

# The Effect of Professional Accountants' Education, Experience, and Professional Ethics on Creative Accounting Perspective in Bali

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**Abstract:** The purpose of the study was to examine the effect of professional accountants' education, experience, and professional ethics on the perception of creative accounting. The study used the theory of planned behavior developed by Icek Ajzen (1991) as a theoretical foundation. The population was 405 Chartered Accountants of the Institute of Indonesian Chartered Accountants in Bali, Indonesia. Samples were a non-probability and selected by using total sampling technique since it was difficult to determine the domicile of accountants, as well as to anticipate dropped samples and low response rates. The study used multiple linear regression analysis to analyze the data. The results showed that experience did not affect the perception of creative accounting, while education and professional ethics influenced the perception of creative accounting significantly. Thus, good professional ethics has become a strong consideration for rational and ethical or unethical action to maintain a good quality of the profession.

**Keywords:** ethics, perception, creative accounting, chartered accountants, professional.

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## I. INTRODUCTION

### A. Background

The financial information presented in the financial statements is important for its users to gain an understanding of the firm's financial condition and a true operating performance at a certain time [1]. The accuracy and reliability of financial statements can help its users to make the right decisions. Misstatement in the financial statements will adversely affect the users of financial information [2]. For example, the management deliberately manipulates financial statements and present financial information that shows a loss or small profits to avoid a certain situation, such as tax evasion [3].

The management tends to have more information about financial statement than the users. The imbalance of information either by management and the users is called information asymmetry. The management will provide disclosures presented in the financial statements to cover asymmetric information that may have occurred. The accounting practices in Indonesia tended to keep financial information confidential [4]. The capitalist system and huge Government's intervention in the practices of the accounting profession caused professionalism was seen to be weak which influenced the disclosure of financial information. Indonesia's collectivistically-oriented society also affected to weaken professionalism where management including accountants and corporate auditors who found it difficult to conduct their professionalism and thus directly impacting the uniformity of accounting practices as well as the disclosure of accounting information.

The management always wants the firms' performance to be seen good to the owners and the external users; while on the other hand, the owners want the financial statements have been presented transparently and trustworthy. Transparency is important in financial statements because the owners or shareholders, potential investors, creditors, and regulators must make decisions based on the company's published financial statements [5]. The owners then use a third party's audit service from independent external auditors to report truly the condition of the firms that they have financed. The independence of the external auditors also affects the presentation of the firm's financial statements when conducting the

audit service. External auditors are required to improve their ability to detect manipulative creative accounting (henceforth, 'CA') to warrant the users that there is no gap in confidence between the users and the management; and the financial statements presented do not contain misstatements and have reflected the firms' real circumstances [6].

CA occurs because there are 'loopholes' and 'flexibility' in the existing accounting principles. The management uses this flexibility to select accounting methods or techniques which can provide opportunities to direct and control the firm's performance [7]. There are various motivations why the firms use CA in presenting their financial information such as incentive or bonus plans motives; long-term debt covenants motives, taxation motivation, initial public offering (IPO) motives, premium bond offering motives, and political motivations [8]. CA is also known as earnings management, which is defined as a practice carried out by selecting and using accounting techniques from applicable accounting principles and is resulted by specific motivations and goals in favor of its perpetrators. CA is a more preferred term in the United Kingdom (Europe), while earnings management is commonly used in the United States [9]. CA is also conformed to the terms of massaging the numbers, cooking the books, aggressive accounting, window dressing, or other terms [10]. A manipulative CA either caused by management's pressure on the professional accountants or driven by the professional accountants' initiatives have made the professionalism and competency of accountants looked disrespected. Therefore, a high quality of professional accountants is the main key to warrant the users that the financial statements have truly presented the firms' circumstances.

Several studies found that respondents' educational background in accounting and finance affected their perspective of CA [11], [12], [13]. This statement was different from other studies [14], [15], [16]. The results confirmed that the higher of individuals' education the more inclined to use CA. Other studies also found that experiences or length of working years of the respondents in accounting and finance could suppress and decrease using CA [17], [18], [19]. In contrary to these results, it was assumed that the respondents' length of working years in accounting and finance are less effective to curb CA practices [14], [20], [21].

CA perspectives can be considered a positive phenomenon (in Central and Eastern Europe), neutral phenomenon (in South America), or maybe directly related to financial statement fraudulence (mostly in German and English-speaking countries), depending on the region [22]. It was also empirically proved that respondents' knowledge in ethics had affected their perspective judgment that CA was unacceptable actions and considered as unethical behaviors [23], [24], [25].

The wide diversity of results which is still found from the previous studies had inspired researchers to continue examining other factors that may affect the perception of CA. In the other hand, the growth of Chartered Accountant holders in Bali increases rapidly since the Institute of Indonesia Chartered Accountant (IAI) establishes the accountant compartment for accountants' service firms (KAKJA) in June 2019, and there is a knowledge gap that was relevant to professional accountants' perspective on CA in Bali and to put this information into practice in the field. The study focuses on the research subject namely the professional accountants who are Chartered Accountants holders and registered at the IAI. The purpose of the study was to examine the effects of the professional accountants' education, experience, and professional ethics on the perception of CA. The study used the theory of planned behavior (henceforth, 'TPB') as a theoretical foundation to confirm the concepts on the professional accountants' perspective in CA.

## **B. Theory of Planned Behavior**

The theory of reasoned actions was combined with TPB by explaining the environmental factors that form individual beliefs, i.e. individual factor which includes general attitude, personality trait, values, emotion and intelligence; social factor which includes age, gender, race, ethnicity, education, income, and religion; and information factor which includes experience, various information including business information and regulations [26].

These factors then form individual beliefs that affect an individual's decision to refuse or accept certain behaviors. There are 3 (three) beliefs derived from these environmental factors i.e.:

- 1) Behavioral beliefs are subjective probabilities that believe certain behaviors will result in an outcome or experience [27]. Although an individual may have many beliefs to behave in connection with certain behaviors, only a small amount can be accessed in certain situations and times.
- 2) Normative beliefs are individual beliefs regarding the extent to which others who are important to the individual or their social environment influence the individual's decision to refuse or accept certain behaviors. Every individual's normative beliefs if motivated by the influence of others or their social environment to comply with certain behaviors will produce a general measure to predict subjective norms.

3) Control beliefs are individual beliefs that are caused by some factors that can be perceived to affect the acceptance of certain behaviors. Perceived factors can inhibit or facilitate the acceptance of certain behaviors contributing to perceived behavioral control in the effort to understand the limitations of individuals and to perform certain behaviors.

Beliefs are sources of attitude. This attitude can strengthen the positive or negative perception to refuse or accept certain behaviors [26]. The process of positive or negative evaluation of the possibility of behavioral results can alter when sudden changes in the environmental information occurred or when new information accessed; has caused changes in the individual's beliefs. The fourth concept of moral obligation was expanded in the TPB [28]. Moral obligation is the responsibility to refuse or accept certain behaviors by considering the other determinants of behavioral intentions, i.e. ethical behaviors obtained from laws, professional ethical codes and other sources [27], [29].

## **II. HYPOTHESIS**

### ***A. Professional Accountants' Education and the Perception of Creative Accounting***

Attitude towards behavior was influenced by individual feelings and explained how individuals' beliefs performed these behaviors [27]. Behavioral beliefs were generated through learning, knowledge, and patterns of individual social life; and helped individuals believe in behavior through its positive and negative views, believe in attitudes towards certain behaviors or tendencies to react effectively both in the form of likes or dislike towards those behaviors [30]. The normative beliefs also became a reference to someone who is considered important and has a strong influence to make individuals followed and acted those behaviors [31].

The respondents' education had a positive influence on the perspective of CA [11]. The study result explained that the respondents who took character education had a lower attitude or negative perspective on CA. The other study also found that respondents who had similar education as the auditors were able to improve the effectiveness in monitoring CA practices [12]. The result was also supported by the findings that respondents were able to curb and supervise the frequency of CA practices [13]. The hypothesis is:

***H<sub>1</sub>***: Professional accountants' education has a positive effect on the perception of creative accounting.

### ***B. Professional Accountants' Experiences and the Perception of Creative Accounting***

Perceived behavioral control is explained as ease or difficulty to accept certain behaviors and is assumed to reflect past experiences and how to anticipate the obstacles and barriers that may occur [27], [28]. Perceived behavioral control is an individual's belief to refuse or accept certain behaviors if an individual has opportunities, facilities, time, and abilities obtained from past experience either directly or indirectly [32].

Most of the respondents who had a working period of 5-10 years considered that CA practices were legal, but these respondents' experience was considered not adequate [19]. The other result showed that respondents who had a working period of more than 10 years tended to have a negative perspective on CA [18]. Respondents with a long working period in accounting were less to practice CA. It also confirmed that those respondents presented more realistic profits showed in the financial statements and improved the quality of financial statements [17]. The hypothesis is:

***H<sub>2</sub>***: Professional accountants' work experience has a positive effect on the perception of creative accounting.

### ***C. Professional Ethics of the Professional Accountants and the Perception of Creative Accounting***

Professional ethics is a consideration for professional accountants in carrying out their responsibilities as professionals [33]. Moral norms or moral obligations are explained as a situation where ethical behavior is involved, and moral obligations obtain from laws, professional codes of ethics, and other sources [27], [29]. Good ethics affects the values of the firm and enables it to build clients' trust. Firms that treat clients or customers well and fairly, see a positive impact on the number of sales, and also on their employees [34]. If management actively opposes what is considered ethical and chooses to do what is wrong because they are motivated by greed, management becomes immoral and no longer cares about customers' claims to be treated fairly and properly.

The higher professional ethics knowledge of respondents resulted in the increasing of their perspective judgment on CA as unethical action [24], [25]. Similar to this result, it was found that CA is an unacceptable practice on the perspective of the theory of business ethics [23]. They concluded that the knowledge of professional ethics was able to increase respondents' considerations on CA practices. The hypothesis is:

***H<sub>3</sub>***: Professional ethics of the professional accountant has a positive effect on the perception of creative accounting.

### III. METHODOLOGY

This study was conducted in Bali, Indonesia. The selection of location is based on the consideration to fill the gap in knowledge of professional accountants' perspectives on CA and the increasing of Chartered Accountant holders in Bali since June 2019. The data collection of this study was conducted in 2019. The population is 405 Chartered Accountants who were registered at the Institute of Indonesia Chartered Accountants (IAI) in Bali. The sample selection method is nonprobability sampling using total sampling technique. The technique was selected since it was difficult to determine the domicile of accountants as well as to anticipate dropped samples and low response rates. Hence the total samples of this study were 405 respondents.

The research was a quantitative study. Data collection carried out using a survey method with the questionnaire. The questionnaire divided into two parts viz. the respondent's demographics data (gender, age, education, experience, occupation, and profession) and respondents' statements about professional ethics and perceptions of CA. This study used cross-sectional data because data was taken at a certain time within the limits of a certain measurement attributes and ignoring the period time [35].

The questionnaires were sent to 30 participants for a pre-test before sending it to the real respondents. The purpose of the pre-test was to verify that the respondents understand the questions and to obtain validity and reliability test value. The results of the validity test using the Pearson correlation showed that the calculated r-value was more than the critical r-value (or 0.30) and had positive values. Meanwhile, the result of the reliability test using the Cronbach's alpha value was more than 0.70. Based on those results, it concluded that the results of instrument testing were valid and reliable. The questionnaires were mailed to respondents using a google-docs link together with a research letter from the university for three weeks from 9th December to 30th December 2019. The IAI administration helped to send the questionnaires to each respondent's email.

The education and experience variables were obtained from the respondents' demographic data in the questionnaire. The education variable was measured using the indicators of education level and profession [36]; meanwhile, the experience variable measured using the indicators of the length of working years, ages, and employing position [37]. The professional ethics variable was obtained from 7 respondent statements and measured using the indicators of opportunities for unethical behavior, frequency of unethical behavior, and actions of superiors or partners for unethical behavior [38]. The perception of CA variable was obtained from 8 respondent statements and measured using an indicator of perspective level [18]. All variables were grouped based on each interval value, and then categorized into its classes.

The study analyzed with multiple linear regression analyses. The regression equation to test the effects of education, experience, and professional ethics on the perception of CA is:

$$PCA = \alpha + \beta_1ED + \beta_2EX + \beta_3PE + \epsilon \dots\dots\dots (1)$$

### IV. RESULTS

#### A. Descriptive Statistic and Classical Assumptions Testing

The total responses received were 53 out of 405 questionnaires distributed, and thus the response rate was 13.09%. The number of dropped samples was 1 (one) due to the similar name of respondent, and hence numbers of questionnaires to be processed were 52 questionnaires and the usable response rate was 12.84%. Descriptive statistics used to show the maximum, minimum, mean and standard deviation values. The descriptive statistics presented in Table 1.

**TABLE 1: DESCRIPTIVE STATISTICS**

	Minimum	Maximum	Mean	Std. Deviation
ED	3	8	5,67	1,28
EX	4	12	9,00	1,98
PE	16	28	22,69	3,31
PCA	13	22	17,81	2,39
Valid N=52				

*Note: Education (ED), Experience (EX), Professional Ethics (PE), PCA (Perception of Creative Accounting)*

*Source: Primary data processed in 2019*

1) Education (ED) consisted of two demographic statements of respondents' education level and profession and measured on a Likert scale range of 1-4. The minimum value of ED, out of 52 respondents, was 3 while the maximum was 8, and the interval value was 1.25. The standard deviation of ED is 1.28. The classification of ED presented in Table 2.

**TABLE 2: CLASSIFICATION OF ED**

Classification range	Classification	Mean
$3,00 \leq ED \leq 4,25$	Less expert	5,67
$4,25 < ED \leq 5,50$	Quite expert	
$5,50 < ED \leq 6,75$	Expert	
$6,75 < ED \leq 8,00$	Very expert	

Source: Primary data processed in 2019

Table 2 shows the mean value of ED is 5.67 that indicates the classification of ED is expert. It explains that the respondents' education is 'expert'.

2) Experience (EX) consisted of three demographic statements of respondents' length of working years, ages, and employing position, and measured on a Likert scale range of 1-4. The minimum value of EX, out of 52 respondents, was 4 while the maximum was 12, and the interval value was 2. The standard deviation of EX is 1.98. The classification of EX presented in Table 3.

**TABLE 3: CLASSIFICATION OF EX**

Classification range	Classification	Mean
$4,00 \leq EX \leq 6,00$	Very low	9,00
$6,00 < EX \leq 8,00$	Low	
$8,00 < EX \leq 10,00$	High	
$10,00 < EX \leq 12,00$	Very high	

Source: Primary data processed in 2019

Table 3 shows the mean value of EX is 9.00 that indicates the classification of EX is high. It explains that the respondents' working experience is 'high'.

3) Professional Ethics (PE) consisted of 7 statements and measured on a Likert scale range of 1-4. The minimum value of PE, out of 52 respondents, was 16 while the maximum was 28, and the interval value was 3. The standard deviation of PE is 3.31. The classification of PE presented in Table 4.

**TABLE 4: CLASSIFICATION OF PE**

Classification range	Classification	Mean
$16,00 \leq PE \leq 19,00$	Very low	22,69
$19,00 < PE \leq 22,00$	Low	
$22,00 < PE \leq 25,00$	High	
$25,00 < PE \leq 28,00$	Very high	

Source: Primary data processed in 2019

Table 4 shows the mean value of PE is 22.69 that indicates the classification of PE is high. It explains that the respondents' professional ethics is 'high'.

4) Perception of Creative Accounting (PCA) consisted of 8 statements and measured on a Likert scale range of 1-4. The minimum value of PCA, out of 52 respondents, was 13 while the maximum was 22, and the interval value was 2.25. The standard deviation of PCA was 2.39. The classification of PCA presented in Table 5.

**TABLE 5: CLASSIFICATION OF PCA**

Classification range	Classification	Mean
$13,00 \leq PCA \leq 15,25$	Very positive	17,81
$15,25 < PCA \leq 17,50$	Positive	
$17,50 < PCA \leq 19,75$	Negative	
$19,75 < PCA \leq 22,00$	Very negative	

Source: Primary data processed in 2019

Table 5 shows the mean value of PCA is 17.81 that indicates the classification of PCA is negative. It explains that respondents tend to have negative perceptions on CA.

The classical assumptions must meet the conditions in a linear regression model. The model is valid if the linear regression model fulfills all the requirements and indicates BLUE (*Best Linear Unlimited Estimation*) [39], [40]. The classical assumption conducted in this study was the test of normality, multicollinearity, and heteroscedasticity. The normality test was using the Kolmogorov-Smirnov test. Data said to be in a normal distribution in the model if the Asymp Sig (2-tailed) is more than 0.05. The normality test shows the Asymp. Sig (2-tailed) is 0.200 or more than 0.05. It indicates that the model in the study normally distributed.

The multicollinearity test performed to knowing a high correlation between independent variables in the model. The high correlation between independent variables could disturb the prediction results. The model is free of multicollinearity indication if the tolerance coefficient (tc) value is more than 10%, and the variance of inflation factors (VIF) is less than 10. The heteroscedasticity test was to identify variance differences from residuals in observation with other observations in the regression model. The heteroscedasticity test performed with the Glejser test. The model is free of heteroscedasticity indications if the significance value is more than 5%. The results of multicollinearity and heteroscedasticity testing demonstrated in Table 6.

**TABLE 6: TEST OF MULTICOLLINEARITY AND HETEROSCEDASTICITY**

Variables	Multicollinearity		Heteroscedasticity	Remarks
	tc	VIF	Sig.	
ED	0.949	1.053	0.932	Valid
EX	0.906	1.103	0.973	Valid
PE	0.919	1.088	0.719	Valid

*Note: Education (ED), Experience (EX), Professional Ethics (PE)*

*Source: Primary data processed in 2019*

Table 6 indicates that the regression model was free from multicollinearity and heteroscedasticity conditions. Hence the analysis can be performed.

### B. Multiple Linear Regression Analysis

Table 7 shows the adjusted R<sup>2</sup> value is 0.224. It indicates that 22.4% of PCA explained by ED, EX, and PE variables; the remaining 77.6% influenced by other variables that are not including in the model. The results of the model test (F test) shows the F-value is 5.910 with a significance value (Sig. F) of 0.002 or less than 0.05, and it concluded that this model is appropriate to perform the test of the hypothesis.

**TABLE 7: MULTIPLE LINEAR REGRESSION ANALYSIS**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6,856	2,621		2,616	0,012
	ED	0,492	0,236	0,264	2,087	0,042
	EX	0,142	0,156	0,118	0,910	0,367
	PE	0,303	0,093	0,421	3,272	0,002
R Square (R <sup>2</sup> )						0,270
Adjusted R Square						0,224
F-value						5,910
Sig. F						0,002

*Note: Education (ED), Experience (EX), Professional Ethics (PE)*

*Source: Primary Data Processed in 2019*

The results of the hypothesis tests demonstrated in Table 7 shows the overall significance values of the model. The T-test level significance applied was 0.05. If the significant value (Sig.) of independent variables is less than 0.05, it means H<sub>0</sub> rejected, and H<sub>1</sub> is accepted.

- 1) The effect of ED on PCA shows the t-value is 2.087 with Sig. 0.042 or less than 0.05. It indicates that the education of professional accountants significantly affects the perception of CA.
- 2) The effect of EX on PCA shows the t-value is 0.910 with Sig. 0.367 or greater than 0.05. It indicates that the experience of professional accountants does not affect the perception of CA.

3) The effect of PE on PCA shows the t-value is 3.272 with Sig. 0.002 or less than 0.05. It indicates that the professional ethics of professional accountants significantly affects the perception of CA.

The coefficient of regression ( $\beta$ ) testing is to find out how strong the effect of each independent variable's education, experience, and professional ethics individually affects the perceptions of CA. Base on Table 7, the regression equation is:

$$PCA = 6,856 + 0,492ED + 0,303PE \dots\dots\dots (2)$$

The constant value 6.856 explains that if all independent variables are equal to 0 (zero) then the value of PCA will increase 6.856 units. The coefficient of regression value  $\beta_1$  indicates that if ED increases by 1 (one) and assuming the values of other variables are constant then PCA will also increase by 0.492 units. The coefficient of regression value  $\beta_3$  indicates that if PE increases by 1 (one) and assuming the values of other variables are constant then PCA will also increase by 0.303 units.

## V. DISCUSSION

Discussion of the results of hypothesis testing is then explained in detail to find out the reasons and similarities and differences of this study with the studies previously carried out.

The first hypothesis states that professional accountants' education has a positive effect on the perception of CA. The result of the analysis shows the coefficient of regression ED is 2.087 with Sig. 0.042 or less than 0.05 and it means  $H_1$  was accepted or professional accountants' education has a significant effect on the perception of CA. The result is confirming the concept of individual and social factors described in TPB [26]. It explained that individual and social factors will form behavioral and normative beliefs that affect the individual's perspective in considering a behavior. This finding supports the previous studies' results mentioned in the first hypothesis [11]. The respondents with character education had influenced the respondents' attitude and negative perception on CA. Similar result also confirmed that respondents' majoring in the accounting and finance field could curb and reduce the practice of CA [12] [13].

The second hypothesis states that the professional accountant's experience has a positive effect on the perception of CA. The result shows the coefficient of regression EX is 0.910 with Sig. 0.367 or more than 0.05, not significant, and  $H_2$  was not accepted. It means that the professional accountant's experience has not affected the perception of CA. The result did not confirm the concept of the information factor in TPB. It described in theoretic that positive belief and information factor would form control beliefs that facilitate or resist a behavior and contributed to forming perceived behavioral control [26]. Perceived behavioral control will help the individual to believe in an attitude base on experience obtained directly from the past or caused by the others' experiences. The result does not support the previous studies' results described in the second hypothesis. This finding supports the studies that empirically found experience (length of working years) in accounting and finance had not affected the perspective of CA [21]. This finding is also similar to the studies that found a higher length of working years in accounting and finance may not increase the competency of CA practices [14] [20].

The third hypothesis states that the professional ethics of professional accountants have a positive effect on the perception of CA. The result shows the coefficient of regression PE is 3.272 with Sig. 0.002 or less than 0.05. It indicates that  $H_3$  was accepted, and it means that professional ethics has a significant effect on the perception of CA. This finding confirms the concept of moral norms or moral obligation described in TPB. Moral normas or moral obligations explained as a situation in which ethical behavior is involved, and these moral obligations obtained from laws, professional codes of ethics, and other sources [28], [29]. Data also showed that 69.60% of respondents answered CA as something negative and may be considered as a despicable action in the accounting profession even though it applied upon the boundaries of the law. The result supports the studies that found CA as negative and unethical actions [23], [24], [25]. The other researcher confirmed that describes CA is a very unethical practice and a betrayal to investors and other users of financial statements [41].

## VI. CONCLUSION, LIMITATION AND RECOMMENDATION

Based on the results and discussion above, it can be concluded that education and professional ethics has a significant effect on the perceptions of CA. It explains in TPB that behavior beliefs, normative beliefs, and moral obligation, facilitate and affect individuals' perspective on certain behavior. Besides that professional accountant who understand professional ethics will realize the importance of professionalism in their professional activities, and strong professional ethics becomes a consideration for rational, ethical, or unethical actions; so that the quality of the profession can be

maintained. On the contrary, the experience of professional accountants does not affect the perception of CA. This is not following the concepts described in TPB that control beliefs may affect an individual's perspective in considering a certain behavior. The perceived behavioral control is an individual's belief to inhibit or facilitate the acceptance or refusing certain behavior when an individual has opportunities, facilities, time, and abilities obtained from experience either directly or indirectly, or various information and regulations [32].

The number of samples used in this study is low, which is 12,84% of 405 Chartered Accountants in Bali, Indonesia, that possibly may affect the results of the research. Future studies may consider other research subjects to increase response rates and to generalize the results. The social factor includes age, gender, race, ethnicity, and religion may strengthen the positive or negative perception to refuse or accept certain behaviors [26]. Future studies may consider these aspects as independent variables which could influence the perspective of CA.

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