

CHAPTER I

INTRODUCTION

A. Background

وَقُلِ اعْمَلُوا فَسَيَرَى اللَّهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ وَسَتُرَدُّونَ إِلَىٰ عِلْمِ
الْغَيْبِ وَالشَّهَادَةِ فَيُنَبِّئُكُم بِمَا كُنتُمْ تَعْمَلُونَ

And Say: "Work on you, then Allah and His Messenger and the believers will see your work, and you will be returned to the (Allah) who knows the unseen and the real, then He preaches to you what you have done. (Q:S AT-TAUBAH 105).

Accounting is a science that has a big influence on an entity and always develops in the flow of time. The existence of globalization makes the development of accounting increase rapidly. This development affects the use of financial reporting and accounting standards. This phenomenon is proven by several changes in accounting practice standards in the world. The latest change in accounting standards is the alteration of Accounting Standards from US GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial and Reporting Standards).

The changes of accounting standards from US GAAP to IFRS is one of the reasons of creative accounting practices (Largay, 2002). US GAAP is rule-based, while IFRS is based on principles. The difference between rule-

based and principle-based systems is that in a rule-based system, accountants can obtain detailed implementation instructions so to reduce uncertainty and produce applications for standardized rules mechanically. However, in principle-based, the accountants will estimate several estimates that they must account for and require more professional considerations that can lead to multiple interpretations. The change in standard provides more opportunities and innovations for accountants to make alternative choices of accounting methods because accounting standards have provided various alternative choices to use.

Creative accounting practices are increasingly used all over the world. Creative accounting actions are applied to present data desired by the parties concerned, capable of providing a major influence in making a decision. Creative accounting practice is a financial reporting process in which there is a manager's interference that aims to benefit himself (Agustia & Palupi, 2012). Blake & Dowd (1999) stated that creative accounting is a process where several parties use the ability to understand accounting knowledge (including standards, techniques, etc.) and use it to manipulate financial reporting.

Creative accounting issues have invited the pros and cons. Dechow & Skinner (2000) and Riduwan (2010) in Febriyanti et al (2014) share the same opinion about the existence of pro and contra attitudes to creative accounting practices. The results of the studies by the researchers mentioned above reveal that the pro party views that earnings management can be done

and is not an unethical behavior as long as it is carried out in the corridor of generally accepted accounting principles. Balaciu & Pop (2008) concluded that creative accounting practice is not an act of fraud. It depends on the problem of one's point of view and occurs because of gaps in financial standards. The same opinion is expressed by Kaminski (2014) that as long as creative accounting practices do not exceed legal limits, this is not considered as criminal acts.

On the contrary, the counterparty claims that creative accounting is an unethical practice to do. Creative accounting practices are considered unethical because they are acts of financial report manipulation that tend to reduce the reliability of financial information. Odia & Ogiedu (2013) argued that the techniques used in creative accounting practices are carried out by conveying and giving false information to mislead users of company reports so that this tends to fraudulent actions.

The financial scandal has brought creative accounting to the public's attention. One of the famous scandals of accounting is the Enron case. In the issue of Fortune magazine in April 2001, Enron became the seventh-largest innovative company in the United States. However, on December 2, 2001, Enron posted a bankruptcy involving one of the Big Five public accounting firms, Arthur Andersen. During the investigation of the cause of bankruptcy, Enron was suspected of having practiced window dressing by delaying the recording of accounts receivable because cash was used for personal gain. In addition, Enron's management had marked up its revenues of the US \$

600 million and hid debts of US \$ 1.2 billion. This case is history's largest accounting fraud in the world.

A similar case on creative accounting practice has also been found in Indonesia. The biggest case of creative accounting practices is from PT Kimia Farma. Kimia Farma allegedly manipulated financial statements in 2001 by marking up net income. Kimia Farma said that it successfully earned a profit of Rp132billion. However, on October 3, 2002, Kimia Farma's financial statements were re-audited and stated that they contained errors. In the new financial statements, the profit presented is only Rp99.56 billion, or lower by Rp32.6billion (24.7%) from the initial profit reported. Presentation errors related to inventory occurred because the value in the inventory price list was inflated, while the presentation error related to sales was doubling the record of the sale.

Hans Tuanakotta & Mustofa (HTM) Public Accountant Office, allegedly involved in the inflationary action. (www.kompasiana.com 2015).

The scandals provide evidence that the companies collapse due to creative accounting activities. Understanding the factors that influence a person to be involved in the behavior of creative accounting practices is needed. A number of studies on creative accounting have been conducted to identify motives and creative accounting techniques, but there a few researches have discussed the influence of the ethical orientation of creative accounting behavior. Ethical orientation can influence one's ethical behavior

in recognizing ethical problems and making choices or ethical judgments and can influence a business decision.

Individual morality will be explained in the level of individual moral reasoning and will affect their ethical behavior (Puspasari, 2012). Creative accounting practices will not be done if someone has a high level of moral reasoning. It also stated that an individual's ability to resolve ethical dilemmas is influenced by the level of moral reasoning. The higher the level of moral reasoning an individual has, the higher the intention the individual will have to commit accounting fraud.

Idealism refers to things that are trusted by individuals with what they have and want not to violate moral values. An idealist individual will avoid various actions that can hurt or harm the people around him, an idealist will take decisive action against an unethical event or that will harm others (Mella, 2015). On the other hand, relativism is an attitude of rejection of absolute moral values in directing ethical behavior (Falah, 2006). A relativist individual ignores the existing principles and looks more at the surroundings before finally acting to respond to an event that violates ethics (Mella, 2015).

Maryani & Ludigdo (2001) stated that one of the dominant factors in influencing a person's ethical attitudes and behavior is religiosity. According to Glock & Stark (1965), religiosity is an integrated system of beliefs, lifestyles, ritual activities, and institutions that can give meaning to life and

can direct humans towards holy values. Woodbine (2009) revealed that almost all religions and belief systems have rules for all adherents to behave ethically in all aspects of life including the business world. Research conducted by Weibe and Fleck (1980) found that someone who practices religion as one of the focuses or guidelines in life will be more likely to have attention to moral standards, discipline, and responsibility. A high level of individual religiosity will increase ethical perceptions and have the potential to influence student behavior (Lau et al, 2013).

Knowing the various perceptions of accounting students regarding scandals involving the accounting profession is necessary because accounting students are the ones who will undergo the accounting profession in the future. If there is a lack of attention to the field of ethics and ethical violations early on, this will damage the accounting profession in the future (Damayanthi & Juliarsa, 2016). Accounting students need to learn and then implement standards and ethical behavior in response to related issues in the field of accounting so that no damage to the accounting profession in the future should occur.

This current research is a compilation from several previous studies by taking several variables and then combining them into one research to be restudied. The variables consisting of individual morality and idealism were taken from the research conducted by Nugroho, F. Q., & Aisyah, M. N. (2018). "Pengaruh Moralitas Individu Dan Idealisme Terhadap Persepsi Etis Mahasiswa Akuntansi Mengenai Praktik Akuntansi Kreatif Di Perusahaan

Dengan Tingkat Pemahaman Kode Etik Akuntan Sebagai Variabel Moderasi (Studi pada Mahasiswa Prodi Akuntansi Universitas Negeri Yogyakarta)”. Meanwhile, the variable of religiosity were taken from the research by Sari, R. C., Sholihin, M., & Ratmono, D. (2018). “Do ethics education and religious environment mitigate creative accounting?”.

The previous researches involved respondents from one university. In this study, the researcher will take samples with different type of university which is religios-based university and public university. Those samples become the uniqueness of this research compared to previous studies. Thus, because of inconsistency in the previous studies’ findings, and different samples, the researcher is interested in conducting a further research under the title **“THE INFLUENCE OF INDIVIDUAL MORALITY, IDEALISM, AND RELIGIOSITY TOWARDS ACCOUNTING STUDENT’S ETHICAL PERCEPTION ON CREATIVE ACCOUNTING PRACTICE”**.

B. Research Scope

This study has the purpose to examine the factors that affect students’ ethical perceptions regarding creative accounting such as individual morality, idealism, religiosity, and level of accounting knowledge. This study also limits the respondents from accounting students in Universitas Muhammadiyah Yogyakarta and Universitas Gajah Mada Yogyakarta.

C. Research Questions

Researcher formulated research questions based on the explanation above, as follows:

1. Does individual morality have positive influences on students' ethical perspectives on creative accounting practice?
2. Does idealism have positive influences on students' ethical perspectives on creative accounting practice?
3. Does religiosity have positive influences on students' ethical perspectives on creative accounting practice?
4. Is there any difference in accounting students' ethical perception of creative accounting between accounting students in religious-based university and Public university?

D. Research Objectives

The objectives that this study will achieve are, as follows:

1. To examine whether individual morality has positive influences on students' ethical perspectives on creative accounting practice.
2. To examine whether idealism has positive influences on students' ethical perspectives on creative accounting practice.
3. To examine whether religiosity has positive influences on students' ethical perspectives on creative accounting practice.
4. Is there any difference in accounting students' ethical perception of creative accounting between accounting students in religious-based university and Public university?

E. Research Benefits

It is hoped that this study can bring benefits for knowledge and related parties. The expected benefits of this study are as follows:

1. Theoretical Benefits

The theoretical benefit that this research is additional reference data regarding various factors that influence accounting students' ethical perceptions of the existence of creative accounting practices.

2. Practical Benefits

a. Benefits for academics

The benefit of this study for academics is to provide references about ethics for prospective accountants to help them prevent prospective accountants from having an interest in practicing creative accounting.

b. Benefits for students

The benefit of this research for students is that this research can be used as reference material for further research regarding the practice of creative accounting.

