FACTORS AFFECTED CREATIVE ACCOUNTING PRACTICES IN DEVELOPING COUNTRIES:
A COMPARATIVE STUDY BETWEEN INDONESIAN AND MALAYSIAN

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ABSTRACT

This paper presents the findings of creative accounting practices such as income smoothing practices and to identify factors associated with the incidence of income smoothing practices in Indonesian and Malaysian listed firms. The coefficient of variation method introduced by Eckel’s (1981) and modified by Atik (2009) was used to determined income smoothing practices. The data used were the financial reports of each sample company which obtained through DataStream from 2009 - 2012. Four hypotheses, which relate income smoothing practices such as company age, company size, profitability and debt financing, are tested in this research. Logistic regression indicated that in Indonesian, company age, profitability, debt financing have positive significant influence to income smoothing practices but company size has negative significant. For Malaysia, company size, company age and profitability are significantly associated with Income smoothing practices but debt financing has negative significant relationship.

Keywords: Income Smoothing Practices, Company Age, Company Size, Debt Financing, And Profitability.
INTRODUCTION

Financial statements are the medium used by managers to show the results of their stewardship towards the resources entrusted to them. The statements are prepared to communicate information regarding financial position, performance and cash flows of a firm. In view of the fact that stockholders have no access to a firm’s accounting records, they depend heavily on the financial statements when making any judgments and decisions. Because of this management tend to report favorable accounting numbers in the financial statements. The emergence the creative accounting allows managers to cook the book and window-dress their firms by taking advantage of the loopholes in accounting standards. One form of creative accounting is the income smoothing (hereafter “IS”) practice in which company’s management takes steps to reduce and store earnings during the good years and defer them for use during the business-downturn years or vice versa or in other words income smoothing is deliberate dampening of fluctuations about some level of earnings considered to be normal for the firm (Atik, 2009; Stolowy and Bartov, 2004). In this sense smoothing represents an attempt on the part of firm’s management to reduce abnormal variations in income. Previous studies show that income smoothing practices are fairly common phenomenon. It has been detected in varying degrees across different samples. Atik (2009) has referred to income smoothing practice as one of the common abuses in financial reporting that users should be wary of and he has described it as a manipulation of financial information. Hence, the concern about income smoothing practices need for appropriate research.

Indonesian and Malaysian as emerging capital markets with high population are attractive to many foreign investors. One way to attract investors is the assurance that the financial statements of public listed companies are prepared correctly and the information of the financial report can be trusted, but some research concluded that the quality of financial reports developing countries is low because there is an indication of the high creative accounting practices such as income smoothing practices. For researcher, it is important to seek empirical evidences what factors contributed to the IS practices by Indonesian and Malaysian listed companies as developing countries. This effort will give an additional knowledge on the relationship of IS practices to some country-specific factors. Therefore the main objective of this study is to examine the IS practices and to identify factors affecting them in Indonesian and Malaysian public listed company. Accordingly, there are two specific research objectives as follows:

1. To investigate IS practice by Indonesian and Malaysian listed firms for four years period (2009 to 2012) and to ascertain whether there is a significant differences of IS practices between two countries;
2. To investigate the effect of companies specific characteristic attributes (company size, company age, debt financing and profitability) to the IS practices by Indonesian and Malaysian listed companies.

LITERATURE REVIEW

Previous study show there are two different types of smoothed income streams such as those that are naturally smoothed and those that are intentionally smoothed by management and the devices for IS can generally be classified as real actions and artificial techniques (Eckel, 1981). The real actions intend to reduce
the earnings volatility by altering the operating decisions to affect cash flows and earnings of a certain period, such as easing credit terms to increase sales. Whereas the artificial smoothing aims to reduce volatility of publicly reported income through accounting manipulation that involves management and takes advantage of flexibility in the accounting standards to alter the income reported numbers (Atik, 2009; Chong, 2008). Management tends to use both the real and artificial smoothing to control earnings volatility since they are under constant pressure to meet the forecasts, performance objectives and avoid violations of debt arrangements. However, the IS concept stipulates that market participants (e.g. investors, financial analyst and creditors) will lose faith in the company reported income if management consistently smoothed the income for the sake of satisfying the needs of a particular group of stakeholders. All these types of smoothing could be generally described in figure 1 below.

![Figure 1]

A Broad Perspective of Income Smoothing

**Source:** Adopted from Eckel (1981)

**The Smoothing Dimension**

Smoothing dimensions are the methods through which smoothing is presumed to be accomplished, such as allocation over time or classification. Stolowy and Bartov (2004) indicate that smoothing can be accomplished along the following three dimensions.

1. Smoothing through events’ occurrence and/or recognition.
   Management can record actual transactions so that their effects on reported income would tend to dampen its variations over time. Mostly, the planned timing of events occurrences would be a function of the accounting rules governing the accounting recognition of the events (e.g., research and development expenses, advertising expenses).

2. Smoothing through allocation over time.

3. Given the occurrence and the recognition of an event, management has some discretionary control over the determination over the periods to be affected by the quantification of event. For example, manager discretion in choosing accounting method in computing income can choose either...
4. Smoothing through classification (hence, classificatory smoothing). According to Moses (1987) management may have discretion to classify certain income items into different categories (e.g., between ordinary items and extraordinary items). Using an incentives-based framework, Abdullah et al. (2002), Craig and Walsh (1989) and Dye (2002) examine classificatory smoothing via extraordinary items by Malaysian, Australian and British firms. Consistent with Moses (1987) and they find a significant association between classificatory smoothing, agency costs, and accounting risk.

The different types and dimensions of income smoothing behavior are diagrammatically presented in Figure 2. At the first line of Figure 2, there are two different types of income smoothing streams: those that are naturally smoothed and those that are intentionally smoothed by management (Albrecht & Richardson, 1990). An intentionally smoothed income stream can be the result of real smoothing or artificial smoothing techniques.

Figure 2
Different Type of Income Smoothing and Dimension of Smoothing

Source: Stolowy and Bartov (2004)

Motivation for IS Practices
The literature on the motivation of IS begins with Gordon’s (1964) hypothesis. In his hypothesis IS arises as rational behavior based on the assumptions that: (a) managers maximize their utility; (b) managerial utility depends on firm value and shareholder satisfaction; and (c)
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shareholder satisfaction and stock price increase with earnings growth and stability. However, recent research shows that there are many possible motivations for doing IS practices that include:

1. To have better relations with company owners, investors, creditors, and suppliers. Sercu et al. (2002) examines a large sample of Belgian companies to see whether the strength of a firm relationship with various stakeholder groups is associated with income-increasing or income decreasing behavior. The stakeholder groups that were examined were creditors, investors, suppliers. They find that the level of bank debt and trade credit, as well as an increase in external financing are significantly associated with IS behavior.

2. To have stable security prices and lower cost of capital. Tucker and Zarowin (2006) suggest that management smooth (within the accounting rules) the reported income since stockholders satisfaction increases with the rate of growth and stability of its income. Tan & Jamal (2006) also suggest that a smoother level of income permits a higher dividend rate and therefore higher stock prices.

3. To have benefit from tax advantage. A research by Herman and Inoue (1996) concludes that taxes are an important factor in choosing accounting procedures due to the close relationship between financial reporting and tax systems. Companies have an incentive to smooth income to minimize the tax impact over time.

4. To have benefit from bonus compensation. Early research by Moses (1987) provides evidence that firms with bonus compensation plans are more likely to smooth income. Significantly high reported income can raise the benchmark upon which future bonus amounts will be based. Lower reported income results in lower bonus payments. Therefore, bonus compensation plans provide an additional incentive for management to smooth income.

5. To meet or beat stock market expectations. Financial statements of listed firms are also scrutinized by financial analysts and investors, and firms may suffer from stock price declines if they do not meet market expectations (Aflatooni & Nikbakht, 2009). Listed firms may not only have incentives to avoid earnings declines and losses, they also have incentives to meet or beat market expectations in order to prevent declines in stock price.

HYPOTHESIS DEVELOPMENTS

Previous studies conclude that a high proportion of companies smooth their income when their profitability is relatively low. Atik (2009) provide evidence that companies with declining profitability tend to smooth their income. Presumably, fluctuations in income streams have a more severe impact on low profitability companies; hence, they have a stronger motivation to smooth income. Given these findings, it is hypothesized that companies with lower profitability tend to smooth their income more than companies with higher profitability. In this paper, profitability is measured by the ratio of profit before interest and tax to total assets minus current liabilities (Mansor and Achmad, 2009). Accordingly, the hypothesis is formulated as follows:

H1: There is a significant relationship between profitability and the level of income smoothing practices by Indonesian and Malaysian listed firms.

The debt equity hypothesis maintains that the higher the firms’ debt, which is...
equivalent to the close (i.e. ‘tighter’) the firms is to the constraints in the debt covenants and the greater the probability of a covenant violation and of incurring of technical default cost, the more likely managers are to use accounting methods that increase income. Ashari et al. (1994) and Atik (2009) suggest that the issuance of debts provides an incentive for a firm to smooth its reported income. They will do this to loosen the binds of any debt covenants that are expressed in terms of accounting-based numbers. The objective of this process is to minimize the costs associated with agency relationship and thus maximize the shareholders and the bondholders’ wealth. Therefore, a positive association between income-smoothing behavior and total long-term debt to total assets ratio (TD/TA) is expected. Like the other hypotheses of this paper, this hypothesis implies the expected direction of the association between debt financing and IS practices; the relevant hypothesis is as follows:

**H2:** There is a significant relationship between debt financing and the level of income smoothing practices by Indonesian and Malaysian listed firms.

Previous studies find that company size has an effect on income smoothing behavior. For examples Habib (2002) and conclude that small companies smooth income significantly more than large companies. One explanation is that smaller companies are likely to be subject to less public scrutiny than larger companies, therefore small companies are expected to smooth income more than large companies. In other words, larger companies are likely to receive more attention from analysts and investors and thus more is known about them. Consequently, there is little additional value for a smoothed income signal and, accordingly, larger companies have less incentive to smooth income (Mansor and Achmad, 2009; Habib, 2002). In this paper, the company size is measured by total assets (after taking logarithms). Thus, the hypothesis tested in the paper can be summarized as follows:

**H3:** There is a significant relationship between company size and the level of income smoothing practices by Indonesian and Malaysian listed firms.

Previous research concluded that the companies that have strong tendency to smooth their incomes are the ones that have fluctuations in their original income. Many believe that most of the young or newly incorporated companies are the ones that may possibly have greater fluctuation or variations in income. This is because they are not yet matured and have less experience in their operations. On the other hand, older companies may not be involved in income smoothing since they are already matured and have appropriate control over the industry and operations they are currently in, and thus lead to stable income stream (Kamarudin et al., 2008). Therefore, the researcher hypothesized that income smoothing is associated with a company’s age, which is measured by the number of years they are incorporated. Thus, the hypothesis as follows:

**H4:** There is a significant relationship between company age and the level of income smoothing practices by Indonesian and Malaysian listed firms.

**RESEARCH METHODOLOGY**

The income smoothing variability approach was used to determine the income smoothing index. The index was computed by employing the coefficient of variation method developed by Eckel (1981). This index was used to determine the presence of income smoothing. In this method, the coefficients of variation were
used to measure the variability of sales and income. This method had been used by many previous studies in determining the presence of income smoothing (Albrecht & Richardson, 1990; Ashari et al., 1994; Habib, 2005; Mansor & Achmad, 2009). Eckel’s index measures income smoothing by aggregating the effects of several potential smoothing variables (instead of just one income smoothing variable at a time) and by investigating the pattern of income smoothing behavior over a period of time (i.e., time series data were used to compute the income smoothing index instead of just one year’s data) (Kamarudin et al., 2009; Mansor & Achmad, 2009).

The smoothing index of Eckel (1981) compares income variability with sales variability to control for the effects of real smoothing (due to actual economic transactions/events) and naturally (inherently) smooth income streams. In particular, the measurement method relies on the analysis of income and sales variability as shown in the following:

\[
\text{Income smoothing index (CVIs) } = \frac{CV_i}{CV_s}
\]

Where:

\[
CV_i = \frac{\sigma \Delta \text{income}}{\mu \Delta \text{income}}
\]

\[
CV_s = \frac{\sigma \Delta \text{sales}}{\mu \Delta \text{sales}}
\]

If the CVi (the coefficient of variation for income) is less than the CVs (the coefficient of variation for sales), the ratio will be less than one, then suggesting that the firm is an income smoother.

For the purpose of this study, the sample companies were classified as smoothers or non-smoothers, which depended on whether their income smoothing indices were respectively less than or more than 1 (Eckel, 1981; Mohammad, 2001). Such dichotomous measurement of income smoothing has been used successfully in some previous studies (Kamarudin et al., 2009; Mansor & Achmad, 2009). Figure 3 below shows the diagram of sample selection.

\[\text{Figure 3}\]
\[\text{The Diagram of Sample Selection}\]

Three types of income (smoothing objects) were examined in this study. They were income from operation (IFO), income after others income (IOI), income after others expenses (IOE). This means that income smoothing indices were computed for each of these income smoothing objects and tested separately. In this study, income from operations is defined as operating income plus depreciation and
amortization (Albrecht & Richardson, 1990; Ashari et al., 1994). For H1 up to H4 of this research, the logistic analysis was used in a multivariate setting to investigate the factors associated with income smoothing.

\[ \text{Logit (pi)} = \ln \left[ \frac{\text{pi}}{1 - \text{pi}} \right] = \alpha + \beta_1 \text{SIZE}_i + \beta_2 \text{DEBT}_i + \beta_3 \text{PRT}_i + \beta_4 \text{AGE}_i \]

Where:
- \( i=1,\ldots,n \)
- \( \text{pi}= \) the probabilities values of \( i^{th} \) firm smooth its income
- \( \text{SIZE}= \) Company size
- \( \text{AGE}= \) Company age
- \( \text{PRT}= \) Profitability
- \( \text{DEBT}= \) Debt financing

The logistic model is considered appropriate because the dependent variable is nominally measured (dichotomous “0” and “1”) and the independent variables are either interval or nominally measured. The logistic regression is a form of regression which is used when the dependent is a dichotomy (of 2 categories) and the independents are of any type (McClave, 2011: Elliot & Woodward, 2007). Summarize of the explanatory variables is presented in the Table 1 below.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Represented by</th>
<th>Predicted</th>
<th>Measured as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Size</td>
<td>SIZE</td>
<td>(+/-)</td>
<td>Total assets (after taking logarithm)</td>
</tr>
<tr>
<td>Debt Financing</td>
<td>DEBT</td>
<td>(+/-)</td>
<td>The ratio of long term debt to total assets</td>
</tr>
<tr>
<td>Company Age</td>
<td>AGE</td>
<td>(+/-)</td>
<td>The age of company</td>
</tr>
<tr>
<td>Profitability</td>
<td>PRT</td>
<td>(+/-)</td>
<td>The ratio of profit before interest and tax (PBIT) to total assets minus current liabilities.</td>
</tr>
</tbody>
</table>

Sample and time frame of the research

Refer to Stolowy and Bartov (2004) the term smoothing implies adjustments to income smoothing in two or more consecutive periods and it required analysis of data for at least four periods. The results of some studies suggest that an increase in the time period tends to reduce errors of misclassification of firms as smoothers and non-smoothers, therefore this study has employed a four year series data collections. The data used are the financial reports of each sample company which obtained through DataStream from 2009 – 2012 and the population of interest selected for this research comprised firms listed on the Indonesian and Malaysian listed company.

EMPIRICAL RESULTS AND DISCUSSION

There were three types of income smoothing objects examined in this study. They were Income from operation (IFO), income after others income (IOI), income after others expenses (IOE). Income smoothing indices were computed for each of these income smoothing objects and
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Tested separately. Firms that had average scores of less than one from the three smoothing objects (IFO, IOI, and IOE) were categorized as smoother firms and needed further analysis in the second stage. Accordingly, the non-smoother samples

were firms that had average score ≥ 1 from all three smoothing objects. Table 2 presents the final number of firms with complete data 165 for analysis.

Table 2
Listed firms with complete financial data

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed firms from 2009 to 2012</td>
<td>185</td>
</tr>
<tr>
<td>Financial institution, delisted, privatized or merged firms</td>
<td>(20)</td>
</tr>
<tr>
<td>Listed firms with complete data from 2009 to 2012</td>
<td>165</td>
</tr>
</tbody>
</table>

For each of these 165 firms was then analyzed its income smoothing practice at three different periods. In each period, the Eckel index model of a firm was computed for all three smoothing objects (IFO, IOI, IOE). A firm was categorized as a smoother firm if the average of these three Eckel’s indexes were less than 1. Since each firm was categorized as a smoother and non-smoother exclusively then each was labeled using 1 or 0 respectively. Table 3 lists the number of smoothing and non-smoothing firms.

Table 3
The smoothing and non-smoothing firms for two different periods

<table>
<thead>
<tr>
<th>Indonesian</th>
<th>Malaysian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smoother Non-Smoother</td>
<td>Smoother Non-Smoother</td>
</tr>
<tr>
<td>49 116</td>
<td>30 135</td>
</tr>
<tr>
<td>30% 70%</td>
<td>18% 82%</td>
</tr>
</tbody>
</table>

Factor Affecting IS Practices

Income smoothing behavior was hypothesized to be associated with several factors. As presented previously, the four (4) alternate hypotheses correspond to the variables of the company size, profitability, total debt, and company age. Those variables were treated as independent variables in the logistic result of each hypotehe will be discussed in the following sections.
Table 4
Logistic Regression Analysis Indonesian Listed Firms

<table>
<thead>
<tr>
<th>Description</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Age</td>
<td>0.016</td>
<td>0.024</td>
<td>0.046</td>
<td>1</td>
<td>0.034**</td>
<td>0.616</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.012</td>
<td>0.026</td>
<td>0.252</td>
<td>1</td>
<td>0.227</td>
<td>0.994</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.144</td>
<td>0.061</td>
<td>0.979</td>
<td>1</td>
<td>0.055*</td>
<td>0.866</td>
</tr>
<tr>
<td>Debt financing</td>
<td>1.823</td>
<td>0.097</td>
<td>6.850</td>
<td>1</td>
<td>0.025**</td>
<td>6.093</td>
</tr>
<tr>
<td>Constant</td>
<td>9.718</td>
<td>2.862</td>
<td>10.157</td>
<td>1</td>
<td>0.013</td>
<td>16618</td>
</tr>
</tbody>
</table>

-2 Log-likelihood Value 282.577
Omnibus Test (Model Chi square) 86.043 (df=5) (p>0.000)
Hosmer & Lemeshow (Goodness of fit test) 7.120 (df=5) (p>0.091)
Cox & Snell R Square 0.508
Nagelkerke R Square 0.685

Notes: The table indicated significance at p< 0.01 (**), p< 0.05(*) and p< 0.1(*)
Source: Research result. Data is processed

Table 5
Logistic Regression Analysis Malaysian Listed Firms

<table>
<thead>
<tr>
<th>Description</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Age</td>
<td>0.020</td>
<td>0.026</td>
<td>0.551</td>
<td>1</td>
<td>0.047**</td>
<td>1.016</td>
</tr>
<tr>
<td>Company Size</td>
<td>0.007</td>
<td>0.023</td>
<td>0.075</td>
<td>1</td>
<td>0.054*</td>
<td>1.007</td>
</tr>
<tr>
<td>Profitability</td>
<td>0.611</td>
<td>0.048</td>
<td>3.082</td>
<td>1</td>
<td>0.081*</td>
<td>0.543</td>
</tr>
<tr>
<td>Debt financing</td>
<td>1.138</td>
<td>0.051</td>
<td>4.952</td>
<td>1</td>
<td>0.023</td>
<td>3.120</td>
</tr>
<tr>
<td>Constant</td>
<td>12.011</td>
<td>3.927</td>
<td>8.775</td>
<td>1</td>
<td>0.004</td>
<td>16461</td>
</tr>
</tbody>
</table>

-2 Log-likelihood Value 198.783
Omnibus Test (Model Chi square) 80.015 (df=5) (p>0.000)
Hosmer & Lemeshow (Goodness of fit test) 6.310 (df=5) (p>0.061)
Cox & Snell R Square 0.611
Nagelkerke R Square 0.757

Notes: The table indicated significance at p< 0.01 (**), p< 0.05(*) and p< 0.1(*)
Source: Research result. Data is processed

Profitability and IS Practices

Presumably, fluctuations in income streams have a more severe impact on low profitability companies; hence, they have a stronger motivation to smooth income figure. Therefore, this study hypothesized that H1: There is a significant relationship between the IS practices and the profitability of the company. Table 4 and 5 shows the effect of profitability factor to income smoothing and there is significant relationship in all periods for Indonesian dan Malaysian listed firms. This study concludes that the incidence of IS practices is greater in a less profitable company. Research by Nuryanah et al. (2011) indicate that, when the company is in a good condition with high profit, managers will report the profit as it is to gain the positive impression from the stockholders. In turn, the financial crisis caused listed companies to experience financial insolvency and therefore the income smoothing practice was highly considered by managers if the company were in a less profitable or in a loss position in order to reduce the significant decrease of profit or to reduce the amount of losses. Another explanation is that the manager’s motivation to manage income comes from the management’s responsibility to achieve
targeted profit. Ironically, it often happens that the companies themselves who create this pressure to meet the profit target and the market’s expectations. Consequently, their managements have incentives to manage earnings to achieve a smooth and growing earnings stream in order to achieve targeted (Craig and Walsh, 1989).

**Debt Financing and IS Practices**

As seen in H2, this study hypothesized that there is a significant relationship between the IS practices and the total debt of the company. The previous literature suggests that leveraged firms engage in IS practices to avoid debt covenant defaults, and firm managers that have defaulted on debt contracts may choose to manage company income to avoid heavy costs resulting from covenant violation (Defond and Park, 1997). Table 4 and 5 shows a significant relation ($\alpha=0.05$) between IS practices and debt financing for Indonesian and Malaysian listed firms. This finding imply that in the current global economy, companies that have high leverage may be at risk of bankruptcy if they are unable to make payments on their external debt financing and they may also be unable to find new lenders in the future. If a company wishes to take out a new loan, lenders will scrutinize several measures of whether the company is borrowing too much and will demand that it keeps its debt within reasonable boundaries, because that high debt reliance encourages managers to overcome debt covenant through IS practices (Ashari et al, 1994; Tseng and Lai, 2007).

**Company Size and IS Practices**

As shown in H3, this study hypothesized that there is a significant relationship between the IS practices and the company size. Previous studies found that the company size had an effect on income smoothing behavior (Atik, 2009; Mansor and Achmad, 2009; Nuryanah et al., 2011). In this study, the firm size is measured by total assets, after taking logarithm. **Logarithm is used for reduce wide-ranging quantities to smaller scopes** (O’Connel, 2005). Table 4 and 5 shows that for Indonesian listed firms, size have no significantly affect to IS practices since at $\alpha=0.1$, $p= 0.227$. These findings lead to the following interpretation, if companies entered into the worst financial situation that affected large and small companies; so management faced the same problems that the company performance was down turn. Therefore managers had to maintain their performance with respect to some market expectations, such as the market income expectation, management (agent) selects optimal accounting procedures for maximizing its benefits, this situation had led managers to engage in income smoothing practices. Therefore, this was the reason why firm size had no significant relationship to IS practices. For Malaysian listed firms, size have significantly affect to IS practices since at $\alpha=0.1$, $p= 0.054$.

**Company Age and IS Practices**

Table 4 and 5 presents the result of the logistic regression for the effect of company age to IS practices. As shown in H4, this study hypothesized that there is a significant relationship between the IS practices and the company age. For Indonesian and Malaysian listed firms all have significant relationship at $\alpha=0.05$, with $p= 0.034$ for Indonesian listed firms and $p= 0.047$ for Malaysian listed firms, the explanation that most of the young or newly incorporated companies are the ones that may possibly have greater fluctuation or variations in income. This is because they are not yet matured and have less experience in their operations. On the other hand, older companies may not be involved in income smoothing since they
are already matured and have appropriate control over the industry and operations they are currently in, and thus lead to stable income stream (Kamarudin et al., 2008). So it can be concluded that the company has a long-standing earnings and experiences in business will tend to be more stable than the company which has a relatively young age and will increase profits because the existence of previous management experience on managing their operational in business.

CONCLUSION, LIMITATION AND SUGGESTIONS

The research objective of this research is to investigate the creative accounting practices such as of income smoothing practices in Indonesian and Malaysian listed firms. This research found from the total sample of 165 listed companies, 30% Indonesian listed companies and 15% Malaysian company doing income smoothing practices. The results show some factors are associated with the income smoothing practices in each country. The logistic regression on pooled sample give some evidence that in Indonesian, the company age, company size and debt financing have significant determinants on income smoothing practices but company size didn’t significant. For Malaysian the company age, company size and profitability have significant relationships on income smoothing practices but debt financing did not have significant relationship.

The limitation this paper that only focused on publicly listed companies in Indonesian and Malaysian companies, as an emerging capital market. Therefore, the findings reported in this paper might not be generalizable to other firms in other countries with different economic and business settings. The suggestions for future research that future research can develop and combine a better IS practice model. It can develop a particular model for each industry, maybe with different industry characteristics, such as the influence of some other IS instruments to company income that might produce different and new IS models.

REFERENCES


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28-40.


