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Profit management from a legal and accounting perspective

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ABSTRACT
This study aimed to understand and analyze Profit Management from legal and accounting perspectives. To obtain data related to these variables, researchers made indirect observations. The data used in this study were secondary data, collected through intermediary sources (obtained and recorded by other parties). Secondary data typically included evidence, records, or historical reports compiled in published and unpublished archives (documentary data). The research employed action research, with data collection conducted primarily through intermediary media. Based on the results of this study, the effectiveness of law and accounting was shown to have had a positive and significant impact on profit management within a company. In the case study of banking services, where conventional bank interest was considered usury, financial institutions were required to adhere to Sharia foundations. The values of Sharia law served as a fundamental framework in the societal and national life systems, with Islamic law governing as a rule of life. The pillars and legal conditions of contracts in Sharia were akin to the legal conditions in principle.

Keywords: Profit management, legal perspective, accounting perspective, Islamic banking, conventional banking

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INTRODUCTION
In the world of accounting, the treatment of every transaction poses a significant challenge (Hendriksen and Breda, 1992). At the outset of their book Accounting Theory, the authors emphasize two key points. Firstly, theoretical issues extend beyond mere theoretical problems; they carry practical implications for management, auditors, and

other stakeholders. Secondly, accounting theory often involves professional judgment exercised by individuals involved in specific cases or issues. Consequently, in the United States, the Financial Accounting Standards Board (FASB) serves as a standard-setting institution, suggesting that the selection of accounting policies can occur at two levels. The first level entails choices made by formal institutions with the authority to enforce compliance within the business community, while the second level permits companies to make individual choices (Abdul, 1999).

Effective accounting encompasses a series of procedures, comprising activities aimed at recording, summarizing, classifying, and reporting data in the form of financial statements within a given period (Sujarweni, 2019). Accounting, as a discipline, entails the systematic process of recording, summarizing, classifying, processing, and presenting transactional data derived from various financial activities (Sutrisna et al., 2019). The understanding of the nature and significance of environmental accounting varies depending on the professional perspective and functional orientation of the practitioner (Parker, 1995). This can involve various functions within a company, such as finance, accounting, law, and so forth. From the perspective of accounting itself, this issue presents differing interpretations among internal and external accountants. Internal accountants primarily focus on cost-related concerns, whereas external accountants emphasize the recognition and disclosure of environmental obligations.

The development of law is rooted in its nature, which can be analyzed from various perspectives, including the purpose of law, justice, the basis for its binding force, and compliance reasons. This prescriptive aspect of legal science holds significant importance within the field. Legal science doesn't merely regard law as an external social construct; rather, it delves into its intricate aspects. According to Aristotle, laws consist of rules that either establish or prohibit various actions, while universal laws pertain to natural laws with inherent order and direction (Arif and Yasin 2019).

In the realm of macroeconomic management, the widespread adoption of various Islamic financial products and instruments holds the potential to strengthen the relationship between the financial sector and the real economy, fostering harmonization between these two sectors. Furthermore, the increased utilization of Islamic products and instruments not only supports public financial and business endeavors but also diminishes speculative transactions, thereby bolstering overall financial system stability. This, in turn, can significantly contribute to achieving medium to long-term price stability (Dandung, 2020).

Islamic Sharia serves as a comprehensive guide for humanity, designed to lead people to happiness in both the worldly life and the Hereafter by implementing various injunctions outlined in the Qur'an and the Sunnah. Hanafi (1984) explains Sharia, asserting that it comprises laws ordained by God for His servants through His Prophets, encompassing guidelines for conduct known as branch laws and practices. Similarly, Zuhdi (1987) in Safriani (2017) defines Sharia as the laws established by Allah through His Messenger, intended for His servants to obey.

In Islam, the relationship between various aspects or teachings is often observed through the muamalah system, encompassing a wide array of teachings from legal rights to financial institution affairs. Financial institutions, in general, consist of two main types: bank financial institutions and non-bank financial institutions (Budisantoso and Triandaru, 2006).

Conventional banks, as defined by Budisantoso and Triandaru (2006), engage in activities involving fund mobilization and distribution, where they provide funds and charge interest or a predetermined percentage as compensation for the use of funds over a specified period. Martono (2002) elaborates on the principles guiding conventional banks, highlighting two methods. Firstly, interest serves as a pricing mechanism for savings products such as savings accounts, time deposits, and loan products (credits) extended at specified interest rates. Secondly, for other bank services, various fees are applied either at fixed nominal amounts or as a percentage of transactions, constituting a fee-based pricing system.

The distinction between Islamic banks and conventional banks primarily lies in the principles they adhere to. Islamic banks operate on the profit-sharing principle, aiming to avoid usury, while conventional banks rely on interest-based operations with the goal of maximizing profits. Furthermore, Islamic banks typically incorporate a Sharia Supervisory Board, which oversees compliance with Islamic principles, whereas conventional banks lack such a board.

As financial institutions, both types of banks must uphold their performance to operate optimally. Additionally, Islamic banks in Indonesia face the challenge of competing with well-established and rapidly growing conventional banks. This competition prompts Islamic banks to enhance their performance and adopt a professional orientation (Budiono, 2017).

Profit management, as described by Wirakusuma (2016), is a deliberate process guided by financial accounting standards, aimed at directing profit reporting to a specific level. According to Schipper, as cited in Riske and Basuki (2013), profit management refers to a scenario in which management intervenes in the preparation of financial statements for external parties to manipulate, stabilize, or reduce profits. It's important to note that profit management can undermine the credibility of financial statements, introducing bias and potentially misleading users who may perceive manipulated figures as accurate representations (Setiawati and Na'im, 2000).

Profit management refers to an accounting practice undertaken by managers to manipulate profits in financial statements, typically with the intention of deceiving stakeholders seeking insight into the company's performance and condition. These actions can be construed as managerial interference in the financial reporting process, often driven by self-interest, such as securing bonuses and enhancing perceptions of managerial performance (Sarah et al., 2023).

LITERATURE REVIEW

Profit Management

Profit management, defined as the deliberate manipulation of company profits for specific purposes, has garnered significant attention from both practitioners and academics. It involves actions by company managers to manipulate financial information to present a more favorable picture of performance (Kusumawati and Sasongko, 2005).

Legal Perspectives

Profit management practices can have legal implications, particularly when they involve misleading financial information. Financial fraud and dishonest disclosure are some legal aspects associated with profit management. Additionally, profit management practices in banking services, especially in Islamic banks, are influenced by Sharia principles and legal requirements. (Absori et al., 2010; Basri et al., 2022).

Accounting Perspectives

From an accounting standpoint, profit management involves various techniques such as revenue recognition criteria manipulation, asset depreciation changes, and reserve estimation. Compliance with accounting standards and ethical practices is crucial. External auditors play a vital role in detecting improper profit management practices (Nasution and Setiawan, 2007).

Islamic Banking

Profit management practices in Islamic banks are influenced by Sharia principles. Islamic banks operate based on profit-sharing principles to avoid usury, unlike conventional banks that rely on interest. Sharia-compliant financial products, such as murabahah, are developed according to Islamic law (Budiono, 2017; Padmantyo, 2010).

Conventional Banking:

Conventional banks engage in profit management actions to maximize profits, often influenced by strict banking regulations. Practices like asset acquisition and sale, revenue manipulation, and changes in accounting methods are observed in conventional banks. (Nasution, 2007).

METHODS

The study employed a descriptive research design with a qualitative approach to investigate profit management practices from legal and accounting perspectives. Secondary data was collected from financial statements, legal documents, and academic literature, focusing on conventional and Islamic banking sectors. Sampling involved selecting companies over a specific time frame, and analysis included examining legal requirements, accounting principles, and profit management techniques. Case studies provided insights into real-world practices, with comparisons drawn between conventional and Islamic banks. Ethical considerations were paramount, ensuring confidentiality and validity of findings. Limitations such as data availability and sample size were acknowledged. Findings were reported comprehensively, offering recommendations for practitioners and policymakers.

RESULTS AND DISCUSSION

Profit management is a technique for manipulating company profits carried out by managers for specific purposes. (Kusumawati and Sasongko, 2005) mentioned that public companies, both those that earn profits and experience losses, regulate profits. Profit management refers to the practice practiced by company managers to manipulate financial information to create a better performance picture than actual. Profit management has garnered widespread attention from practitioners and academics because of its activities involving management efforts to manipulate net profit or company profits, both quarterly and annually. Regarding financial information, financial statements aim to provide data needed by report users regarding the financial situation and other information that describes the company's value in the market competition (Mulyawan, 2021). Technically, according to Huynh, earnings management is an act of interference carried out by management in determining company profits, driven by the desire for personal profits, which can be seen in profit manipulation to present positive information about company performance (Huynh, 2020). In concrete terms, profit management involves manager evaluation

(Anderson, 2021). This practice can be viewed from legal and accounting perspectives. Here is a brief explanation of both perspectives.

Legal Perspectives

In many jurisdictions, profit management conducted misleadingly may be considered an illegal practice. Some legal aspects related to profit management include:

a. Financial Fraud Profit management practices that involve manipulating financial information with the intention of misleading external parties may be considered financial fraud, resulting in legal sanctions, including fines and criminal penalties.
b. Dishonest Disclosure Financial law requires companies to provide honest and transparent disclosures. In case of manipulation to conceal the facts, the company may face legal consequences.
c. Shareholder Responsibilities Extensive profit management can also incur legal liability to shareholders who feel aggrieved by the practice.

In banking services, conventional bank interest being usury requires financial institutions to apply Sharia foundations. The values of Sharia law are necessary as a foundation in the life system of society and the nation, with Islamic law guiding life. In product development, Islamic banks are guided by Sharia principles. One of the products of Islamic banks is murabahah, a sale and purchase agreement for certain goods, with the seller clearly stating the purchase price and profit. Therefore, to develop murabahah products related to buying and selling immovable goods such as land and buildings, provisions are needed, including Article 1457 of the Civil Code (Al Kautsar et al., 2019). Buying and selling involve agreements and contracts between two parties agreeing to bind each other between the goods and the price transacted (Wangsawidjaja, 2012). The provisions of Article 1457 of the Civil Code affirm sale and purchase as an agreement, with one party bound to deliver an object, and the other party paying the agreed price. Agreements arise from the transfer of goods or services from the company to consumers. Murabahah is a contract of sale and purchase, with implementation referring to provisions issued by the fatwa of the National Sharia Council. Akad in Islam is defined as a covenant, in the form of ijab and kabul. The legal requirements of a Sharia contract are essentially the same as those in Article 1320 of the Civil Code. The legal requirements for an agreement according to the Civil Code include the existence of an agreement between the parties, the ability to make an agreement, the existence of the object of the agreement, and a lawful cause (Absori, 2010). In organizing sales (murabahah contracts) to customers, the bank does not produce goods for sale. The bank purchases goods from suppliers for sale to customers. The business practice often involves customers requesting goods to be "bought" by the bank and then "sold" to customers in installments. Although sometimes banks work with suppliers to sell goods in installments to bank customers. In the process of purchasing from a supplier, the bank uses a paper contract, where the bank "represents" the buyer to act with agreement on behalf of the bank (Al Kautsar et al., 2019).

Accounting Perspectives

From an accounting standpoint, profit management can involve various techniques, such as profit leveling, acquisition and sale of assets, and changes in accounting methods. Some aspects related to accounting and profit management include:

a. Revenue Recognition Criteria: Companies can manipulate the timing of revenue recognition to present a more favorable performance picture over a specific period.
b. Asset Depreciation: Profit management may also encompass changes in asset depreciation policies, which can impact the income statement.
c. Reserve Estimation: Reserve estimates for specific expenses can be manipulated to achieve profit management objectives.

Companies must adhere to applicable accounting standards and conduct business ethically. External auditors play a crucial role in detecting and reporting improper profit management practices. It's important to note that profit management practices are not necessarily illegal or unethical. Some profit management actions, such as risk management or capital structure optimization, can be considered legitimate practices. However, when this practice involves dishonest and misleading manipulation, it can lead to legal and reputational consequences.

Research has shown that profit management practices exist in Islamic commercial banks (Padmantyo, 2010). The results of this research revealed profit management practices in the financial statements of Islamic banking, as evidenced by the calculation of average accruals over five years, showing both positive and negative results. From a Sharia perspective, the accrual method is permissible, as stated in fatwa DSN no 14/DSN/MUI/IX. In Islamic financial institutions, it's determined that Islamic Financial Institutions (LKS) may use both an accrual basis and cash basis system in financial administration (Basri et al., 2022). Accrual accounting recognizes receipts and expenses when transactions occur, regardless of when cash is received or paid. The accrual component doesn't require physical proof of cash, allowing management to manage accruals, also known as discretionary accruals.

Evidence of profit management practices in conventional banks has also been found (Nasution, 2007). Research spanning five periods from 2000 to 2004 revealed indications of profit management in Indonesian banking companies, with a pattern of maximizing profits. One reason banks engage in profit management is the stricter regulation they face compared to other industries; for example, banks must meet minimum Capital Adequacy Ratio (CAR) criteria (Basri et al., 2022).

CONCLUSION

The study delved into profit management from both legal and accounting perspectives, elucidating its ramifications for companies, particularly within the banking sector. Profit management, as elucidated, entailed intentional maneuvers by managers to manipulate financial data, portraying a more favorable performance than reality. Legally, such actions could lead to severe consequences, including charges of financial fraud and legal liabilities to shareholders. Furthermore, adherence to Sharia principles was emphasized in Islamic banking, necessitating compliance with ethical standards. From an accounting standpoint, profit management encompasses various techniques, such as manipulating revenue recognition timing, asset depreciation policies, and reserve estimation. While some profit management strategies might be deemed legitimate, like risk management, others could entail dishonest and misleading manipulation, posing legal and reputational risks. Research findings suggested the prevalence of profit management practices in both Islamic and conventional banks, underscoring the importance of transparency, ethical conduct, and adherence to accounting standards in financial reporting. Effective oversight by external auditors was crucial to detecting and reporting improper profit management practices. Ultimately, the study contributed to a deeper comprehension of profit management dynamics and their implications for financial institutions, stakeholders, and regulatory bodies.

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