment of state enterprises (SOEs) is carried out so that relevant to the public's perception will be relevant to the actual conditions of the company's financial performance.

Materials and Methods

1. Agency Theory and Principle of Corporate Governance

The agency role of the directors refers to the governance function of the board of directors in serving the shareholders by ratifying the decisions made by the managers and monitoring the implementation of those decisions. The OECD Principles of Corporate Governance describe the responsibilities of the board, are summarized as: (i). Board members should be informed and act ethically and in good faith, with due diligence and care, in the best interest of the company and the shareholders; (ii). Review and guide corporate strategy, objective setting, major plans of action, risk policy, capital plans, and annual budgets; (iii). Oversees major acquisitions and divestitures; (iv). Select, compensate, monitor and replace key executives and oversee succession planning; (v). Align key executive and board remuneration (pay) with the longer-term interests of the company and its shareholders; (vi). Ensure a formal and transparent board member nomination and election process; (vii). Ensure the integrity of the corporations accounting and financial reporting systems, including their independent audit; (viii). Ensure appropriate systems of internal control are established; (ix). Oversee the process of disclosure and communications; and (x). Where committees of the board are established, their mandate, composition and working procedures should be well-defined and disclosed.

2. Earning Management

The results of previous studies conducted by Lee (1999) reported in Haryanto (2012) showed that there is empirical evidence about the existence of a systematic and earnings management. Furthermore, it is noted that earning management has been expanded and the reissue financial report submitted by the company. They provide evidence that earning management occurs at each quarterly financial statement and the highest of earnings management are found in the third quarter.

This shows that earning management practices are a common phenomenon, not only on certain events but has been so entrenched in the business life. This means that earnings management is an action taken to achieve the objectives of management as desired. Scott (2000) in Haryanto (2012) divided the way the understanding of earnings management in to: (i) see it as opportunistic behavior of managers to maximize their utility in the face of the compensation contract, contract debts, and political costs (opportunistic earning management); and (ii) viewing the earning management from efficient contracting perspective, in which earning management gives managers a

flexibility to protect themselves and the company in anticipating of unexpected events to benefit the parties involved in the contract.

Thus, managers can affect the market value of the company through profit management, for example by making the income smoothing (income smoothing) and profit growth over time. When examined from the perspective of accounting literature, therefore from the point of view of positive accounting theory in certain circumstances it could be contrary to earnings management, due to the positive accounting theory, in principle, always uses the most appropriate process, understanding, and policy of accounting. While growing earnings management grows because of the effect of agency theory, as it is reported in Ariwibowo (2012) who states that the practice of earnings management is influenced by a conflict between the interests of management (agent) and the owner (principal) that arises because each party is trying to reach or consider the level of desired prosperity.

Agency theory assumes that each individual is solely motivated by self-interest, giving a rise to a conflict of interest between principal and agent. Motivated principal party is motivated to enter into a contract for his own welfare through ever-increasing profitability. Agent is motivated to maximize the economic and psychological needs, among others in terms of obtaining an investment, loan, or compensation contract. Conflict of interest is increasing mainly because the principal cannot monitor the activities of daily management to ensure that management works in accordance with the wishes of the shareholders or owners. Scott (1997) in Irvan (2012) stated that earning management is management intervention in the process of preparing the financial report for external parties so as to flatten, raise, and lower earning report, where management can use the way of the use of accounting methods, making policy (discretionary) that can accelerate or delay the costs and revenues, so that corporate profits are smaller or larger according to what is expected. Healy and Wallen (1999) in Irvan(2012) stated that there are three motivations or reasons underlying earning management in a company, namely: (i) capital market motivations; (ii) contracting motivation; and (iii) regulatory motivations. Scott (1997) in Irvan (2012) stated that the factors which encourage managers perform earning management are: (i) bonus scheme; (ii) debt covenants; (iii) political motivation; (iv) taxation motivation; and (v) change of CEO (Chief Executive Officer) and IPO (Initial Public Offering).

Healy (1985) in Irvan (2012) stated that earning management can be detected by means of calculating earning management by comparing an average total accruals (using the difference in total assets) of the separator variables (variables partitioning management earnings). Setiawatiin (1996) reported by Irvan (2012) stated that the earnings management techniques can be performed by means of three techniques: (i) taking advantage of opportunities to make accounting estimates; (ii) changing the method of accounting; and (iii) shifting the cost or revenue period. Furthermore, Scott (1997) in Irvan (2012) suggested that the pattern of earnings management can be done by means of, namely: (i) taking a bath; (ii) Income minimization; (iii) income maximization; and (iv) Income smoothing. Manajemen profit becomes more interesting because of the importance of the meaning of profit or revenue for performance appraisal of business unit or company's overall operations.

3. Subsidy

Subsidy, according to World Trade Organization (WTO) as it is reported in International Institute for Sustainable (IISD) or A citizens' guide to energy subsidies in Malaysia (2013), states that a subsidy is a financial contribution by a government, or agent of a government, that confers a benefit on its recipients. This means that the word "subsidy" is much broader than just a direct payment made from the government budget to an economic actor. It also includes any other mechanism by which a government can confer a financial benefit, such as tax exemptions, providing goods or at services below-market rates, purchasing goods and services at above-market rates and providing income or price support with regulation.

Based on this view, the hypothesis proposed in this study is to assume that the trend of earning management in state enterprises or state-owned companies with the aim of achieving a particular goal still occurs. Earning management is sometimes difficult to detect because it does not conflict with the financial accounting standards, using accounting methods available, rational grounds, and supported policies or rules that are deliberately made previously to support the earning management. But when it is examined carefully and compare to the real condition of the company's operations, it can be proved that the company conducts earning management action, and results in potential bias public perception because it tends only to look at the numbers presented in the financial statements and greatly limited by the ability to understand the fundamentals of the company as well as operational information known only by the company's management.

4. Method

In this study, the State-Owned Enterprises or SOEs (called BUMN in Indonesia) that chosen as a case study is the National Electricity Company or PLN. Data are obtained from a variety of public information, surveys and information company that published in www.pln.co.id, especially financial statements and annual statistics. The reason for choosing PLN is due to the fact that the company has a large-scale effort and very strategic position in the development of society economic. Year 2014 PLN is among 477 the world's biggest companies based on FORTUNE Global rank. It has also been among 500 world's biggest companies in annual event conducted by Fortune magazine since 1995 as it was reported on July 9, 2014.

The main criterion of the Fortune Global 500 ranking is based on total revenue per fiscal year by March 31, 2014. Then the total income will be compared with the previous year's revenue. Information on this assessment, among others stated that PLN recorded revenues of IDR 257.4 trillion by 2013, 10.6% rise of operating revenues by 2012 amounted to IDR 232.7 trillion. The revenue increase in 2013 came from a combination of increased sales volume of electric power and electric power tariff increase imposed gradually each quarter since the use of January 2013. Another criterion in the assessment of the Fortune Global 500 is a ranking of the rate of profit and the value of company assets. The methodology used in assessing the company's financial statements or SOE stated and its relation to the application of earnings management is to compare between financial performance of the company and the company's real financial condition.

Positive accounting theory, agency theory principle and measurement reliability and relevance-based measurement become very important in assessing treatment of earning management and public perception. Reliability and relevance measurements of financial statements are consider as an important factor to meet the interests of the parties to interpret figures stated in financial statement. It is as important as owners or shareholders, management, creditors, investors, employees, and government. The reliability of financial statements shows that the presented information should be reliable, that the preparatory process should be done honestly and there should be no irregularities or errors. This is in line with Keiso (1995:53) in Tenaya (2007) who argued that in order to be reliable, the financial information must have three characteristics namely it can be checked and there should be honesty in the presentation and it should also be neutral. Relevance deals with the measurement of financial statements that are used by the user in decision making. Rahmawati (2005) in Tenaya (2007) divides the relevance into three parts, namely the value relevance in the value of earnings, cash flow value relevance, and the relevance of accrual value. Value relevance of earning value is relevant information about income and considered more important than the balance of the investment decision.

In line with the financial statements, Kurniawan (2013) stated that the financial statements are useful to consider the limits: (i) cost-benefit, which is related to the cost of providing the financial statements and in presenting it there should also be considered the benefits to be gained by the users of the report; and (ii) materiality, as a factor that influences the decision, including relevance (it can describe the past, the future and punctuality), reliability (neutrally, variability or verifiable, and representational faithfulness or trust worthy), and comparability or it can be compared. The preparation of financial statements refer to a common method and in accordance to the applicable financial accounting standards financial reporting as the financial statement reference stated by Warren, Reeve, and Duchac (2014), Belkaoui (2006), Floyd, et.al. (2006), Eldon and Michael (2002), Harahap (2011), and Chad (2012).

Results and Discussions

Income Statement shows important information corresponds to the profit management. In this case, Indonesian State-company of Electricity (PLN) is chosen as a case study. Data is used as it is published at www.pln.co.id: 2012, 2013 and second quarter of 2014. The components of Profit & Loss and Balance Sheet are analyzed in the following:

1. Profit and Loss Report

According to Profit and Loss report, it shows that business income from PLN core business not included 2014 subsidy, in so far as IDR 193.4 trillion, and 2015 is IDR 217.3 trillion (see table 1 below). Government's subsidy through government's budget can be treated with 2 ways of options: (i) as business income of PLN. It figures out the business profit in 2015 was IDR 27.6 trillions and 2014 is IDR. 27.4 trillions. The reason of record on subsidy is because the burden of PLN is addressed to help the customers of electricity, so the tariff treated by PLN in average on 2015 is IDR 958 per kWh, lower than PLN's burden in average of IDR 1,124 per kWh; and (ii) as an additional of government's capital. PLN has loss in 2015 as IDR 28.9 trillion and in 2014 around IDR 71.8 trillions. The reason to record as government's equity is because PLN is a state-company or as part of government's finance and therefore, every year it should be audited by Government Financial Controller (BPK). Because PLN has loss,

consequently government adds capital to PLN, hence the electricity's subsidy as the expression of subsidy by PLN. What has happened presently is, the government gives subsidy but PLN has profit, as perception that PLN is healthy company because it can increase the profit. Even, international magazine of Fortune gave review of PLN as one of 500 largest companies in the world or in the ranking of 477 (as it is published in their website), however it is not published that the profit is included of government's subsidy from government's budget (when it is stated as equity, the income will not in that ranking).

**Table 1. Consolidated Statements of Profit or Loss
December 31, 2015 and 2014 (in millions IDR)**

	2015	2014
TWh Sales	219	199
Rp/kWh	958	938
Operating Expenses/kWh	1.124	1.333
REVENUES		
Sale of electricity	209.845	186.634
Customer connection fees	6.141	5.623
Others	1.361	1.160
Total Revenues	217.347	193.417
OPERATING EXPENSES		
Fuel and lubricants	120.587	153.137
Purchased electricity	51.691	46.052
Lease	7.561	7.464
Maintenance	17.593	16.611
Personnel	20.321	16.646
Depreciation	21.419	19.911
Others	7.090	5.489
Total Operating Expenses	246.262	265.310
OPERATING LOSS BEFORE OTH. INC.	(28.915)	(71.893)
Government's electricity subsidy	56.553	99.303
OPERATING INCOME	27.638	27.410
Others income – net	2.437	4.157
Financial income	627	584
Financial cost	(17.536)	(16.640)
(Loss)/gain on foreign Exchg. –net	(16.230)	3.436
(LOSS)/INCOME BEFORE TAX	(3.064)	18.947
TAX BENEFIT/(EXPENSE)	18.649	(4.943)
INCOME FOR THE YEAR	15.585	14.004

Source: Financial Statement PLN 2015 and 2014

From profit management point of view (or from earning management), the subsidy is relevant with the theory of agency which states that “earning management's practice is influenced by interests' conflict between the management (agent) and principal (owner) as every party makes effort to reach or consider what they want”. In this context, agent has widely meaning, not only PLN's management, but all parties from government's side, such as government, parliament (DPR) as they both conduct the country development's wheel as the public has trusted to.

In the other hand, as principal, PLN is owned by Indonesian people, while government and DPR as the representative of the people, where they are only the operative faction. From accounting's point of view, positive accounting in rule has passed a process, understanding, and the most suitable accounting policy, and the transaction of government's finance (APBN) is relevant to record as equity because the reality of PLN's business has loss in the operation and the loss has been remunerated by APBN, hence a subsidy will be expressed as a loss. It is encouraging if government and DPR agree on tariff increase due to the loss of PLN significantly and Indonesian people should be resistant towards the raise. In the reality, PLN proposed to government and PLN with the positive of profit and good financial performance. That's the role of positive accounting theory comparing to agency theory in viewing profit management. At certain situation, the profit management is not synchronized with positive accounting theory but

profit management is more influenced by agency theory. PLN's status has enough criteria to fulfill reliability aspect as a company can generate profit and included into 500 largest enterprises in the world. However, from relevant aspect, it is influenced by APBN subsidy as it is recorded as revenue or as business income, while the number of revenue and profit doesn't depend on government and parliament on how much the subsidy will be given. When the policy in determining is concerned on particularly variable cost or the subtraction between the revenue and the cost, then PLN can't deserve the profit.

2. The Balance Sheet

If the subsidy is treated as an addition of capital, then the revenue of PLN probably will not categorize into 500 largest enterprises in the world. From relevancy aspect, it is a pity that a company has categorized as a big company and has reached high profitability level, while in financial management is exceedingly poor as the balance sheet in the following.

Short run liability up until June 2014 showed current cash and balance cash is recorded IDR 23.4 trillions while current obligation is bigger, such as enterprise's debt is IDR 23.9 trillions, long term debt which is due to pay IDR 16.9 trillions and obligation's debt which is due to pay is 1.5 trillions. Long-term liabilities are not yet due, such as long term debt is IDR 96.7 trillions and obligation debt is IDR 79.8 trillions should have paid, but in the balance sheet doesn't show to accomplish the obligations. Long term liability is tended to get increased in the future since the installation developments has been in progress, to fulfill the target 75/100 or 75th anniversary of independence, to make ability of ratio effectiveness reaching 100%, means 100% Indonesia people has been enjoying the electricity. In order to fulfill the need of investment, PLN expects the source of fund, particularly foreign loan.

The problem is, how financial management predicts to accomplish the loan, mean while the operational fund source coming from the income deducting business burden, and finally it is not enough and that's the reason government helps as APBN subsidy. This is the relevant between the real situation of the company with good performance which has been shown and the actual condition showing PLN still depends on subsidy and without APBN subsidy, PLN will not be able to continue its operation, furthermore to develop the electricity installation. If the operation is hard to survive without subsidy, then long term debt which will be due to pay is close by, it means the company is not really healthy. In the short run, debt could be able to overcome by another debt, but in the middle and long term, the company will be heading a problematic case and again, APBN will conquer the difficult situation.

The treatment of subsidy as income can be indicated as the profit management category by utilizing an opportunity of judgment towards the understanding of APBN funding and this way is just the political manner to keep the image of successful state-company as it has been known as state-owned enterprise (SOE/BUMN). This considerate of APBN funding is categorized as electricity subsidy for customers and its political compartment is determined by APBN, hence from the accounting's view, it is acceptable to record as the revenue for PLN. Another thoughtful is also categorized as the addition capital from government instead of loss. The treatment of APBN funding to SOE/BUMN such as PLN has several categories: (i) as capital addition recording as capital addition from government; (ii) as a forwarding of loan as PLN's loan; and (iii) as the electricity subsidy recorded as PLN revenue or income. In accounting system, this method is proper approach to fit with accounting's standard as the based document is stated that electricity subsidy as PLN's revenue, but if the record stated that the based document is told that the subsidy is as capital addition from government due to the loss of PLN, thus the loss is formal recorded as subsidy from government through PLN. The benefit of this publication is, PLN as the representative of government's company, knows how to increase the electricity tariff.

However, it is not properly manner if PLN is not aware of this financial burden from APBN subsidy and keeps adding the foreign loan which is be capable of weakening current account and bringing to weaken the IDR conversion towards US Dollar. PLN also keeps on buying gas fuel with US Dollar value, even the gas is made in local, and this technique is progressively increased the burden of current account. The profitability of PLN is deemed healthy enough since the operation profit is constantly positive as the subsidy is recorded as operational income, and the shareholders are impressed that subsidy is government's obligation and there is no operational indicator which explicitly requires PLN's management to press the subsidy as it has happened the trade off between the subsidy with PLN's policy to reach ratio of electricity. On October 27, 2010, PLN has started to apply the policy of waiting list for adding big scale of electricity power while keeps on a million of new line. The impact in showing trade off, will be taken place on next period, even it tends to grow.

**Table 2. Consolidated Statements of Financial Position
December 31, 2015 and 2014 (in milliar IDR)**

	2015	2014
Non current assets	1.148.011	454.097
- Fixed assets	1.115.652	440.401
- Others	32.359	13.696
Current assets	79.345	85.424
- Cash & cash equivalent	23.596	27.112
- Accounts receivable	19.834	19.495
- Receivable on Elect. Subsidy	17.501	19.281
- Inventories	11.416	11.608
- Others	6.998	7.928
Total assets	1.227.356	539.521
Equity	848.219	187.174
- Equity	216.977	187.174
- Other comprehensive income	631.242	
Non current liabilities	262.132	266.818
- Long term liabilities	115.229	105.224
- Bond payable	80.043	81.673
- Lease liabilities	29.406	30.102
- Others	37.454	49.819
Current liabilities	117.005	85.529
- Trade accounts payable	29.005	28.340
- Long term liabilities	2.799	2.939
- Bond payable	9.122	805
- Lease liabilities	3.767	3.174
- Others	72.312	50.271
Equity and liabilities	1.227.356	539.521

Source: Financial Statement PLN 2015 and 2014

For example, in 2011 and 2012, the subsidy was increased to be IDR 93.2 trillions and IDR 103.3 trillions, while in the previous period of 2009 and 2010, it was just IDR 53.7 trillions and IDR 58.1 trillions. That's the reason how important the presentation of a report using positive accounting theory and forwarding relevant of company reality situation while the value in accounting version is approximately with the value in the market place. The financial report which is more rational is able as trigger for the management and stakeholders to focus to the company's actual situation.

Company management keeps on adding loan, particularly foreign loan, and it seems doesn't matter because PLN is able to acquire eligible business profitability. The problem will come up when the debt is due, while PLN doesn't have operational cash flow which is able to fulfill that obligation. If this is happened during certain time, there might be serious problem in the future, mainly because of the number of subsidy tends increasing while the ability of APBN is covering operational cost, and not to cover all the debts. The difficulty will arise is, how PLN pays off its debts when all debts are due to. If APBN fund is concerned to subsidy the operation cost, has PLN's financial management predicted to take strategic step in paying off this complicated debts? The investment program is a large scale with fund from foreign loan therefore the accumulation of long-term debt is more complex. This condition is necessary to reveal in order to give relevant public perception as well as company has, but it will influence the image of government's company (BUMN). Realizing this situation, PLN management should have taken strategic steps to anticipate the possibility of worse situation, particularly financial management in the future.

There are many alternatives to possibly do by PLN with its authority, such as managing fuel supply for self-sufficiency, starting from the fuel source, transportation, and generator (see also Aminullah, 2014). The reason to manage self-sufficiency of fuel is because fuel cost has the biggest portion among other operational costs. The strategy needed is necessary to examine in PLN management competency in order to prepare and communicate to government and DPR, it is an organizational model in fuel managing self-sufficiency. The management should be included in PLN organizational structure, not from the sub organizational or partnership with private companies due to the reason for easier financial transactions. PLN can take benefit of external potential of PLN in form of

government and DPR supports, as the effort has been conducting, is only for decrease APBN's burden and increasing public service.

In order to describe the condition and to avoid irrelevant public perception, there are needed support about: (i) addition and revealed information to be acknowledged entirely, even it will influence the image of management but it will be useful for corporation and APBN, therefore public will accept for the increase of tariff; (ii) accounting method will be used, coordinated as positive accounting theory, without notice on management's concern or political which influences the image of government or SOE/ BUMN, for example, presenting a original financial statement with a loss; and (iii) information about a number of subsidy which is enjoyed by each consumer sector, for instance business and industry sectors included multinational or foreign companies that opened in Indonesia. Hence it is easier to act forward cross subsidy policy and determining optimal tariff for companies and lightening APBN's burden as well as creating effectively subsidy for the needed people.

3. Another Subsidy Record (PT. Pertamina),

The treatment of PT. Pertamina accounting for the subsidy accepted from government is reported as business income since it is a part of Income Statement on 2012 and 2013 which have been published at www.pertamina.com. Next, the policy on recording subsidy in general is treated in similar way in the circle of SOE/ BUMN, hence the financial performance showing better profitability level comparing other recording alternatives, such as equity or government capital addition.

Table 3. PT Pertamina – Revenue (US\$ Million)

	2013	2012
- Revenue domestic	44.736	43.764
- Revenue export	5.503	4.714
- Subsidy from government	20.304	21.924
- Marketing services	107	111
- Others	452	411
Operation revenue	71.102	

Source: Financial Statement, 2013, PT.Pertamina (www.pertamina.com)

4. Electricity Subsidy Record of TNB Malaysia

Electricity subsidy of Malaysia is reported through International Institute for Sustainable Development (2013) and Annual report *Tenaga Nasional Berhad* (2013). In A citizens' guide to energy subsidies in Malaysia (2013) is reported that Electricity users are subsidized by a monthly rebate. Since 2008, the government has provided a MYR20 US\$6.4) subsidy on monthly electricity bills to all customers of TNB. Furthermore, TNB gives its "privileged customers" (including government schools and institutions of higher learning, places of worship and welfare homes) a 10 per cent discount on their electricity bills (TNB, 2012). This concession cost TNB MYR7.8 million (US\$2.5 million) in 2012, and is due to be extended to institutions that are partly funded by the government (TNB, 2012). TNB also receives substantial diesel and fuel oil subsidies from the government to lower the cost of electricity generation, amounting to MYR543.4 million (US\$173.3 million) in 2012 (TNB, 2012). This subsidy is not expressed on Malaysia's electricity company on their financial report of *Tenaga Nasional Bhd* as it is stated in detail about revenue which is reported on profit and loss as follows :

Table 4. Revenue TNB (RM Million)

Item	2013	2012
Sales :		
- Electricity	35.856	34.475
- Goods and service	342	406
- Contract revenue	17	39
- Recognition of customers' contribution	612	571
Release of deferred income	304	357
Revenue	37.131	35.848

Source: Annual Report 2013, TNB Malaysia (www.tnb.com)

5. Fuel Subsidy Record on Petronas Malaysia's

As a comparison on oil and gas subsidy recording, it can be studied at profit and loss report of Petrolian Nasional Berhad- as it is reported at Financial Statement Petronas Malaysia (2013) in the following,

Table 5. Revenue Petronas Malaysia (RM Million)

Item	2012	1/4-31/12 2011
- Sales of oil and gas	269.278	204.951
- Others	5.984	5.043
- Rendering of services	3.053	2.689
- Shipping and shipping related services	6.578	5.306
- Sale and rental of properties	2.090	1.780
- Dividend income	105	381
- Interest income	3.888	2.681
Revenue	290.976	222.831

Source: Annual Report 2012, Petronas Malaysia (www.petronas.com)

In the financial report information of Petronas Malaysia, there is no documentation of subsidy to the citizen of Malaysia or accepted from their government. The subsidy computation by Malaysia's government is reported through International Institute for Sustainable Development (2013) as follows:

Table 6. Cost of Subsidies to Petroleum Products in Malaysia, 2012 (MYR)

	LPG(14kg tank)	Petrol RON95 (litre)	Diesel (litre)
Actual price	54.39	2.63	2.66
Subsidy	27.79	0.73	0.86
Consumer price	26.60	1.90	1.80

Source: Ministry of Domestic Trade, Cooperatives & Consumerism, 2011

That subsidy shows a difference between actual price, calculated from product cost, oil company margin, station operator margin and sales tax. Whilst, consumer's price is a price should be paid by customers, where this policy of price is determined by local government's policy, and as a comparison of fuel and gas varieties of prices in several countries, it is reported on Institute for Sustainable Development (2013) in the following,

Table 7. Price Differences of Petroleum Products Across Countries, December 2012(MYR)

Country	LPG (kg)	Petrol RON95 (litre)	Diesel (litre)
Thailand	2.73	4.72	3.01
Singapore	-	5.23	3.96
Indonesia	1.86	2.88	2.73
Malaysia	1.90	1.90	1.80
Brunei	-	1.50	0.90

Source: Ministry of Domestic Trade, Cooperatives & Consumerism, 2011

The price comparison between other countries and Indonesia, showing that petrol and diesel are cheaper in Malaysia, while LPG gas is more expensive as it is imported from Indonesia. According to this information, it can be acknowledged that an evidence of subsidy in Indonesia is different treated comparing other countries, like electricity and Petronas Malaysia, it is reported that TNB and Petronas Malaysia don't put the subsidy as business income, as PLN and Pertamina do. If this method is applied in Indonesia, as an alternative of documentation, then business income will drop off significantly and probably PLN will not be included of 500 largest company in the world and will get loss about IDR 100 trillions per year (for example on 2012 and 2013). This loss together showing the numbers of subsidy have been burdened by government through BUMN. The loss of state-companies and a reduced amount of cash flow will cause Indonesian government should give addition of capital through APBN, then

the loss will reduce capital and equity of state-companies. The strengths of documentation model above, particularly on tariff adjustment and subsidy control through alternative of policies: (i) to make lesser or bigger on discounts; (ii) differentiating on discounts according to consumers' group; (iii) eliminating discounts for moneyed consumers; and (iv) discounts adjusted as conversion change of US\$, international oil price, etc.

Conclusion and Limitation

Profit management and public perception are two points commented and should be treated wisely hence the financial information of a company can be interpreted rationally and logically by stakeholders. Therefore, available information using public media, can be accessed and revealed, particularly on important aspects, thus it can be input for company's decision makers

1. Conclusion

- a. Financial report of state-owned enterprises (SOE/BUMN) are detected of profit management treatment which can influence public perception as samples of this case study: PLN and Pertamina;
- b. One of the sample of profit management treatment can be observed on the policy of subsidy recording as company's income, therefore it seems the company has adequate profit;
- c. As a comparison with another country, there are financial reports of electricity company of TNB and oil company of Petronas Malaysia, and both are not found the subsidy documentation as it was regarded on SOE/BUMN;
- d. The impact of subsidy 's evidence as company's income as follows: (i) the company has difficulty on tariff adjustment because of the company is supposed to get profit; (ii) government's company management is supposed to acquire a healthy financial performance; (iii) some financial indicators are considered as successful but in other sides there are significantly failed indicators, for example, PLN is admitted as one of 500 largest company in the world because of its company income in 2012 as IDR 232.6 trillions, although it is included of subsidy as IDR 103.3 trillions; (iv) the number of significant subsidy is burdened by government but SOE/BUMNs keep on reaching profit. If it compares with TNB and Petronas Malaysia, then PLN will get loss on 2012 as IDR 100.1 trillion and not profit of IDR 3.2 trillions; and (v) there is no challenge for company management to control subsidy because of financial performance is supposed to be succeeded, even the policy of company 's management tends to increase the subsidy or the reason that service and electricity ratio target has achieved, etc; and
- e. To achieve the sustainability at government SOE/BUMN, the management of government SOE/BUMN is needed an explicit treatment on subsidy documentation in order to create more realistic perception. Company's management should be responsible and priority of subsidy control, comparing with other aspects which are tended negative correlation with subsidy.

2. Limitation study

This study is retrieving the treatment of subsidy management on government's companies, as well as internally applied by company's management, or government's policy or stakeholders, which the target to do profit management which has outcome of financial report with certain profit level. As a consequence of the policy in the circle of SOE/BUMNs, there is a difference when it compares with another country (for example Malaysia). Even though, it is realized that the study is limited on information from public media, while the policy and the target by BUMN's decision makers is only explicit after seeing published financial report on numbers at printed and internet medias.

Acknowledgement

This research was supported by Trisakti University and STIEBI (Indonesian Business School)

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