The Effect of Financial Stability, Financial Target, and Asset Composition on Fraudulent Financial Statement: Empirical study on food and staples retailing companies on the Indonesia Stock Exchange in 2017-2021

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Abstract

The purpose of this study was to analyze the effect of financial stability, financial targets, and asset composition on the occurrence of fraudulent financial statements in retail food & staples companies listed on the Indonesia Stock Exchange for the 2017-2021 period. This study uses 10 companies from retail food & staple companies listed on the Indonesia Stock Exchange with a sample selection method based on purposive sampling. Hypothesis analysis was tested using Eviews 9.0. The results of this study indicate that financial stability has an effect on fraudulent financial statements, while financial targets and asset composition have no effect on fraudulent financial statements. However, financial stability, financial targets, and asset composition simultaneously have a significant effect on fraudulent financial statements.

Key words: fraudulent financial statement, financial stability, financial target, asset composition

Introduction

Indonesia has begun to enter the era of the end of the COVID-19 pandemic, which is marked by a gradual return to normal business and economic activities. However, the impact caused by the pandemic is still the main focus. As a note, during the pandemic, many companies were unable to maintain their business operations, this could not be separated from several policies that limited these business activities. The impact of pandemic has also greatly affected many business sectors in Indonesia, one of which is the retail sector. During the pandemic, there were several large retail companies had to close most of their branch units, such as PT Hero Supermarket Tbk (HERO) which decided to close all Giant outlets in Indonesia starting at the end of June 2021. Although this step was also accompanied by the opening of new business units, it remains reflects the bad impact experienced during the pandemic. Several government policies to overcome problems in the economic field such as deferral of taxes, an extension of time in annual financial reporting and several other policies related to the presentation of financial statements. In this case, of course, the company can maximize existing policies, but it is also prone to misuse of these policies. For example, companies have more time to present their financial statements, this is the main focus of the possibility of a fraudulent financial statement because the restatement of financial statements is often misused by companies...
Figure 1. Framework of thinking

to maximize the data contained in it. To analyze the financial statements can be used several financial ratios that describe the state of a company. This can be used as a comparison with financial statements published in the previous period.

Literature Review

Agency Theory

The grand theory in this research is agency theory, which explains the relationship between the agent and the principal. The relationship between investors and managers like this can lead to a condition of information imbalance (asymmetrical information). This condition occurs because managers have more information about the company as a whole than the information received by investors so it will encourage managers’ behavior to hide some information from investors.

Fraudulent Financial Statement

Fraud is an intentional mistake and usually acts through fraud, abuse and manipulation to gain an advantage. Fraud has very diverse definitions. Many studies and institutions have tried to define fraud. The following are various definitions of fraud from various points of view. Fraudulent Financial Statements are actions that are general in nature and include various meanings in the form of someone’s clever way designed to gain profits by misrepresenting (Annisya, et al., 2016)

Financial stability

In carrying out their performance, company managers are required to perform the best in achieving the planned targets. Return on Assets is a profitability ratio used to measure the effectiveness of the company in generating profits by utilizing its assets (Skousen et al., 2009)

Asset Composition

The composition of assets consisting of certain accounts is very easy to be manipulated by management, such as sales, receivables, bad debts and inventories. Loebbecke, et al. (1989) stated that management could manipulate receivables by recording fictitious sales so that the number of receivables will appear larger than the reality.

The framework of thought in this research is based on the study that has been described previously. The dependent variable is Fraudulent Financial Statement and the independent variable consists of Financial Stability, Financial Target and Asset Composition. The model in this study can be described in the following framework

Method

The type of research that is used in this research is quantitative research by using secondary data that is then processed and analyzed with a statistical program so that it produces data and then obtains results for answering
the research questions. Data collection is done on the website resmi the Indonesia Stock Exchange and the website resmi perusahaan. Populasi dalam peresinikan ini adalah selumah perusahaan food and staples retailing companies on the Indonesia Stock Exchange in 2017–2021. Teknik pengama sampel dalam peresinikan ini menggunakan medeto purposive sampling dan erkebte sampel yang fulpuran kriteria semanta 10 perusahaan. The technique of data analysis used in this research is descriptive statistical analysis, classical analysis and linear regression analysis. While the hypothesis used in this research is simultaneous influence (F test), partial influence (t–test), then coefficient determination (R²) using the statistical program Eviews 9.0.

**Fraudulent Financial Statement**

Fraud score model that was developed further by Dechow can be used to measure fraudulent finances, where there are two variable components in the fraud score model, namely accrual quality which is related to RSST and financial performance is related to changes in the credit account, changes in the account balance, and maintenance of cash and cash transfer accounts at the laundry before interest and taxes. The fraud score model (F-Score) can be calculated using the formula: F-Score = Accrual Quality + Financial Performance

**Financial Stability**

Financial Stability can be seen from how the growth rate of asset changes per year. Financial Stability in this study was measured using the AGROW ratio with the formula: AGROW = (Total Asset t – Total Asset t-1) / Total Asset t

**Financial Target**

Financial Target describes how far the ability of a company to run its business. In this study Financial Target is measured using ROA. Measuring ROA with the formula: ROA = EAT / Total Asset

**Asset Composition**

Asset Composition describes the condition of the company on its assets. in this study measured using IVTA. IVTA = Inventory / Total Asset

**Results and Discussion**

After collecting all the necessary data and in accordance with the specified research criteria, the data obtained from the data processing using statistical software. The results of the data processing produce several main points of research and can be analyzed through the following data:

| Table 1. Error Correction Model (ECM) Test

<table>
<thead>
<tr>
<th>Dependent Variable : FRAUD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method : Panel Least Squares</td>
</tr>
<tr>
<td>Date: 08/10/22 Time : 17:26</td>
</tr>
<tr>
<td>Sample : 2017 2021</td>
</tr>
<tr>
<td>Periods Included : 5</td>
</tr>
<tr>
<td>Cross-section included: 10</td>
</tr>
<tr>
<td>Total Panel(Balanced Observations : 50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.172631</td>
<td>0.338982</td>
<td>0.509262</td>
<td>0.6130</td>
</tr>
<tr>
<td>FS</td>
<td>1.467846</td>
<td>0.0625013</td>
<td>2.348506</td>
<td>0.0232</td>
</tr>
<tr>
<td>FT</td>
<td>1.129662</td>
<td>1.096084</td>
<td>1.030635</td>
<td>0.3081</td>
</tr>
<tr>
<td>AC</td>
<td>-0.702748</td>
<td>1.259302</td>
<td>-0.558046</td>
<td>0.4771</td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.230220</td>
<td>Mean dependent Var</td>
<td>0.093327</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-Squared</td>
<td>0.180017</td>
<td>SD dependent var</td>
<td>0.753499</td>
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</tr>
<tr>
<td>SE of regression</td>
<td>0.6892315</td>
<td>Akaike info criterion</td>
<td>2.149967</td>
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<tr>
<td>Sum squared resid</td>
<td>21.41547</td>
<td>Schwarzicriterion</td>
<td>2.302929</td>
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<tr>
<td>Likelihood logs</td>
<td>-49.74919</td>
<td>Hannan Quinn Criter</td>
<td>2.208216</td>
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</tr>
<tr>
<td>F-statistics</td>
<td>4.585786</td>
<td>Durbin-Watsonstat</td>
<td>1.225124</td>
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</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.006846</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data processed Evies 9.0
Simultaneous Effect Test (F Test)

Based on the simultaneous effect test table (F test) above, it can be seen that the significance value is 0.00 which means it is smaller than 0.05. So it can be concluded that financial stability, financial target, and asset composition have a simultaneous or joint effect on fraudulent financial statements.

Partial Effect Test (t Test)

a. The financial stability variable has a sig value of $0.02 \leq 0.05$, which means that financial stability has a significant effect on fraudulent financial statements.

b. The financial target variable has a sig value of $0.30 \geq 0.05$, which means that the financial target has no significant effect on fraudulent financial statements.

c. The asset composition variable has a sig value of $0.57 \geq 0.05$, which means that the asset composition does not significantly affect the fraudulent financial statement.

Coefficient of Determination Test (R2)

Based on the table above, the value of R2 (Adjusted R Square) is 0.23. It can be seen that the effect of the independent variables (financial stability, financial target, and asset composition) is 23.02% on the dependent variable (fraudulent financial statement) while the remaining 76.98% is influenced by other independent variables not examined in this study.

Conclusion

Based on the results of data analysis and discussions that have been carried out, it can be concluded that:

a. Financial stability, financial target, and asset composition have a simultaneous effect on fraudulent financial statements in food and staple retailing companies on the Indonesia Stock Exchange in 2017-2021.

b. Financial stability has a partial effect on fraudulent financial statements in food and staple retailing companies on the Indonesia Stock Exchange in 2017-2021.

c. Financial targets have no partial effect on fraudulent financial statements in food and staples retailing companies on the Indonesia Stock Exchange in 2017-2021.

d. Asset composition has no partial effect on fraudulent financial statements in food and staples retailing companies on the Indonesia Stock Exchange in 2017-2021.

References


