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THE INFLUENCE OF PROFITABILITY, LEVERAGE, AND COMPANY SIZE ON EARNINGS MANAGEMENT IN RAW MATERIAL COMPANIES

Putri Kezia Angelina[1], Florencia Irena Lawita[2], Agatha Violin[3]

Accounting, Faculty of Business, Kalbis University
Jalan Pulomas Selatan Kav. 22, Jakarta 13210
1) E-mail: putrikezia46@gmail.com
2) E-mail: florenciairenalawita@gmail.com
3) E-mail: agathaviolin17@gmail.com

ABSTRACT

The purpose of this study is to look at how profitability, debt, and business size affect earnings management in basic materials sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. This research uses a quantitative method. The population for this study is obtained from secondary data from the financial statements of enterprises in the basic materials sector from 2020 to 2022. The purposive sampling strategy was employed to choose the sample, yielding 99 data points for this investigation. The findings of this study revealed that profitability has a positive influence on earnings management, whereas firm size has a negative impact, and leverage has no effect on earnings management.

Keywords - Fonts, formatting, margins

INTRODUCTION

The business world is developing at a rapid pace, motivating business players to create competitive advantages in their industries. Business competition must be accompanied by optimal use of resources in operational activities so that companies have a higher chance of leading the market (Harahap, 2021). As a result, companies will continue to strive to demonstrate good performance in conveying financial information to external parties. This information is conveyed through financial statements.

According to PSAK No.1 (IAI, 2014), financial reporting is a structural study of the financial situation and performance of an organization. Information about profits is one of the main parameters in measuring performance and management accountability that is included in an entity's financial report. Management is given the authority to develop policies, make estimates, and manage the company's assets accurately to create a report that reflects the company's financial condition well (Moh. Rifqi Hidayatullah & Arif, 2023). Recognizing this role and authority, management whose performance is assessed based on profit information will tend to focus more on profit figures. According to (Natalia & Natalylova, 2022), earnings management is a set of accounting activities or rules applied by management to influence or control reported profits using accounting procedures of choice or accelerating expenditures and revenue transactions to affect short-term profit levels.

Earnings management is an agency problem often caused by a misalignment of interests between owners or principals (shareholders) and company management or agents (management). The higher contribution of management to its role as a manager gives it faster access, clearer, and more comprehensive information compared to shareholders. This study

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measures earnings management using the Discretionary Accrual (DA) proxy. According to KBBI, discretion can be defined as the freedom to make decisions independently in any situation faced, so Discretionary Accrual can be interpreted as a management decision or intervention in using certain accounting methods to influence the accrual value of the company in a given period.

One phenomenon related to earnings management practices occurred at PT Semen Indonesia Tbk (SMGR) where the company's management decided to acquire PT Holcim Indonesia Tbk in 2018. The result of this acquisition was an increase in the company's financial burden and a decline in the company's liquidity due to the increased financial burden borne by funding the acquisition of PT Holcim. The company's performance decline was reflected in a profit drop throughout 2019 by 22.31% from IDR 3.07 trillion
to IDR 2.39 trillion (cnbcindonesia.com, 2020).

Another incident occurred at PT Adaro Energy Tbk (ADRO). Before this case became public, the company's financial condition had already deteriorated due to a case of selling mislabeled rice by a subsidiary of PT Indo Beras Unggul. This case was revealed in 2019 when PT E&Y, the party investigating AISA's financial statements, discovered suspected overstatements in accounts receivable, fixed assets, and inventories amounting to IDR 4 trillion as well as IDR 662 billion in revenue and other inflated funds amounting to IDR 329 billion in EBITDA. There was also a transfer of funds amounting to IDR 1.78 trillion from affiliated parties using inadequate disclosure mechanisms. This behavior, undertaken by AISA management, is included in earnings management procedures (cnbcindonesia.com, 2020).

Managers manage profits for various reasons, including profitability, leverage, and company scale. According to (Nursophia et al., 2023), profitability is a ratio used to assess a company's capacity to generate profits and provide insights into the success of an entity's management. Profitability indicated by return on assets (ROA) reflects an entity's ability to manage its resources. High profitability can influence earnings management because companies with high profits will face increased obligations such as tax liabilities, prompting management to reduce profits to maintain company profit stability.

In addition to profitability, a company's debt level can also motivate earnings management. Leverage refers to the extent of using debt to finance assets intended to sustain operational activities. Agency theory states that the use of debt by companies can provide restrictions and monitor management performance. The higher the debt a company has, the higher the risk it may face in fulfilling its obligations to pay debts on time (Moh. Rifqi Hidayatullah & Arif, 2023).

Leverage influences management's decision to manage earnings. High leverage in a company allows the company to receive closer scrutiny from lenders (creditors), so management will be more cautious in practicing earnings management.

Another factor that can drive companies to engage in earnings management is company size. Company size is one scale used to identify whether a company is large or small. Larger companies tend to receive more attention and demands from external parties, such as capital owners, lenders, and governments. Therefore, the company will focus more on maintaining the stability of reported profits. Companies will avoid drastic changes, such as significant increases or decreases in profits, to prevent additional obligations such as taxes. Thus, company size influences earnings management because a company's profit level correlates with its size (Eka

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& Muhammad, 2022).

This research was conducted on raw material sector companies listed on the IDX. The researcher chose this sector because companies in this sector produce goods or services used as raw materials by other companies, so their credibility and consistency can impact other businesses. In addition, the raw material sector also represents a diverse range of companies from various industries. The demand for raw materials also shows that companies in this sector have promising prospects and sustainability in the future.

Based on stock trading data throughout 2023, the raw materials sector ranked second with growth of 7.51%. The raw materials sector provides products and services essential for other sectors as basic components for producing final products. This sector can be said to be essential and promising because its role in providing raw materials for other sectors will impact its long-term existence. Based on stock market data, the basic materials sector continued to strengthen at 7.10% from late 2023 to the end of May 2024, indicating high investor interest in the sector's performance (ipotnews.com). Referring to related phenomena, researchers believe that the control of reported profits by an entity is not uncommon in Indonesia. Intense competition in the business world encourages companies to stay competitive in showing positive performance to stakeholders, one of which is
through earnings management practices.

Based on the framework of the study presented, the research problems in this study are as follows: Does profitability affect earnings management? Does leverage affect earnings management? Does company size affect earnings management? The research objectives based on the background and the problem formulation are to analyze the effect of profitability on earnings management, analyze the effect of leverage on earnings management, and analyze whether company size influences earnings management.

LITERATURE REVIEW METHODOLOGY

A. THEORETICAL REVIEW

1. Agency Theory

Agency theory explains the relationship between management acting as agents and shareholders as principals, where one or more principals delegate authority and responsibility to the agents (Wardoyo et al., 2021). In this context, management, as agents, need to have a comprehensive understanding of effective company operations to maximize the owner's profit while maintaining cost efficiency. Meanwhile, the principal will provide appropriate incentives to the agents with various financial and non-financial facilities (Sutisna et al., 2024).

According to (Jensen & Meckling, 1976), agency theory is defined as a contract between one or more principals as owners of capital resources, involving another party (agent) to manage these resources. The principal entrusts full responsibility and authority to the agent to manage the resources owned to fulfill the principal's interests, which is to obtain maximum returns on capital. The principal will monitor the agent's performance through financial performance reports presented by management.

According to (Eisendhardt, 1989), agency theory arises from human nature, which tends to prioritize self-interest and avoid risks. In the relationship between the principal and the agent, conflicts may arise when there are opposing interests between the two parties (Wardoyo et al., 2021). In this study, agency theory is used as the assumption underlying the motivation of agents

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in practicing earnings management, which occurs when there is a conflict of interest between management (agent) and capital owners (principal), as each party strives to achieve or maintain their desired level of prosperity. Information can influence an individual's decision- making process, including business decisions (Sutisna et al., 2024). Information asymmetry between agents and principals can prompt managers to engage in dysfunctional behavior. The gap in information owned by management provides opportunities for managers to behave opportunistically by presenting misleading information to the principal, especially when the information relates to performance measurement. This behavior is carried out to maximize their interests, which can be detrimental to the principal. According to (Suripto & Supriyanto, 2021), this agent behavior constitutes earnings management practices.

2. Earnings Management

According to (Tallane, 2020), managerial actions that influence the company's earnings reports are known as earnings management. Earnings management is a problem that often arises in companies and is difficult to avoid because it involves individual and company interests exclusively (Setiowati et al., 2023). Managers who run companies have more in-depth knowledge of the company's information than other parties. With this information, managers manipulate profits to fulfill their personal interests by controlling the amount of profit that will be reported to stakeholders.

In this study, discretionary accruals serve as the proxy for earnings management. This is achieved by calculating the difference between total accruals and non-discretionary accruals, which are quantified using the modified Jones model.

According to (Bassiouny, 2016), the calculation of discretionary accruals (DA) can be obtained through the following steps:

a. Calculating Total Accruals (TAC)

$$\mathbf{TACt = Nit - CFOt}$$

Explanation:
TACt = Total Accrual in year t Nit = Net income in year t
CFOt = Operating cash flow in year t

b. Estimating the total accruals to obtain specific parameters using the Ordinary Least Square (OLS) regression equation as follows:

$$TACt / Ait-1 = \beta1 (1/ Ait-1) + \beta2 (\Delta REVit /Ait- 1) + \beta3 (PPE/ Ait-1) + \varepsilon$$

Explanation:
TACit = Total Accrual in period t
Ait-1 = Total assets of the company in the previous period
$\Delta REVit$ = Change in revenue in year t minus t− 1
PPEt = Gross Property, Plant, and Equipment in period t
β1, β2, β3 = Company-specific parameters ε = Error

c. Calculating non-discretionary accruals
Using the regression coefficients above (β1, β2, β3), the value of discretionary accruals can be calculated with the formula:

$$NDAit = \beta1 (1/ Ait-1) + \beta2 ((\Delta REVit - \Delta RECit)$$

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/ Ait-1) + β3 (PPE/ Ait-1)

Explanation:
NDAit = Non-discretionary accruals in year t
ΔRECit = Change in receivables in year t minus t-1

d. Calculating discretionary accruals (DA) DAit = TACit/ Ait-1 – NDAit Explanation:

DAit = Discretionary accruals in year t

Empirically, discretionary accrual values can be zero, positive, or negative. A value of zero indicates income smoothing (income smoothing), while a positive value indicates income-increasing earnings management, and a negative value indicates income- decreasing earnings management (Anjarningsih et al., 2022).

3. Profitability

Profitability is the amount of profit generated by a company after deducting costs and other losses. According to Kasmir (2015), profitability is the profit that a business can obtain within a specific period. Profitability can be one of the parameters used by external entities to evaluate company performance and help them make investment decisions (Romadhani et al., 2020).

In relation to agency theory, managers will continuously strive to maintain the company's profitability level to meet the needs of capital owners. To provide a positive image, managers will improve the quality of financial reports to serve their interests, including to obtain bonuses (Lesmono & Siregar, 2021).

The proxy used to measure the company's profitability in this study is the Return on Assets (ROA) ratio. This ratio gives a general picture of how well a business uses its assets to carry out its operational activities (Aldona & Listari, 2020). Profitability is measured using the following formula:

ROA= $Total\ Asset \div Net\ Income$

4. Leverage

Leverage, according to (Joe & Ginting, 2022), is a ratio used to calculate how much debt is used to finance the organization's assets. This research aims to measure the amount of cash the company receives from its debtors.

Entities with a high leverage ratio are more likely to engage in earnings management because, according to (Joe & Ginting, 2022), the greater a company's use of debt, the more management manipulates profits to maintain good financial performance and preserve investor confidence while avoiding debt contract obligations.

Leverage relates to debt in the capital structure used to finance company assets. The ratio used to measure leverage is the Debt to Assets Ratio (DAR). A higher leverage ratio indicates a greater dependency on external parties (creditors) and the debt service burden (interest costs) borne by the company (Saniamisha & Jin, 2019). Leverage is calculated with the following formula:

DAR= $Total\ Asset \div Total\ Debt$

5. Company Size

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Company size is one scale used to categorize a company. Companies can be categorized as small or large based on their size (Eka Sari & Malik Muhammad, 2022).

Entities with high asset levels will increase the value of the company, drawing more attention from external parties such as investors and creditors. Increased oversight can limit management's ability to practice earnings management (N. P. Sari & Khafid, 2020).

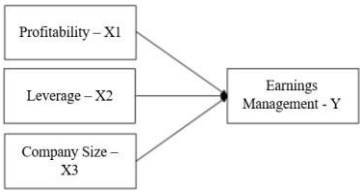
To minimize unnecessary data fluctuations, company size is calculated by converting total assets into the natural logarithm of total assets. The total assets in a company are generally presented in large values compared to other financial variables. By converting total assets into a natural logarithm, these values can be simplified from hundreds to trillions. The following formula is used to determine company size:

$$FSIZE = Ln\ (Total\ Assets)$$

B. CONCEPTUAL FRAMEWORK

A conceptual framework that explains the impact of independent factors such as profitability, leverage, and company size on the dependent variable, earnings management, can be developed based on the literature review provided earlier, as shown in the following figure:

Figure 1: Conceptual Framework



Based on Figure 1, the researcher can formulate the hypotheses in this study as follows: Profitability affects earnings management (H1); Leverage does not affect earnings management (H2); Company size affects earnings management (H3).

C. POPULATION AND SAMPLE

The population used in this study consists of financial data obtained from the annual reports of basic materials sector companies listed on the IDX from 2020 to 2022. Based on data obtained from the IDX website, there are a total of 106 companies in the basic materials sector. Using purposive sampling techniques, where samples are taken when they meet specific predetermined criteria, a sample of 33 companies and 99 data samples for 3 years were obtained. The sample selection criteria are: companies in the basic materials sector consistently listed on the IDX in 2020-2022; companies in the basic materials sector that present their financial statements in Indonesian Rupiah; and companies in the basic materials sector that have made profits during the 2019-2022 period.

D. DATA ANALYSIS METHOD

According to (Sugiyono, 2022), after collecting the data, the next step is data analysis by grouping the data by variable, tabulating the data, presenting the data, and providing an analysis result to answer the problem formulation and hypothesis testing.

The data used in this study is secondary data from the annual financial statements of companies in the basic materials sector listed on the IDX from 2020 to 2022. Data processing uses SPSS version 27.0 statistical software. This research employs a quantitative approach, where the study is conducted using statistical data and results in numerical data

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Given the number of independent variables in this study, multiple linear regression analysis was employed. According to (Basuki & Prawoto, 2022), the direction and strength of the impact of independent variables on the dependent variable are predicted using regression analysis. In multiple regression, because the nominal data value is quite large, a natural logarithm transformation is applied to the dependent variable to align the data with the independent variables, which are in ratio format.
The multiple linear regression equation in this study can be expressed as follows:

$$Y = \alpha + \beta 1.\ X1 + \beta 2.\ X2 + \beta 3.\ X3 + e$$

Y = Earnings management α = Constant
β_1, β_2, β_3 = Regression coefficients X_1 = Profitability
X_2 = Leverage
X_3 = Company size e = ErrorRESULTS

A. DESCRIPTIVE STATISTICS ANALYSIS

Table 1: Descriptive Statistics Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DA	99	-.22	.21	.0015	.06954
ROA	99	.00	.24	.0616	.04827
DAR	99	.03	.82	.3666	.19247
SIZE	99	25.08	32.05	28.3596	1.46280
Valid N (listwise)	99				

Descriptive statistics analysis is a method used to provide a general description of the research variables as seen from the mean value, standard deviation, maximum, and minimum. Data analysis in this study was aided by SPSS version 27 and Microsoft Excel (Ghozali, 2021:19).

The data used in this study consists of 99 samples, based on Table 1. This data was obtained from 33 companies in the raw materials sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. The dependent variable (Y), proxied by Discretionary Accruals (DA), has a minimum value of -0.22, a maximum value of 0.21, a mean of 0.0015, and a standard deviation of 0.06954. The profitability variable (X1), proxied by Return on Assets (ROA), has a minimum value of 0.00, a maximum of 0.24, a mean of 0.0616, and a standard deviation of 0.04827. The leverage variable (X2), proxied by Debt to Assets Ratio (DAR), has a minimum value of 0.03, a maximum of 0.82, a mean of 0.3666, and a standard deviation of 0.19247. The company size variable (X3) has a minimum value of 25.08, a maximum value of 32.05, a mean of 28.3596, and a standard deviation of 1.46280.

B. CLASSIC ASSUMPTION TEST

1.Normality Test

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Table 2: Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		99
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.06485552
Most Extreme Differences	Absolute	.070
	Positive	.070
	Negative	-.058
Test Statistic		.070
Asymp. Sig. (2-tailed)[c]		.200[d]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

According to (Ghozali, 2021;196), the normality test is used to test whether, in the regression model, the residual variable is normally distributed. Based on Table 2, the Kolmogorov-Smirnov normality test results show an Asymp. Sig (2-tailed) value of 0.200, which is greater than the 0.05 significance level. Therefore, it can be concluded that the data in this regression model has a normal distribution, and the normality assumption is met.

2.Multicollinearity Test

Table 3: Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ROA	.938	1.066
	DAR	.865	1.156
	SIZE	.918	1.089

The multicollinearity test aims to check whether there is a high correlation between independent variables in a regression model. A regression model is considered good if there is no multicollinearity between the independent variables (Ghozali, 2021:157).

Based on the results shown in Table 3, the Tolerance values of the independent variables range from 0.865 to 0.938, which are higher than 0.01. The Variance Inflation Factors (VIF) for the independent variables range from 1.066 to 1.156, which are below the threshold of 10.00. Thus, it can be concluded that there is no multicollinearity in this study, and the multicollinearity assumption is fulfilled.

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3.Heteroscedasticity Test

Table 4: Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11.406	5.587		-2.042	.044
	ROA	2.040	6.019	.036	.339	.735
	DAR	.132	1.572	.009	.084	.933
	SIZE	.137	.201	.073	.683	.497

The heteroscedasticity test is used to check whether there is an unequal variance in the residuals from one observation to another in the regression model. According to (Ghozali, 2021), a good regression model is homoscedastic, where the variance of the residuals is constant.

Based on the Park test results shown in Table 4, the significance values for Return on Assets (ROA), Debt to Assets Ratio (DAR), and company size are 0.735, 0.933, and 0.497, respectively. All these values are greater than the 0.05 significance level, indicating no heteroscedasticity in the regression model.

4.Autocorrelation Test

Table 5: Autocorrelation Test

Model	Durbin-Watson
1	1.849

a. Predictors: (Constant), SIZE, ROA, DAR
b. Dependent Variable: DA

Figure 2: Durbin-Watson Table

88	1.6302	1.6762	1.6071	1.6999	1.5836	1.7243
89	1.6324	1.6778	1.6095	1.7013	1.5863	1.7254
90	1.6345	1.6794	1.6119	1.7026	1.5889	1.7264
91	1.6366	1.6810	1.6143	1.7040	1.5915	1.7275
92	1.6387	1.6826	1.6166	1.7053	1.5941	1.7285
93	1.6407	1.6841	1.6188	1.7066	1.5966	1.7295
94	1.6427	1.6857	1.6211	1.7078	1.5991	1.7306
95	1.6447	1.6872	1.6233	1.7091	1.6015	1.7316
96	1.6466	1.6887	1.6254	1.7103	1.6039	1.7326
97	1.6485	1.6901	1.6275	1.7116	1.6063	1.7335
98	1.6504	1.6916	1.6296	1.7128	1.6086	1.7345
99	1.6522	1.6930	1.6317	1.7140	1.6108	1.7355
100	1.6540	1.6944	1.6337	1.7152	1.6131	1.7364

The autocorrelation test aims to check whether there is a correlation between errors in one

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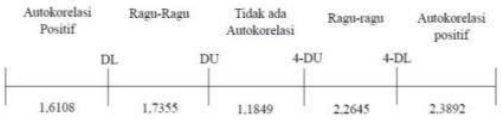
period (t) and errors in the previous period (t-1). The Durbin- Watson (DW) test is used to perform this test (Ghozali, 2021:162).

Based on the results shown in Table 5, the Durbin-Watson (DW) value in this study's regression model is 1.849. As shown in Figure 2, the Durbin-Upper (dU) value is 1.7355, and the Durbin- Lower (dL) value is 1.6108. The result 4-dL = 4- 1.6108 = 2.3892 and the result 4-dU = 4-1.7355 = 2.2645.

Figure 3: Durbin-Watson Statistics



Based on these results, the Durbin-Watson statistic is between dU and 4-dU, so it is concluded that there is no autocorrelation in this study.

C. MULTIPLE REGRESSION ANALYSIS

Table 6: Multiple Regression Analysis

		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.267	.132		2.022	.046
	ROA	.423	.142	.294	2.974	.004
	DAR	.026	.037	.072	.702	.484
	SIZE	-.011	.005	-.223	-2.238	.028

a. Dependent Variable: DA

According to (Ghozali, 2021:145), regression analysis is a study of the dependence of the dependent variable (Y) on the independent variables (X), with the aim of estimating the average value of Y based on the known values of X.

Based on Table 6, the following multiple linear regression equation is obtained:

$$Y=0.267+0.423\cdot ROA+0.026\cdot DAR-0.011\cdot SIZE$$

From the regression equation above, the following conclusions can be drawn:

The dependent variable, earnings management (Discretionary Accruals, DA), has a positive constant value of 0.267, meaning that when profitability, leverage, and company size are zero, the DA value is 0.267 units.

The profitability variable (ROA) has a regression coefficient of 0.423, meaning that if profitability increases by one unit, it will cause an increase in earnings management by 0.423

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units.

The leverage variable (DAR) has a regression coefficient of 0.026, meaning that if leverage increases by one unit, it will cause an increase in earnings management by 0.026 units.

The company size variable has a regression coefficient of -0.011, meaning that if company size increases by one unit, it will cause a decrease in earnings management by 0.011 units.

D. HYPOTHESIS TESTING

1.Coefficient of Determination (R^2) Test

Table 8: Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.361[a]	.130	.103	.06587

a. Predictors: (Constant), SIZE, ROA, DAR
b. Dependent Variable: DA

The coefficient of determination test is used to measure how much influence the independent variables have on the dependent variable.

Based on Table 8, the Adjusted R^2 value is 0.103, meaning that the independent variables (profitability, leverage, and company size) explain 10.3% of the variance in the dependent variable, earnings management, while the remaining 89.7% is explained by other factors not included in this study.

2.Simultaneous Regression Coefficient Test (F Test)

Table 9: F-Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.062	3	.021	4.737	.004[b]
	Residual	.412	95	.004		
	Total	.474	98			

a.Dependent Variable: DA
b. Predictors: (Constant), SIZE, ROA, DAR

According to (Ghozali, 2021), the F-test is also known as the ANOVA significance test, which aims to indicate whether the dependent variable is linearly related to all independent variables. The F-test tests the extent of the relationship between the dependent variable and all independent variables simultaneously.

Based on Table 9, the F-test result shows a significance value of 0.004, which is less than

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the 0.05 significance level. Thus, it can be concluded that all independent variables and the dependent variable in this study have a significant simultaneous effect.

3.Partial Significance Test (T-Test)

Table 10: T-Test Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.267	.132		2.022	.046
	ROA	.423	.142	.294	2.974	.004
	DAR	.026	.037	.072	.702	.484
	SIZE	-.011	.005	-.223	-2.238	.028

The T-test is used to measure the effect of each independent variable on the dependent variable.

Based on Table 10, the partial T-test results with 99 panel data show the following:

1. Testing the Effect of Profitability (X1) on Earnings Management. Return on Assets (ROA), as a proxy for profitability, shows a significance level of 0.004, which is less than 0.05. Based on this test result, it can be concluded that the independent variable profitability has a significant and positive effect on the dependent variable, earnings management, and the hypothesis is accepted. This indicates that the higher the profit a company generates, the greater the tendency of management to engage in earnings management.
2. Testing the Effect of Leverage (X2) on Earnings Management. In this study, leverage is measured using the Debt to Assets Ratio (DAR), and the T-test result shows a significance level of 0.484, which is greater than 0.05. Based on this test result, it can be concluded that the independent variable leverage does not have a significant effect on the dependent variable, earnings management, and the hypothesis is rejected. A company with a high debt level does not necessarily engage in earnings management practices. However, there is a risk of the company facing threats of insolvency due to the high debt level, where earnings management is not the solution employed by the company to avoid this risk (Febria, 2020).
3. Testing the Effect of Company Size (X3) on Earnings Management. The probability value of the independent variable company size is 0.028, which is less than 0.05. The hypothesis is accepted because the test result shows that the independent variable company size has a significant and negative effect on the dependent variable, earnings management. This result indicates that the larger the company size, the more likely it is that management will engage in earnings management. The larger the scale of a company, the stricter the supervision from the government, analysts, and investors. This strict supervision can hinder management from engaging in earnings management practices, as doing so could damage their reputation and credibility (N. A. Sari & Susilowati, 2021).

CONCLUSION

The purpose of this study is to evaluate how company size, profitability, and debt affect

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earnings management. Based on the test results, it can be concluded that although leverage does not have a clear impact on earnings management, profitability and company size do have an impact.

Some limitations that hindered the researcher in conducting this study include the fact that several companies did not present complete financial statements, and the study period focused only on the years 2020-2022.

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