

# ACCOUNTING STUDENTS' ETHICAL PERCEPTION ON EARNINGS MANAGEMENT

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## ABSTRACT

**Purpose:** *The practice of earnings management, although it is not violating laws, may contribute to more severe cases, such as fraud and corruption. Surprisingly, for their reasons, some of the students believe that engaging in earnings management practices is not wrong. This case has posed a great risk to students who will be involved with these practices when they become an accountant in the future. Thus, this study seeks to investigate whether students' ethical perceptions on earnings management are associated with exam performance, family background, religiosity, and gender.*

**Methodology:** *A quantitative analysis is adopted based on 294 respondents from the questionnaire survey. Prior to performing the regression analysis, the data were tested for validity, reliability, normality, and multicollinearity to obtain reliable results. The results are also robust to various additional tests.*

**Findings:** *The result indicated that a significant positive relationship exists between religiosity and ethical perception toward earnings management, whereas no significant relationship exists for other factors.*

**Significance:** *Results imply the importance of embracing religious values, throughout the accounting education process, which contributes to combating earnings management practice and other financial crimes. This study is significant to educators in designing the accounting curriculum in higher education.*

**Keywords:** Earnings Management, Creative Accounting, Ethical Perception, Accounting Students

## INTRODUCTION

Earnings represent a company's overall financial results, and thus, many companies aim to achieve high earnings to show that they are performing well (Teh et al., 2017). Accordingly, as a professional, accountants have a significant responsibility to follow a high standard of ethics and ensure that information on a company's position is presented fairly to the public through financial statements (Hermawan & Kokthunarina, 2018). Reliable and faithful financial statements are vital to the stakeholders as the current reported income can predict the value of an organization's long-term performance. Earnings management is one of the activities that may affect the decision-making process. In this practice, the management attempts to meddle with the outcome of the financial statement to delude stakeholders who require information of the organization's performance and direction (Muda et al., 2018). Moreover, this practice may abuse stakeholders' trust because the managers may distort the information to the stakeholders for their personal gain (Cygańska et al., 2019). From this, earnings management practices can evidently lead to misapprehension and misinterpretation of information, particularly among the stakeholders (Sabrun et al., 2018).

The public's trust in the accounting profession is greatly affected by unethical cases, such as earnings management practices and fraudulent financial reporting. Sari, et al., (2019)

noted that the accounting scandals are increasing, whereas ethical reasoning is declining. Companies such as ENRON, WorldCom, Satyam Computer Services, and Tyco International have been involved in global accounting scandals. Additionally, Tesco, a popular public listed company in the United Kingdom, had reported an overstatement of an interim profit of £250 million, which was 25% more than the actual earnings. This case prompted the public to doubt the integrity of their financial statements (Felsted et al., 2013). The earnings management phenomenon related to Perseroan Terbatas (PT) Toshiba Corporation's top leadership has been embroiled in a "systematic" controversy for several years in the company's income bloating of USD 1.2 billion (Santi & Wardani, 2018). Based on the investigation findings, PT Toshiba had been executing profit inflation because it failed to meet the profit goal in addition to the global crisis that hit the company at that time. The condition in Malaysia has also suffered the consequences of the same practices. Despite improvements in some countries, global fraud and corruption cases have not decreased in the last two years (Ernst & Young, 2019). Local companies such as Megan Media Holdings Berhad, Transmile Group Berhad, Malaysia Airline Systems, and Port Klang Free Zone are also said to be involved in earnings manipulations, such as overstatement of sales and fabricated transactions (Norwani et al., 2011).

In the past few years, regulations such as the Sarbanes Oxley Act in 2002, Whistle-blower Protection Act, Codes of Ethics, and Codes of Corporate Governance have been introduced to mitigate such unethical activities. This initiative has brought positive outcomes, for example, an increase in financial performance (Danoshana & Ravivathani, 2019), higher levels of voluntary risk disclosure practices (Alkurdi et al., 2019), and an improved accounting standard-setting process (Baranek, 2018). However, Omar, et al., (2014) asserted that some Malaysian companies not only perform earnings management activities but also commit fraudulent financial statements. This notion implies that these initiatives do not have much impact on curbing the earnings management practice of companies. The persistence of earning management practices in Malaysia prompts researchers to further examine this issue.

To contribute to mitigating these unethical practices, awareness and knowledge must be given from the beginning stage, which is from the educational stage. Although these scandals are perpetrated by accountants, this issue is closely related to accounting students that are currently enrolled in universities. The reason is that potential accountants in near future are current accounting students. Therefore, the future of the accounting profession relies on the ethical standard of currently enrolled accounting students at the university (Ismail & Rasheed, 2019). Hence, creating and raising awareness on earnings management among accounting students through ethics education are very important. Many scholars have argued that education in ethics should start early in auditors' careers, even before entering the profession (Johari et al., 2018). By learning ethics, the ethical perceptions of students may change (Hermawan & Kokthunarina, 2018). Accordingly, the present study aims to investigate the factors, namely, exam performance, family background, religiosity, and gender, which are associated with accounting students' ethical perception on earnings management.

This study is significant to the accounting literature because studies on the accounting students' view on the earnings management practices are limited, particularly in the context of developing countries, such as Malaysia. In addition, knowing students' behaviors and attitudes toward earnings management practices is significant in designing and updating the current educational system. This study calls for the development of ethical education in the accounting learning process. Thus, ethical principles should be instilled in the educational context because ethics is the most effective way to restrict the occurrences of earnings management (Sari et al., 2019). Hence, students can recognize and adopt the accounting profession's principles and ethical standards in the future as they become an accountant.

The following section is the literature review and hypothesis development. Then, the next section is the research methodology, results, and discussion. Finally, the conclusion section concludes the study.

## LITERATURE REVIEW

Earnings management has been a topic of a major debate over the past three decades. Several researchers have investigated the clear signs and symptoms to find out how companies manage their earnings (Mulyani et al., 2018). However, studies examining the behavior, attitudes, awareness, mindset, and perceptions toward earnings management practices are relatively few (Bruns & Merchant, 1990; Cuzdriorean, 2013; Cygańska et al., 2019). For instance, (Bruns & Merchant, 1990) found frightening results with regard to the ethical view of students and accounting practitioners on earnings management practices. The study demonstrated that managers believe that regardless of who might be influenced by their earnings management practice, if a practice is not expressly forbidden by accounting standards, then it can be considered an ethical practice (Bruns & Merchant, 1990). Starting with Bruns and Merchant's first study, a wide range of abroad studies adopted or modified their survey to investigate the ethical perception of students.

Cygańska, et al., (2019) found that the students' judgments are affected by the type of manipulation and age. In addition, ethical judgments of accounting practices did not vary substantially for gender and between students working in accounting and other fields, including those who are unemployed. The other variables that have been discussed in prior studies with regard to their impact on ethical perceptions on earnings management were the educational level (Qi & Tian, 2012), academic background (Alleyne & Persaud, 2012), culture (Cuzdriorean, 2013), ethics education (Sari et al., 2019), religiosity (Alleyne & Persaud, 2012; Sari et al., 2019), academic attainment (Ajward, 2015), and ethical orientation (Sari et al., 2019).

Although many variables have been explored and discussed concerning a similar topic, studies investigating the influence of exam performance and family background of an individual toward their ethical perceptions on earnings management are scarce. Moreover, past studies which had underlined the importance of an individual's exam performance (Steinmayr et al., 2014) and family background (Berkowitz et al., 2016) to influence their attitudes, cognitive process, and behaviors are limited. Thus, the impact of these variables should be understood. The gap in the literature allows the present study to examine these critical factors that may affect students' judgment. This study employs the social cognitive theory and the gender socialization theory in forming the expectation for hypotheses. The social cognitive assumes two key principles; first, an individual's inner personality, environment, and behavior will affect and influence one another; and second, an individual is best understood with regard to three types of cognitive abilities: self-develop, self-reflect, and those that help them represent events symbolically in their minds (Williams & Cervone, 1998). The gender socialization theory contends that the moral development of men and women is different fundamentally, which is evidenced by the different sets of values that they bring into the workplace (Betz & O'Connell, 1989).

## HYPOTHESIS DEVELOPMENT

The following are the arguments for the hypotheses for this research.

### **Exam Performance and Ethical Perception on Earnings Management**

The concept of exam performance refers to how well the students can demonstrate or explain their knowledge during the examination. Dawkins (2004) supported the view that academic performance is an important factor in the propensity of individuals to cheat at the test or examination. Finn & Frone (2004) also concluded that a negative relationship exists between academic performance and their tendency to engage with cheating behavior. This finding is supported by (Klein et al., 2007), who concluded that dishonest people are among the young people with low average grades. Chandra, et al., (2016) indicated that the academic performance of students, which are characterized by their Grade Point Average (GPA) and American College Testing scores did significantly influence the ethical behavior of students. Furthermore, (Corcoran & O'Flaherty, 2016) found 12 studies in their literature review that reported the relationship between prior academic achievement and their moral reasoning. In addition, (Zhang & Slesnick, 2020) provided evidence that academic performance is associated with the levels of delinquent and aggressive behavior, which is in line with the existing research on the promotional impact of academic performance in reducing problematic behavior (Elder & Conger, 2014). Moreover, Jung, et al., 2018; Lafavor (2018) claimed that educational performance or academic achievement in adolescence can improve their key cognitive and developmental capacities and, in effect, may reduce the likelihood of potential deviant behaviors in the future.

The phenomena above can be explained by the social cognitive theory, which emphasizes the importance of personal and internal factors in forming an individual's personality, cognitive process, and knowledge acquisitions (Jenkins et al., 2018). In addition, by referring to one of the constructs in social cognitive theory, an individual must know what to do and how to do certain behavior in order to perform a certain behavior. From this case, an individual with high academic or exam performance is expected to regard earnings management practices as ethically more objectionable than students with low academic or exam performance as they have more knowledge and understanding of the earnings management concept. Accordingly, we could see the prediction developed from underpinning theory, that is, the personal aspect (exam performance) plays an important role in influencing the behavior of an individual. Therefore, the first hypothesis is proposed as follows:

*H1: Exam performance is associated with ethical perception on earnings management practices.*

## **Family Background and Ethical Perception on Earnings Management**

The second factor focuses on the environmental aspect, which may influence the ethical perception toward earnings management practices; this aspect includes the family background of an accounting student. Berkowitz, et al., (2016) stated that family offers consistent and healthy support for the growth of children and adolescents and is a major factor influencing their outcomes. Notably, the influence of family background on different outcomes has been much discussed and studied in the past, and thus, the study on this field is increasing recently. Piotrowska, et al., (2015) claimed that lower parent's Socioeconomic Status (SES) has a significant relationship with a child's violent behavior. In addition, Mistry, et al., (2002) emphasized that those parents who are suffering from financial distress seem to show poor affection while disciplining their children. Thus, the possibility that the children involved in violent behavior increases. This result is similar to the findings of (Yeung & Gunn, 2002), who indicated that low-income families can lead to inadequate parenting, increased maternal distress, and antisocial behavioral etiology among young people. Ashraf, et al., (2019) reported that the family income of students is one of the predictors of their violent behaviors. This finding generated similar results with (Nasreen et al., 2015), who stated that individuals in a family with a poor SES had a greater chance of involving in delinquent behaviors.

Again, these phenomena can also be explained by the social cognitive theory, that is, the environment impacts a person's belief or value, which is guided by their ethical behavior (Nurim & Anggraini, 2019). The theory observed that the interaction between information from the environment of an individual and their knowledge and ability directs them in attaining his or her objectives. Based on this notion, the family background can also be predicted to influence the students' ethical perceptions on earnings management practices. Thus, the second hypothesis is proposed as follows:

*H2: Family background is associated with ethical perception on earnings management practices.*

## **Religiosity and Ethical Perception on Earnings Management**

Prior studies regarded the association between an individual's religiosity and ethical sensitivity. For example, Cagle & Baucus (2006) discovered that students with a high degree of spirituality are less inclined to participate in acts they consider abominable. This notion is upheld by (Alleynes & Persaud, 2012), who uncovered that religious students have higher ethical perceptions than non-religious students regarding the moral constitutes of selfishness, justice, deontology, relativism, and utilitarianism. Uyar, et al., (2015) documented that religiosity is significantly related to individual ethical awareness. Furthermore, Cai, et al., (2020) found that religious managers can be more ethical and therefore separate themselves from unethical acts, such as earnings management. Wati & Sudibyo (2016) also found similar results, that is, religiosity and gender are associated with the ethical perception of college students.

Despite the above results, some prior studies found contrasting results, for example, (Rawwas et al., 2006; Hadjar, 2017) contended that religion could not alleviate academic dishonesty. However, by referring to social cognitive theory, which emphasizes the importance of behavioral factors in forming an individual's personalities, cognitive process, and knowledge acquisitions (Jenkins et al., 2018), we could predict that the religiosity of an individual, as a behavioral factor, may influence their ethical perception toward earnings management practices. Accordingly, the study proposes the following hypothesis:

*H3: Religiosity is associated with the ethical perception on earnings management practices.*

## **Gender and Ethical Perception on Earnings Management**

Gender is an important factor that can impact ethical perception on earnings management practices. Khanifah, et al., (2019) provided evidence that gender influences the ethical perception of students. This notion reflects that even the Gender Empowerment Index is increasing from year to year; the difference between males and females still exists. The authors further noted that gaps exist between men and women in doing a job or in appreciating the different life circumstances. Female thinking patterns are distinct from male ones, including the confidence to act and take risks. In coping with circumstances where unethical behavior occurs, female appears to be more vigilant in acting and decision making. This study supports the findings of (Widyaningrum, 2014), who indicated that variations exist between male and female perceptions and different genders will bring varying sets of norms and values to their workplace.

Furthermore, several empirical studies investigating the influence of women directors on engagement in earnings management found that the incidence of earnings management practices decreases when companies have female representation in top management (Na & Hong, 2017; Srinidhi et al., 2011). Similarly, numerous past studies also examined the influence of gender on auditor's judgment. Although (Setiawan, 2018) found a non-significant result, (Khalkhali et al., 2014) observed that a significant gap exists between male

and female auditors in exercising their professional decisions. This notion suggests that women are more likely to produce better judgment as compared to men.

These findings are in line with the prediction of gender socialization theory, which proposes that men and women behave morally different because they have the dissimilar ability to value certain things (Betz & O'Connell, 1989). In addition, this theory suggests that males are more worried and concerned about their income, job security, and administration progress than females. Moreover, males are prone to escape from supervision and are more likely to pursue self-employment and work-related autonomy and value leadership opportunities than females. Meanwhile, females would like to work with and support others, would prefer the role of part-time employees, and would like to emphasize the usage of special job skills than males (Betz & O'Connell, 1989). From this finding, we could predict that females and males will perceive the ethicality of earnings management differently. Accordingly, the hypothesis is formulated as follows:

*H4: Gender is associated with ethical perception on earnings management practices.*

## RESEARCH METHODOLOGY

The study aims to investigate the accounting students' ethical perception on earnings management practices. As such, the population of this study is the university accounting undergraduates following (Cuzdriorean, 2013; Johari et al., 2018; Khanifah et al., 2019). University students have been selected because they will be the accountants of tomorrow, and therefore, their ethical stance must be identified (Ismail & Rasheed, 2019). Accordingly, final year accounting students from one of the local public universities, namely, Universiti Teknologi MARA (UiTM) are invited to take part in this study. The selection of UiTM was mainly because this university has produced the highest number of graduates among the other Malaysian public universities in 2018. That is, the university produced 49,076 graduates, representing 37% of the overall graduates from public universities (MoHE, 2019). The UiTM is currently Malaysia's largest higher-learning institution (Samsuddin et al., 2015), and UiTM is also one of the top five public universities that has recorded the highest marketability of graduates in 2018 (MoHE, 2019). This study follows (Cuzdriorean, 2013), who used the final year accounting undergraduates from one of the largest public universities in Spain as their sample in examining the ethical view of short-term earnings management. The study of the attitude of an individual is often examined using a survey questionnaire (Mathers et al., 2007). This study adopts the modified questionnaire of (Bruns & Merchant, 1990). The questions are modified to reflect the current context of the study following the approach of Kesaulya et al., (2019). For this current study, 319 sets of questionnaires were distributed to final-year accounting undergraduates. They were selected for the sample of this study because they have already gone through the curriculum on earnings management and business ethics.

The dependent variable for this study is the ethical perception on earnings management. The most usual earnings management practices performed are deferring reserve increment, liberal payment terms, discretionary expenditures, and some other activities. This variable is measured by using an interval scale, that is, a five-point Likert scale, which indicates the following: (1) ethical practice, (2) questionable practice, (3) minor infraction, (4) serious infraction, and (5) totally unethical. Accordingly, the study uses the following multiple linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon, \quad (1)$$

Where:

$Y$  = Ethical perception on earnings management

$\beta_0$  = Constant

$X_1$  = Exam performance

$X_2$  = Family background

$X_3$  = Religiosity

$X_4$  = Gender

$\varepsilon$  = Error term

The multiple regression models include one dependent variable and four independent variables, namely, exam performance, family background, religiosity, and gender. The first independent variable, exam performance, is coded into four categories, where category 1 comprises students with cumulative GPA (CGPA) 2.10–2.50. Then, category 2 represents those with CGPA 2.51–3.00, and category 3 includes students with CGPA 3.01–3.50. Finally, category 4 comprises students with CGPA 3.51–4.00. The second independent variable, family background, is coded into five categories. Categories 1–5 include students having a household income per month of less than RM1,000, RM1,000–RM4,999, RM5,000–RM9,999, RM10,000–RM14,999, and more than RM15,000, respectively. The third independent variable, religiosity, is measured at an interval scale. Finally, the fourth independent variable, gender, is a dummy variable that is coded as 1 if the respondent is a male; otherwise, it is equal to 0.

## RESULTS AND DISCUSSIONS

This study focuses on investigating the associations between independent variables (exam performance, family background, religiosity, and gender) and dependent variable (ethical perception on earnings management). The students were asked to stay for a while right after their final examination paper ends to answer the questionnaire. Of the 319 questionnaires distributed, 294 sets were managed to be collected and used for further analysis. Thus, this study achieves a response rate of 92.16%. The questionnaire has five questions concerning the demographic background of the respondent. Table 1 shows the composition of the respondents' age group, gender, religion, household income level, and CGPA in terms of frequency and percentage relative to the total samples. By referring to Table 1, almost all of the students are between 21 and 30 years old, which is 99.7%. In addition, a greater number of the respondents (242 students) are female, achieving 82.3% of the total samples. The remaining 17.7% of the students in this study are male. The table also shows that all of the students (294 students) who participated in this study are Muslim. This case is in line with the policy of UiTM that is specifically catered for Bumiputera individuals, and hence, respondents mainly consist of Malay, that is, a Muslim. The variable for religiosity in this study is not based on which religion the students belong to, instead, the variable is measured based on the value of their religious beliefs and practices. Furthermore, the majority of the respondents in this study are students with a household income of less than RM1,000 per month, which is 46.9%. This result is in line with the findings of Ibrahim et al. (2011), who indicated that the majority of the students in UiTM were found to be in the category of "multidimensional poor" with multidimensional poverty index values ranging from 0.71 to 0.90. Finally, the data identified that the greater number of individuals (174 students) achieving a CGPA ranges from 3.01 to 3.50, which is 59.2%. Hence, the group with a CGPA of less than 2.00 is excluded in the further analysis as no respondent belongs to this group.

<b>Table 1</b>			
<b>RESPONDENT COMPARISON ACCORDING TO DEMOGRAPHIC INFORMATION</b>			
		<b>Frequency</b>	<b>Percent</b>
Age group	Below 20	1	0.3
	21–30	293	99.7
	31–40	NA	–
	41 and above	NA	–
Gender	Male	52	17.7
	Female	242	82.3
Religion	Islam	294	100
	Christian	NA	–
	Buddha	NA	–
	Hindu	NA	–
	Others	NA	–
Household income level	Less than RM1,000	138	46.9
	RM1,000–RM4,999	83	28.2
	RM5,000–RM9,999	43	14.6
	RM10,000–RM14,999	14	4.8
	RM15000 and above	16	5.4
CGPA	Less than 2.00	NA	–
	2.01–2.50	5	1.7
	2.51–3.00	34	11.6
	3.01–3.50	174	59.2
	3.51–4.00	81	27.6

Table 2 shows the descriptive statistic of this current study. The minimum score for the dependent variable, ethical perception on earnings management (total ethic), was 20, and the maximum score is 96. Next, the mean and standard deviation for the dependent variable are 57.59 and 11.35, respectively. In comparison, for the first independent variable, exam performance (CGPA), the minimum and maximum scores are 1 and 4, respectively. The mean and standard deviation for exam performance are 3.13 and 0.667, respectively. For the second independent variable, family background (household income level), the minimum is 0, and the maximum score is 4. By contrast, the mean and standard deviation are 0.94 and 1.14, respectively. This result is in contrast to the mean and standard deviation value obtained by Khanifah, et al., (2019) as they used student's own income as their measurement for economic status rather than family household income as a whole. Moreover, for religiosity, the third independent variable, its minimum and maximum scores were 59 and 136, respectively. Then, the mean was 95.7, and the standard deviation was 13.11. This result is far different from that obtained by Bloodgood, et al., (2008) because they measured the religiosity of respondents only by asking a single question as compared with the current study that asks several questions for the measurement of this variable. Finally, for gender, another independent variable, its minimum and maximum score were 0 and 1, respectively, whereas its mean and standard deviation were 0.82 and 0.382, respectively. This statistical result is also in contrast to that of Khanifah, et al., (2019) may be because they used a smaller sample size.



<b>Table 2</b>					
<b>DESCRIPTIVE STATISTICS</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Total ethic	294	20	96	57.59	11.35
CGPA	294	1	4	3.13	0.667
Household income level	294	0	4	0.94	1.14
Religiosity	294	59	136	95.7	13.11
Gender	294	0	1	0.82	0.382

### Analysis of Questionnaire Responses

The mean value was computed for each of the 20 items in the questionnaire, requiring the respondents to make a judgment of the ethicality of earnings management scenarios. The responses were categorized from “totally unacceptable” to “ethical practice” according to the mean value. Consequently, further statistical analysis was conducted for the mean comparison between the groups in later subsections. By referring to the mean values of responses, which are shown in Table 3, we found that no practice was rated as “totally acceptable,” with a mean of 5.00, “serious infraction” with a mean value between 4.00 and 4.99, or “ethical practice” with a mean value below 1.99. Similar past studies also achieved similar results (Giacomino et al., 2006; Vladu, 2015). Furthermore, by looking at the mean value, we found that five of the 20 practices were rated as a “minor infraction” with a mean value between 3.00 and 3.99. Moreover, 15 of the practices were rated as a “questionable practice” with a mean value between 2.00 and 2.99.

The result clearly shows that the respondents do not support the acceptability of these practices because not one practice was considered as an “ethical practice.” For the 15 practices that were rated by the respondents as “questionable practice,” although these practices made them uncomfortable, the respondents would not say anything to the person in question. In addition, for the five practices that were deemed as “minor infractions,” the respondents believe that the person involved should be advised or warned not to re-engage in the practice. On the contrary, as not one practice was rated as “serious infraction” or “totally unacceptable,” no one would be severely reprimanded or fired, respectively. In addition, the result indicates that the students objected most strongly to the practice of burying scrap costs in “other expenses” (question 7; Mean=3.21). Then, they had the least objection to the practice of planning ahead of schedule (question 1; Mean=2.60), which indicates that the most ethically acceptable practice is considered for this item. This result is in line with the findings of (Clikeman et al., 2001; Cygańska et al., 2019).

Moreover, similar prior studies found that the respondents were also influenced by other factors, such as the amount involved, the timing of transactions, and the method used in the practice (Giacomino et al., 2006). The present study also found that the method used in the practice, directions, materiality, timing of transactions, and the purpose of the transaction could influence the respondents for many of the practices. First, earnings management through the accounting method was viewed less favorably as compared to changing operating decisions. Consequently, “credit that is more liberal terms to reach budget target” (Q4a; Mean=2.89) was viewed less favorable than “work overtime to reach budget target” (Q4b; Mean=2.69) or “sell excess assets to reach budget target” (Q4c; Mean=2.67). Moreover, “defer expenses to meet annual budget” (Q2a; Mean=2.93) was viewed less favorably than “paint ahead of schedule” (Q1; Mean=2.60). This finding is in contrast to that of (Merchant & Rockness, 1994), who found that the respondents judged earnings management more harshly using the accounting method as compared to the operating method.

In addition, in contrast to the findings of (Hamid et al., 2016), the current study found that the direction of the earnings managed and the materiality become the other factors that could influence the respondents. The direction or effect on earnings was regarded as less acceptable if earnings increased than when it decreased. As a result, “paint ahead of schedule” (Q1; Mean=2.60) was rated as a “questionable practice,” whereas “defer expenses to meet quarterly budget” (Q2b; Mean=3.07) was rated as a “Minor Infraction.” In addition, when the amount involved was RM30,000, the respondents rate the practice of “request deferred billing from supplier” (Q8a; Mean=2.79) as a “Questionable practice.” However, when the amount involved in the same practice was increased to RM300,000 (Q8b; Mean=3.08), the practice was rated as “Minor infractions.” Thus, we could conclude that transactions with larger amounts were judged more harshly as compared to transactions with smaller amounts.

In regard to the timing of earnings management transactions, actions 10a–10d provide a clear example of how transaction timing impacts the opinions of the respondents. The delivery date was accelerated in excess of three days (Q10a), and the action achieved the mean score of 2.76, if it was accelerated in excess of 14 days (Q10b). Then, a mean score of 2.82 is achieved if shipped 28 days early (Q10c), and the action achieved the mean score of 2.84. Finally, if the delivery date was accelerated in excess of 42 days, then the action achieved the mean score of 2.98. From this, we could conclude that the earlier the accelerated shipment prior to the firm’s actual delivery date, the less favorable the action becomes. This result is consistent with that of (Jooste, 2011), who emphasized that timing of transactions could influence the ethical perceptions of students and business managers.

Actions 6a–6b indicate how the purpose of the transactions could influence the views of the respondents. When the reserve for obsolescence is reduced to enable the firm to continue the work (Q6b; Mean=2.66), the respondent views the practice as more favorable as compared to the situation when the reserve is reduced to meet the budgeted profit targets (Q6a; Mean=2.85). Overall, based on the mean values, not one action was unanimously rated as either ethical or unethical, but the values varied from “minor infractions” to “questionable practice.” From this finding, the respondents took a harsher view of the selfish behavior, which is consistent with the findings of (Merchant & Rockness, 1994).

<b>Ethical Categories</b>	<b>Action</b>	<b>Mean</b>	<b>SD</b>
Totally unacceptable (5.00)	None		
Serious infraction (4.00–4.99)	None		
Minor infraction (3.00–3.99)	Defer expenses to meet quarterly budget (Q2b)	3.07	1
	Defer supplies expenses by delaying recording invoices (Q3)	3.09	1
	Prepay expenses to reduce income by RM60,000 (Q5a)		
	Bury scrap costs in “other expenses,” no income effect (Q7)	3	1.1
	Request deferred billing from supplier, RM300,000 (Q8b)		
			3.21

		3.08	1.1
Questionable practice (2.00–2.99)	Paint ahead of schedule (Q1)	2.6	1.1
	Defer expenses to meet annual budget (Q2a)	2.93	1
	Credit that is more liberal terms to reach the budget target (Q4a)	2.89	1.1
	Work overtime to reach the budget target (Q4b)		
	Sell excess assets to reach the budget target (Q4c)	2.69	1
	Increase reserve for obsolescence, reduce income RM700,000 (Q5b)	2.67	1.1
	Reduce reserve for obsolescence to meet the budget target (Q6a)	2.97	1
	Reduce reserve for obsolescence to continue work (Q6b)		
	Request deferred billing from supplier, RM30,000 (Q8a)	2.85	1
	Raise return forecast from 22% to 35%, actual 22% (Q9a)		
	Raise return forecast from 22% to 35%, actual 35% (Q9b)	2.66	1
	Accelerate delivery to the customer by 3 days (Q10a)		
	Accelerate delivery to the customer by 14 days (Q10b)	2.79	1
	Accelerate delivery to the customer by 28 days (Q10c)		
	Accelerate delivery to the customer by 43 days (Q10d)	2.88	1
		2.83	1
		2.76	1.1
	2.82	0.9	
	2.84	1	
	2.98	1.1	
Ethical (1.00–1.99)	None		

Prior to running the regression analysis, the normality test was carried out using the skewness and kurtosis value of each of the dependent and independent variables for this study. The skewness and kurtosis of all the variables are within the range of  $\pm 2$ , and its kurtosis is within the range of  $\pm 10$  respectively, demonstrating that all the variables are normally distributed. This study uses Cronbach's alpha to measure the components' internal consistency of the questionnaires. The Cronbach's alpha measurement within 0.7 to 0.8 is believed to be a reliable assessment of internal consistency (Bujang et al., 2018). Table 4 shows the result of the reliability test.

	<b>Cronbach's Alpha</b>	<b>N of Items</b>
Ethical Perception on Earnings Management	0.88	20
Religiosity	0.715	8

By referring to Table 4, Cronbach's alpha for the 20-item ethical perception on earnings management questionnaire was 0.880, and the eight-item religiosity shows good consistency. A multicollinearity test serves to determine a strong correlation between two or more independent variables. Daoud (2018) noted that multicollinearity occurs when a high correlation exists between two or more independent variables in the regression model, which can be measured using the Variance Inflation Factor (VIF). The result of the multicollinearity test shows that the VIF value for all four independent variables is below 10. This result indicates that the variables are not biased and are not highly inter-correlated. The multiple linear regression was used to test whether the ethical perception on earnings management can be predicted by a linear combination of students' exam performance, family background, religiosity, and gender. Table 5 shows the results of the multiple linear regression analysis.

	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>Sig.</b>
(Constant)	-16.401	2.247		0
Exam performance=1, 2.01–2.50	0.253	2.319	0.003	0.913
Exam performance=2, 2.51–3.00	0.774	0.956	0.022	0.419
Exam performance=3, 3.51–4.00	0.837	0.692	0.033	0.228
Family background=1, RM1,000–RM4,999	-.382	0.71	-.015	0.59
Family background=2, RM5,000–RM9,999	0.274	0.889	0.009	0.758
Family background=3, RM10,000–RM14,999	-1.193	1.431	-.022	0.405
Family background=4, RM15,000 and above	-2.327	1.356	-.047	0.087
Religiosity	0.771	0.023	0.891	0
Gender=1, Male	0.596	0.784	0.02	0.448
$R^2$		0.806		
Adjusted $R^2$		0.8		
$F$		131.194		0
a. Dependent variable: total ethic				

The result shows that in combination, exam performance, family background, religiosity, and gender accounted for a significant 80.6% of the ethical perception on earnings management, with  $R^2=0.806$ , adjusted  $R^2=0.800$ ,  $F(9,284)=131.194$ , and  $p<0.001$ . The remaining 19.4% is explained by other factors that are not examined in this study. In addition, an  $F$  statistic of 131.194 with a significance value of less than 0.001 indicates that the independent variables used in the linear regression model affect the dependent variable (Pasadhini, 2018). Thus, these multiple linear regression models can be employed to predict students' ethical perception on earnings management.

The result also shows that no statistically significant relationship exists between the students' ethical perception on earnings management and exam performance, family background, and gender. That is, exam performance, family background, and gender do not affect students' ethical perception on earnings management. Table 4 shows that the significant value for these variables is greater than 0.05. This finding is consistent with that of prior research, where academic performance (Wati & Sudiby, 2016), SES (Khanifah et al., 2019), and gender (Hermawan & Kokthunarina, 2018) have no significant relationship with students' ethical perception or ethical judgment. The statistically significant result was found only on the religiosity of students. The result shows that religiosity has a significant value of less than 0.001. Based on this result, religiosity is significantly associated with students' ethical perception on earnings management. This finding is in line with the result of (Longenecker et al., 2004), who emphasized that individuals who believe that religiosity is valuable are less likely to accept unethical behavior. The result is in contrast with the argument made by the sacred canopy theory, which claimed that a high materialism has caused religious values to fade.

The result supports prior studies that advocated the significant relationship between an individual's religiosity and their moral development, moral reasoning, attitudes, and behaviors (Alleyne & Persaud, 2012; Cagle & Baucus, 2006). The result of a simple linear regression analysis indicates that ethical perception on earnings management is significantly associated with the religiosity of a student. Wisker, et al., (2019) claimed that religion has an impact on the personality, attitudes, behavior, and productivity of individuals. Jelsma, et al., (2019) also noted that religiosity may provide a mental health advantage by lowering exposure to stressful life events, which would minimize problem behavior as a consequence. This finding can be explained by using the sacred canopy theory. This theory proposed that social norms affect behavior, as individuals tend to adhere to their peer group and escape consequences for violating standards, values, and beliefs. Hence, as religiosity is a social norm, religiosity acts as a key social mechanism for controlling the belief and behavior of individuals (Sari et al., 2019).

This result on academic performance is consistent with the findings of (Seo, 1995), who claimed that high academic performance is not strongly associated with a lower level of problem behavior among Asian Pacific Islanders American youth relative to other racial and ethnic youth groups. The result might mean that regardless of the level of academic performance, the students perceive the ethics of earnings management practices similarly. This case may be due to the lack of practical experience among them. Thus, the students cannot see in the mind's eye the negative consequences of earnings management scenarios presented in the questionnaire. This result on the family background is similar to the findings of (Ogunsola et al., 2014), who claimed that a non-significant relationship exists between family background and students' academic achievement. The overall results of our study demonstrate that judgments about the business practice of earnings management appear to be generally unaffected by gender. The overall result is consistent with the findings of (Ajward, 2015; Cygańska et al., 2019). In addition, the results are robust upon correlation analysis using Kendall's tau-b and Pearson correlations.

## CONCLUSION

The study examines the determinants that are associated with the accounting students' ethical perception on earnings management practices. In this study, we found a significant positive relationship exists between accounting students' religiosity and their ethical perception on earnings management. Moreover, the study did not provide evidence to prove the existence of the significant relationship among exam performance, family background, and gender of the students, including their ethical perception on earnings management. Thus,

we believe that the results of this study are robust and rigorous, as multiple tests were conducted. This research provides several literature contributions in the fields of accounting, which include the area of earnings management, ethical perception, and association of internal and external factors on ethical perception toward earnings management practices.

Furthermore, the findings of the study provide additional support for the results of prior research. That is, the result shows that religiosity has a significant relationship with accounting students' ethical perception on earnings management. This finding gives additional support to social cognitive theory, which emphasizes the importance of behavioral factors in forming an individual's personality, cognitive process, and knowledge acquisitions (Jenkins et al., 2018). From this, the study could raise the importance of value principle in shaping one's ethical behaviors. Furthermore, despite having several past researchers emphasizing the role of religiosity in shaping one's moral value, personality, and ethical behavior in general, research with regard to the role of religiosity within the accounting environment is limited. Thus, this study focuses on the role of religiosity as a predictor of an individual's ethical perception on earnings management practices.

This finding has several practical contributions for accounting practitioners, users of financial statements, companies, and academicians as detailed. This study helps the accounting educators in understanding the feelings of the students and their responses toward earning-management practices. By highlighting the contradictions in the ethical perception on earnings management practices among the students according to their religiosity, the study helps the educators to understand the importance of incorporating religious ethical beliefs into the teaching of accounting and business ethics into the classroom. Thus, this study helps the educators to think about techniques on how to improve the teaching of accounting and relate it with the value taught by the religion. Thus, they may be able to better explain the possible negative effects of this unethical practice to investors and creditors by ensuring that students can better understand the ethical consequences of such manipulations. Incorporating the religious value using the case study in accounting will probably enhance the students' understanding on earnings management.

The findings from this study should be interpreted after considering the following limitations. The first limitation applies to the application of the survey tool. The interpretation of the earnings management wordings and scenarios is subjective. Although this case is a drawback, the study does not alter the instrument's wordings for comparability reasons with prior studies. Moreover, in the era of technological and intellectual advancement, managers have widely employed many approaches or strategies to manage their earnings; thus, this study only discusses a few. This study is also restricted to students, and therefore, the research scope focuses only on the students' perspectives and does not consider the perspective of the other accounting-related individuals, such as auditors, accountants, business managers, and investment analysts.

Several directions for future research can be established by considering the limitations mentioned in the previous section. The future research may also consider employing other data collection method, such as focus groups and unstructured interviews so that students can discuss on the ethical issues arise. Moreover, a subsequent experiment will help in improvising the validity of findings, in addition to the survey instruments, where the students participate in the discussion on the items of questionnaires. From these discussions, the researcher may determine the reasons that why independent variables are influenced or not influenced by the dependent variable. Furthermore, the researchers may consider putting other earnings management techniques that reflect real-world business situations. Therefore, the research may cover a wider scope of the earnings management context. In particular, as this study found that religion is a significant predictor for ethical perception, future research may consider how education can find ways to assimilate the value taught by religion into the classroom. This study can be done by conducting a case study, which relates earnings

management to religiosity, or conducting an interview session with educators to obtain more data. Indeed, this study is significant for accounting education and paves avenues for critical research in accounting education.

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