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Original Article

Ethics and Corrupted Mind in Earnings Management Practice: A Hermeneutical Study

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Abstract: *This study aims to explore the perceptions of accountants and business practitioners toward earnings management practices executed by managers. It is informed by prior research that demonstrates widespread earnings management within corporate financial reporting, driven by diverse motivations and interests. Employing a qualitative approachspecifically a hermeneutic lens data were gathered through in-depth interviews with an accounting educator, a management accountant, a public accountant, an investment advisor, a credit analyst, and a tax auditor. The findings provide insight that the informants hold contrasting perceptions of earnings management practices. From the perspective of the accountants and the tax auditor, earnings management cannot be viewed as earnings manipulation as long as the practice is conducted within the framework of financial accounting standards. The accountants further argue that earnings management should not be regarded as corrupt behavior, unless it occurs outside the boundaries of financial accounting standards. Conversely, from the perspective of the investment advisor and the credit analyst, earnings management executed through any pattern and strategy is a reflection of corrupt behavior driven by a corrupted mind. They contend that earnings management is invariably conducted systematically based on specific motivations and interests. Ultimately, earnings management is an unvalued practice for stakeholders; hence, it must be avoided by managers.*

Keywords: *Accrual Accounting, Earnings Management, Corrupted Mind, Hermeneutics, Qualitative Approach.*

I. INTRODUCTION

International Accounting Standard (IAS) 1 requires companies to prepare financial statements on an accrual basis, except for the statement of cash flows [1]. This requirement embodies the Conceptual Framework for Financial Reporting [2], which explains the fundamental concept that the effects of transactions and other events are recognized when they occur rather than when cash or its equivalent is received or paid and are recorded in accounting records and reported in financial statements for the periods in which they occur. Financial statements prepared on an accrual basis provide users with information not only on past transactions involving the receipt and payment of cash, but also on future cash payment obligations and resources representing cash to be received in the future. The Conceptual Framework for Financial Reporting emphasizes that accrual-basis financial statements provide the most useful information on past transactions and events for economic decision-making, as accrual accounting serves as a superior indicator of company performance compared to cash-basis accounting.

In tandem with the emergence of increasingly complex business transactions, the implementation of accrual accounting has made many parties realize that this concept carries several weaknesses. [3], For instance, critics criticize accrual accounting as an imperfect accounting concept. They argue that the accrual concept obscures financial statements intended to provide information on cash flows and masks a company's capability to generate cash. This information obscurity stems from the complexity of accrual accounting alongside sophisticated business transactions, making it vulnerable to manipulative practices. This distortion of financial statements meant to present cash flow information ultimately provides opportunities for managers to engage in earnings management; by reporting accrual-based earnings, managers are not immediately obligated to account for cash flows that align with the reported earnings.

If the accounting earnings figure matches the net cash inflow from business activities exactly, it is a mere coincidence [4]. The accounting earnings figure generally differs from cash profit because accrual components are continuously embedded within accounting earnings. Since accounting earnings are difficult to trace back to net cash inflows from corporate activities as their objective reality, it creates incentives for opportunistic managers to engage in earnings management driven by specific backgrounds and motivations. The obscurity of information regarding cash flows and a company's ability to generate cash, coupled with earnings management practices, further compounds the difficulty for financial statement users in assessing earnings quality as an indicator of corporate performance [5].

Earnings management is believed to emerge as a direct consequence of efforts by managers or financial statement preparers to manipulate earnings figures for personal and/or corporate interests. [6] posits that managerial motivations to engage in earnings management are driven by bonus plans, debt covenants, and political costs. Managers are motivated to adjust earnings figures to achieve targeted performance metrics related to their bonuses, minimize the likelihood of breaching debt covenants between the company and creditors, and mitigate potential political costs arising from government intervention through specific regulations. The strategies implemented by managers in earnings management include making accounting method choices and applying specific estimations as accounting policies, particularly through discretionary accruals.

Several studies demonstrate that earnings management practices by managers genuinely exist across various motivations and contexts (see, for example, [7]; [8]; [9]; [10]; [11]; [12]; [13]; [14]; and [15]). These studies reveal that the vast majority of earnings management by managers is carried out through accounting method choices and accounting estimation strategies (discretionary accruals), while only a minor portion is carried out through legitimate real transactions or fictitious transactions.

In accordance with their scope, approach, and research methods (quantitative), the aforementioned studies only attempt to reveal the presence or absence of earnings management executed by managers, along with its strategies, motivations, and interests. Consequently, these studies do not further explore the perceptions, attitudes, or responses of investors, creditors, and tax auditors, who directly or indirectly serve as the targets and experience the impacts of earnings management practiced by managers.

By employing a qualitative approach, this study aims to complement the findings of the quantitative studies conducted by the researchers mentioned above. This study attempts to gather information and understand the opinions, attitudes, or responses of investors, creditors, and tax auditors regarding earnings management practiced by corporate managers. In addition to investors, creditors, and tax auditors, this study also seeks to collect data and understand the same aspects from management accountants, public accountants, and accounting educators.

II. LITERATURE REVIEW

A) The Essence of Accrual Accounting

Accrual is a highly critical concept in accounting, as it serves as the underlying assumption for accounting practices. Accrual accounting seeks to record the financial effects on equity of transactions, events, and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events, and circumstances occur, rather than being limited to the periods in which cash is received or paid by the enterprise [1] and [2]. In recognizing non-cash transactions, events, and circumstances when they occur, accrual accounting considers the inclusion of not only accruals but also deferrals, including allocations and amortizations.

The primary objective of accrual accounting in utilizing accrual, deferral, allocation, and amortization procedures is to recognize and report revenues, expenses, gains, and losses during a specific period as a reflection of corporate performance for that period, while the enterprise continues its operations with an indefinite lifespan [16]. Consequently, the recognition of revenues, expenses, gains, and losses as well as the associated increases or decreases in assets and liabilitiesconstitutes the essence of utilizing accrual accounting to measure corporate performance, in order to address timing issues in cash flow recognition that do not always align with the timing of activity completion [17].

B) Earnings Management

Through accrual and deferral procedures, the accrual concept obscures financial statements intended to provide information on cash flows and masks a company's capability to generate cash. This distortion represents an inherent weakness of accrual accounting [18]. Driven by specific motivations, this inherent weakness in accrual accounting provides an opportunity for managers to engage in earnings management, further fueled by information asymmetry between managers and external parties. Because managers possess relatively more information than outsiders, it is impossible for external parties to monitor all managerial behaviors and decisions in detail [19] and [20].

From various perspectives, several authors define earnings management differently. [21] define earnings management as managerial efforts to influence currently reported net income. More explicitly, [22] define earnings management as managerial actions intended to increase or decrease currently reported net income without causing a long-term increase or decrease in the company's economic profitability. This definition implicitly illustrates that earnings management is merely a managerial action to shift the timing of earnings recognitionby increasing or decreasing currently recognized earningswithout affecting the company's total earnings or long-term profitability.

In contrast, [23] defines earnings management as a purposeful intervention in the external financial reporting process with the intent of obtaining some private gain. Agreeing with [23], [24] state that earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports, aiming to mislead stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers.

The definitions provided by [23] and [24] indicate that earnings management is not merely about shifting the timing of earnings recognition; rather, it entails managerial efforts to mislead stakeholders regarding corporate performance, thereby influencing stakeholders to make economic decisions that align with the managers' expectations. This earnings management phenomenon, as posited by [23] and [24], was famously addressed by Arthur Levitt, the Chairman of the Securities and Exchange Commission (SEC). In his speech on September 28, 1998, Arthur Levitt used the term "earnings management" to refer to corporate managers' attempts to distort the actual economic facts of the company and report achieved results that suit management's interests (see [25]). Levitt also stated that an erosion of earnings quality has occurred, which ultimately implies a comprehensive erosion of financial reporting quality.

C) Earnings Management Patterns and Strategies

The common earnings management patterns executed by managers include income increasing, income decreasing, and income smoothing [26]. These earnings management patterns can be achieved through strategies involving appropriate operating, investing, and financing decisions [27], as well as the selection of accounting techniques deemed strategic [28]

Operating, investing, and financing decisions frequently fail to yield results that meet managers' expectations, even when such decisions are considered optimal. Consequently, managers shift their focus to selecting accounting techniques deemed effective in influencing earnings figures [29]. The operationalization of influencing earnings figures through these accounting techniques includes accruals management, the early adoption of new accounting standards, and changes in accounting policies [30].

Earnings management practices conducted through accruals management are essentially driven by the inherent weaknesses in accrual accounting and the flexibility available in calculating earnings figures. This flexibility arises from the numerous choices of accounting methods, which allow management to record a specific fact in different ways, as well as the allowance of subjectivity or judgment in determining estimations during the financial statement preparation process [31].

D) Accruals Management

Despite being driven by specific motivations and interests, [32] states that earnings management conducted through accruals management is not synonymous with earnings manipulation. Earnings management is practiced to fulfill managerial interests by exploiting the inherent weaknesses of accrual accounting policies and remains within the corridor of generally accepted accounting principles. Conversely, earnings manipulation constitutes a violation of generally accepted accounting principles to generate corporate financial performance that suits the interests of the manager or the company [33].

[32] statement is consistent with [21], who assert that if earnings management is conducted based on sound managerial judgments or through the selection of accounting methods and procedures within the boundaries permitted by accounting standards, it does not constitute fraud, even though earnings management practiced in this manner can influence stakeholders' decisions. However, it remains entirely possible for earnings management practices to escalate into fraud. Earnings management is executed deceptively when managers intentionally apply unreasonable estimation methods and select inappropriate accounting and financial reporting methods, causing the financial statements to fail to reflect the company's true economic position. The fraudulent intent of this type of earnings management is none other than to mislead stakeholders or a specific group of stakeholders [24].

Within the context of the definition provided by [22], earnings management practices are merely an attempt to "play with" earnings numbers on paper and do not result in material losses for anyone. Managers execute this manipulation of earnings figures on paper by exploiting the available flexibility within accounting standards. This is made possible because accounting standards sufficiently provide opportunities for managers to record specific facts in different ways, as well as opportunities to apply subjectivity in making accounting estimates [34].

III. RESEARCH METHODOLOGY

A) Research Approach

This qualitative study adopts a hermeneutic, specifically interpretive, approach to analyze informant perceptions of accrual accounting and earnings management as textual interpretations. Drawing on [35], this research interprets these "texts" to understand the underlying meanings, utilizing a proper hermeneutic methodology.

B) Informants (Participants)

The individuals serving as informants in this study consist of: (a) three accountants, practicing as an accounting educator, a management accountant, and a public accountant; and (b) three other professionals, practicing as an investment advisor, a credit analyst, and a tax auditor. Table 1 below displays the selected informants in this study.

Table 1: Informants

Informant Identity	Field of Work/Position/Job in the Organization
Accountants:	
1. Juniarto	Lecturer of financial accounting and accounting theory courses at a state university in Jakarta, Indonesia
2. Kriswanto	Accounting Manager at DLS Company, responsible to the Vice Finance Manager.
3. Wardani	Managing Partner at Public Accounting Firm SB&R.
Other Profession:	
4. Mulyono	Advisor and Investment Manager of SM Securities Co., responsible to the President Director.
5. Yulianti	Head of Bank ABC, experienced as a credit analyst.
6. Hardiman	Tax inspector, employee at a Tax Service Office

Source: *summarized by the author.*
Note: *The names of the informants are not their real names. The organizational acronyms also do not reflect the actual acronyms.*

C) Method of collecting data

Data and information are collected through unstructured, unscheduled interviews and discussions, so informants do not tend to process or prepare information in advance and can provide explanations as they are.

IV. RESULTS AND DISCUSSION

A) Accrual Accounting Outperforms Cash Accounting

The accounting educator, management accountant, and public accountant share the same opinion and view that accrual-based accounting provides superior information regarding corporate performance compared to cash-based accounting. Below are their respective statements:

- "...Accounting is currently operationalized using the accrual concept, which recognizes assets, liabilities, revenues, and expenses when they occur, regardless of whether the related cash has been received or paid. This enables accounting to provide better financial information than accounting operationalized on a cash basis..." [Juniarto – accounting educator].
- "...In my opinion, the accrual basis for recognizing and reporting revenues and expenses is indeed better at depicting the performance of corporate managers. Cash receipts and disbursements are merely the effects of managerial performance, rather than the performance itself..." [Kriswanto – management accountant].
- "...The accrual basis is indeed better than the cash basis, especially when utilized to measure and assess the operating performance of a corporate manager..." [Wardani – public accountant].

These accountants agree that while managerial performance is indeed evaluated based on the company's capability to generate cash, the cash flow itself is not a performance measure whose evaluation is confined by a specific timeframe (accounting period). Juniarto (the accounting educator) emphasizes that if the profit reported by the manager matches the net cash received exactly, it is a mere coincidence.

B) Accrual Accounting Obscures Cash Flows

The investment advisor, credit analyst, and tax auditor also agree with the accountants that accrual accounting is indeed superior to accounting that merely records cash receipts and disbursements. They recognize that accounting activities essentially focus on recording and reporting transactions that carry cash consequences. However, since the occurrence of cash flows does not always coincide with the completion of transactions, accounting is operationalized through the accrual concept.

Nevertheless, they generally contend that the application of accrual accounting should be confined to real business events that are verifiable in the real world. According to Mulyono (the investment advisor) and Yulianti (the credit analyst), applying accrual accounting to non-real transactions or events obscures the cash flows of the reported transactions or events. They state that:

- "...If the accrual basis in profit calculation is applied to real events, accounting profit becomes easy to understand. However, nowadays, the accrual basis is also widely applied to non-real eventsevents that are not facts. This is what makes accounting profit often difficult to comprehend... the cash flows from those events become obscure and challenging to interpret. The objectivity of accounting profit remains questionable: what is the actual reality of its cash flow?..." (Mulyono – the investment advisor)
- "...In accounting practice, there are events that are actually merely concepts, yet they are already recorded as if they were real events, so that accounting profit does not truly depict financial performance that can be operationally understood by laypeople. Actually, the accrual basis is good for depicting financial performance, but if it is applied excessively, the cash flow reflected in the profit figure becomes unclear..." (Yulianti – credit analyst)

The impact of accrual accounting in obscuring cash flows and a company's capability to generate cash is acknowledged by tax auditor Hardiman, who notes that applying it to non-real, conceptual events makes the actual revenue flows intended for representation unclear. He further states that this issue arises when recording and reporting earnings for events that lack physical, cash-based reality. He states that:

- “...Therefore, tax laws and regulations do not fully embrace the accrual concept implemented in accounting. I believe we all understand that the concepts of financial accounting and tax accounting differ. Financial accounting prioritizes economic substance over legal form, whereas tax accounting prioritizes both. In addition to economic substance, the legal certainty of revenues and expenses is critical in taxation. The cash flows associated with revenues and expenses in taxation must be clear and must arise from real transactions, rather than mere concepts...” (Hardiman – tax auditor).

According to Hardiman, the clarity of cash flows regarding revenues and expenses is closely tied to the certainty of the tax amount that taxpayers must pay. The tax payable represents a real amount that must be settled, rather than a conceptual figure. Consequently, within tax accounting, the accrual basis is strictly applied to real transactions and events.

C) Managerial Intervention in Earnings Figures

The term "earnings management" is not foreign to accountants, including accounting educators, management accountants, and public accountants. Their daily professional practices underpin their interpretation of the term earnings management, which they frequently encounter in accounting practice. The interpretations of earnings management by accounting educators, management accountants, and public accountants are intricately linked to their conceptual framework regarding the structural formation of earnings figures in accounting, namely revenue minus expenses. On the other hand, their interpretation of earnings management is also inseparable from their habits and routines of reading accounting literature.

Referring to various literature, such as [36], earnings management is defined as a purposeful intervention in the external financial reporting process with the intent of obtaining some private gain. Juniarto (the accounting educator) and Wardani (the public accountant) interpret earnings management in exact alignment with the definition provided by [37]. Wardani states:

- “...In accordance with the literature I have read so far, managerial efforts to influence the magnitude of earnings figures according to their desires are precisely what is called earnings management. Earnings management is inherently executed through revenue management and expense management...” (Wardani – public accountant)

No differently from the accounting educator and the public accountant, Kriswanto (the management accountant) interprets earnings management as managerial efforts to influence earnings figures; he even notes that such practices are commonly desired by managers due to specific interests. Based on his experience as a management accountant, he straightforwardly recounts:

- “...The books I have read about earnings management are accurate; it is not merely confined to theory, but is indeed the reality in practice. I also frequently read research articles, and that is precisely how it is. The size of earnings figures can be adjusted according to one's desires. The motivations vary: to meet the requirements for liquidating bank credit ceilings, as an effort to secure large annual bonuses, and also as an attempt by the chief executive officer to maintain their position during the annual general meeting of shareholders...” (Kriswanto – management accountant)

On the other hand, the investment advisor, credit analyst, and tax auditor also comprehend the term earnings management within the framework of the definition provided by [36]. They acknowledge that their understanding of the term earnings management is based on the literature they have read, as well as on discussions they have held with academics. They understand earnings management as managerial efforts to manipulate earnings figures to satisfy their own interests. "That is the managers' trickery to fulfill their ambitions," says Mulyono (the investment advisor).

From a different perspective, Hardiman (the tax auditor) links the term earnings management with the term tax management. According to him, the term earnings management possesses a meaning whose substance is identical to that of tax management. He states:

- “...In essence, tax management involves efforts to minimize the tax payable by reducing taxable income in such a manner. Meanwhile, earnings management involves managerial efforts to minimize personal or corporate risks by achieving specific earnings figures that align with their objectives...” (Hardiman – tax auditor)

The informants' statements above demonstrate that earnings management by managers is invariably driven by specific motivations or interests. This is consistent with [38] assertion that earnings management practices arise from the opportunistic behavior of managers.

D) Real Operations Management and Accruals Management

[39] state that managers can execute earnings management through strategies involving appropriate operating, investing, and financing decisions. In addition, earnings management can also be conducted through the selection of accounting techniques deemed strategic [40]. The accounting educator, management accountant, and public accountant validate this assertion.

Juniarto (the accounting educator), for instance, states that from an academic perspective, management comprises three critical elements of action to achieve objectives, namely planning, plan implementation, and control. He further notes that:

- "...Consequently, earnings management can be conceptualized as profit planning and control. Therefore, earnings management can be executed through sound operations management, such as production management, financial and investment management, marketing management, or management in other sectors. In other words, the earnings targeted by managers are achieved through the planning and control of production, investment, or marketing. All of these ultimately culminate in the planning and control of revenues and expenses..." (Juniarto – accounting educator)
- "...The earnings target is indeed determined based on the operational capabilities of the company's management, such as production, marketing, and financial management capabilities. However, that falls within the definition of operating profit. In reality, management performance is not only evaluated based on the achieved operating profit, but is assessed based on net income after tax. In fact, the net income after tax figure is heavily influenced by accounting calculations that merely generate numbers on paper, regarding both revenue and expense figures. Therefore, there is nothing wrong with adjusting the magnitude of earnings figures by selecting accounting techniques that support it..." (Kriswanto – management accountant)

Wardani (the public accountant) agrees with Juniarto and Kriswanto that operational decisions failing to yield results in line with managers' expectations will shift their attention to selecting accounting techniques deemed effective in influencing earnings figures, as disclosed by [41]. In this regard, Wardani emphasizes:

- "...The process of influencing earnings figures by exploiting accounting techniques is not only executed by managers through simply selecting accounting methods to manage accrual numbers, but can also be conducted by shifting the timing of transactions while simultaneously shifting their recording and reporting periods. Within the context of accrual accounting, shifting transactions as well as their recording and reporting periods poses no problem for managers, because managers are not immediately obligated to account for the cash flow consequences when they prepare financial statements..." (Wardani – public accountant)

The earnings management strategies disclosed by the accountants are well recognized by the investment advisor, credit analyst, and tax auditor. Hardiman (the tax auditor) notes that corporate managers can indeed influence earnings figures in various ways: through real operational policies or through the "manipulation" of accrual numbers. The inherent weaknesses of accrual accounting and the flexibility in selecting accounting methods as driving factors for managers to engage in earnings management are also not denied by Yulianti (the credit analyst). She opines that the obscurity of cash flows reflected in earnings figures accounted for on an accrual basis provides an opportunity for managers to "play with" earnings numbers on paper.

E) Earnings Management is Not Corrupt Behavior

As previously mentioned, [18] states that earnings management conducted through accruals management is distinct from earnings manipulation. Earnings management is practiced by exploiting the inherent weaknesses of accrual accounting policies and remains within the corridor of generally accepted accounting principles; conversely, earnings manipulation constitutes a violation of generally accepted accounting principles to generate corporate financial performance that suits the interests of the manager or the company (see also [19]). The accounting educator, management accountant, and public accountant concur with the views of [18] as well as [20]. Below are their comments:

- "...As long as it is conducted without violating financial accounting standards, the practice of earnings management is legitimate. Managers and accountants cannot be blamed, because earnings management practiced in this manner is not a fraudulent act..." [Juniarto – accounting educator]
- "...Earnings management through accruals management basically only affects earnings figures on paper by exploiting flexible accounting rules. If everything is conducted without violating accounting regulations, what is wrong with earnings management?" [Kriswanto – management accountant]
- "...Selecting accounting methods to influence earnings figures is clearly not a fraudulent act, so the practice of earnings management in this manner is perfectly permissible..." [Wardani – public accountant]

The views of the accountants above demonstrate that from an accountant's perspective, the practice of earnings management does not constitute fraud (corrupt behavior) as long as it is conducted within the corridor of accounting standards. This professional perspective is inseparable from their understanding of the meaning of "fraud" framed within their profession, particularly as prescribed in Auditing Standard Section 316, which distinguishes fraud from error [42]. The differentiating factor between fraud and error is whether the underlying action is intentional or unintentional. Fraud in financial reporting may involve the intentional omission of amounts in financial statements designed to mislead financial statement users.

A similar view is presented by Hardiman (the tax auditor). Hardiman opines that the practice of earnings management by managers is inherently no different from the tax management practices carried out by taxpayers. According to him, tax management does not constitute fraud as long as it is executed legally within the corridors of tax laws and regulations. Tax management is not a corrupt activity, because taxpayers are merely navigating the loopholes that exist within tax laws and regulations.

F) Earnings Management: The Drive of a Corrupted Mind

From a different perspective, the view of Mulyono (the investment advisor) is particularly intriguing to examine. Mulyono understands earnings management as a purposeful intervention by managers or accountants in the external financial reporting process with the intent of obtaining some private gain. Although earnings management is executed through real operations management or accruals management strategies that do not violate accounting standards, he disagrees with the accountants who state that earnings management practices are not corrupt behavior. He states that:

- "...Executed through whatever strategy, whether violating accounting standards or not, the practice of earnings management is a corrupt act. I define it as a corrupt act because the practice is driven by personal motivations and interests while disregarding the interests of other parties..." (Mulyono – investment advisor)

Mulyono's opinion appears highly consistent with the Conceptual Framework for Financial Reporting regarding the neutrality of financial statements, as well as IAS 1 regarding the objective of financial statements, stating that information must be directed toward the common needs of users, independent of the needs and desires of specific parties. There should be no attempt to present information that advantages certain parties while disadvantaging others with opposing interests [1] and [2].

According to Mulyono, no earnings management is conducted without motivation or interests, whether for personal or corporate benefit. "To achieve those interests, earnings management is inevitably executed intentionally and systematically," he notes. Mulyono continues his statement:

- "...Based on normal reasoning and logic, the selection of accounting methods should be conducted without specific motivations or interests that provide superior benefits to one party over others. The selection of accounting methods should also not require systematic review by considering its impact on earnings figures, because any accounting method will actually generate the same earnings figure in the long run. Because the minds of managers or accountants are more focused on the presentation format of earnings figures rather than their substance, the practice of earnings management is deemed commonplace..." (Mulyono – investment advisor)

Furthermore, Mulyono asserts that the practice of earnings management is a corrupt behavior driven by a corrupted mind. "Simply put, I define a corrupted mind as one that considers a wrongdoing as right, or perceives something that is actually malicious as harmless," Mulyono explains. According to him, such thoughts arise because legal considerations are prioritized over the essence of an action and its impacts. He further states:

- "...In my view, the assertion that the practice of earnings management does not constitute fraud as long as it is conducted without violating accounting standards is a statement based on reasoning and mindset that deviate from normal reasoning and logic. That mindset is corrupted by legal or regulatory considerations, namely accounting standards. From a legal standpoint, the practice of earnings management indeed does not defraud accounting standards; however, it defrauds the interests of other parties through the systematic selection of accounting choices..." (Mulyono – investment advisor)

Mulyono's opinion appears highly inspired by Kwik Kian-Gie's criticisms of the corruption phenomenon written in his book [42]. He indeed states his criticism that:

- "...A corrupted mind is difficult to discern through action, but easy to see from the motivation or interest to act. It is impossible for all crimes originating from bad faith to be anticipated and comprehensively regulated by the text of laws and regulations... The reason is humans' limitless innovation and creativity in discovering ways and phrasing words to claim that they are not committing a crime... Corruption in the sense of a corrupted mind, which does not involve stealing state funds, is no less dangerous than the criminal act of corruption itself. A corrupted line of thinking also results in extraordinarily massive losses..."

As an investment advisor, Mulyono states that the practice of earnings management is an unacceptable behavior, as it implies a loss of financial statement credibility and increases information bias within financial reports, thereby disrupting users who trust the manipulated earnings figures as unmanipulated ones. "With the presence of earnings management, investors do not receive sufficiently accurate information about earnings to evaluate the returns and risks of their investment portfolios," Mulyono notes.

G) Meaning Distortion and Rationalization

The view that the practice of earnings management constitutes a corrupt and unacceptable act is also put forward by Yulianti (the credit analyst). Yulianti recognizes that earnings management is fundamentally merely an action to influence earnings figures on paper by exploiting the flexibility of accounting standards. Consequently, when earnings management practices are executed, they do not always result in direct material losses for the targeted parties, nor do they always yield direct material gains for the perpetrators.

In addition, Yulianti also recognizes that with the presence of earnings management, corporate performance is only affected in the short run, whereas in the long run, the corporate performance reflected in the earnings figures is identical to what it would have been had the earnings figures not been influenced or managed. Nevertheless, she opines that:

- "...The short-term impact of earnings management practices is precisely where the problem lies. In the short run, the practice of earnings management will provide faster benefits to certain parties and will delay the provision of those benefits to others. For the perpetrators of earnings management, the profits or benefits do not actually have to be obtained now, but are engineered in such a manner so that those benefits can be obtained sooner. Those benefits are acquired not naturally, but through information engineering..." (Yulianti – the credit analyst)

From Yulianti's perspective as a credit analyst, earnings management can cause credit disbursement decisions to differ from what they otherwise should be. She provides an example:

- ...A credit disbursement in a particular semester actually could not be executed because the debtor failed to meet the earnings requirements of the previous semester. However, because the debtor engineered those earnings figures, the credit disbursement for this semester had to be carried out. With that credit disbursement, there is indeed no material loss for the bank as the creditor; nonetheless, the bank's decision has been defrauded by the debtor who wanted their credit disbursement to proceed without delay. There is a benefit obtained by the debtor more rapidly, but the method is not natural compared to when business practices are conducted normally..." (Yulianti – the credit analyst)
- "...The view that the practice of earnings management is not synonymous with earnings manipulation is, in my opinion, an irrational perspective that has been rationalized. What I mean by rationalization is the cognitive effort to make irrational matters appear rational by seeking specific arguments to legitimize that line of thinking. Achieving target earnings figures should be accomplished through normal business operations, not by operating on paper. If it is merely operating on paper, that is what you call earnings manipulation. However, the argument commonly used to assert that this game on paper does not constitute earnings manipulation is whether or not a violation of accounting standards has occurred..." (Yulianti – the credit analyst)

Regarding her criticism, Yulianti opines that the term "earnings management" itself actually contains a distortion of meaning. She states:

- "...The term 'management' inherently possesses a noble meaning, which encompasses planning, executing, and controlling an activity to achieve specific objectives. However, in the term 'earnings management,' the noble meaning of the word 'management' has been reduced to a pejorative connotation such as adjusting, altering, playing with, manipulating, and engineering earnings figures to achieve negative goals. I do not know who first reduced the meaning of the word 'management' in such a way. Was it academics or practitioners?"

Yulianti's statement is consistent with [44] assertion that reducing meaning with the intent to distort constitutes another form of corrupt behavior, and the distortion of meaning itself is usually created to conceal a corrupt act. Furthermore, [44] states that "distortion" is the obscuring of the meaning of an action or phenomenon from the meaning that people usually attach to it. The phenomenon of altering terms from "laborer" to "worker" or from "price increase" to "price adjustment" can be interpreted as a phenomenon of corruption if there is indeed intentionality and a target profit to be achieved. The corrupt nature of meaning distortion becomes increasingly apparent when the distortion is situated within the context of communication.

V. CONCLUSION, IMPLICATIONS, AND LIMITATIONS

A) Conclusion

Accrual is a critical concept that serves as the underlying assumption in accounting practice, despite the fact that the accrual concept itself is imperfect and carries inherent weaknesses. Managers frequently exploit the imperfections and weaknesses inherent in accrual accounting as opportunities to engage in earnings management to achieve specific objectives.

Earnings management is not considered equivalent to manipulation or corrupt behavior by accountants and tax auditors, provided it adheres to generally accepted accounting principles. The interpretation of these practices remains contentious, varying according to the perspective of the research informants.

Meanwhile, the investment advisor and credit analyst, who serve as the targets and confront the direct and indirect impacts of earnings management practices, state that earnings management is no different from earnings manipulation. They view earnings management practices as a reflection of corrupt behavior motivated by corrupted minds. They regard the perpetrators of earnings management, as well as those who assert that earnings management is not corrupt behavior, as parties who have distorted the meaning of the word "management" from its noble meaning into a pejorative connotation. In the view of the investment advisor and credit analyst, earnings management is an unacceptable practice because it distorts financial information and biases financial statements toward the manager's interests.

B) Implications

The controversial views regarding earnings management practices carry several implications. First, they relate to the potential presence of hegemony in addressing earnings management practices. Based on accounting standards, financial statements are the product of collective accounting engineering that is expected to be useful for all requiring parties. If financial statement figures (specifically earnings figures) are engineered to satisfy the manager's interests while the interests of other parties (such as investors and creditors) are disregarded, the earnings information is no longer neutral, which contradicts the concept of neutrality formulated in the Conceptual Framework for Financial Reporting.

The results of several academic studies extensively reveal that the practice of earnings management constitutes a facticity. In this regard, a mainstream view prevails that as long as it is conducted without violating accounting standards, the practice of earnings management is legitimate and cannot be categorized as a fraudulent act. This mainstream view dominates and represses the minority perspective that opposes earnings management practices, which argues that regardless of its patterns and strategies, earnings management is a fraudulent act driven by a corrupt mind. Within this context, assertiveness from standard-setting bodiesboth for accounting and auditing standardsis required to definitively determine the permissibility of earnings management practices, as well as to establish procedures for proving whether accruals management or the selection of accounting methods constitutes an attempt at earnings management or not.

Second, they relate to the inherent weaknesses of accrual accounting and the flexibility in selecting accounting methods. It is undeniable that earnings management practices occur because opportunities exist. These opportunities stem from the imperfections embedded within accrual accounting and the presence of flexibility in the choice of accounting methods. The more widespread the application of accrual accounting in recording and reporting non-real business transactions, the more scattered the factual contents of financial statements become, and the more obscure the cash flows intended for representation through earnings information, even masking the company's capability to generate cash. This provides an incentive for managers to engage more boldly in accruals management with the aim of influencing earnings figures on paper, especially when reinforced by the flexibility in selecting accounting methods.

Within this context, it is crucial for accounting standard-setting bodies to deliberate on the importance of restricting the application of the accrual concept to real and verifiable business transactions in the real world. Similarly, it is essential to reduce the flexibility in selecting accounting methods to minimize the opportunities that can be exploited for earnings management practices.

C) Research Limitations

The execution and results of this study carry several limitations. The primary limitations are as follows: First, this study only attempts to understand the opinions and attitudes of the informants toward earnings management practices conducted by managers in accordance with their respective professions or positions; it does not attempt to further uncover their perspectives on what measures should be taken in accounting practice to prevent earnings management from occurring.

Second, the opinions and attitudes of the informants toward earnings management practices in this study cannot yet be generalized to the interpretation of accountants and business actors as a whole. Future research involving different cohorts of informants remains highly necessary.

Conflicts of Interest

The author(s) declare that there is no conflict of interest regarding the publication of this paper.

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