SINOMICS JOURNAL
International Journal of
Social Science, Education, Communication and Economics
ISSN (e): 2829-7350 | ISSN(p): 2963-9441

Analysis of Cash Flow Shenanigans at PT Cakra Mineral Tbk

Natalis Christian[1], Karen[2], Kelvina Yenanda[3], Vinvin Evelyn[4]
Universitas Internasional Batam, Indonesia
E-mail: natalis.christian@uib.ac.id[1], 2042058.karen@uib.edu[2], 2042101.kelvina@uib.edu[3], 2042065.vinvin@uib.edu[4]

Abstract

The cash flow statement presents the company's cash flows are divided into 3 categories, which is operating, investing and financing activities. The purpose of this research is to examine and analyze cash flow shenanigans at PT Cakra Mineral Tbk in 2014-2016. This research is in the form of a case study involving fraud cases committed by PT Cakra Mineral Tbk. In detecting and analyzing fraud in company financial statements, this study uses secondary data that can be obtained from the IDX website or company website. The results of the analysis show that there are indications that PT Cakra Mineral Tbk has fake cash flows because the company consolidated its financial statements with two companies that had not been legally acquired. This can lead to an increase in revenue as shown in the 2016 report. This significant increase in sales can also be caused by an acquisition agreement that has beautified its financial statements. Apart from that, this company can also be said to be a red flag of selling receivables due to a drastic decrease of receivables in 2016, while in previous years there was no decrease as much. Based on the results of the analysis, this fraud has caused losses to various parties.

Keywords *Cash Flows, Shenanigans, Fraud*

INTRODUCTION

A financial report is the communication method used by the company in a manner externally and internally to give information about a company's activity during a certain period of time. The function of financial reports for internal parties of company management is for decision making, while the function of financial reports for external parties is to inform investors and creditors about the financial performance and condition of the company during a certain period. The importance of presenting financial statements for the survival of the company makes managers motivated to improve company performance so that the company's existence is maintained. However, there are several cases of fraud committed by management to present satisfactory financial reports. Fraud committed by companies is commonly called fraud (Apriliana & Agustina, 2017).

With so many financial frauds these days going undetected, investors are increasingly questioning the value of the accrual-based figures shown on the income statement. Time and time again, companies have deceived investors by recording earnings too quickly or hiding expenses, leading some to conclude that earnings can be manipulated and they should therefore place more faith in a clearer measure of cash flow from operations (Schilit et al., 2018).

The statement of cash flows shows how the company's cash balance changed during the period. This report presents all incoming and outgoing cash flows, reconciling the beginning balance to the ending balance. All cash movements can be grouped into one of three categories, namely operating, investing, and financing activities. Investors do not consider the three parts of the cash flow statement equally important. Investors, on the other hand, consider the operating section to be the most important area to pay attention to, because it represents the cash generated from the company's actual business operations that is, cash flow from operations. Many investors care little about a company's investments or changes in its capital structure, and some act completely indifferent to the rest (Schilit et al., 2018).

Executives know that investors test the quality of earnings by comparing earnings and cash flow from operations. In addition, many investors consider the cash flow from operations to be the most important measure of company performance. Therefore, it is not surprising that companies are becoming more creative in their financial reporting and disclosure practices. Many have found innovative ways to mislead investors, using fraudulent practices that might go undetected in the quality of traditional earnings analysis (Schilit et al., 2018). PT Cakra Mineral Tbk is a mining company that has been listed on the Indonesia Stock Exchange with the issuer code CKRA. This company has manipulated its reports by artificially inflating the number of assets by consolidating the financial statements of other companies that it does not have. The purpose of this study is to examine and analyze cash flow shenanigans at PT Cakra Mineral Tbk in 2014-2016.

LITERATURE REVIEW

Auditors, Investors, Management, and Manipulation

Indications of fraud often occur between an individual or group and their organization where the directors have responsibility for controlling opportunities and pressure factors (Sakti et al., 2020). Many auditors, investors and company management use or use the accrual basis, namely the company's cash flow, to detect cases of manipulation. According to Liu & Deo in Tarjo et al., (2023), cash flow statements tend to be stronger for the effect of falsifying numerical data. In this case, management will act as an investigative approach tool because it has the motivation to benefit itself. Meanwhile, investors and auditors will act as trustees so that the management itself does not commit fraud, whereas an effective trustee will close fraud loopholes.

The factor in the occurrence of fraud cases is due to the weakness of the guard or trust in supervising cash flow. With existing deficiencies, accompanied by access and the desire of supporters, management can commit acts of fraud (Tarjo et al., 2023). As stated that financial shenanigans, also known as a fraud in finance, are management actions that mislead investors regarding the company's financial condition to believe that the company's earnings are stronger and safer, this research will focus on evaluating the manipulation of cash flows using financial shenanigans.

Cash Flow Shenanigans

According to Jensen 1986 in Yeo, (2018), the term Free Cash Flow (FCF) is a funding flow used by companies to fund operations which have a positive net value (NPV). In terms of providing FCF, conflicts of interest can be found between stakeholders and managers. Managers will prioritize the use of FCF as investment needs rather than distributing the FCF funds as dividends according to the needs of stakeholders. Therefore, companies with uncertain cash flows will have difficulty in financing high capital costs for active business

SINOMICS JOURNAL
International Journal of Social Science, Education, Communication and Economics
ISSN (e): 2829-7350 | ISSN(p): 2963-9441

activities. Companies will need and rely on internally generated cash flow due to lower costs or other aspects. Therefore, FCF plays a role as a determinant of investment and dividends (Yeo, 2018).

A larger FCF will lead the company to increase investment and reduce dividends. Moreover, not all cash is free to use, only the free portion is designated as FCF. Effective use of assets or investments will increase the value of the company, while ineffective use of assets will reduce the value of the company (Yeo, 2018). Companies also need to set the direction of investment to avoid risks.

Cash Flow Shenanigans 1: Shifting cash inflows from financing activities to operating activities

The techniques in this component of Cash Flow Shenanigans are divided into three. First, according to Alfonso 2018 in Tarjo et al., (2023), the technique is used by diverting inflows of financial cash flow to operations. Utilization of cash flow with a bank loan account will be recognized as income so that it becomes part of operating cash flow. This trick takes advantage of accounts in financial cash flow, such as bank loans that are recognized as income so that the income becomes part of the operating cash flow income (Schilit et al., 2018).

The second is turning accounts receivable into cash even though the customer has not paid. This transaction will recognize the collection of receivables before maturity. The company will transfer the ownership of some of the receivables. Instead, the company will hold cash payments for the total receivables minus the associated costs. This implementation indicates billing acknowledgment at the wrong time. The impact of an increase in receivables collection will result in an increase in the operating cash flow component.

Third, create fake receivables to increase operating cash flow. (Schilit et al., 2018), stated in Tarjo et al., (2023), that this trick is easy for management in a company's business to increase operating cash flow. Simply by creating counterfeit receivables that are quite risky but potentially free from monitoring by auditors and investors.

Cash Flow Shenanigans 2: Shifting cash outflows from operating activities to other sections

When it comes to cash flow shenanigan second technique, there are four tricks to getting cash flowing out and moving on to other parts. First, the application of boomerang transactions where it is meant that fictitious transactions occur as if there were very large sales, but on the other hand, the company also has very large purchases. The purpose of this transaction is to include receipts in the operating cash flow component and then, expenses that appear in the operating cash section are transferred to the investment cash section. One example is, a customer advances account. The advance will be part of the operating cash flow. When they have occurred, they will cause an outflow to operating cash flow. This condition is a situation that should be, however, management chooses to be transferred to expenses in the investment cash flow section (Tarjo et al., 2023).

DOI: https://doi.org/10.54443/sj.v2i2.134

The second technique is an error in capitalizing expenses. The technique is carried out by recording operating costs as assets not as expenses. Such transactions will result in fictitious revenue figures and spikes in operating cash flow. Third, incorrectly recorded the purchase of inventory or inventory. This trick occurs by recording inventory purchases but reporting them in the investment outflow section where they should be recorded in the operating cash flow section. Fourth, tracking and transferring unnecessary outflows to operating cash. For example, most companies with retirement plans will fund the plan with cash invested by meeting the company's projected long-term liabilities. The company will transfer the expense account and generate a significant increase in the share of operating cash flows (Tarjo et al., 2023).

Cash Flow Shenanigans 3: Increasing operating cash flow with unsustainable activities

Cash flow shenanigan third technique focuses on increasing operating cash flow with unsustainable policies. "Unsustainable" makes it an area of management that can be easily manipulated because it is freed from the scrutiny of the auditor. The first trick is to increase operating cash flow by deferring liabilities. Companies often implement a policy of deferring obligations to increase revenue accompanied by an increase in cash flow operations (Schilit et al., 2018).

The second trick is to speed up debt payments from customers. In this case, the company will try to convince customers to pay their obligations as soon as possible. Meanwhile, the third trick is buying inventory that is lower than the previous period. This method includes unreasonable methods because it includes actions that harm other people. However, the impact will increase operating cash flow instantly (Tarjo et al., 2023).

METHOD

The research method used is a qualitative method in the form of descriptive data to explain the observations of the research object. Qualitative methods are used in investigations, studies, and descriptions of observed phenomena in contexts that are appropriate to the circumstances (N. Christian et al., 2022). This research is also in the form of a case study involving a fraud case committed by a public company in Indonesia. Therefore, this research also requires quantitative data or numerical data as material for analysis. So, this research method is a mixture of qualitative and quantitative methods (N. J. R. L. Christian, 2021). In detecting and analyzing fraud in company financial statements, this study uses secondary data that can be obtained from the IDX website or the company website. The data used are the company's financial statements from 2014 to 2016. The object to be studied is PT Cakra Mineral Tbk. This research was conducted by understanding and analyzing the financial statements of PT Cakra Mineral Tbk for 3 years, namely the years related to the time the case occurred.

SINOMICS JOURNAL
International Journal of Social Science, Education, Communication and Economics
ISSN (e): 2829-7350 | ISSN(p): 2963-9441

RESULTS AND DISCUSSION

Case Chronology

PT Cakra Mineral Tbk is a mining company that has been listed on the Indonesia Stock Exchange with the issuer code CKRA. This company was previously named PT. Citra Kebun Raya Agri Tbk and was founded in mid-September 1990. This company is engaged in mineral mining with the main activity of mining iron ore, zircon sand, and so on (Christian, Natalis. Wijaya, Ermi. Teresa, 2022). PT Cakra Mineral Tbk is known to have manipulated its reports and made false statements to the public about the company. This has caused investors to suffer losses for approximately two years (Janrosl & Yuliadi, 2019). The directors of PT Cakra Mineral Tbk were reported to the OJK for alleged conspiracy to sign an agreement that the company had bought and acquired fifty-five percent of the shares of PT Murni Jaya Persada and PT Takaras Inti Lestari (Christian, Natalis. Wijaya, Ermi. Teresa, 2022). The directors of PT Cakra Mineral Tbk also acknowledged that the company once held fifty-five percent of these shares starting in August 2014.

However, the fact is that this company is not listed at all in the list of shareholders of the two companies it acknowledges. This company has manipulated its reports by artificially inflating the number of assets by consolidating the financial statements of other companies that it does not have. In addition, PT Cakra Mineral Tbk has also exaggerated the amount of paid-up capital from the two mines (Janrosl & Yuliadi, 2019). The lawyer for PT Murni Jaya Persada and PT Takaras Inti Lestari, namely Jefferson, stated that PT Cakra Mineral Tbk actually never held shares in these two companies. Based on the agreement between the two parties, 165 million shares of PT Cakra Mineral Tbk should have been owned by PT Murni Jaya Persada and PT Takaras Inti Lestari. In addition, the agreement also states that the director of PT Cakra Mineral Tbk must pay the 165 million shares with five mining companies. However, this was not implemented by the director of PT Cakra Mineral Tbk. Not only that, but it turned out that the 5 companies that had been promised did not belong to the directors of PT Cakra Mineral Tbk (Christian, Natalis. Wijaya, Ermi. Teresa, 2022). Due to the actions of the company's directors, investors were deceived by improper disclosures in the financial statements and suffered significant losses (Janrosl & Yuliadi, 2019).

Cash Flow Shenanigans 1: Shifting cash inflows from financing activities to operating activities

Table 1 CKRA Operating Cash Flows 2014-2016

Operating Activities Cash Flow	**2014**	**2015**	**2016**
Net Cash Used in Operating Activities	(5,308,913,087)	(5,314,041,719)	(415,030,689)
Percentage	100%	100.10%	7.82%

The first detection of cash flow shenanigans needs to be done by analyzing the cash flow of the company's operating activities. The table above shows the cash flow of PT Cakra Mineral Tbk's operating activities from 2014 to 2016. If you look at the table, the net cash used for operating activities in 2014 was IDR 5,308,913,087 and in 2015 it was IDR 5,314,041,719. This figure did not change significantly and only experienced an increase of around 0.1%. This shows that in that year there should be no indication of fraud by exaggerating cash inflows from operations. However, the amount of net cash used for operating activities in 2016 showed a figure of IDR 415 million, indicating a significant change from 2015 to 2016. Net cash used for operating activities decreased by around IDR 4.9 billion or in other words cash inflows generated from operating activities have increased significantly. If traced, the increase in cash inflows came from receipts from customers which increased by around IDR 53 billion, from IDR 20 billion to IDR 73 billion.

Table 2 CKRA Trade Receivables 2014-2016

Trade Receivables	**2014**	**2015**	**2016**
Total Trade Receivables to Third Parties	13,371,835,913	9,796,484,967	876,666,452
Difference		(3,575,350,946)	(8,919,818,515)

Based on the table above which shows the company's trade receivables, around IDR 8.9 billion of the increase in customer acceptance came from receipt of receivables. While the rest due to a significant increase in sales. This is due to the acquisition agreement from PT Cakra Mineral Tbk to PT Murni Jaya Persada and PT Takaras Inti Lestari which has enhanced the financial statements and also led to sales growth for the company. Based on the theory of cash flow shenanigan no.1, the first action that a fraud perpetrator might take is to record fake cash inflows from operating activities from receiving bank loans, which should be recorded in the funding activities section. In this regard, there is no indication that PT Cakra Mineral Tbk did so because, as previously explained, the increase in cash flow from operating activities was due to receipt of receivables and increase in sales as a result of the acquisition agreement for the 2 companies.

Meanwhile, according to the theory of cash flow shenanigans, fake cash flows from operating activities can also be caused by fake income. PT Cakra Mineral Tbk can be said to be indicated to do this because the company has consolidated its financial statements with two other companies that have not been legally acquired. This can lead to an increase in revenue that actually comes from companies that are not owned and should not be consolidated in their financial statements. The second action that may be taken by fraud perpetrators is to increase the cash flow of operating activities by selling receivables before the billing date. PT. Cakra Mineral Tbk can be said to be a red flag in this regard due to a drastic decrease in receivables in 2016. Meanwhile, in the previous year, receivables only decreased by around IDR 3.5 billion, from IDR 13.3 billion to IDR 9.8 billion. However, in 2016 the accounts receivable decreased from IDR 9.8 billion to only IDR 876 million. The existence of such a significant change indicates that the company may have sold its receivables so that the cash flow from operating activities looks better.

Cash Flow Shenanigans 2: Shifting cash outflows from operating activities to other sections

Typically, investors will be very pleased with a company that generates far more cash flow from operations than net income. However, a sizeable portion relates to boomerang schemes to manipulate cash flows from operations. According to the theory of cash flow shenanigans number 2, one of the actions that fraudsters might take to transfer cash outflows from operating activities to other departments is to inflate cash flows from operating activities with boomerang transactions. As can be seen in the table below, PT Cakra Mineral Tbk in 2014 and 2015 and 2016 had quite a big difference.

Table 3 The Difference Between Cash Flows from Operations and Net Income 2014-2016

	2014	2015	2016
Operating Cash Flow	(Rp5.308.913.087	(Rp5.314.041.719)	(Rp415.030.689)
Net Income	(Rp281.665.335.349)	(Rp54.627.723.231)	(Rp54.179.634.632)
Difference	**Rp276.356.422.262**	**Rp49.313.681.512**	**Rp53.764.603.943**

There are companies that record these boomerang transactions in a way that artificially inflates cash flow from operations. The Company records cash received from its customers in these transactions as operating inflows, however, cash paid to the same customers is recorded as Investment outflows. In essence, the company increases cash flow from operating activities by reducing cash flow from investing activities. This allows the company to demonstrate cash flow from operations that is strong and that clearly exceeds the economic reality of the transaction. It is less important that cash flow from operations is overstated than cash flow understated from investing activities, because cash flow from operations is the main cash flow metric investors focus on.

According to the theory of cash flow shenanigans number 2, the next action that may be taken by fraud perpetrators is to incorrectly capitalize normal operating expenses. Some very clever companies have found ways to turn the usual costs of operations from a drain on free cash flow to one that costs almost nothing, both now and in the future. Another company started the unusual accounting practice of large multi-year software licenses as capital leases. In previous years, this type of license has been treated as an operating expense, both in the operations report and in the operations section reported on the cash flow statement. However, by classifying license agreements as leases, the company shifted most of the payments to software vendors from the operations section of the cash flow statement to the financing section under Principal payments of capital lease obligations. Literally the second-to-last entry of entire supply chain financing, it is unlikely to catch the eye of analysts, who would see reported cash flows artificially inflated.

According to cash flow shenanigans theory number 2, the third action that fraudsters may take is to record inventory purchases as an investment outflow. Cost of goods sold is the proper account of the direct costs incurred by a company to acquire or produce the inventories sold to customers. In the operating statement, COGS is subtracted from revenue to yield a company's gross profit, an important measure of a company's product profitability. cash flow statements are sometimes not that simple. The economics of purchasing goods to sell to customers implies that these purchases should be classified as operating activities on the statement of cash flows. However, some companies treat these purchases as an investment outflow.

Cash Flow Shenanigans 3: Increasing operating cash flow with unsustainable activities.

Implementation of obligations shown through cash disbursements shows how the amount of assets becomes larger than it should be. This situation occurs like the case in 2014. PT Cakra Mineral also stated clearly that cash flow from operating activities in that year experienced decreased expenses from the previous year due to a decrease in cash payments to suppliers. Adjusted to the technique described in shenanigans 3, which is increasing operating cash flow through deferring obligations, making the application a material science application.

Manipulation of cash flows mentioned, can also be seen from the amount of ending inventory from year to year. Lower inventory purchases compared to previous periods tend to generate larger cash flows. While the technique applied to accelerate debt payments from 2014, in order to increase cash flow, can use the analysis of debt to asset ratio and debt to equity ratio.

Table 4 Financial Ratio

Financial Ratio	2016	2015	2014
Liability to equity ratio	0,02	0,04	0,02
Liability to asset ratio	0,02	0,04	0,02

The ratio of short-term liabilities to equity increased from 1.58% in 2014 to 3.83% in 2015 and the ratio of long-term liabilities to equity increased from 0.12% in 2014 to 0.47% in 2015. overall ratio of total liabilities to equity increased from 1.7% in 2014 to 4.3% in 2015.

Looking at the changes that have occurred in the case of PT Cakra Mineral which exaggerated the amount of capital, and one of the possible techniques to be applied so that large capital arises is through observing changes in the ability to pay debts of customers. The smaller the ratio of uncollectible debt, the faster the payment of debt is resolved from customers. With this, an increase in cash flow and capital is realized as the case described.

ISSN (e): 2829-7350 | ISSN(p): 2963-9441

CONCLUSION

Repeatedly, companies have deceived investors by recording earnings too quickly or hiding expenses, leading some to conclude that earnings can be manipulated and they should therefore place more faith in clearer measures of cash flow. Investors do not consider the three parts of the cash flow statement equally important. Conversely, investors consider the operating section to be the most important section to pay attention to, because it presents the cash generated from the company's actual business operations. Executives know that investors test the quality of earnings by comparing earnings and cash flow from operations. Therefore, it is not surprising that companies are becoming more creative in their financial reporting and disclosure practices. Many have found innovative ways to mislead investors. The directors of PT Cakra Mineral Tbk were reported to the OJK for alleged conspiracy to sign an agreement that the company had acquired 55% shares of PT Murni Jaya Persada and PT Takaras Inti Lestari. However, the fact is that this company is not listed at all in the list of shareholders of the two companies it acknowledges. The company has manipulated its reports by falsely inflating assets and exaggerating the amount of paid-up capital from the two mines.

Based on the results of the shenanigan cash flow analysis of PT Cakra Mineral Tbk's financial statements, it is indicated that the company has made fake cash flows because it has consolidated its financial statements with two other companies that have not been legally acquired. This can lead to an increase in revenue as shown in the 2016 report. This significant increase in sales can also be caused by an acquisition agreement that has beautified its financial statements. Apart from that, this company can also be said to be a red flag selling receivables due to a drastic decrease in receivables in 2016, while in previous years there was no decrease as much. In the theory of cash flow shenanigans section number 2, one of the actions that fraudsters might take to transfer cash outflows from operating activities to another department is to inflate cash flow operating activities with boomerang transactions. Based on cash flow from operations and net income at PT Cakra Mineral Tbk in 2014, there is a significant difference between 2015 and 2016. Shenanigans 3 is the best technique for increasing cash flow or free from auditor detection. The three techniques in the shenanigans component 3 are the most reasonable techniques for management to present financial reports to investors adequately and satisfactorily. Accounting profit as seen from accrual accounting for cash flow and profit and loss statements tends to incorrectly highlight strong and consistent growth or whether a company is healthy or not. Based on the results of the analysis, the incident of fraud at PT Cakra Mineral Tbk has caused losses to various parties, especially investors. This is because the readers of financial statements have been deceived by the manipulations carried out by companies in their reports.

REFERENCES

Apriliana, S., & Agustina, L. (2017). The Analysis of Fraudulent Financial Reporting Determinant through Fraud Pentagon Approach. *Jurnal Dinamika Akuntansi*, *9*(2), 154–165. https://doi.org/10.15294/jda.v7i1.4036

Christian, Natalis. Wijaya, Ermi. Teresa, S. (2022). *Analisa Financial Shenanigans Terhadap Laporan Keuangan PT Cakra*. *24*(2), 104–108.

Christian, N. J. R. L. (2021). *Pendeteksian Financial Shenanigans Pada Laporan Keuangan PT Garuda Indonesia Tbk*. *10*(1), 66–75.

Christian, N., Resnika, R., Yukie, H., Sitorus, R., Angelina, V., Sherly, S., & Febrika, F. (2022). Pendeteksian Fraudulent Financial Reporting Dengan Earnings Manipulation Financial Shenanigans: Studi Kasus Pt Envy Technologies Indonesia Tbk. *Jurnal Ilmiah Akuntansi Dan Bisnis*, *7*(1), 14–50. https://doi.org/10.38043/jiab.v7i1.3543

Janrosl, V. S. E., & Yuliadi, Y. (2019). Analisis Faktor - Faktor yang Mempengaruhi Financial Statement Fraud Pada Perusahaan Perbankan. *Jurnal Akuntansi Keuangan Dan Bisnis*, *12*(1), 1–8. https://doi.org/10.35143/jakb.v12i1.2485

Sakti, E., Tarjo, T., Prasetyono, P., & Riskiyadi, M. (2020). Detection of Fraud Indications in Financial Statements Using Financial Shenanigans. *Asia Pacific Fraud Journal*, *5*(2), 277. https://doi.org/10.21532/apfjournal.v5i2.170

Schilit, H. M., Perler, J., & Engelhart, Y. (2018). *2018-Financial Shenanigans Howard Schilit 4th ED.pdf*.

Tarjo, T., Prasetyono, P., Sakti, E., Pujiono, Mat-Isa, Y., & Safkaur, O. (2023). Predicting Fraudulent Financial Statement Using Cash Flow Shenanigans. *Business: Theory and Practice*, *24*(1), 33–46. https://doi.org/10.3846/btp.2023.15283

Yeo, H. J. (2018). Role of free cash flows in making investment and dividend decisions: The case of the shipping industry. *Asian Journal of Shipping and Logistics*, *34*(2), 113–118. https://doi.org/10.1016/j.ajsl.2018.06.007