Beware of the existence of a big bath with asset impairment after pandemic covid-19!

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ABSTRACT

This study attempts to investigate the relationship between big bath accounting and asset impairment. It used the sample consisting of 231 firm-year observations from 33 mining companies listed on the Indonesia Stock Exchange during the 2012 to 2018 period. Logistic regression has been used to analyze a big bath accounting on assets impairment. The results provide evidence that companies that tend to do a big bath accounting will recognize a loss of asset value. A big bath accounting is done because managers assume that investors will respond when the company suffered large losses or small losses. The manager acknowledges the costs of future periods and current period losses when unfortunate unavoidable circumstances in the current period. It will consequently make a profit higher than expected in the next year. In the next period, the company's performance will look better so that managers can maximize utility in the form of compensation for the targets that have been achieved.

ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui hubungan antara big bath accounting dan penurunan nilai aset. Sampel penelitian adalah 231 firm-year observasi dari 33 perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia selama periode 2012 hingga 2018. Regresi Logistik telah digunakan untuk menganalisis big bath accounting pada penurunan nilai aset. Hasil penelitian ini menemukan bukti bahwa perusahaan yang cenderung melakukan big bath accounting akan mengakui kehilangan nilai asetnya. Earnings management tersebut dilakukan karena manajer berasumsi bahwa investor akan memberikan respon yang sama ketika perusahaan mengalami kerugian besar atau kerugian kecil. Manajer mengakui biaya periode masa depan dan kerugian periode saat ini ketika keadaan tidak menguntungkan yang tidak dapat dihindari di periode saat ini. Harapannya adalah di periode depan perusahaan akan melaporkan laba lebih tinggi dari yang diharapkan. Pada periode selanjutnya kinerja perusahaan akan terlihat lebih baik sehingga manajer dapat memaksimalkan utilitas berupa kompensasi atas target yang telah dicapai.

1. INTRODUCTION

Managers have more internal information and the firm's prospect than the owners do. This condition is called information asymmetry. Information asymmetry provides managers with an opportunity to use the information they know as a tool to manipulate financial statements to maximize their prosperity (Agustia, 2013; Kustono & Effendi, 2016). Problems that arise from a conflict of interest between the managers and owners of companies is called the agency problem. Managers do earnings management by using big bath accounting. Big bath accounting can make the profit unable to match with the real economic condition. The earnings represent a worse performance when the company incurs losses. It makes the next period's earnings higher than expected after the company incurs a massive loss in the current period.

The COVID-19 pandemic that has occurred throughout the world, beginning at the end of 2019, has made many changes in the industrial world's behavior. Almost the entire industrial sector has been affected by the pandemic. Many sectors have decreased or slowed their growth. On the contrary, some other sectors grow well. Pandemic has caused some companies to close their operations, factories reduce and manage work schedules, decrease the amount of production, decrease the use of assets that trigger a decline in the value of assets. The hospitality, transportation, manufacturing, and mining industries are the sectors that have declined due to the pandemic.

A drastic change in the company's financial condition raises a variety of potential changes in management behavior. In this case, agency theory suggests that management is the party that controls information compared to other parties. There is a possibility that the financial information presented is of efficiency and opportunistic nature. For example, in a pandemic or natural disaster, accounting also has affected (Y. Cheng, Park, Pierce, & Zhang, 2019; Ozili, 2020; Stenheim & Madsen, 2016). Therefore, the managers who have moral hazard intentions, the condition of this force majeure can be utilized for opportunistic purposes. Management can make use of a pandemic by accounting engineering. They can use earnings management techniques by riding COVID-19. This research will investigate the relationship between a big bath accounting and asset impairment that can be potential problems after the COVID-19 pandemic.

A drastic change in the company's financial condition raises a variety of potential changes in management behavior. In this case, agency theory suggests that management is the party that controls information compared to other parties. There is a possibility that the financial information presented is of an efficient and opportunistic nature. For example, in a pandemic or natural disaster, accounting also has affected (Y. Cheng et al., 2019; Ozili, 2020; Stenheim & Madsen, 2016). Therefore, the managers who have moral hazard intentions, the condition of this force majeure can be utilized for opportunistic purposes. Managers use crises to strategically direct the statements of financial position according to their interests. They can use earnings management techniques by taking advantage of the chaos caused by the COVID-19 outbreak. This research will investigate the relationship between a big

bath accounting and asset impairment that can be potential problems after the COVID-19 pandemic.

One possibility of earnings management is taking a big bath (Andrews, 2012; Y. Cheng et al., 2019; Ozili, 2020). A big bath is taken by riding on impairment assets. Managers always have more internal information and the company's prospects than the owners do. This condition is called information asymmetry (Hope & Wang, 2018; Rossi, 2014). Information asymmetry provides managers an opportunity to use the information they know as a tool to manipulate financial statements to maximize their prosperity. Problems that arise from a conflict of interest between managers and owners of companies is called the agency problem.

One possibility of earnings management is taking a big bath (Andrews, 2012; Y. Cheng et al., 2019; Ozili, 2020). A big bath is performed using impairment assets. Managers always have more internal information and the company's prospects than the owners do. This condition is called information asymmetry (Hope & Wang, 2018; Rossi, 2014). Information asymmetry provides managers an opportunity to use the information they know as a tool to manipulate financial statements to maximize their prosperity. Problems that arise from a conflict of interest between managers and owners of companies is called the agency problem.

In management with moral hazard intentions, the condition of force majeure can be utilized for opportunistic purposes. Earnings management techniques can be done by making use of COVID-19. Managers do earnings management by using a big bath accounting. A big bath accounting can make the profit unable to macth with the conditions of economic reality. The profit represents a worse performance when the company incurs losses. It makes the next period's earnings higher than expected after the company incurs a massive loss in the current period (Gonçalves, Ferreira, Rebelo, & Fernandes, 2019).

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The profit represents a worse performance when the company incurs losses. It makes the next period's earnings higher than expected after the company incurs a massive loss in the current period (Gonçalves et al., 2019).

The company owners use profitability as a reference for investment in a company listed on the stock exchange (Grace & Ambrose, 2013). The previous researches show that management would prefer to adopt when a company's performance is below the desired level (Ayedh, Fatima, & Mohammad, 2019; Hope & Wang, 2018; Karlsson & Reimbert, 2016). An impairment approach initiates the recognition of impairment loss to restart future performance.

Firm size can determine the level of ease in obtaining funds from the capital market. The capital market has uncertain economic value. This condition makes the manager worried and makes various efforts opportunistic; one alternative is done by using impairment loss. Impairment occurs due to changes in market conditions indicating the value of the recoverable assets is less than the book's value and if the assets owned are greater. It will tend to decrease in value (Dudycz & Praźników, 2020).

IAS 36 regulates asset testing conducted periodically using an impairment test to estimate an asset's recoverable amount (Hassine & Jilani, 2017). The recognition of an impairment loss provides an opportunity for managers to use accounting options. Accounting options are a chance for opportunistic management to maximize earnings management by looking for gaps in IAS 36 but still complying with applicable standards.

The previous research found assets impairment used to gain earnings management by doing income smoothing and a big bath accounting (Abrigo & C. Ferrer, 2016; Athanasakou, Strong, & Walker, 2010; Siggelkow & Zülch, 2013). Their studies show additional empirical evidence. Managers no longer perform earnings management in the form of a big bath accounting because of management concern over the consequences if they do a big bath accounting Differences in previous research results led the present researchers to investigate whether a big bath accounting affects asset impairment. Therefore, the authors would like to examine the effect of a big bath accounting on the loss of value (asset impairment) of mining companies listed on the Indonesia Stock Exchange 2012-2018.

2. THEORITICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Agency relationship as a contract-under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf-involves delegating some decision-making authority to the agent (Shapiro, 2005). In that case, agency theory also solves potential lack of harmonious goals, preferences, and actions between managers and shareholders. Therefore, companies should tie manager compensation to shareholders through ownership or compensation. This includes providing stock options and bonuses to managers that match the company's stock price. In relation to this argument, Shapiro (2005) provides empirical evidence that as a result of intense financial harmonization between the CEO and shareholder, the CEO makes decisions to increase its net profit or market value. Thus, management compensation provides a powerful motivation to manipulate companies' earnings to improve their financial statement.

Positive Accounting Theory

Positive accounting theory assumes that managers behave opportunistically in their interests or increase their wealth (Watts & Zimmerman, 1990). Therefore, They explained that accounting choices are made in terms of individual goals and the effects of accounting methods in achieving those objectives. Positive accounting has three hypotheses: bonus planning, debt management, and political cost hypothesis. However, the debt agreement hypothesis explains that the higher the firm's debt to equity ratio, the more likely it is to use accounting methods that will increase revenues and prevent companies from breaking any debt covenants. Finally, the political cost hypothesis suggests that large firms recognize more impairment than diminish their net profits and avoid the public eye.

A Big Bath Accounting

There are several kinds of earnings management techniques. They are income minimization, income maximization, income smoothing, and a big bath (Scott, 2012). Income smoothing aims to reduce earnings variability so that the company's performance looks good in investors' eyes. Income maximization (minimization) is done by increasing (decreasing) earnings at the bonus scheme threshold. A big bath technique

recognizes costs in future periods and current period losses when unpredictable adverse conditions are inevitable in the current period. Consequently, management will do a self-cleaning by charging upcoming cost estimates and doing clear the decks.

A big bath makes the earnings of the next period will be higher than it should be. According to Ayedh et al. (2019) and Hope and Wang (2018), big bath charges happen when the company earns meager profits or negative, the company will charge more expenses in that year so that profit is getting smaller. The goal is to reduce the burden in the future. The earnings management model is done because investors will have the same response when the company suffered massive losses or small losses (Gonçalves et al., 2019; Karlsson & Reimbert, 2016; Stenheim & Madsen, 2016). The company may suffer dramatic losses in future annual reports at the expense of higher losses due to reasons caused by the Corona pandemic.

Jordan and Clark explain that companies often make earnings management in the form of a big bath accounting to recognize the accumulated impairment loss (Jordan & Clark, 2004). Impairment decisions are used by managers with high equity incentives to increase the value of their shares (Q. Cheng & Warfield, 2005). Some researchers found different results from the Jordan and Clark. Managers no longer perform earnings management in the form of a big bath accounting. Management is aware of the consequences if they do a big bath accounting. If managers do a big bath accounting it will make the public view it become bad (Abrigo & C. Ferrer, 2016). Companies that perform a big bath accounting must restate the wrong financial report.

Asset Impairment

Impairment is a condition where there is objective evidence of loss events resulting from one or more events occurring after the credit's initial recognition. Such a loss event affects the estimated future cash flows of a financial asset or group of financial assets that can be estimated reliably (E. C. Laskaridou et al., 2014).

Any impairment loss of revalued fixed asset is treated as a decrease in revaluation:

Recognized in other comprehensive income, as long as the impairment loss does not exceed the amount of the revaluation surplus for the same asset.

Impairment loss on revalued assets reduces the revaluation surplus for the asset (Andersson, 2014).

An impairment loss is known when the asset's recoverable amount is less than its carrying amount. The asset's carrying amount is lowered to its recoverable amount (Andersson, 2014; E. Laskaridou, Vazakidis, & Stergios, 2014). The decrease is an impairment loss. An impairment loss is recognized immediately in the income statement unless the asset is presented at a revalued amount following others. Any impairment loss of the revalued asset is treated as a decrease in revaluation, and then it is recognized in other comprehensive income. It will no be as long as the impairment loss does not exceed the revaluation surplus amount for the same asset. The impairment loss on the revaluation asset reduces the revaluation surplus for the asset.

Hypothesis Development

Agency theory said that there is a separation of functions between ownership (investors) and management. The separation of functions in agency theory has a negative side that is the flexibility of management to maximize profits that can lead to maximizing the managers' interest with the costs assigned to the company owner (Duru & Alexandros Tsitinidis, 2013). According to Shapiro (2005), information asymmetry between company owners and managers allows managers to act opportunistically. An approach used by managers to maximize personal earning is doing earnings management. One of the earnings management techniques is a big bath accounting. This technique recognizes the costs of future periods and current period losses when unfortunate circumstances occur in the current period. The consequence is earnings in the forthcoming period will be higher than they should be. The profit management model is done because investors will respond when the company suffered large losses or small losses.

Cheng and Warfield (2011), explain that companies have often done earnings management in the form of a big bath accounting to recognize the accumulated impairment loss of assets. Found evidence that impairment decisions are used by managers

with high equity incentives to increase the value of their shares (Q. Cheng, Warfield, & Minley, 2011).

A big bath accounting is done because managers assume that investors will react when the company suffered large losses or small losses. The manager recognizes the costs of future periods and current period losses when the company meets unfortunate circumstances in the current period. Consequently, the profit in the next period will be higher than expected. When a company gets a low profit or losses, the company will charge more expenses by recognizing an impairment loss to reduce future costs so that the financial statements of the company in the next period will look better (Dudycz & Praźników, 2020; Karlsson & Reimbert, 2016; Siggelkow & Zülch, 2013; Stenheim & Madsen, 2016). Therefore, the hypothesis formulated is as follows:

H1: A big bath accounting has a positive effect on asset impairment loss.

3. RESEARCH METHOD

The research is quantitative research based on the mining company's financial report listed on the Indonesia Stock Exchange year 2012-2018. The sample selected using purposive sampling with criteria as follows:

a. Companies must be registered with the Indonesia Stock Exchange and not delisting in 2012-2018;
b. The company publishes audited financial statements for 2012-2018;
c. The financial statements are denominated in U.S. dollars and Rupiah;
d. The company provides complete annual financial reporting that has the end of the financial year as of December 31, 2012-2018;
e. The variables studied are fully available in the financial statements of 2012-2018.

Types and Data Sources

This study used secondary data from the financial statements and independent auditor's report of mining sector companies. There is a 231 firm-years observation. The data were obtained from the website www.IDX.co.id.

Operational Variables

The dependent variable is asset impairment (I.M.), measured by a dummy variable based on asset impairment disclosure in the company's financial statement. Logit models are often used in data classification data. This

study follows Abrigo and C. Ferrer (2016) and Laskaridou et al. (2014) that used the dummy variable model. Companies that do not recognize asset impairment are given the number 0, and companies that recognize the asset impairment are given the number: 1.

The independent variable is big bath accounting. According to Siggelkow and Zuelch (2010), a big bath accounting is measured quantitatively by the formula:

Big Bath Accounting = EBITDA / Total Asset

The ratio of a big bath, according to Siggelkow and Zuelch (2010), has several weaknesses:

The ratio of a big bath only shows the number of big bath companies each year, so it can not show which company is doing a big bath accounting.

The big bath ratio does not indicate when the companies do a big bath accounting in certain years.

A big bath ratio can not distinguish the company that experienced the actual loss and the company doing a big bath accounting.

Based on the above weaknesses, this study uses cut-off to determine whether a company is likely or not to do a big bath accounting. The cut-offs that are used are the industry average each year and the company's standard deviation. The average industry cut-off each year indicates whether the company recognizes lower profits or lower losses than other companies in the same field. Besides, each company's ratio of a big bath is illustrated with graphs to analyze the lowest point (lowest standard deviation) of a company to indicate a big bath accounting.

Based on the company criteria that tend to do a big bath accounting, the author then categorizes companies that tend to do or not a big bath accounting into the dummy variable as follows:

0: Companies didn't tend to do Big Bath Accounting
1: Companies tend to do Big Bath Accounting
Figure 1 is the criteria of companies that doing or not doing a big bath accounting.

Control Variables

The control variable is an independent variable whose effect on the criterion variable is controlled by the researcher by making the impact neutral. The control variables used in this study are:

Standard Deviation Average of Industry	Falling Incline	Falling Drastically
Above	Not doing big bath accounting	Do big bath accounting
Under	Not doing big bath accounting	Do big bath accounting

Figure 1
Criteria of a Big-bath Accounting Firms

Profitability
This study uses return on equity as a profitability proxy that affects the impairment loss (Bepari, Sheikh, & Abu, 2014; Dai, Mao, & Deng, 2007; Kusumawatil, Trisnawati, & Mardalis, 2015; Sooriyakumaran, 2014). This formula is based on Laskaridou et al. (2014).

ROE = Net Income / Total Equity

Firm size
The previous studies have shown that firm size appears to be antecedent management of impairment assets (Abrigo & C. Ferrer, 2016; Broberg, Collin, Tagesson, Axelsson, & Schele, 2011; Chen, Li, & Li, 2011; Hassine & Jilani, 2017; Kusumawatil et al., 2015). Measurement of firm size refers to Abrigo and C. Ferrer (2016) that using total assets.

Data Analysis Method
The logistic regression model uses the dependent variable model, which is also dichotomous using a 1 or 0. This is used in situations where the dependent variable has the possibility of response doing impairment or not doing impairment. In this study, the likelihood of response is 1 = doing impairment and 0 = doing impairment. Independent variables are a big bath accounting, and control variables are profitability that proxied with return on equity and firm size proxied by total assets. Logistic regression models do not require classical assumptions on their independent variables (Ghozali, 2011).

General Equation of Logistic Regression
The hypothesis in this study was tested by using logistic regression analysis. The dependent variable was measured using the dummy variable. The researchers used this method to investigate the influence of the independent variable that is a big bath accounting. Logistic regression is a regression used to test whether a dependent variable's probability of occurrence can be predicted with an independent variable.

A logistic regression model used for this study is as follows:

LIM = ln (P1/1-*P*1)

LM = α + β1 BB + β2 Profit + β3 Size + e

With,
LIM = log natural impairment asset
BB = A Big Bath
Profit = Profitability
Size = Firm size

4. DATA ANALYSIS AND DISCUSSION
Descriptive Statistical Analysis
Based on the descriptive statistical analysis results, in Table 1, there is a 231 firm-year observation from 33 companies from 2012 to 2018. 231 firm-year observation has complete data for research purposes. Here is an explanation of the data description of all the variables used in the research model using descriptive statistical analysis.

The recognition of impairment loss represents a minimum value of 0 and a maximum value of 1. A 20.61% observation did not recognize the impairment loss of assets during 2012-2018. The mean value shows 0,794. There is 79.4% observation that recognizes impairment loss of assets during 2012-2018. Suppose the average of all samples is taken. In that case, the company's asset impairment losses are 0.794 or 79.4%, which means that the average recognition of impairment loss is near the maximum value. So it can be concluded that the company's awareness to recognize impairment loss of assets is high. The standard deviation of 0.493 shows the variations contained in the index. This study's standard deviation value is smaller than the mean value, which means that the research data on recognizing impairment loss is still less varied during the research period.

There is a 59.4% observation that does not perform a big bath accounting during 2012-2018. There is a 40.6% observation that tends to perform a big bath accounting during the year

Table 1
Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev.
Big bath	0.00	1.0	0.406	0.493
Profitability	2.18	4.6	0.079	0.584
Firm size	6.66	10.1	8.509	0.406
Impairment Loss	0.00	1.0	0.794	0.454

Source: Secondary data processed, 2020

Table 2
Results of Logistic Regression Test

	B	S.E.	Wald	Sig	Exp (B)
Big-bath	2.622	5.273	0.771	0.017	0.000

Source: Secondary data processed, 2020

Table 3
The Output of Results Variables

	B	S.E.	Wald	Sig	Exp (B)
Big bath	1.354	0.490	0.633	0.006	0.872
Profit.	0.724	0.448	0.609	0.106	0.485
Size	0.216	0.327	0.434	0.510	0.806
Constant	0.850	0.791	0.042	0.007	7.288

Source: Secondary data processed

2012-2018. If the average of all samples is taken, companies that tend to do a big bath accounting are 0.406 or 40.6%. So it can be concluded that there are companies that tend to do a big bath accounting. The standard deviation of 0.493 indicates the variations contained in the index. This study's standard deviation value is greater than the mean value, which means that a big bath accounting variable data varies during the research period.

Profitability measured by the return on equity ratio shows a minimum value of -2.18 and a maximum value of 4.57. The average value of profitability in a firm-year observation is 0.0796 or 7.96%. It means that the average return on equity returns in the sample criteria has a low profitability ratio. The standard deviation of 0.58422 shows the variations contained in profitability. This study's standard deviation value is greater than the mean value, which means that the variable profitability data varies during the research period.

The firm size indicates a minimum value is 6.66, and a maximum value is 10.09. It means that the average mining industry has a very large asset. The deviation unit of 0.40571 shows the variation in firm size. This study's standard deviation value is smaller than the mean value, which means that the variable data of firm size varies less during the research period.

Results of the General Equation of Logistic Regression

The goodness of fit testing uses the Hosmer and Lemeshow Test. The score for Chi-Square Hosmer and Lemeshow is 4.121. This score is smaller than the Chi-Square table of 7.815. This value shows that there is no difference between the model and the observed values. This result implies that testing can be carried out.

Logistic regression is a regression used to test whether a dependent variable's probability of occurrence can be predicted with an independent variable. Here's the output of variables in the equation.

Based on the data in Table 2, big bath accounting as an earnings management technique influences 2.62 with p-value of 0.017. Mining companies show big bath accounting indications by using impairments of assets as one of their instruments.

Based on Table 6, it can be seen that a big bath accounting is significant at probability 0.006. Profitability is not significant at probability 0.106. Firm size is not significant at probability 0.510.

Profitability and firm size have no effect on the impairment in the value of company assets. Firms with high or low profitability tend to do or not impair value at the same rate, likewise with firm size. The act of impairment

of assets is not based on firm size. These results indicate that assets' impairment is carried out with considerations other than profitability and firm size. The level of significance also increased from 0.017 to 0.006.

Discussion

Based on the result of the statistical test, a big bath accounting has a significant positive effect on recognizing impairment loss of assets. Companies that do a big bath accounting recognize an impairment loss because they earn a low profit or losses. The company will charge more expenses in the year to lower earnings by recognizing an impairment loss to reduce future expenses so that the next period's financial statements will look better. In line with agency theory that information asymmetry between company owners and managers provides an opportunity for managers to act opportunistically for personal earnings. An approach used by managers to maximize personal earning is doing earnings management. By doing big bath accounting, companies will recognize the costs of future periods and current period losses when unfortunate circumstances occur in the current period. The consequence is earnings in the forthcoming period will be higher than they should be. The earnings management model is done because investors will respond when the company suffered large losses or small losses.

This study's result is also in line with a positive accounting theory that managers make bonus plans by choosing accounting policies. Managers may choose to recognize an impairment loss to increase their bonuses in future periods. Cheng and Warfield (2005) explain that companies were often done earnings management in the form of a big bath accounting to recognize the accumulated impairment loss of assets. Impairment decisions are used by managers with high equity incentives to increase the value of their shares. The same conclusion was stated by Kirschenheiter & Melumad (2002).

A big bath accounting is done because managers assume that investors will respond when the company suffered large losses or small losses. The manager recognizes the costs of future periods and current period losses when the company meets unfortunate circumstances in the current period. Consequently, the profit in the next period will higher than expected. When a company gets a low profit or losses, the company will charge more expenses by recognizing an impairment loss to reduce future expenses to look better in the next period.

This result also shows that some potential problems could be a good chance for managers to do earnings management in this pandemic condition using big bath accounting. During the COVID-19 pandemic, many companies experienced a drastic decrease in income. Thus, managers tend to a big bath because stakeholders will think that this decline is due to the sluggish economy due to COVID-19. Impairment assets are one of the examples (Ozili, 2020).

Managers will recognize the costs of future periods and current period losses when the company meets unfortunate circumstances in the current period. As such, the company's losses are getting higher. In subsequent periods, when the pandemic has subsided, if there is an increase in profits even though it is a little. It is considered an increase in company performance. From this condition, managers can earn bonuses and achieve the earnings targeted by investors or stakeholders.

This study differs from previous research that has been done by Siggelkow & Zülch (2013), which explains that managers no longer perform earnings management in the form of a big bath accounting because of management concern over the consequences if they do a big bath accounting. When managers make a big bath accounting, it will make the public view the company badly and are required to restate the wrong financial report by the Securities and Exchange Commission (Athanasakou et al., 2010).

The Effect of Control Variables on Impairment Losses

Profitability has an insignificant negative effect on recognizing impairment losses due to potential investors giving the same response when the company is experiencing a low loss or profit. Low or high profitability does not affect investors in investing in a company. So, managers keep doing impairment of assets even if the company has high or low profitability. The result of this study is supported by Kirchenheiter and Melumad, which found that, when the return on equity fell to the lowest or highest point, the company continued to recognize the accumulated impairment loss (Kirschenheiter & Melumad, 2002).

This study differs from Laskaridou et al. (2014) that decisions on impairment are used

by managers with high equity incentives to increase their share value so that the value of the company's stock will tend to be better than the period when the recognition of an impairment loss occurs. They proved that the recognition of impairment losses indicates that the company can not satisfy shareholders.

Firm size also has an insignificant negative effect on the recognition of impairment losses. This finding is consistent with the positive accounting theory of the political cost hypothesis. The greater the company's political costs, the greater the tendency to use accounting options to reduce earnings. Companies tend to admit more to impairment than to reduce their net income and avoid public attention.

The results of this study are supported by Kirchenheiter and Melumad (2001). The company continues to recognize the accumulated impairment losses on assets. It is done to meet expectations expected earnings to have a stable and satisfactory performance in investors' eyes. This study differs from Athanasakou et al. (2010) also differ from this study, which resulted in the finding that managers no longer perform earnings management in the form of a big bath accounting because management was concerned for the consequences if they do a big bath accounting.

5. CONCLUSION, IMPLICATION, SUG-GESTION AND LIMITATION

This study investigates the effect of a big bath accounting on impairment loss of assets in Indonesian mining companies. The research control variable consists of profitability measured by return on equity and firm size measured by total assets. It was found that companies that tend to do a big bath accounting will recognize a loss of asset value. Managers maximize personal profits by making earnings management in the form of a big bath accounting. A big bath accounting is done because managers assume that investors will respond when the company suffered large losses or small losses. The manager acknowledges the costs of future periods and current period losses when unfortunate unavoidable circumstances in the current period. It will consequently make a profit higher than expected in the next year. In the next period, the company's performance will look better so that managers can maximize utility in the form of compensation for the targets that have been achieved.

Companies that have low or high profitability will still recognize an impairment loss. Low or high profitability does not affect investors in investing in a company. Managers continue to impair asset values even if the company has high or low profitability. Companies that have large or small sizes continue to recognize impairment losses on assets. Companies that have high-profit rates will receive complete attention from consumers and the media, which will also attract government and regulators' attention that leads to political costs, including government intervention, higher taxation, and various other demands that can increase political costs.

Limitations
However, this study has some limitations, such as (1) A big bath is an undisclosed action manager. Formulas designed to detect large baths have not been tested in reality. The conclusion from the results must be seen from the perspective of a big bath detection instrument. (2) The data of this research are not in the pandemic COVID-19 period. The company's financial condition at the time of the pandemic was strikingly different from normal conditions. The available information was insufficient to describe the situation faced during the pandemic.

Suggestions
Based on the above limitations, further research suggestions are as follows: (1) Research can be carried out post-pandemic using the company's overall financial condition as an independent variable. (2) Researchers can investigate the company's loss rate in advance to be clustered based on the loss level, which is the company's fault. (3) Add or use other control variables such as public stock ownership, market reaction, and debt covenant, especially using data in the pandemic COVID-19 period.

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