

Reclassification of Other Comprehensive Income, Earnings Management and Earnings Quality: Evidence from Indonesia

Marhaendra Kusuma^{1*}, Grahita Chandrarin² and Diyah Sukanti Cahyaningsih²

¹*Accounting Department, University of Islamic Kadiri, Indonesia*

²*Postgraduate Program, University of Merdeka Malang, Indonesia*

ABSTRACT

This study empirically proves that standard policies concerning the format of presenting income statements are in the form of additional information. This is particularly relevant to the reclassification of other comprehensive income and profit attribution in increasing transparency and reducing asymmetry information. This study investigated the effect of reclassified items concerning other comprehensive income and net income attributable to owners on earnings management and the quality of earnings. The attribution of earnings to owners was found to have a negative effect on earnings management, along with a positive effect on earnings quality as measured by the earnings response coefficient net and comprehensive income. It was also shown that earnings management does not mediate the effect to earnings quality. Accordingly, this means that the market has responded positively to the reclassification of other comprehensive income and profit attribution. It also precludes the company from carrying out earnings management through the recognition and realisation of other comprehensive income. Reclassification and attribution through increasing transparency and value relevance could consequently reduce asymmetric information.

Keywords: reclassification of others comprehensive income, earnings management, earnings quality, Indonesia

ARTICLE INFO

Article History:

Received: 26 August 2022

Accepted: 8 December 2022

Published: 31 December 2022

* Corresponding author: Marhaendra Kusuma. Email: marhaenis@uniska-kediri.ac.id

INTRODUCTION

Financial accounting standards in Indonesia initially converged with the International Financial Reporting Standards (IFRS), given the requirement under the Indonesian Financial Accounting Standards of June 1, 2012. Since the establishment of these standards, the content and format concerning the presentation of the Profit and Loss (P&L) statements of publicly listed companies have changed. Previously, the P&L statement only contained revenues and expenses realised as net income or net income (NI). Also, with this new standard, in addition to NI, there is also additional information required on other comprehensive income (OCI), attribution of NI profit, and comprehensive income (CI) to company owners (controlling and non-controlling). Elbakry et al. (2017) carried out a study in Germany, concluding that financial statements that are prepared based on IFRS tend to have greater relevance for users, indicated by the increased ability of information to predict future earnings and stock market value. Similar results were also found in the United Arab Emirates (UAE), Bahrain, Jordan, Kuwait, Qatar, Turkey, and South Africa, by Chebaane and Othman (2014). According to their study, financial reports based on IFRS are of higher quality and relevance. Likewise Kusuma (2020) in his study, concluded that comprehensive income and other comprehensive income have significant relevance for users in Indonesia given the effect on the predictions of cash flows and return on investments in the future (Kusuma, 2021b).

On the other hand, accounting standards that converge with IFRS provide more flexibility regarding the choice of accounting policies, which can be an issue for managers in earnings management (Karampinis & Hevas, 2013). However, the convergence of Indonesian Financial Accounting Standards and IFRS does not affect earnings management practices in Indonesia. This is indicated by the absence of differences in accrual and real earnings management in the period prior to and after the convergence of the Indonesian Financial Accounting Standards with IFRS (Asni & Mayasari, 2018). In another study, Goel (2017) investigated Indian companies, concluding that there is a significant relationship between earnings cycles, stock prices, and earnings management. Empirical evidence regarding the relationship between OCI presentation and earnings management, however, remains inconsistent.

In Israel, Chen and Gaviols (2016) examined the relationship between OCI as unrealised income with earnings management, tax avoidance, and dividend distribution in 623 companies listed on the Tel Aviv Stock Exchange. The results showed that the company's dividend pay-out would increase after the OCI recognition dividend payment based on OCI being positively related to tax avoidance and earnings management. In another study by Zhao et al. (2018), they examined the effect of OCI disclosure on earnings management in companies listed on the China Shanghai Stock Exchange between 2014 and 2018, where OCI proved to be a medium for companies in China in carrying out earnings management. However, different results were shown by Lin and Rong (2012), who examined the effect of OCI disclosure on earnings management in 391 companies listed on the China Shanghai Stock Exchange during 2009. The results showed that OCI had a negative effect on earnings management where the presentation of OCI in the income statement can enhance the transparency of company disclosures, ultimately reducing earnings management to a certain level. This study also concluded that the larger the size of the company, the smaller the earnings management actions. Further, earnings management is also negatively related to the level of company leverage and operating cash flow. That is to say, the greater the operating cash flow, the smaller the accrual maneuvering space. Bima et al. (2017) concluded similar results, suggesting that the presentation of OCI had a negative effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange.

In the research of Lin and Rong (2012), Chen and Gaviols (2016), Bima et al. (2017), examining the relationship between OCI and earnings management, the OCI studied was aggregate OCI. Also, in measuring earnings management, only accrual earnings management (AEM) with the modified Jones model was explored. Likewise, in researching earnings quality, many researchers continue to focus on market reactions to NI earnings information (Purwaningsih & Kusuma, 2020). This current study overcomes the weaknesses of previous research by developing OCI on the separation of OCI items based on the likelihood that they will be realised or not. The accounting standard policy in Indonesia after the convergence with IFRS, OCI in the income statement was not presented in aggregate. However, the items were separated according to the possibility that they would and would not be realised or reclassified to NI. There is a policy in presenting profit attribution, both NI and CI, to company owners: parent owners and non-controlling owners. The relationship between OCI

reclassification and earnings management was investigated by Zhao et al. (2018), though not involving profit attribution. Moreover, the OCI item revaluation of assets and defined benefit plans were not included as OCI items. In measuring earnings management, this study used two proxies: accrual earnings management and real earnings management, in line with the research of Purwaningsih and Kusuma (2020) and Asni and Mayasari (2018).

Studies examining the effect of reclassified OCI and attributable NI on earnings management practices to the best of the author's knowledge have not been addressed nor undertaken, especially in the context of Indonesia. Therefore, this research furthered the development of the research carried out by Lin and Rong (2012), Chen and Gavius (2016), and Bima et al. (2017). First, OCI was separated into two groups: the group of OCI items that will be reclassified to NI (to be realised into NI) and the group of OCI items that will not be realised. The second novelty of this study involves NI's profit attribution policy to owners of the parent entity and non-controlling owners. For instance, "Does the OCI reclassification policy and profit attribution in the presentation of the income statement affect earnings management practices?". In addition, in the research of Lin and Rong (2012) and Zhao et al. (2018), two OCI items: revaluation of fixed assets and actuarial defined benefit plans, were not included, in addition to the research of Chen and Gavius (2016) regarding unrealised income or OCI. It only examined changes in the value of financial assets and investment properties. Also, in their study, Dong et al. (2014) only had one OCI item: financial assets. In Indonesia's accounting standards, there are five OCI items, which were included in the current research. The third novelty, the earnings quality studied by the earnings response coefficient proxy, included not only earnings NI but also comprehensive earnings (CI). Many of the studies at this stage have only focused on ERC in the context of NI. At the same time, with fair value accounting, which results in adjustments to the value of assets and liabilities, the quality of comprehensive earnings is advantageous to investigate.

Furthermore, it is interesting given the impact of the ephemeral nature of OCI having two opposing sides. On the one hand, OCI increases transparency, thus reducing earnings management, while in contrast, OCI, given its unrealised nature, has the potential to become a gap in earnings management and tax avoidance. In addition, the OCI reclassification policy

can cause asymmetric information given uncertainty regarding the amount and timing of when the OCI items will be realised, as NI and can affect future cash flows. This study is anticipated to contribute to extending the academic literature on the relationship between OCI presentation and earnings attribution with earnings management and earnings quality. Also, for investors, it can be utilised as input before making investment decisions that not only consider net income information, but OCI presented in groups may or may not be reclassified, as NI and CI profits are attributable according to the proportion of share ownership.

LITERATURE REVIEW

The Agency Theory (Jensen & Meckling, 1976) states that the difference in access between principals and agents to the flow of company information causes asymmetric information, leading to fraud and bad decision making. One form of fraud from asymmetric information and conflict of interest is earnings management actions that aim to maximise one party and harm other parties in company stakeholders. Earnings management presents the value of profits according to the interests of certain parties. Low earnings quality has the potential to mislead users in making decisions (Ghazali et al., 2022). Indeed, the relationship between earnings management and informed earnings quality has been broadly proven via empirical research, suggesting that the higher the earnings management behaviour in the presentation of financial statements, the lower the reported earnings quality (Hosseini et al., 2016; Murtini, 2016).

Earnings management actions can occur in accrual earnings management and real earnings management. Earnings management through real/actual activities is carried out to address and cover losses in annual financial statements. Roychowdhury (2006), for example, found evidence that real earnings management was carried out, among others, through the provision of soft credit, selling price discounts to increase total sales, increasing production quantities to increase ending inventory resulting in a decrease in the cost of goods sold (CoGS), and reducing discretionary expenses to increase margins. Accrual and real earnings management have a significant effect on earnings quality in countries having smaller capital market characteristics, weaker investor protection, lower levels of disclosure, a higher concentration of ownership, and weaker law enforcement, such

as in Indonesia, the Philippines, and South Korea compared to Singapore, Malaysia, and Hong Kong (Purwaningsih & Kusuma, 2020).

Asymmetric information can be minimised by presenting high-quality, transparent, and comprehensive financial reports related to fair information to all interested parties. The presentation of OCI on the income statement with NI also increases the value regarding the relevance of the financial statements since it presents transparency and all realised and unrealised income in an accounting period (Shi et al., 2017). Indeed, OCI arises because of adjusting the value of assets and liabilities to the fair value of their carrying or historical values (Kusuma et al., 2021; Kanagaretnam et al., 2009). The fair value accounting approach has greater value relevance with more advantages than the historical value accounting approach (Rees & Shane, 2012). Further, the presentation of OCI with NI as CI, followed by the attribution of NI and CI to owners, transparently presents increases or decreases in equity from fair value accounting adjustments and increases in equity aside from owner contributions from the view of all-inclusive income as used by IFRS, which deserves to be recognised as income (Shi et al., 2017; Hodgson & Russell, 2014). OCI is ephemeral, highly dependent on the company's external conditions, fluctuating as temporary unrealised income (Kusuma, 2021a). However, it turns out that OCI affects company value which is proxied by the book value per share. Investors can use OCI information for the current period to predict the company's value in the future and is even stronger when implemented in financial sector companies (Black et al., 2019).

The obligation to disclose OCI in the presentation of income statements can increase transparency because it comprehensively presents realised and unrealised income; thus, OCI can reduce earnings management and asymmetric information (Lin & Rong, 2012). However, according to Zhao et al. (2018), OCI's reclassification exacerbates asymmetric information and agency problems and is proven to be a medium for Chinese companies to carry out earnings management. This will have an adverse impact and harm the company's development and shareholder wealth growth in the longer term.

The forms of earnings management behaviour through OCI, according to Zhao et al. (2018), include hiding losses by recording them as OCI, adjusting the ratio of liabilities to assets through adjusting the carrying value

or book value of assets at fair value, thereby impacting OCI recognition, which covers errors management in decision making, impacting on revenues (gains) or expenses (losses) presented in the OCI for the time being. These three aspects cause an illusion for company stakeholders. Convergent accounting standards with IFRS reduce the conformity of accounting policies with taxation. The study by Karampinis and Hevas (2013) at the Athens Stock Exchange in Greece between 2000 and 2010 found empirical evidence to suggest that before IFRS (2000-2004), tax pressures had a significant adverse effect on earnings management. However, in the period of IFRS implementation (2005-2010), the effect of tax pressures on earnings management weakened. This was due to the mandatory implementation of IFRS in Greece that reduced the conformity of book-tax conformity and financial income tax implications.

SFAS No. 115 requires companies to value financial assets at their fair value, and the difference between the carrying value and fair value at the date of presentation of the financial statements recognised as OCI. Here, it will be presented in the OCI group, then reclassified to net income if realised in the next period. The study by Dong et al. (2014) aims to prove the effect of group OCI items reclassified to net income on the market value of banking companies. The study was based on examining 1,033 banks between 1998-2006 after the introduction of SFAC regulation no. 130 regarding the presentation of OCI in the financial statements. The results showed that the gain (loss) of financial assets presented in the OCI group to be reclassified to net income had a significant positive effect on market value. This study also concludes that the carrying value or amortised value of financial assets and realised gains (losses) on financial assets includes information that remains useful and important for investors in American banking companies. Several studies showed that aggregate OCI had a significant negative effect on earnings management in China (Lin & Rong, 2012) and Indonesia (Bima et al., 2017).

Attribution information, both the attribution of profit in the income statement and attribution of equity in the statement of financial position, makes financial statements more relevant and applicable to users than financial statements that do not present attributions. The revision of Hong Kong accounting standards (HKAS 27) that adopts IAS 27 concerning the presentation of attribution of earnings to non-controlling interests in the income statement and attribution of equity to non-controlling interests in the statement of financial position, previously considered as expenses and

liabilities, have greater relevance for investors in the Hong Kong capital market. With this revision of the presentation, investors no longer associate the company value with the value of equity for owners of the parent entity but also with equity for non-controlling interests (So & Smith, 2009).

Francesco (2018) investigated the value relevance of consolidated financial statements of parent and subsidiary companies and separate financial statements in the Italian capital market prepared under IFRS. The results showed that based on IFRS, financial statements have a high relevance value. Moreover, information on the attribution of earnings and equity to non-controlling interests has a significant effect on the company's market capitalisation. Net income and comprehensive income are attributable to majority owners and non-controlling interests. In contrast, (Kusuma, Zuhroh, et al., 2021) examined companies listed on the Indonesia Stock Exchange between 2016-2019, suggesting that the attribution of earnings to owners could increase the value of information relevance of NI, OCI, and CI, indicated by the ability of earnings attribution to moderate the effect of NI, OCI, CI in predicting future earnings. Evaluation of the financial performance of comprehensive income is able to moderate the use of assets to firm value (Kusuma, 2021c; Kusuma & Saputra, 2022), predict future returns (Kusuma, Assih, et al., 2021) and tax avoidance (Kusuma & Rahayu, 2022; Murdiyanto & Kusuma, 2022; Robik et al., 2021).

On the other hand, Yan and He (2018) explored the effect of the attribution of non-controlling interests on the financial performance of companies listed on the Shanghai and Shenzhen Stock Exchanges in China between 2007 and 2013. The results indicated that the attribution of non-controlling interests, firm size, and leverage had a significant positive effect on the company's financial performance as proxied by Tobin's Q, ROA, and ROE. Moreover, finding that profit attribution increases transparency since it informs the parent and non-controlling owners of the right to profits according to the proportion of ownership. Earnings attribution separates aggregate earnings, making it relatively easier to compare attributable earnings across periods according to ownership rights and highlighting dramatic earnings changes. Kusuma (2021b) also discovered empirical evidence that financial performance measurement with ROA based on comprehensive income and profit attribution could be used to predict investment returns in the future in helping investors make investment decisions in the current period.

The quality of earnings information is signified via the market response to earnings information, reflected in stock prices. Thus, the quality of earnings can be measured by the coefficient on the effect of earnings information on stock prices or the earnings response coefficient or ERC (Dechow et al., 1995; Ismail et al., 2013). Indonesia is a country with an insider economic cluster, similar to the Philippines and South Korea, with the primary characteristic of the capital market having a high concentration of ownership (Leuz et al., 2003). Purwaningsih and Kusuma (2020), in their research, concluded that accrual earnings management adversely affects earnings quality, which means that the market response to earnings information decreases, while real earnings management had a positive effect on earnings quality. This means that the market response to earnings information increases with real earnings management actions. This empirical evidence offers a theoretical meaning that investors in Indonesia lack confidence in earnings information from accrual earnings management actions and respond positively to real earnings management actions through real company activities. Therefore, the following hypotheses were formulated:

- H1: OCI reclassification and earnings attribution have a negative effect on earnings management.
- H2: OCI reclassification and earnings attribution have a positive effect on earnings quality.
- H3: Accrual and real earnings management have a negative effect on the quality of net income and comprehensive income.
- H4: Earnings management mediates the effect of OCI and earnings attribution on earnings quality.

The conceptual framework in this study is shown in the figure below:

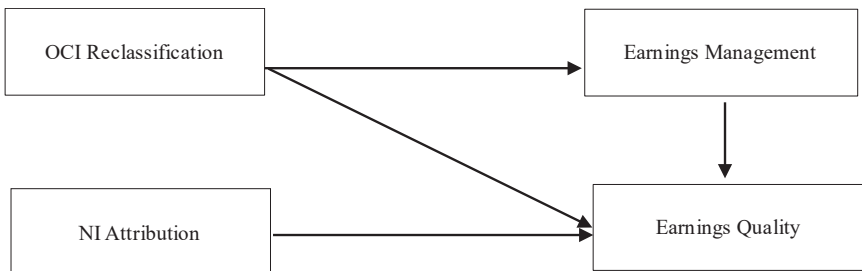


Figure 1: Research Conceptual Framework

METHODOLOGY

The population in this study included companies listed on the Indonesia Stock Exchange between 2016 and 2020. Based on the criteria, a sample of 504 companies was selected, including companies that presented complete OCI items grouped by the potential realisation (will be reclassified to NI) and will not be realised, presenting NI and CI profits attributable to owners of the parent entity and owners with non-controlling interests in the presentation of income statements, and listed in succession over five years during the period under study. The dependent variable of earnings management was proxied by accrual earnings management (AEM) and real earnings management (REM). Earnings management accruals were discretionary accruals using the modified Jones model (Dechow et al., 1995), while real earnings management (REM) was calculated using the formula adopted from (Roychowdhury 2006) for the detection of earnings management through real activities from the manipulation of sales, production costs (CoGS and inventory changes), and discretionary costs (advertising, R&D, general admin). The formulation was as follows:

1. The first step was to remove the cash element from net income to obtain the accrual value:

$$TAc = NI - CFO$$

2. The first step was to remove the cash element from net income to obtain the accrual value:

$$\frac{TAc}{TAs} = \alpha_0 + \alpha_1 \frac{(\Delta Rev - \Delta Rec)}{TAs} + \alpha_2 \frac{PPE}{TAs} + \varepsilon$$

3. After the regression coefficient is known, then the non-discretionary accrual value is calculated using the following regression equation:

$$\frac{NDAc}{TAs} = \alpha_0 + \alpha_1 \frac{(\Delta Rev - \Delta Rec)}{TAs} + \alpha_2 \frac{PPE}{TAs} + \varepsilon$$

4. By knowing the NDA, the value of discretionary accruals (DA) as a proxy for accrual earnings management (AEM) was determined using the following formula:

$$AEM = DA = \frac{TAc}{TAs} - NDAc$$

5. Real earnings management (REM) was calculated using the following formula:

$$\frac{REM}{TAs} = \alpha_0 + \alpha_1 \frac{1}{TAs} + \alpha_2 \frac{S}{TAs} + \varepsilon$$

Where:

TAc = total accruals, NI = net income, CFO = operating cash flow, TAs = total assets, Rev = changes in income, Rec = changes in receivables, PPE = fixed assets, NDAc = non-discretionary accruals, DA = discretionary accruals, and S = sales.

Earnings quality is signified by the extent to which the market reacts to earnings information, reflected in stock price movements around the publication date of financial statements. Thus, in the current research, earnings quality was measured by the magnitude of the regression coefficient of earnings on stock prices (Dechow et al., 1995; Ismail et al., 2013), not only the response coefficient of net income but also comprehensive income. Earnings quality (EQ) = ERC (NI) and ERC (CI). ERC (NI) is the coefficient of NI earnings on stock returns, ERC (CI) is the coefficient of CI's earnings on stock returns. The coefficient 1 in the following equation acts as a proxy for the quality of net income or ERC (NI):

$$\frac{P_t - P_{t-1}}{P_{t-1}} = \beta_0 + \beta_1 \frac{NI}{TAs} + \varepsilon$$

The coefficient β_2 in the following equation is a proxy for comprehensive earnings quality or ERC (CI):

$$\frac{P_t - P_{t-1}}{P_{t-1}} = \beta_0 + \beta_2 \frac{CI}{TAs} + \varepsilon$$

Where :

P_t = share price one month after the publication of financial statements, and P_{t-1} = share price one month before.

The independent variables were the five OCI items, separated into two groups based on the will and will not be realised or reclassified to net income and NI attributable to owners of the parent entity and owners of the parent entity non-controlling interests. This study also included operating cash flow, firm size, level of leverage and type of industry as control variables.

Table 1: Variables and Measurements

Variable	Definition	Measurement
Dependent Variable		
Earnings Quality (EQ)	The extent to which earnings information is reacted by the market as reflected in stock price movements (Dechow et al., 1995; Ismail et al., 2013).	Quality information of net income (ERC-NI) The sensitivity of stock returns to changes in Net Income: $Ret = \alpha_0 + \beta_1 NI + \epsilon$
		Quality information of comprehensive income (ERC-CI) The sensitivity of stock returns to changes in Comprehensive Income: $Ret = \alpha_0 + \beta_1 CI + \epsilon$
Independent Variable		
Earnings Management (EM)	Selection of accounting policies to generate profits according to interests.	Accrual Earnings Management (AEM) Modified Jones model: discretionary accrual value $AEM = DA = \frac{TAc}{TAs} - NDAc$ (Dechow <i>et al.</i> , 1995)
		Real Earnings Management (REM) Earnings management through real activities in the form of manipulation of sales, production costs (COGS and inventory changes), and discretionary costs (advertising, R&D, general admin). $\frac{REM}{TAs} = \alpha_0 + \alpha_1 \frac{1}{TAs} + \alpha_2 \frac{S}{TAs} + \epsilon$ (Roychowdhury, 2006)
Others Comprehensive Income (OCI)	Gain (loss) on fair value adjustment of assets and liabilities (Banks et al., 2018)	OCI items to be reclassified to NI $\frac{OCI \text{ items to be reclassified}}{Total Assets}$
		OCI items that will not be reclassified to NI $\frac{OCI \text{ items that will not be reclassified}}{Total Assets}$

Reclassification of Other Comprehensive Income, Earnings Management

Attribution of Net Income	Net income attributable to company owners (So and Smith, 2009)	Net income attributable to parent	<hr/> NI Parent <hr/> Total Assets
		Net income attributable to non controlling interest	<hr/> NI not controlling interest <hr/> Total Assets
Control Variable			
Cash Flow Operations	Cash used and provided by operating activities.		<hr/> CFO <hr/> Total Assets
Size	How big is the size of the company.		Log N Total Assets
Leverage	How much assets are funded by debt.		<hr/> Total Liabilities <hr/> Total Assets
Type of Industry	The line of business as the company's main operations.		Dummies variable : 1 : manufacture, 0 : otherwise

To test hypothesis 1: OCI reclassification and earnings attribution have a negative effect on earnings management, the following equations were constructed:

$$EM_{i,t} = \beta_0 + \beta_1 OCI_{i,t} + \beta_2 NI_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 INDST_{i,t} + \beta_6 LEV_{i,t} + \varepsilon \quad (1)$$

$$EM_{i,t} = \beta_0 + \beta_1 OCIR_{i,t} + \beta_2 OCINR_{i,t} + \beta_3 NIOP_{i,t} + \beta_4 NINCI_{i,t} + \beta_5 CFO_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 INDST_{i,t} + \beta_8 LEV_{i,t} + \varepsilon \quad (2)$$

In Equation 1, the OCI and NI variables were tested for aggregate to earnings management. In contrast, in Equation 2, OCI was aggregated to OCI items that will and will not be realised. NI is aggregated to NI attribution to owners of the parent entity and attribution to non-controlling interests. H1 will be accepted if the coefficients, OCIR and NIOP are negative and significant. To determine whether the presentation of reclassification and attribution is better in preventing earnings management than the presentation of aggregation seen from adjusted R², the value of adjusted R² in Equation 2 would be greater than Equation 1. To test hypothesis 2, OCI reclassification and earnings attribution had a positive effect on earnings quality; the following equations were constructed :

$$EQ = ERC(NI)_{i,t} = \beta_0 + \beta_1 OCI_{i,t} + \beta_2 NI_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 INDST_{i,t} + \beta_6 LEV_{i,t} + \varepsilon \quad (3)$$

$$EQ = ERC(CI)_{i,t} = \beta_0 + \beta_1 OCIR_{i,t} + \beta_2 OCINR_{i,t} + \beta_3 NIOP_{i,t} + \beta_4 NINCI_{i,t} + \beta_5 CFO_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 INDST_{i,t} + \beta_8 LEV_{i,t} + \varepsilon \quad (4)$$

In Equation 3, the OCI and NI variables were tested for aggregate on earnings quality. In contrast, in Equation 4, OCI was aggregated to OCI items that will and will not be realised. NI was aggregated to NI attribution to owners of the parent entity and attribution to non-controlling interests. H2 will be accepted if the coefficients OCIR and NIOP are positive and significant at 5%. To determine if the presentation of reclassification and attribution is better in improving earnings quality than the presentation of aggregation seen from adjusted R², this is where the value of adjusted R² Equation 4 is greater than Equation 3. In constructing hypothesis 3, accrual and real earnings management have a negative effect on the quality of net income and quality comprehensive income, the following equation was presented:

$$ERC(NI)_{i,t} = \beta_0 + \beta_1 AEM_{i,t} + \beta_2 REM_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 INDST_{i,t} + \beta_6 LEV_{i,t} + \varepsilon \quad (5)$$

$$ERC(CI)_{i,t} = \beta_0 + \beta_1 AEM_{i,t} + \beta_2 REM_{i,t} + \beta_3 CFO_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 INDST_{i,t} + \beta_6 LEV_{i,t} + \varepsilon \quad (6)$$

H3 will be accepted if the coefficients AEM and REM in Equations 5 and 6 are positive and significant at 5%. To test hypothesis 4, earnings management mediates the negative effect of OCI and earnings attribution on earnings quality, and the following equations are constructed:

$$ERC(NI)_{i,t} = \beta_0 + \beta_1 OCIR_{i,t} + \beta_2 OCINR_{i,t} + \beta_4 NINCI_{i,t} + \beta_5 NINCI_{i,t} + \beta_6 AEM_{i,t} + \beta_7 REM_{i,t} + \beta_8 CFO_{i,t} + \beta_9 SIZE_{i,t} + \beta_{10} INDST_{i,t} + \beta_{11} LEV_{i,t} + \varepsilon \quad (7)$$

$$ERC(CI)_{i,t} = \beta_0 + \beta_1 OCIR_{i,t} + \beta_2 OCINR_{i,t} + \beta_4 NINCI_{i,t} + \beta_5 NINCI_{i,t} + \beta_6 AEM_{i,t} + \beta_7 REM_{i,t} + \beta_8 CFO_{i,t} + \beta_9 SIZE_{i,t} + \beta_{10} INDST_{i,t} + \beta_{11} LEV_{i,t} + \varepsilon \quad (8)$$

Where:

EM = earnings management is proxied by accrual earnings management (AEM) using the modified Jones model formulation and real earnings management (REM) using the Roychowdhury formulation; EQ = earnings quality is measured by ERC (NI) and ERC (CI); OCIR = OCI items included in the group that will be reclassified to NI in the next period; OCINR = OCI items included in the group that will not be reclassified to NI in the next period; NIAP = net income attributable to owners of the parent entity; NIANC = net income attributable to non-controlling interests; CFO = operating cash flow; SIZE = Company size as measured by the natural logarithm of total assets; IND = type of industry as measured by a dummy variable of 1 for manufacturing companies and 0 otherwise; LEV = level of leverage, (i.e. the ratio which measures how much assets are funded by debt); CI = comprehensive income, namely the sum of NI with OCI, all independent variables except SIZE and IND are scaled to total assets following that of Lin & Rong (2012).

H4 will be accepted if the coefficient of indirect influence is greater than the coefficient of direct influence. The coefficients of the direct effect of OCI reclassification and NI attribution on earnings quality are shown in equations 7 and 8. In contrast, the indirect coefficient is the product of the OCI reclassification coefficient and NI attribution in Equation 2 with the coefficients of equations 5 and 6 (path analysis). The sensitivity analysis aimed to determine, in detail, the five OCI items having the most influence on earnings management and earnings quality. The following equations are given:

$$EM_{i,t} = \beta_0 + \beta_1 FOREX_{i,t} + \beta_2 HEDGING_{i,t} + \beta_3 TRANS_{i,t} + \beta_4 REVAL_{i,t} + \beta_5 PENS_{i,t} + \beta_6 CFO_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 IND_{i,t} + \beta_9 LEV_{i,t} + \varepsilon \quad (9)$$

$$ERC = \beta_0 + \beta_1 FOREX_{i,t} + \beta_2 HEDGING_{i,t} + \beta_3 TRANS_{i,t} + \beta_4 REVAL_{i,t} + \beta_5 PENS_{i,t} + \beta_6 CFO_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 IND_{i,t} + \beta_9 LEV_{i,t} + \varepsilon \quad (10)$$

Where:

FOREX = gain or loss on available-for-sale financial assets; HEDGING = cash flow hedge; TRANS = translation of the financial statements of overseas business units; REVAL = revaluation of fixed assets and intangible assets, and PENS = actuarial differences in defined benefit pension plans.

RESULTS AND DISCUSSION

In Table 1, Panel A presents descriptive statistics of each research variable. OCI had a positive mean indicating that the company had more unrealised gains due to the increase in the fair value of assets and liabilities than losses during the study period. Reclassified OCI had a greater mean than

unclassified OCI, in which both were positive. This indicated that the company had more planned items to be realised in the next period than items that will not be realised. Regarding aggregate net income, NI's attribution to parent owners, and NI's contribution to non-controlling interests, all three had a positive mean. During the study period, many companies whose total realised revenues and profits were greater than realised expenses and losses produced a positive NI, attributed to owners. The quality of net income (ERC-NI) had a larger mean than the quality of comprehensive income (ERC-CI), in which both were positive. This means that the market is more reactive to NI information than CI because NI is real as realised income and shows the results for management performance compared to CI in which there is an additional OCI. Both were positive. Accordingly, this indicated that the market is concerned about earnings information in making investment decisions reflected in stock prices changes even though the degree of relevance remains higher NI than CI. This finding is in line with the findings of Banks et al. al. (2018). The operating cash flow control variable showed a positive mean, meaning that during the study period, the selected sample indicated that cash inflows from operating activities were greater than cash outflows. The control variable for the type of industry as measured by dummy 1 for manufacturing and 0 for other industry types exhibited a mean value of 0.5316. This means that the sample selected in this study represented manufacturing companies (53.16%).

Table 1 Panel B presents the results of the Pearson correlation analysis. Here, OCI reclassification and not reclassification were negatively correlated with AEM and REM earnings management. This suggested that OCI, even though earnings were still transitory, with accounting standards that regulated the classification of OCI items based on plans to be realised, were able to reduce earnings management actions. Similarly, profit attribution was also negatively correlated with earnings management. In this sense, profit attribution clarified the distribution of profits to owners according to the proportion of share ownership, making it easier to see the consistency of the value between periods. OCI reclassification and attribution of earnings had a positive correlation with earnings quality relating to ERC-NI and ERC-CI, indicating that the market in Indonesia welcomed reclassification and attribution. As such, this clarifies and increases transparency helping the market in making decisions based on NI and CI information.

As earnings management was shown to be negatively correlated with earnings quality, the market was less responsive to NI and CI information if the AEM and REM were high. Firm size was also positively correlated with earnings management and earnings quality. The higher the company, the more assets are managed, owned debt, the number and types of stakeholders (Kusuma, 2017). This can consequently encourage management to undertake earnings management; the larger the company's size, the greater the assets managed. The resulting production output is also greatly driven by broad market share and many economic transactions to produce high NI and CI. The positive correlation of size with earnings quality showed that the market responds both to NI and CI information produced by companies with large assets and large-capitalisation; the larger the assets, the greater the NI and CI. Moreover, the profits attributable to owners were also high, given that the size and quality of earnings were positively correlated with owner attributions.

Aggregate OCI was negatively correlated with operating cash flows within the because the transactions causing OCI to appear were unrelated to cash flow in the current period. However, the reclassified OCI had a significant positive correlation with cash flows since the item could have come from OCI in the previous period. In the current period, it has been reduced due to realisation and changed to NI and cash flow. When aggregate OCI was aggregated to items that will be realised or not realised, and aggregate profits were also aggregated or attributed to each type of owner. A negative correlation occurred between the aggregate results; that is to say, the larger the NI attributed to the parent owner, the smaller the non-controlling attribution. Also, the larger the OCI item that will be realised, the smaller the OCI item that will not be realised. The correlation coefficient of financial asset adjustment with reclassified OCI was also greater than with unclassified OCI. This means that many of the companies during the study period included financial asset adjustment OCI items into groups for reclassification. Many were then realised or sold in the following period.

Furthermore, the leverage ratio was negatively correlated with earnings management, both real and accrual. Assets funded mainly via debt increase and responsibilities due to the level of debt owed to creditors encouraged companies to increase profits and cash flow to meet their responsibilities regarding interest and principal expenses, reducing the desire

to carry out earnings management. A positive level of leverage induces investors to consider investing because investors perceive these companies as having significant leverage in prioritising the payment of interest and principal expenses than dividends. So, leverage was negatively correlated with ERC-NI and ERC-CI. Comprehensive income is net income plus OCI, in which the proportion of NI in forming CI is much more significant than OCI NI in the current period. This had a significant positive correlation with CI, followed by ERC-NI, which was positively correlated with ERC-CI. Stock price movements were closely related to NI information and CI. Moreover, company size was positively correlated with OCI, both aggregated and reclassified. The larger the size of the company, the more business transactions are undertaken, even internationally overseas. Therefore, OCI items can arise, such as hedging and translating overseas business financial statements into Indonesian Rupiah. Similarly, for other OCI items, the larger the size, the greater the ownership of financial assets and the number of employees owned. So, the greater the fair value adjustment that results in gains (losses) on the fair value of financial assets in the available-for-sale category and actuarial adjustments for defined benefit plans for post-employment employees.

Table 2 below presents multiple linear regression analyses to prove the hypothesis. In Equation 2, the OCI reclassification coefficient was -0.026^{**} , the effect on AEM and -0.035^{***} on the effect on REM, and the profit attribution coefficient is -0.032^{***} , the effect on AEM and -0.044^{***} the effect on REM. Thus, H1 was accepted; OCI reclassification and earnings attribution having an adverse effect on earnings management. In Equation 1, the OCI and NI variables were tested for aggregate to earnings management. In contrast, in Equation 2, OCI was aggregated to OCI items that will and will not be realised. NI was aggregated to NI attribution to the owners of the parent entity and attribution to non-controlling interests. Adjusted R2 in Equation 1 was 24.5% for AEM and 28.1% for REM, while for Equation 2 it was 41.3% for AEM and 47.6% for REM. This means that the presentation of OCI separated based on the potential will be realised, and the presentation of Attributed earnings are better at reducing earnings management opportunities than presentation in the aggregate.

In Equation 3, the aggregate coefficient of OCI was -0.011 (significant at 10%). When the OCI is presented in the aggregate, without breaking

down per item and without presenting the reclassification will and will not be realized, the aggregate OCI had a negative effect on earnings quality. This is because the aggregate OCI does not clarify which OCI items will be realized and turned into cash and net income in the next period, so it cannot be used to predict earnings and future cash flow prospects. This aggregate presentation becomes irrelevant to the user's interest in comprehensive income statement information. The larger the OCI aggregate, the lower the earnings quality, because the aggregate presentation seems to only inform that OCI is forever unrelated to future cash flows because there is no potential to be realized in the future. OCI's recognition in the period was not related to cash flows, but due to the adjustment of the fair value of assets and liabilities from their historical values.

The reclassification coefficient for ERC-NI was 0.032*** in Equation 4, 0.026*** in Equation 7 and 0.047*** in Equation 8 against ERC-CI, while the profit attribution coefficient was 0.073*** in Equation 4, which was 0.069** * in Equation 7 and 0.068*** in Equation 8. Thus, H2 was accepted as OCI reclassification, and profit attribution had a positive effect on earnings quality. Adjusted R2 in Equation 3 is 21.5% while Equation 4 was 45.2%; this means that the presentation of OCI, which is separated based on the potential to be realised and the presentation of attributable profits, is better towards improving the quality of net income and quality of comprehensive income than the presentation in aggregate.

The earnings management coefficient on the quality of earnings in Equation 5 was -0.055*** for AEM and 0.014** for REM, while the quality of comprehensive earnings in Equation 6 was -0.024** for AEM and 0.017** for REM. This means that accrual earnings management has a negative effect on earnings quality (H3 was therefore accepted), but real earnings management had a positive effect on earnings quality.

Table 2: Descriptive Statistical Results and Pearson Correlation Matrix

Variable	Mean	Min	Max	S.D	Variable	Mean	Min	Max	S.D
<i>Panel A: Descriptive statistics for the variables contained in the sample of companies are 504 companies for 5 years (n = 2,520).</i>									
OCI	,0443	-,7618	,1501	,0669	Financial asset adjustment available for sale	,0017	-,0045	,0157	,0128
Net income	,0689	-,9412	,7216	,1050	Fixed and intangible asset revaluation	,0041	-,0023	,0139	,0034
OCI Reclassification	,0264	-,3557	,5448	,2521	Foreign business translation	,0004	-,0056	,0163	,0045
OCI tidak Reclassification	,0136	-,1172	,6182	,1533	Cash flow hedge	,0016	-,0019	,0174	,0014
Attribution NI to owned of parent entity	,0169	-,4076	,9592	,3254	Defined reward program	,0010	-,0073	,0128	,0081
Attribution NI to non-controlling Interest	,0043	-,0271	,4741	,3627	Accrual earnings management (AEM)	-,0239	-,75921	9,3821	,8432
Operating Cashflow	,0761	-,8832	,1064	,1286	Real earnings management (REM)	,0393	-,3,7829	10,2438	2,3148
Firm Size	6,3284	1,4182	14,1326	,8819	Net income quality (ERC-NI)	,2157	-,4,8212	6,3021	,5823
Industry type	,5316	0	1	,0591	Comprehensive earnings quality (ERC-CI)	,0921	-,8,1638	7,4325	,4371
Leverage	,4216	-,0732	,8428	,1873					

Table 3. Results of Multiple Linear Regression Analysis (Standardized Coefficient)

	Model											
	(1) EM	(2) AEM EM	(3) EQ	(4) EQ	(5) EQ	(6) EQ	(7) EQ	(8) EQ	(9) EM	(10) EQ		
OCI	AEM -0,009*	REM -0,008*	ERC(NI) -0,011*	ERC(CI) -	ERC(NI) -	ERC(CI) -	ERC(NI) -	ERC(CI) -	AEM -	REM -	ERC(NI) -	ERC(CI) -
Net profit	REM ,417***	AEM ,451***	EQ ,682***	EQ -	EQ -	EQ -	EQ -	EQ -	EM -	EM -	EQ -	EQ -
OCI Reclassification		-0,026**		,032***			,045***	,062***				
OCI Non-Reclassification		-0,017**		,002			,026***	,047***				
Attribution parent entity		-0,032***		,073***			,069***	,068***				
Attribution non controlling		,001		,003			,001	,003				
Interest												
Accrual earnings management					-0,055***	-0,024**	-0,071***	-0,038***				
Real earnings management					,014**	,017**	-0,027**	-0,022**				
Operating Cashflow	-0,318***	-0,294***	-0,527***	,489***	,413***	,388***	,402***	,415***	-0,517***	-0,525***	,429***	,424***
Firm Size	,017**	,018**	,016**	,014*	,015**	,016**	,017**	,019**	,015**	,011*	,013*	,017**
Industry type	,004	,003	,002	,003	,004	,004	,004	,004	,002	,001	,001	,003
Leverage	-0,154***	-0,168***	-0,127***	-0,213***	-0,128***	-0,148***	-0,136***	-0,117***	-0,125***	-0,207***	-0,215***	-0,219***
Financial asset adjustment									,012**	,014**	,022***	,018***
Fixed asset revaluation									-0,002	-0,011	,003	-0,001
Foreign business translation									,011**	,009*	,012**	,011**
Cash flow hedge									,002	,000	,008*	,009*
Defined reward program									-0,001	,002	-0,003	,000
F – Statistics	3,812	3,761	4,373	4,551	4,286	4,352	5,916	5,776	4,634	3,288	4,043	3,685
Adjusted R ²	,245	,281	,413	,476	,452	,488	,491	,498	,226	,282	,289	,275

Notes :

EM = $\beta_0 + \beta_1 \text{OCI} + \beta_2 \text{NI} + \beta_3 \text{CFO} + \beta_4 \text{SIZE} + \beta_5 \text{INDST} + \beta_6 \text{LEV} + \epsilon$
 EQ = $\beta_0 + \beta_1 \text{OCIR} + \beta_2 \text{OCINR} + \beta_3 \text{NIOP} + \beta_4 \text{NINCI} + \beta_5 \text{CFO} + \beta_6 \text{SIZE} + \beta_7 \text{INDST} + \beta_8 \text{LEV} + \epsilon$
 EQ = $\text{ERC}(\text{NI}) = \beta_0 + \beta_1 \text{OCI} + \beta_2 \text{NI} + \beta_3 \text{CFO} + \beta_4 \text{SIZE} + \beta_5 \text{INDST} + \beta_6 \text{LEV} + \epsilon$
 EQ = $\text{ERC}(\text{CI}) = \beta_0 + \beta_1 \text{OCIR} + \beta_2 \text{OCINR} + \beta_3 \text{NIOP} + \beta_4 \text{NINCI} + \beta_5 \text{CFO} + \beta_6 \text{SIZE} + \beta_7 \text{INDST} + \beta_8 \text{LEV} + \epsilon$
 ERC (NI) = $\beta_0 + \beta_1 \text{AEM} + \beta_2 \text{REM} + \beta_3 \text{CFO} + \beta_4 \text{SIZE} + \beta_5 \text{INDST} + \beta_6 \text{LEV} + \epsilon$
 ERC (CI) = $\beta_0 + \beta_1 \text{AEM} + \beta_2 \text{REM} + \beta_3 \text{CFO} + \beta_4 \text{SIZE} + \beta_5 \text{INDST} + \beta_6 \text{LEV} + \epsilon$
 ERC (NI) = $\beta_0 + \beta_1 \text{OCIR} + \beta_2 \text{OCINR} + \beta_3 \text{NIOP} + \beta_4 \text{NINCI} + \beta_5 \text{AEM} + \beta_6 \text{REM} + \beta_7 \text{CFO} + \beta_8 \text{SIZE} + \beta_9 \text{INDST} + \beta_{10} \text{LEV} + \epsilon$
 ERC (CI) = $\beta_0 + \beta_1 \text{OCIR} + \beta_2 \text{OCINR} + \beta_3 \text{NIOP} + \beta_4 \text{NINCI} + \beta_5 \text{AEM} + \beta_6 \text{REM} + \beta_7 \text{CFO} + \beta_8 \text{SIZE} + \beta_9 \text{IND} + \beta_{10} \text{LEV} + \epsilon$
 EM = $\beta_0 + \beta_1 \text{FOREX} + \beta_2 \text{HEDGING} + \beta_3 \text{TRANS} + \beta_4 \text{REVAL} + \beta_5 \text{PENS} + \beta_6 \text{CFO} + \beta_7 \text{SIZE} + \beta_8 \text{IND} + \beta_9 \text{LEV} + \epsilon$
 EQ = $\beta_0 + \beta_1 \text{FOREX} + \beta_2 \text{HEDGING} + \beta_3 \text{TRANS} + \beta_4 \text{REVAL} + \beta_5 \text{PENS} + \beta_6 \text{CFO} + \beta_7 \text{SIZE} + \beta_8 \text{IND} + \beta_9 \text{LEV} + \epsilon$
 (Eq.1)
 (Eq.2)
 (Eq.3)
 (Eq.4)
 (Eq.5)
 (Eq.6)
 (Eq.7)
 (Eq.8)
 (Eq.9)

This table presents the standardized regression coefficients. Complete sample (n = 2,520 observations, 5 years 504 firms), ***, **, and * indicate statistical significance at the 1, 5, and 10 percent levels, respectively. The dependent variable is earnings quality (ERC-NI and ERC-CI), the mediating variable is accrual earnings management (AEM) and real earnings management (REM), the independent variable is OCI reclassification, earnings attribution, with control variables including operating cash flow, type of industry, company size and level of leverage. Models 1 to 8 are used to test hypotheses, while models 9 and 10 are to analyze the sensitivity of each OCI item to its effect on earnings management and earnings quality.

For Equations 9 and 10 in Table 2, additional analysis was undertaken to test the sensitivity of each OCI item to earnings management and earnings quality. As shown in the Table two OCI items had a significant effect on earnings management and earnings quality: the profit (loss) of financial assets category available-for-sale and the translation of the financial statements of overseas business units into Rupiah units. In contrast, the cash flow hedging OCI item had a significant effect on earnings quality. The OCI item in the form of gain (loss) on available-for-sale financial assets had a significant positive coefficient of 0.012** and 0.014** for AEM and REM earnings management, respectively, and 0.022*** and 0.018*** respectively for earnings quality of ERC-NI and ERC-CI. The OCI item translating the financial statements of overseas business units into Rupiah units had coefficients of 0.011** and 0.009* for earnings management and coefficients of 0.012** and 0.011** for earnings quality, respectively.

Table 4: Path Analysis Results

	Standardized coefficient (direct)	Path Coefficient	Conclusion
Effect of X to Z			
OCI Reclassification → AEM	-,026**	-	H1 accepted
OCI Reclassification → REM	-,035***	-	
Attribution NI → AEM	-0,032***	-	
Attribution NI → REM	-,044***	-	
A direct effect of X to Y			
OCI Reclassification → ERC (NI)	,045***	-	H2 accepted
OCI Reclassification → ERC (CI)	,062***	-	
Attribution NI → ERC (NI)	,069***	-	
Attribution NI → ERC (CI)	,068***	-	
Effect of Z to Y			
AEM → ERC (NI)	-0,071***	-	H3 accepted
AEM → ERC (CI)	-,038***	-	
REM → ERC (NI)	-,027**	-	
REM → ERC (CI)	-,022**	-	
Effect of X to Y via Z			

OCI Reclassification → AEM → ERC (NI)	,045***	-,026 * -,071 = ,0019	
OCI Reclassification → REM → ERC (CI)	,062***	-,026 * -,038 = ,0010	
OCI Reclassification → AEM → ERC (NI)	,045***	-,035 * -,026 = ,0009	
OCI Reclassification → REM → ERC (CI)	,062***	-,035 * -,022 = ,0007	direct koef > koef. path, H4 rejected
Attribution NI → AEM → ERC (NI)	,069***	-,032 * -,071 = ,0022	
Attribution NI → REM → ERC (CI)	,068***	-,032 * -,038 = ,0012	
Attribution NI → AEM → ERC (NI)	,069***	-,044 * -,026 = ,0011	
Attribution NI → REM → ERC (CI)	,068***	-,044 * -,022 = ,0009	

***, **, and * indicate statistical significance at the 1, 5, and 10 percent levels, respectively. The coefficient of determination of total R²: 66.23%. ¹Sobel Test is significance at the 5%.

Table 3 presents the results of the path analysis. The coefficient of the effect of OCI reclassification on the quality of net income through accrual earnings management was 0.0019, while the direct coefficient of 0.045 means that accrual earnings management does not mediate the effect of OCI reclassification on the quality of net income. Similarly, for the mediating role of real earnings management and the effect of OCI reclassification on the quality of comprehensive earnings, the coefficient of the effect of earnings attribution on the quality of net income through accrual earnings management was 0.0022. While the direct coefficient of 0.069 means that accrual earnings management does not mediate the effect of earnings attribution on the quality of net income. Similarly, for the mediating role of real earnings management and the effect of earnings attribution on the quality of comprehensive earnings. This means that accrual earnings management and real earnings management do not mediate the effect of OCI reclassification and earnings attribution on the quality of net income and the quality of comprehensive earnings. Therefore, H4 was rejected.

CONCLUSION

The findings of this study have shown that OCI reclassification and earnings attribution have a negative effect on earnings management, while OCI reclassification and earnings attribution have a positive effect on earnings

quality. The presentation of OCI that is separated was based on the potential to be realised and the presentation of profit attributable to each type of owner, thereby reducing earnings management opportunities than the presentation in aggregate. The presentation of OCI that is separated based on the potential to be realised and the presentation of attributable earnings can consequently improve the quality of net income and the quality of comprehensive income than the presentation in aggregate. Accordingly, this means that the presentation of OCI in aggregate or in detail per item without any separation of items based on potential realisation is uncertain when the OCI items will turn into NI, both in terms of quantity and time. This ambiguity can provide an opportunity for management to carry out earnings management, but with the OCI reclassification, this opportunity is void. Furthermore, accrual earnings management has shown to have a negative effect on earnings quality, while real earnings management positively affects earnings quality. Moreover, accrual earnings management and real earnings management do not mediate the effect of OCI reclassification and earnings attribution on the quality of net income and the quality of comprehensive earnings.

The profit attribution presents information on the owner's "right" to the profits earned in the current period according to the proportion of the company's share ownership. Owners of the parent entity having majority share ownership and controlling rights receive NI and CI attributions that are greater than non-controlling interests. The attribution of earnings NI and CI is more transparent and relevant than the presentation of NI and CI in aggregate without attribution information. NI and CI earnings attribution information also contributes to closing the opportunity for management to perform earnings management. External users can compare the attribution value of the current period's NI and CI with the previous period and associated with the aggregation of NI and CI values, changes in attributable earnings and aggregate profits with dramatic spikes of increase or decrease can indicate earnings management if forgoing a reasonable explanation.

OCI as unrealised income is a form of adjustment towards the increase (decrease) in assets and liabilities from a historical value or carrying value to fair value at the date of presentation of the financial statements. The presentation of assets and liabilities at fair value is more representative of current conditions in being more relevant to user needs. The nature

of the reclassification that clarifies which types of OCI items and their nominal amounts will and will not be realised consequently reduces the potential for earnings management with real activities or accruals through OCI. In addition, the high volatility of OCI, since it significantly affects the company's external conditions beyond management's control, such as changes in interest rates, inflation rates, currency exchange rates, and capital market conditions, are also factors to consider in conducting earnings management via OCI. OCI items that will not be realised in period $t+1$ and will not be reclassified to NI in period t will not affect the value of NI and CFO because the transactions that cause them are unrelated to cash. However, this group still affects the value of comprehensive income $t+1$.

Examples of the forms of earnings management behaviour through OCI by delaying the realisation time, or on the contrary, by realising earlier OCI items, thereby affecting the value of NI and CFO in the realisation period, are earnings management methods via OCI. This is because firstly, the company's shares that were invested in the "available-for-sale securities investment category", the share price rose, and the company realised these financial assets to increase the NI and CFO. Secondly, when the Rupiah exchange rate against the USD strengthens, the company shall disclose the financial statements of overseas business units by increasing the value of assets and decreasing the value of liabilities. Third, for cash flow hedging contracts with the company's position as a debtor (OCI hedging as an asset), the company increases the contract value when the Rupiah exchange rate against the USD strengthens. However, for cash flow hedging contracts with the company's position as a creditor (OCI hedging as a liability), the company lowers the contract value. Fourth, postponing the revaluation of tangible fixed assets for tax avoidance, and lastly, decreasing the value of defined benefit liabilities. However, there is an obligation to present financial statements in period t to separate OCI items that will and will not be realised in period $t+1$, closing the potential for earnings management through OCI.

Real earnings management has a positive effect on earnings quality, which is not only happening in Indonesia, but also in countries that are included in the insider economics cluster such as the Philippines and South Korea (Purwaningsih & Kusuma, 2020) with the characteristics of concentrated share ownership, low investor protection and low levels of disclosure (Leuz et al., 2003). The sensitivity analysis, therefore, proves that

the cash flow hedge OCI item has a significant effect on earnings quality, while the profit (loss) item in the available-for-sale financial asset category and the translation of the financial statements of overseas business units into Rupiah units has a significant effect on earnings management and earnings quality. This is because the three items in period *t* are still in the form of OCI, which is transitory income that is unrelated to net income and operating cash. However, the three items in the next period can be sold or realised, ultimately affecting net income and operating cash flows, which can lastly also be used as a guide for making investment decisions since it can be used to predict future cash flows and is related to the company's ability to provide ROIs.

This study concludes that OCI reclassification and earnings attribution have a negative effect on earnings management and a positive effect on earnings quality. The presentation of OCI that is separated based on the potential to be realised and the presentation of profit attributable to each type of owner has been proven in this research to reduce earnings management opportunities and improve earnings quality than the presentation in aggregate. The market in Indonesia has responded positively to the presentation of the OCI reclassification and profit attribution. However, accrual earnings management and real earnings management do not mediate the effect of OCI reclassification and earnings attribution on the quality of net income and the quality of comprehensive earnings. Of the five OCI items examined in this research, the items that affect earnings management and earnings quality include adjustments to the value of financial assets, translation of financial statements of overseas businesses, and cash flow hedging. All three affect earnings management, given the timing and amount of realisation, which can affect net income, though the presentation of OCI reclassification can reduce this opportunity. All three affect the quality of earnings because there is potential to be realised in the next period, thereby affecting the value of net income and operating cash flow. Finally, the findings of this study support Indonesian Financial Accounting Standards in requiring disclosure of OCI reclassification and attribution of NI and CI earnings in the income statement because it has been empirically proven to increase transparency, reduce asymmetric information, reduce earnings management opportunities improve information quality, leading to increased value relevance.

The policy implication of this research is not only to confirm the existing policies for setting up financial accounting standards in Indonesia in the presentation of OCI reclassification and profit attribution, but there are other implications, namely providing input that it is necessary to clarify in the accounting standard policies the certainty of the time of OCI realization and the certainty of the nominal amount realized OCI in the next period. So far, accounting standards have not regulated such certainty, so that companies can delay the time or reduce the amount of OCI realization from the previous period's plan if it is deemed different from the interests of the profit value in the presentation period.

There are several limitations to this study. The first limitation concerns testing the ability of OCI reclassification and earnings attribution to reduce earnings management potential and improve earnings quality as it does not involve the period when the income statement has not presented OCI reclassification and earnings attribution. The period before 2012 where Indonesian Financial Accounting Standards regulates the presentation of accumulated OCI accounts is still in the balance sheet equity and has not been recognised as part of comprehensive income and has therefore not been presented in the income statement. In future, further research is recommended to compare the period before and after OCI and attribution in the income statement, to understand and acknowledge the difference in value relevance of changes in the format of the income statement presentation, particularly in reducing earnings management and improving earnings quality.

REFERENCES

- Asni, F., & Mayasari, M. (2018). Perbedaan Manajemen Laba AkruaI Dan Manajemen Laba Rill Sebelum Dan Sesudah Adopsi IFRS Pada Perusahaan Manufaktur Yang Terdaftar Di Bei. *Journal of Applied Managerial Accounting*, 2(1), 82–87. <https://doi.org/10.30871/jama.v2i1.721>
- Banks, L., Hodgson, A., & Russell, M. (2018). The location of comprehensive income reporting – Does it pass the financial analyst revision test? *Accounting Research Journal*, 31(4), 531–550. <https://doi.org/10.1108/ARJ-04-2017-0075>

- Bima, P. G., Etna, Y., & Afri, N. (2017). Dampak Pengungkapan Pendapatan Komprehensif Lain Terhadap Manajemen Laba Pada Perusahaan Manufaktur Di Indonesia. *Diponegoro Journal of Accounting*, 6(1), 1–15.
- Black, D., Neururer, T., & Albuquerque. (2019). *The Demand for Forward-looking Information about Other Comprehensive Income and Special Items* (Issue January). <https://papers.ssrn.com>
- Chebaane, S., & Othman, H. Ben. (2014). The Impact of IFRS Adoption on Value Relevance of Earnings and Book Value of Equity: The Case of Emerging Markets in African and Asian Regions. *Procedia - Social and Behavioral Sciences*, 145, 70–80. <https://doi.org/10.1016/j.sbspro.2014.06.012>
- Chen, E., & Gaviious, I. (2016). Unrealized earnings, dividends and reporting aggressiveness: An examination of firms' behavior in the era of fair value accounting. *Z*, 56(1), 217–250. <https://doi.org/10.1111/acfi.12187>
- Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting Earnings Management. *The Accounting Review*, 70(20), 193–225.
- Dong, M., Ryan, S., & Zhang, X. J. (2014). Preserving amortized costs within a fair-value-accounting framework: Reclassification of gains and losses on available-for-sale securities upon realization. *Review of Accounting Studies*, 19(1), 242–280. <https://doi.org/10.1007/s11142-013-9246-7>
- Elbakry, A. E., Nwachukwu, J. C., Abdou, H. A., & Elshandidy, T. (2017). Comparative evidence on the value relevance of IFRS-based accounting information in Germany and the UK. *Journal of International Accounting, Auditing and Taxation*, 28, 10–30. <https://doi.org/10.1016/j.intaccudtax.2016.12.002>
- Ghazali, N. I. binti, Osman, A. Z. bin, & Ismail, R. F. binti. (2022). Accountability through Reporting: The Case of Foundations in Malaysia. *Asia-Pacific Management Accounting Journal*, 17(2). <https://apmaj.uitm.edu.my/index.php/current/19-cv17n2/148-av17n2-2>

- Goel, S. (2017). Earnings Management Detection Over Earnings Cycles: The Financial Intelligence In Indian Corporate. *Journal of Money Laundering Control*, 20(2), 50–74. <http://dx.doi.org/10.1108/MAJ-01-2016-1304%0D>
- Hodgson, A., & Russell, M. (2014). Comprehending Comprehensive Income. *Australian Accounting Review*, 24(2), 100–110. <https://doi.org/10.1111/auar.12022>
- Hosseini, M., Chalestori, K. N., Hi, S. R., & Ebrahimi, E. (2016). A Study on the Relationship between Earnings Management Incentives and Earnings Response Coefficient. *Procedia Economics and Finance*, 36(16), 232–243. [https://doi.org/10.1016/s2212-5671\(16\)30034-x](https://doi.org/10.1016/s2212-5671(16)30034-x)
- Ismail, W. A. W., Kamarudin, K. A., Van Zijl, T., & Dunstan, K. (2013). Earnings quality and the adoption of IFRS-based accounting standards: Evidence from an emerging market. *Asian Review of Accounting*, 21(1), 53–73. <https://doi.org/10.1108/13217341311316940>
- Jensen, M., & Meckling, W. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305–360. <https://doi.org/10.1177/0018726718812602>
- Kanagaretnam, K., Mathieu, R., & Shehata, M. (2009). Usefulness of comprehensive income reporting in Canada. *Journal of Accounting and Public Policy*, 28(4), 349–365. <https://doi.org/10.1016/j.jaccpubpol.2009.06.004>
- Karampinis, N. I., & Hevas, D. L. (2013). Effects of IFRS Adoption on Tax-induced Incentives for Financial Earnings Management : Evidence from Greece *. *International Journal of Accounting*, 48(2), 218–247. <https://doi.org/10.1016/j.intacc.2013.04.003>
- Kusuma, M. (2017). Kontribusi informasi akuntansi biaya dalam meningkatkan nilai perusahaan dan tanggung jawab kepada stakeholder pada perusahaan manufaktur semen di Indonesia. *Ekuilibrum*, 12(2), 102–118. <http://journal.umpo.ac.id/index.php/ekuilibrum/article/view/673/555>

- Kusuma, M. (2020). Penghasilan komprehensif lain dan prediksi arus kas masa depan: Bukti dari Indonesia. *Seminar Nasional SENIMA Ke 5 Universitas Negeri Surabaya, Senima 5*, 815–832. <http://bit.ly/ProsidingSenima5>
- Kusuma, M. (2021a). Bukti Empiris Pengaruh Fundamental Makro Ekonomi Terhadap Penghasilan Komprehensif Lain dan Persistensi Laba Komprehensif Di Indonesia. *Konferensi Regional Akuntansi Ke-VIII Ikatan Akuntan Indonesia Wilayah Jawa Timur*.
- Kusuma, M. (2021b). Measurement of Return on Asset (ROA) based on Comprehensive Income and its Ability to Predict Investment Returns: An Empirical Evidence on Go Public Companies in Indonesia before and during the Covid-19 Pandemic. *Ekuililibrium: Jurnal Ilmiah Bidang Ilmu Ekonomi*, 16(1), 94. <https://doi.org/10.24269/ekuililibrium.v16i1.3238>
- Kusuma, M. (2021c). Modification of Profitability Measures with Comprehensive Income and Reclassification of Other Comprehensive Income as A Mediation of Effects Asset Utilization on Firm Value. *Jurnal Keuangan Dan Perbankan*, 25(4).
- Kusuma, M., & Rahayu, P. (2022). Can Others Comprehensive Income Be Used For Tax Avoidance? *Jurnal Akuntansi Dan Keuangan (JAK)*, 24(2). <https://jurnalakuntansi.petra.ac.id/>
- Kusuma, M., & Saputra, B. M. (2022). Pengaruh Fundamental Makro Ekonomi Terhadap Penghasilan Komprehensif Lain dan Persistensi Laba Komprehensif. *Jurnal Kajian Akuntansi*, 6(1), 145-176.
- Kusuma, M., Assih, P., & Zuhroh, D. (2021). Pengukuran Kinerja Keuangan: Return on Equity (ROE) Dengan Atribusi Ekuitas. *Jurnal Ilmiah Manajemen Dan Bisnis*, 22(2), 223–244. <https://doi.org/10.30596/jimb.v22i2.7935>
- Kusuma, M., Zuhroh, D., Assih, P., & Chandrarin, G. (2021). The Effect of Net Income and Other Comprehensive Income on Future's Comprehensive Income With Attribution of Comprehensive Income

- as Moderating Variable. *International Journal of Financial Research*, 12(3), 205–219.
- Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics*, 69(3), 505–527. [https://doi.org/10.1016/S0304-405X\(03\)00121-1](https://doi.org/10.1016/S0304-405X(03)00121-1)
- Lin, W., & Rong, M. (2012). Impacts of other comprehensive income disclosure on earnings management. *Nankai Business Review International*, 3(1), 93–101. <https://doi.org/10.1108/20408741211201944>
- Murdiyanto, E., & Kusuma, M. (2022). Moderasi Leverage dalam Pengaruh Ukuran Bank dan Aset Keuangan Terhadap Kinerja Keuangan Komprehensif BPR Konvensional dan BPR Syariah Se-Kediri Raya. *Jurnal Ekonika: Jurnal Ekonomi Universitas Kadiri*, 7(2). <http://ojs.unik-kediri.ac.id/index.php/ekonika/index>
- Murtini, H. L. (2016). Earning Management and Value Relevance Before and After the Adoption of IFRS in Manufacturing Company in Indonesia. *Rev. Integr. Bus. Econ. Res. Online*, 5(1), 2304–1013.
- Purwaningsih, A., & Kusuma, I. W. (2020). Association Between Earnings Management and Earnings Quality: Comparative Study Between Insider and Outsider Economics Clusters. *International Symposia in Economic Theory and Econometrics*, 27, 103–113. <https://doi.org/10.1108/S1571-038620200000027008>
- Rees, L. L., & Shane, P. B. (2012). Academic research and standard-setting: The case of other comprehensive income. *Accounting Horizons*, 26(4), 789–915. <https://doi.org/10.2308/acch-50237>
- Robik, K., Naruli, A., & Kusuma, M. (2021). Moderasi Kualitas Audit Dalam Pengaruh Manajemen Laba Terhadap Kualitas Laba Komprehensif. *Jurnal Cendekia Akuntansi*, 2(2), 27–46.
- Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, 42(3), 335–370. <https://doi.org/10.1016/j.jacceco.2006.01.002>

- Shi, L., Wang, P., & Zhou, N. (2017). Enhanced disclosure of other comprehensive income and increased usefulness of net income: The implications of Accounting Standards Update 2011–05. *Research in Accounting Regulation*, 29(2), 139–144. <https://doi.org/10.1016/j.racreg.2017.09.005>
- So, S., & Smith, M. (2009). Value relevance of IAS 27 (2003) revision on presentation of non-controlling interest: Evidence from Hong Kong. *Journal of International Financial Management and Accounting*, 20(2), 166–198. <https://doi.org/10.1111/j.1467-646X.2009.01029.x>
- Yan, C., & He, H. (2018). Non-controlling Large Shareholders and Firm Performance in China. *Asia-Pacific Journal of Financial Studies*, 47(3), 401–425. <https://doi.org/10.1111/ajfs.12216>
- Zhao, X., Zhao, K., & Wei, W. (2018). *Earnings Management using Other Comprehensive Income Items: A Multi-Case Study on Chinese Listed Companies*. *SSAH*, 198–201. <https://doi.org/10.25236/ssah.2018.042>