

# Bonus Plan and Income Smoothing on the Selection of Accounting Policy and Corporate Governance Determination Manufacturing Companies Listed on the Indonesian Stock Exchange Evidence

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## Abstract

This study purposed to observe the role of corporate governance to bonus plan and income smoothing as well as to the decision of accounting policies and aimed to examine the effect of the bonus plan and income smoothing on the selection of accounting policies. Logistic regression method was used to processed data from manufacturing companies listed on the Indonesian Stock Exchange in the period 2013-2015 which chosen by purposive sampling scheme. The results showed that bonus plan has no effect on the selection of accounting policies while income smoothing influencing how an accounting policies chosen. Furthermore, corporate governance as a moderating variable has given the impact on bonus plan for the accounting policies choice but not affecting the relationship between income smoothing with the selection of accounting policies. The research tries to prove the influence of income smoothing activity against the selection of accounting policy because until now no research has done so.

**Keywords:** bonus plan, income smoothing, corporate governance, accounting policy.

## 1. Introduction

Accounting policy is provides an alternative method that may affect the quality and quantity of disclosure of financial statements (Fields, Lys and Vincent, 2001) and inseparated from the financial statements prepared by management. It is consisted of specific principles, basic, conventions, rules and practices for certain entities in the preparation and presentation of financial statements.

Positive accounting theory has delivers accounting guidance for policy makers in determining the consequences of that policy. It is also explains what to be done and what not to be done by the manager. In the agency theory, managers are faced with a conflict of interest with shareholders, debtholder, government, and even employees in the company. This conflict of interest raises opportunist attitude of management related to planning bonus (bonus plan), avoiding debt covenant as well as the political cost.

Bonus plan hypohotesis, Watts and Zimmerman (1986), on the ceteris paribus conditions, the company's managers with a bonus plan rather choose accounting procedures by transferring the consolidated statements of future earnings to the current period. They will select accounting policies which increasing the profits and maximizing the compensation (Robbins et al 1993). The existence of the bonus plan describes the separating relationship between the owner and management. Management will choose accounting policies that can increase profits if there is a bonus plan. On the other hand, the ownership of management illustrated conflicts of interest between management as the owner and management as a shareholder. Higher ownership will have lower agency problems, while, lower ownership will increasethe agency problem. That its why, maanagers tend to select accounting policies that will increase profits to maximize compensation (Robbins et al 1993).

According to Scott (2015) bonus plan hypothesis and debt covenant hypothesis are one of the reasons behind the economic consequences concept. On the other hand the activities of income smoothing also associated with the selection of accounting policies for more equitable profit because it gives a positive signal for the market (Lev and Ohlson, 1982).

Accounting policy package for producing financial statements is actually reflects some accounting policies. Therefore, the understanding of financial statements can not be seen by one method only. That is why, this research attempts to explain the accounting policies by combining several methods of accounting. The accounting policies used in this study include a mix of policy inventory valuation, depreciation of fixed assets, and accounts receivable assessment due to the availability of these methods on every manufacturing company accounting policies.

Corporate governance is a mechanism used to ensure that the shareholders and debitor (bondholders) get a return from the company's activities that have been carried out by the manager. In order to achieve good corporate governance, some factors such as the percentage of independent board, managerial ownership, institutional ownership needs to be further enhanced its effectiveness. The more the factors of good corporate

governance, company owners/shareholders effectively implemented, the more it can assured that the accounting policies selected by management was not motivated by self-interest of management, such as the bonus plan. Also, the practice of income smoothing that occurred in their company can be minimized.

Research on the bonus plan, and income smoothing and corporate governance that affect the management in selecting accounting policies, the knowledge of researchers are still very limited in Indonesia. Therefore, based on the description above, the purpose of this study was to obtain empirical evidence that the bonus plan and income smoothing effect in selecting accounting policies as well as demonstrate empirically that corporate governance can moderate the effect of the bonus plan and income smoothing on the selection of accounting policies.

As income smoothing activities can be a motivation for management in the selection of accounting policies and corporate governance can reduce behavioral management to prioritize the interests of the individual and the accounting policies selected companies reflect the behavior of corporate managers, that is why this research is expected to contribute in the development of science related to positive accounting theory is based on the contractual relationship between management and shareholders, debt holders, and other third parties. Also, it is expected to provide information to the shareholders and debtholder in management performance evaluation.

This study is divided into five parts. The first part is the introduction. The second part will discuss the relationship between theory and previous research and development of hypotheses. The third section will discuss about sampling and data. In the fourth section will talk over the results of research and sensitivity analyzes. As the end, the fifth part contains conclusions, recommendations and limitations of the study.

## **2. Literature Review and Hypotheses Development**

### **2.1 Bonus Plan and the Accounting Policy Choice**

Christie and Zimmerman (1994) explain that the management efficiency perspective perform to increase the wealth of all the parties involved in the contract. On this perspective, the researchers have explains a wide variety of contractual mechanisms can be placed to minimize the agency cost. Agency cost associated with decision-making authority by the agent (Deegan 2004). Perspective efficiency is often linked to consider what mechanisms can be determined in advance with the aim of minimizing agency costs and contracting costs for the future.

Perspective opportunist and efficiency perspective it is difficult to distinguish due to the same proxy that can be used for both perspectives. Also the same policy can be selected based on the hypothesis of a bonus plan for efficiency reasons. Straight-line depreciation is one example for best opportunity cost action for companies that owned fixed assets. The result of straight-line depreciation reported earnings that showed better performance management. This policy efficiently motivates management more than other depreciation policy. This example illustrates that the same hypothesis can be explained by two different perspectives, opportunist and efficiency.

Robbins, et al. (1993) suggested that the company's management compensation planning is usually based on the targeted profit. Target generally expressed by accounting net profit. Managers will choose the accounting method that can raise profit to maximize compensation based on accounting earnings, especially after management agreed the compensation contract.

In the agency theory, manager is described as individuals who put their own interests so that if the bonus is earned based on profit then the manager will select accounting policies that will increase profits and will not force himself to choose accounting policies that can not increase profits if the bonus is not based on bonus plan (Inoue and Thomas, 1996). Robbins, et al. (1993) found that the management compensation is a significantly influence on the selection of accounting policies that will increase profit. The results of this study are supported by Colin. Et. al, (2008), Bowen, et. al (1999). Meanwhile the results of the study were not significantly obtained by Inoue and Thomas (1996), Mukhlisin (2007).

Under this management compensation contract, the opportunity to get the bonus arises. This behavior is in line with agency theory. From the description, the alternative hypothesis proposed is as follows:

H1: Companies that implement a bonus plan has a greater probability to choose accounting policies that can increase profits.

### **2.2 Income Smoothing and the Accounting Policy Choice.**

Financial Accounting Standards provide flexibility for management to select accounting policies that represents the actual condition of the company. This flexibility is sometimes used by management to manage earnings (earnings management). The aim of management to do earnings management is to increase the transparency level of profit in order to communicating internal information of the company. If the earning management is done efficiently while management companies seek to maximize profits for himself, so in this case, opportunistic profit management happened (Scott, 2015). Opportunistic management techniques on profit often involve income smoothing. Schroeder (2009) defines income smoothing as fluctuations smoothing of the reported earning which are considered normal for the company.

According to Lev and Ohlson (1982), a more equitable profit is a positive signal for the market. This means that management decisions income smoothing (income smoothing) will affect how management has chosen accounting policies to be used. George and Nathan, (2005) states that flexibility in financial reporting may increase the scope for income smoothing occurred.

Previous research suggested that smoothing earnings is mainly happened due to the management decision to keep its profit stable than fluctuate (volatile), so that the management will increase the reported earnings if the amount of profit actually declined from previous year and will choose to report lower profits if profits actually increased compared to the previous year's earnings. The need of profit information which can describe the actual condition of company profits actually becomes very important because the accuracy of earnings information will be presented in the financial statements that would affect the decision of investors in the capital market or decisions of creditors in funding decision

H2: Income smoothing influence in the selection of accounting policies.

### **2.3 Corporate Governance, Bonus Plan, Income Smoothing and the Accounting Policy Choice.**

Corporate governance is a mechanism used to ensure that the shareholders and debitor (bondholders) get a return from the company's activities that have been carried out by the manager. In order to achieve good corporate governance, some factors such as the percentage of independent board, managerial ownership, institutional ownership needs to be further enhanced its effectiveness. The more the factors of good corporate governance, company owners / shareholders effectively implemmented, the more it can assured that the accounting policies selected by management was not motivated by self-interest of management, such as the bonus plan. Also, the practice of income smoothing that occurred in their company can be minimized.

Wilopo (2006) proves and supports the hypothesis that unethical behavior and tendencies of management accounting fraud can be reduced by increasing the effectiveness of internal control, adherence to accounting rules, the morality of management, as well as eliminate the asymmetry of information. It is also indicate that in the effort to combat unethical behavior and tendencies of management accounting fraud, among others through the implementation of good governance.

Corporate governance structure (proxied by the commissioner of the independent element) is expected to improve the quality of accounting information. The manager has the authority to choose a particular accounting policies which not only affects the performance of the company, but also driven by self-interest managers who can be described as opportunistic behavior relating to bonus plan that will be accepted by manager. This bonus plan would make companies management tend to choose a policy that increase current earnings. Most empirical evidence shows that the presence of independent directors capable of tapping the potential of the practice of selecting accounting policies to raise or lower profits.

Capacities and skills possessed by commissioners of independent elements is expected to improve the effectiveness of supervision. Effective oversight can ensure that the actions taken by the manager is a representation of the interests of shareholders. The results of empirical studies that support by the proportion of independent board can reduce earnings management has performed by Beasley (1996), Dechow et al. (1996), Chen et al. (2007) and Cornet et al. (2009). Justification of the results of this study is the existence of an independent commissioner could improve the effectiveness of supervision of the management (Miqdad, 2012). Thus, the potential managers for earnings management practices can be decreased. However, a study conducted by Park and Shin (2004), Veronica and Bachtiar (2004), Gideon (2005) did not find evidence of the influence of the proportion of independent board to earnings management.

H3a: Corporate Governance dilutes the effect of the bonus plan for the selection of accounting policies.

H3b: Corporate Governance dilutes the effect of income smoothing on the selection of accounting policies.

## **3. Research Methods**

### **3.1 Research Design**

The research design is causality because it is aims to determine the factors that may affect the accounting policies of the company, which consists of a bonus plan, income smoothing, corporate governance. The unit of analysis of this research is the company because the collected data relating to companies listed on the Indonesian Stock Exchange. The time horizon of this study was cross-sectional and longitudinal studies with a period of years from 2013 to 2015.

### **3.2 Data and Research Sample**

This study uses secondary data which delivered from Companies Annual Report which listed in Indonesia Stock Exchange 2013-2015 period which chosen through purposive sampling method. Sampling criteria are (1) manufacturing companies listed in Indonesia Stock Exchange; (2) the financial statements are presented in the currency of rupiah, (3) not present their loss in the financial statements, (4) present the complete financial report and have been audited from the years 2013-2015. Based on the sampling criteria, 28 companies did not present

financial statements in rupiah, 28 companies suffered losses in the study period, 27 companies presenting incomplete data. Final sample research is 177 samples (59 companies for 3 years).

### 3.3 Variables and Measurement

#### 3.1 Accounting Policy Choice(KA)

Accounting policies is the strategy to select the accounting method adopted by the company. Accounting policies in this study is based on measurements made by the Missioner-Pierra (2004) which will accelerate the reporting profits (a policy that can raise profits) or may delay the reporting of earnings (accounting policies that will lower profits).

Accounting methods in this study were analyzed using Multiple Accounting Method classification which consist of recording inventory (average or First In First Out-FIFO), the method of recording the depreciation of fixed assets (Straight Line or Declining Balance), and assessment methods receivable (Direct Method or Allowance Method). Accounting policies that will increase profits identified by a combination of the following policy(Missioner-Pierra, 2004):

**Table 1. Accounting Policies to Increase Profit**

No.	Inventory Method	Depreciation Method	Receivable Method
1.	FIFO	Straight Line	Direct Method
2.	FIFO	Straight Line	Allowance Method
3.	FIFO	Declining Balance	Direct Method
4.	Average	Straight Line	Direct Method

Companies that choose the combination of the above were given a score of 1. Meanwhile, a score of 0 is given to the company that its accounting policies delayed reporting earnings (accounting policies that will lower profits). The accounting policies can be identified by a combination of lower earnings following policy (Missioner-Pierra, 2004):

**Table 2. Accounting Policies to decrease Profit**

No.	Inventory Method	Depreciation Method	Receivable Method
1.	Average	Declining Balance	Allowance Method
2.	Average	Declining Balance	Direct Method
3.	Average	Straight Line	Allowance Method
4.	FIFO	Declining Balance	Allowance Method

Data obtained from the company's Annual Financial Statements.

#### 3.2 Bonus Plan (BP)

Scott (2000) argued that the compensation plan is a contract between the company and the agency manager in order to align the interests between owners, managers and managers compensation based on one or more performance measures. Bonus plan is a planning about bonus to receive by the manager of a company based on the amount of accounting profits. This variable is measured based on the bonus policy, if the company is no compensation scheme was given a score of 1, and if they do not implement a bonus system was given a score of 0 (Robbins et al., 2007). Data obtained from the Annual Financial Report of the company.

#### 3.3 Income Smoothing (PL)

Income smoothing ranking is used as a proxy for income smoothing practices by the company. To find a company included in the group income smoothing or not in this reseach, it refers to the index Eckel (1981) through this formula:

$$\text{Income Smoothing Index} = \text{CV}\Delta I / \text{CV}\Delta S$$

Where  $\Delta I$  is the change in the earnings period,  $\Delta S$  is the change of income during the period, CV coefficient of variation of the variable, which is the standard deviation divided by the expected value,  $\text{CV}\Delta I$  is the coefficient of variation for the change in earnings, and  $\text{CV}\Delta S$  is the coefficient of variation to changes in income.

$\text{CV}\Delta I$  and  $\text{CV}\Delta S$  can be calculated as follows:

$$\text{CV}\Delta I \text{ dan } \text{CV}\Delta S = \sqrt{\text{Variance} / \text{Expected value}}$$

or

$$\text{CV}\Delta I \text{ dan } \text{CV}\Delta S = \sqrt{\frac{\sum(\Delta X - \bar{X})^2}{n-1}}$$

Sumber: Eckel (1981:39)

Where  $\Delta X$  is the change in net earnings (I) or a change in income (S) between the years n-1 to year n.

Companies that income smoothing or have no income smoothing can be detected through Eckel index to see if the value Eckel index greater than 1 (one), the company does not perform income smoothing, but if Eckel index is smaller than 1 (one), then the company do the income smoothing. This variable is measured based on the possibility income smoothing activities, if the company income smoothing was given a score of 1, and if no income smoothing is given a score of 0. The data obtained from the Company's Annual Financial Statements.

### 3.4 Corporate Governance (CG)

Corporate governance in this study is proxied by the number of independent board compared to the total number of commissioners (Miigdad, 2012).

$$tepercentageindependentcommissioners = \frac{tenumberofindependentcommissioners}{tenumberofcommissionersofthecompany}$$

The data obtained from the Company's Annual Financial Statements.

### 3.5 Variable Control

There are five control variables in this research; leverage and current ratio, company size, management ownership and accounting conservatism.

High leverage indicates that the source of corporate funding that comes from borrowing is too high. If the total debt is greater than the value of equity of the company, then the company's dependence on debtholder is greater than the stockholder. Selection of accounting policies that will raise the profit on debt covenants hypothesis aims to avoid the company of breach of debt covenants (Fields, et al., 2001), obtain results support the hypothesis debt covenants. Debt covenants are proxied by the restriction current ratio with a strong influence management decisions selecting inventory accounting policy. Accounting policies that will increase profit selected by management to be able to bridge the agency problem between management and debtholder. It is measured by debt-to-equity ratio (DER) and the current ratio (CR) (Missonier-Piera,2004).

Company Size (UP). Political costs reveals that large companies are likely to face political penalty greater than small firms (Hand and Skantz, 1998). Managers of large enterprises may tend to choose a method of accounting that delayed reporting of income to reduce the political cost borne by the company (Watts and Zimmerman, 1986). The amount of the company as a manifestation of the political cost is measured by total assets of natural log (Zmijewski dan Hegerman, 1981).

Ownership Management (KPM). Jensen and Mecling (1976) indicate that if the ownership of the company's managers decline, the increase in the value of the company less influence wealth manager. Management ownership shows opportunist management. If management has a large ownership, the management will ignore the bonus and prefer the dividend and, if ownership of small management. Ownership management is measured by the amount of the percentage of shares held by the board of directors in year t. This proxy has been used by Bowen et al (1999).

Accounting Conservatism (KSA). Accounting conservatism encourages managers to be careful and put the quality of financial reports. Watts and Zimmerman (1986), revealed that accounting conservatism offset optimism (the desire to choose accounting policies that can raise profits) managers. The company's accounting conservatism measured by accountants and professional degree or membership in the Indonesian Accountants Association (IAI). if there are one or more commissioners or board of directors who hold or accountant and a member of IAI was given a score of 1 and if none of the board of commissioners and board of directors who hold or accountant or a member of IAI was given a score of 0(Mukhlasin, 2010).

### 3.6 Research Model

This study uses data analysis techniques by logistic regression analysis with the help of statistical data processing program (Statistical Product and Services Solution 23-SPSS23). The research model as follows:

$$KA_{it} = a + b_1BP_{it} + b_2PL_{it} + + b_3CG_{it} + b_4DER_{it}+ b_3CR_{it} + b_4UP_{it}+ b_3KPM_{it} + b_3KSA_{it} + e_{it} \dots \dots \dots (1)$$

$$KA_{it} = a + b_1BP_{it} + b_2PL_{it} + + b_3CG_{it} + b_4(BP*CG) + b_5(PL*CG)+ b_6DER_{it}+ b_7CR_{it} + b_8UP_{it} + b_9KPM_{it} + b_{10}KSA_{it} + e_{it} \dots \dots \dots (2)$$

Where :

KA = Accounting Policy(KA1), policies that increase profits=1, policies that decrease profits=2. Sensitivity of the test used to measure the accounting policies applied by using Cost Research & Development (KA2).

Selection method of accounting for costs Research and Development (R&D) has a qualitative nature so that the measurement is done by giving the value 1 to companies that capitalizing on the cost of Research and Development (R&D). The companies that perform charging for the cost of Research and Development (R & D) is assigned the value 0.

BP = Bonus Plan, if there is a compensation scheme = 1, if there is no a compensation scheme = 0.

PL = *Income Smoothing*, Eckel measured by an index where. A value of 1 is given to companies that do income

smoothing, and a value of 0 for companies that do not perform income smoothing.  
 CG = *Corporate Governance*, proxied by the number independent commissioners compared to total commissioners.

DER = Debt to Equity Ratio measured using the Total Debt divided by Total Equity.

CR = Current Ratio measured using Current assets divided by current liabilities

UP = Company size, measured by *log natural total assets*.

KPM = Management ownership, measured by the total percentage of shares held by the board of directors in year t.

KSA = Accounting Conservatism, measured by accountants and professional degrees or membership on the Indonesian Institute of Accountants (IAI).

#### 4. Results Of Research and Discussion

##### 4.1 Descriptive Statistics and Correlation Matrix

Results of descriptive statistics can be seen in Table 3 below:

**Table 3. Descriptive Statistics**

Variables	Minimum	Maximum	Mean	Std. Deviation
KA1	0.00	1.00	0.4576	0.49961
KA2	0.00	1.00	0.5763	0.49555
BP	0.00	1.00	0.6441	0.48015
PL	0.00	1.00	0.6271	0.48494
CG	0.00	1.00	0.3694	0.22276
BP*CG	0.00	1.00	0.2427	0.23980
PL*CG	0.00	1.00	0.2260	0.25110
DER	0.07	5.15	0.9553	0.86732
CR	0.40	13.87	2.9900	2.62223
UP	18.71	26.23	21.4805	1.69806
KPM	0.00	11.47	0.2280	1.48656
KSA	0.00	1.00	0.6780	0.46858

Notes: KA1: Accounting Policy (inventory, depreciation, receivable); KA2: Accounting Policy (R&D expenses); BP: Bonus Plan; PL: income smoothing; CG: Corporate Governance; BP\*CG: interaksi interaction between the bonus plan and corporate governance; PL\*CG: interaction between the income smoothing and corporate governance; DER: debt to equity ratio; CR: Current Ratio; UP: company size KPM: management ownership; KSA: Accounting conservatism.

Results of descriptive statistics can be seen in Table 3. From the table above we can see that the average accounting policy election delayed reporting earnings report (accounting policies that will lower profits) by using the method of inventory, depreciation method and the method of assessment of receivables, as many as 96 samples (54%). While the selection of accounting policies on the recognition of the costs of R & D is precisely the average policy choices that can raise profit. The average company has a bonus plan and the average company also income smoothing. The average corporate governance is still below 0.5 but in accordance with the regulations of the Financial Services Authority (FSA) for the presence of independent commissioners on the composition of the board of commissioners.

**Tabel 4. Spearman Correlation Matrix**

Var	KA	BP	PL	CG	LEV	CR	UP	KPM	KSA	BPCG	PLCG
KA	1										
BP	-0.170*	1									
(p-value)	0.024										
PL	-0.206**	0.159*	1								
(p-value)	0.006	0.035									
CG	-0.160*	0.107	-0.142	1							
(p-value)	0.034	0.157	0.059								
DER	0.118	-0.050	-0.049	-0.070	1						
(p-value)	0.119	0.506	0.514	0.351							
CR	0.087	0.001	0.009	-0.116	-0.805**	1					
(p-value)	0.251	0.987	0.907	0.123	0.000						
UP	-0.077	0.100	0.186*	0.022	0.246*	-0.209**	1				
(p-value)	0.308	0.187	0.013	0.774	0.001	0.005					
KPM	0.023	0.005	-0.102	-0.132	-0.250**	0.230**	-0.019	1			
(p-value)	0.764	0.950	0.177	0.079	0.001	0.002	0.797				
KSA	0.123	0.169*	0.069	-0.003	-0.227**	0.191*	0.031	0.136	1		
(p-value)	0.102	0.024	0.364	0.965	0.002	0.011	0.683	0.072			
BPCG	-0.286**	0.780**	0.092	0.556**	0.071	-0.137	0.182*	-0.120	0.022	1	
(p-value)	0.000	0.000	0.221	0.000	0.347	0.069	0.015	0.112	0.770		
PLCG	-0.239**	0.234**	0.769**	0.386**	0.18	-0.074	0.120	-0.110	0.060	0.418**	1
(p-value)	0.001	0.002	0.000	0.000	0.809	0.328	0.113	0.145	0.424	0.000	

\*significant at the 0.05 level(2tailed), \*\* significant at the 0.01 level (2-tailed)

Correlation matrix in table 4 below, show that the bonus plan, income smoothing, corporate governance and firm size is negatively correlated with the accounting policies applied to increase profit. Leverage (DER), current ratio, ownership management, accounting conservatism is positively correlated with the selection of accounting policies. The interaction between the bonus plan and corporate governance as well as the interaction between income smoothing and corporate governance has a negative significant in correlation with the accounting policies applied to increase profits, in accordance with what has been predicted.

#### 4.2 Hypothesis Testing Results

The hypothesis in this study has tested through logistic regression due to the data classification in this study; nominal data and ratios. The dependent and independent data of this research are formed in nominal and nominal ratio. Ghozali (2007) argued that the assumption of multivariate normal distribution can not be fulfilled because the independent variable is a mix between continuous variables (metric) and categorical (nonmetric). In it can be analyzed by logistic regression because it does not need the assumption of normality of the data on the independent variable.

Based encoding dependent variable, the category of accounting policies that may reduce profit will be given code 0 and accounting policies that will increase profit will be given code 1. Therefore coded 1 is the accounting policies that will increase profits, then the accounting policies that will raise the profits to reference or the effects of causes because the incident in question is hypothesized as the cause of the effects or problems. In this study, the existence of the bonus scheme plan (code 1) and their income smoothing (code 1) the cause to improve its accounting policies to raise earnings (code 1).

**Table 5. Logistic regression models without Moderating Research**

$$KA_{it} = a + b_1BP_{it} + b_2PL_{it} + b_3CG_{it} + b_4LEV_{it} + b_5CR_{it} + b_6UP_{it} + b_7KPM_{it} + b_8KSA_{it} + e_{it}$$

Variabels	Prediction	Coefficients	P-Value	Collinearity Statistic	
				Tolerance	VIF
Constant	+/-	-2,681	0,279		
BP	+	-0,601	0,109	0,891	1,122
PL	+/-	-1,136	0,002	0,898	1,114
CG	-	-1,645	0,051	0,955	1,047
DER	+	1,012	0,001	0,689	1,452
CR	+	0,221	0,009	0,679	1,473
UP	+	0,089	0,426	0,846	1,182
KPM	-	0,304	0,241	0,885	1,129
KSA	-	0,922	0,023	0,902	1,109
<b>Total Observasi</b>			177		
<b>Hosmer and Lemeshow Test</b>			0,059 (Chi-square = 14,986)		
<b>Omnibus Tests of Model Coefficients</b>			0,000		
<b>Nagelkerk R Square</b>			0,280		

\*\*\* signifikan pada level 1 %, \*\* signifikan pada level 5 %, \* signifikan pada level 10%

Notes: KA1 : Accounting Policy (inventory, depreciation, receivable); KA2: Accounting Policy (R&D expenses); BP: Bonus Plan; PL: income smoothing; CG: Corporate Governance; BP\*CG: interaksi interaction between the bonus plan and corporate governance; PL\*CG: interaction between the income smoothing and corporate governance; DER: debt to equity ratio; CR: Current Ratio; UP: company size KPM: management ownership; KSA: Accounting conservatism.

Table 5 shows the results of hypothesis testing on the first research model, where without entering a moderating effect. Overall all the independent variables in this study affect the accounting policies applied, based on the significance of Omnibus Tests of Model Coefficients of 0000 <0,05. Hosmer and Lemeshow Chi-square test was of 14.986 with a significance of 0.059 > 0.05. Means that the model is fit and models as feasible and should be interpreted. For models without moderating effect with a significance of 5% and 10%, variable income smoothing and corporate governance significant negative effect on the selection of accounting policies that will increase profit. Variable leverage (DER and Current Ratio) and conservatism significant positive effect on the selection of accounting policies that will increase profit. While variable bonus plan, the size of the company and management ownership does not affect the accounting policies in this study.

Table 6 is presented the results of logistic regression with moderating variable corporate governance. Results of testing the hypothesis with a second research model by using the moderating effects. Overall the independent variable in this study affect the accounting policies with respect to the Omnibus Test of Model Coefficients are smaller than 0.05. Value Hosmer and Lemeshow Chi-square test was at 11,572 with a significance of 0.171 > 0.05. Means that the model is fit and models as feasible and should be interpreted. In the model with the moderating effect of the variable bonus plan, DER and CR positive influence on the selection of

accounting policies that raise profits. The interaction between the bonus plan and corporate governance negatively affect the accounting policies that raise profits. While the interaction between income smoothing and corporate governance does not affect the accounting policies applied to increase profit. R square increased from 28% to 35% in the presence of moderating variables.

**Table 6. Results of Logistic Regression Model Research at Moderating**

$$KA_{it} = a + b_1BP_{it} + b_2PL_{it} + b_3CG_{it} + b_4(BP*CG) + b_5(PL*CG) + b_6LEV_{it} + b_7CR_{it} + b_8UP_{it} + b_9KPM_{it} + b_{10}KSA_{it} + e_{it}$$

Variabels	Prediction	Coefficients	P-Value	Collinearity Statistic	
				Tolerance	VIF
Constant	+/-	-4,468	0,118		
BP	+	1,825	0,040	,224	4,455
PL	+/-	-2,458	0,008	,236	4,230
CG	-	-1,309	0,472	,257	3,888
DER	+	1,204	0,000	,653	1,532
CR	+	0,232	0,012	,672	1,489
UP	+	0,170	0,163	,797	1,255
KPM	-	0,345	0,178	,874	1,145
KSA	-	0,671	0,115	,854	1,171
BP*CG	-	-6,662	0,002	,170	5,873
PL*CG	-	3,373	0,126	,163	6,131
Total Observasi			177		
<b>Hosmer and Lemeshow Test</b>			0,171 (Chi-square = 11,572)		
<b>Omnibus Tests of Model Coefficients</b>			,000		
<b>Nagelkerk R Square</b>			,350		
*** signifikan pada level 1 %, ** signifikan pada level 5 %, * signifikan pada level 10%					
Notes: KA1: Accounting Policy (inventory, depreciation, receivable); KA2: Accounting Policy (R&D expenses); BP: Bonus Plan; PL: income smoothing; CG: Corporate Governance; BP*CG: interaksi interaction between the bonus plan and corporate governance; PL*CG: interaction between the income smoothing and corporate governance; DER: debt to equity ratio; CR: Current Ratio; UP: company size KPM: management ownership; KSA: Accounting conservatism.					

#### 4.3 Sensitivity tests

Test the sensitivity was conducted to test the robustness of the model used in this study. Testing is done by changing the measurement sensitivtas accounting method that was originally used three methods: pemelihan inventory method, the depreciation method and the method receivables by recognizing the costs of R & D. Selection method of recognizing R & D expenses as a proxy for the election method of accounting, based on the assertion Murphy and Zimmerman (1993), that management make adjustments to the cost of research and development as a tool to enhance company performance targets relating to earnings is expected.

Accounting methods were analyzed in a sensitivity test using a single classification Accounting Method. Selection method of accounting for costs Research and Development (R & D) has a qualitative nature so that the measurement is done by giving the value 1 to companies that capitalizing on the cost of R & D (accounting policies that will increase profits). The companies that perform charging for the cost of Research and Development (R & D) is assigned a value of 0 (a policy that could lower profits) (Missioner-Piera, 2004). Table 7 shows the results of logistic regression models first research without moderating variable dependent variable accounting policies applied by the measurement method of the recognition of the costs of R & D.



**Table 7. Results of Logistic Regression Model Research without Moderating**

$$KA2_{it} = a + b_1BP_{it} + b_2PL_{it} + b_3CG_{it} + b_4DER_{it} + b_5CR_{it} + b_6UP_{it} + b_7KPM_{it} + b_8KSA_{it} + e_{it}$$

Variabels	Prediction	Coefficients	P-Value	Collinearity Statistic	
				Tolerance	VIF
Constant	+/-	8,876	,000		
BP	+	0,696	,058	0,891	1,122
IS	+/-	-0,282	,426	0,898	1,114
CG	-	-0,752	,329	0,955	1,047
DER	+	0,451	,090	0,689	1,452
CR	+	-0,113	,159	0,679	1,473
UP	+	-0,41	,000	0,846	1,182
KPM	-	3,542	,135	0,885	1,129
KSA	-	0,05	,895	0,902	1,109
Total Observasi			177		
<b>Hosmer and Lemeshow Test</b>			0,133 (Chi-square = 12,427)		
<b>Omnibus Tests of Model Coefficients</b>			,000		
<b>Nagelkerk R Square</b>			,218		

\*\*\* signifikan pada level 1 % , \*\* signifikan pada level 5 % , \* signifikan pada level 10 %  
 Notes: KA1: Accounting Policy (inventory, depretiation, receivable); KA2: Accounting Policy (R&D expenses); BP: Bonus Plan; PL: incoe smoothing; CG: Corporate Governance; BP\*CG: interaksi interaction between the bonus plan and corporate governance; PL\*CG: interaction between the income smoothing and corporate governance; DER: debt to equity ratio; CR: Current Ratio; UP: company size KPM: management ownership; KSA: Accounting conservatism.

Table 7 shows that together, all the independent variables influence on the selection of accounting policies. Bonus plan dam DER positive effect on the accounting policies applied at the 10% significance level. Size negatively affects the company's accounting policies at 1% significance level while other variables do not affect the accounting policies.

Table 8 shows the results of logistic regression test sensitivity in the presence of moderating variables. Taken together the independent variables affect the accounting policies. R squre increased from 21.8% to 27.4% in the presence of moderating variables. The interaction between the bonus plan and corporate governance negatively affect the selection of accounting policies. While the interaction between income smoothing and corporate governance has no effect on the selection of accounting policies. It is conclude that bonus plan, DER, the size of the company's significant positive effect on the selection of accounting policies.

**Table 8. Results of Logistic Regression Model Research withModerating**

$$KA2_{it} = a + b_1BP_{it} + b_2PL_{it} + b_3CG_{it} + b_4(BP*CG) + b_5(PL*CG) + b_6LEV_{it} + b_7CR_{it} + b_8UP_{it} + b_9KPM_{it} + b_{10}KSA_{it} + e_{it}$$

#### 4.4 Discussion of Research Result

The results of logistic regression test do not support the first hypothesis in this study. It means that the bonus plan for management does not affect the accounting policies which can boost profits. The results of this study do not correspond with the bonus plan hypthothesis stating the company's managers with the bonus plan prefers to choose accounting procedures to move the upcoming earnings reporting period to now or choose accounting policies that raise the value of earnings. Inoue and Thomas (1996), showed that the bonus plan does not affect the accounting method. The results of this study also was supported by descriptive statistics where 65% of companies have a policy of bonus plan but only 46% of companies who choose accounting policies that raise profits. This means that companies have different reasons in the selection of accounting policies.

The second hypothesis in this study supported where income smoothing significant negative effect on the selection of accounting policies that raise profits. This study supports the statement of Lev and Ohlson (1982) states that a more equitable profit is a positive signal for the market. This means that management decisions income smoothing (income smoothing) in particular in order to reduce the profit will influence how management has chosen accounting policies to be used. Smoothing earnings is mainly due to the management chose to keep its value stable profit compared to the value of earnings tend to fluctuate (volatile), so that the management will increase reported earnings if the amount of profit actually declined from profit a year earlier and instead management will choose to reduce reported earnings if profits actually increased compared to the previous year's earnings.

The third hypothesis test for interaction between the bonus plan and the corporate governance of the accounting policies applied. This study supports the hypothesis third where the presence of corporate governance as measured by the composition of the independent commissioners to decrease the number of independent commissioners management's desire to choose accounting policies that raise profits. Wilopo (2006) proves and supports the hypothesis that unethical behavior and tendencies of management accounting fraud can be reduced by increasing the effectiveness of internal control, adherence to accounting rules, the morality of management, as well as eliminate the asymmetry of information.

The fourth hypothesis test for interaction between income smoothing and corporate governance of the accounting policies applied. The results of the study do not support the hypothesis that has been proposed, meaning the interaction between income smoothing and corporate governance does not affect the management in the selection of accounting policies. This means that if management income smoothing through the selection of accounting policies do not take into consideration the existence of independent board. This study supports research to prove there was no effect on the proportion of independent board of earnings management activities (Park and Shin (2004), Veronica and Bachtiar (2004), Gideon (2005)).

Furthermore, the control variables in this study proved that leverage (Debt to Equity Ratio and Current Ratio) influence the selection of accounting policies, support research Fields, et al. (2001), D. This means that the Debt Covenant Hypothesis proved that management tends to give good performance information for the debtor to avoid penalties. Konservatism accounting in this study have a positive effect on the selection of accounting policies. While variable sized enterprises and management ownership is not proven effect in this study.

Test sensitivity by measuring the accounting policies applied through a method of research and development costs, shows that even the bonus plan has positive influence on the selection of accounting policies and no income smoothing. While the presence of good governance moderating variables showed consistent results in which good governance can reduce the tendency of selecting accounting policy is to raise profit even if the company has a bonus plan.

## 5. Conclusions

The bonus plan and income smoothing are variables that influence the management in the selection of accounting policies. With the bonus plan would be one of the considerations for management because in this case it appears agency theory. Income smoothing can also be linked to performance appraisal motivation of stakeholders and bonuses for management. This study aimed to analyze the effect of the bonus plan for the selection of accounting policies that will increase profits and income smoothing effect on the selection of accounting policies. The next test the effect of corporate governance as a moderating variable for the bonus plan and income smoothing to the selection of accounting policies.

The results of their research with corporate governance it can reduce management policies to increase earnings through accounting policies applied even if the company has a bonus plan but had no effect on income smoothing. Leverage and accounting conservatism affect the accounting policies applied to increase profit. While the size of the company and the percentage of managerial ownership has no effect.

Limitations of this study are the use of dummy variables which limits the conclusions. Also, this study used a wide variety of measurements for the dependent and independent variables, further researcher can develop by using other measures in accordance with the purpose of research.

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