

ABSTRACT

Earning management can be measured using discretionary accruals. The measurement using discretionary accruals often ignores the following symbols: negative, zero, and positive, in the coefficient. The negative coefficient of discretionary accruals shows income-decreasing activities; zero shows no earning management, and the positive coefficient shows income-increasing activities. Managerial discretion through income-increasing potentially creates the opportunity of potential wealth transfer that is expected to be able to increase the firm values in the future. Therefore, this study aimed to examine if income-increasing can increase firm values in the future and if the potential wealth transfer mediates the impact of income-increasing on firm values in the future.

This study was quantitative. The population was manufacturing companies listed in the Indonesia Stock Exchange with the observation period between 2015 – 2019. Sampling was done using the purposive sampling method with the following criteria for the manufacturing companies, namely having positive discretionary accruals, experiencing positive income, and paying dividends. Based on those criteria, 123 observations could be obtained as the research sample.

The result showed that income-increasing significantly and positively affected firm values in the future. It means that income-increasing performed by executives effectively stimulates the market to react positively, so it affects the increase in firm values in the future. This shows that income-increasing performed by the management tends to be efficient. From the agency perspective, it can conclude that the contract between an agent and a principal indicates a rationale contract. However, this study cannot provide empirical evidence of the mediating role of potential wealth transfer for the effect of income-increasing on firm values in the future. The test result showed that potential wealth transfer directly affected firm values in the future.

The next research is expected to re-examine the potential wealth transfer by adding the element of corporate governance. With good corporate governance, the contract will be more efficient.

Keywords: discretionary accruals, income-increasing, firm value, potential wealth transfer, corporate governance