

FACTORS AFFECTING EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES LISTED ON INDONESIAN STOCK EXCHANGE

Syelly Gunawan¹ Sufiyati Sufiyati^{1*}

¹Faculty of Economics & Business, Universitas Tarumanagara, Jakarta - Indonesia
**Email: sufiyati@fe.untar.ac.id*

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ABSTRACT

This research aims to determine the effect of leverage, firm size, profitability, liquidity, information asymmetry, and earnings power on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX) throughout 2018-2020. In this research 171 observational data are used in which obtained from 57 manufacturing companies that have met established criteria, where the samples are selected using purposive sampling technique. The data were calculated and processed using Microsoft Excel 2016 dan EViews 12. This research tested the classical assumption before testing the hypothesis and used the multiple linear regression model method, which the suitable model for this research is Fixed Effect Model (FEM). Leverage, profitability, and earnings power have significant effects on earnings management, while firm size, liquidity, and information asymmetry have insignificant effects on earnings management.

Keywords: *Earnings Management, Leverage, Firm Size, Profitability, Liquidity, Information Asymmetry, Earnings Power, Discretionary Accrual*

1. INTRODUCTION

Financial report is essential for most companies to reflects the company's condition overall. It contains all the information about the company's performance and finance in a certain period, whereas such information are crucial and important to many parties, both internal and external. For internal parties, which is the management team, financial report is used as an evaluation as well as a decision-maker towards the company's performance to establish a strategy for future plans [1]. On the other hand, for external parties such as investor, creditor, or other competitors, financial report is used as an information to analyze the company's financial condition to assess the prospects and future capabilities of the company [2].

The existence of those parties interested in the company's financial report encourages companies to deliver good and proper financial report, which is generally reflected in the amount of profit generated and how these profits are managed by the company. This drives the company to focus on the company's profit and the strategy implementation on managing those profits, which is called earnings management. Earnings management is a strategy that is done by the company's manager as an intervention to the information in the company's financial report [3].

Earnings management is done by the company's manager with the intention of giving a quality information to other parties and fulfill their needs towards the information [4]. Earnings management can be carried out to improve financial reports but can also make the company's financial report appear worse than they should with the main goal for the benefit of the future [4]. Earnings management is done to exhibit its financial report but still within the reasonable limits and still in accordance with the general standard.

According to the previous research, there are plenty of variables that can affect the practice of earnings management in the company. Some of the variables are leverage, capital structure, firm size, earnings power, dividend policy, tax planning, liquidity, profitability, information Asymmetry, good corporate governance, etc [5–9]. However, those variables give different and inconsistent results in each research, therefore this research is expected to offer more information associated with the factors that affected earning management, in which in this research includes leverage, firm size, profitability, liquidity, information Asymmetry, and earnings power.

This research's purpose is to help both internal and external parties to know deeper on what are the factors that are affecting manufacturing companies' earnings management. Thereby, it increases the value in assessing and making decisions on future strategies, either on making strategies or investment decisions.

2. THEORETICAL REVIEW

Agency Theory

Agency theory is a contract or a relationship consisting of one or more people (principals) who delegate the decision-making rights to another party (agent) [10]. In a company, the shareholders or investors act as principals, whereas the company's management as agent. In this case, principals invest their capitals into the company which later will be assisted by the agent. Contracts between principals and agent occur when the shareholders authorize the company's management to make business decisions that can benefit the company, which are then provided as useful information for making those decision. This results in the possibility of unbalance or Asymmetry information between both parties. In addition, this transfer of authority from the principals to the agent might lead to manipulation on the financial report. Managers of the company, with the authorization given and the use of the information Asymmetry obtained from the practice of earnings management, will try to maximize their own profit.

Signalling Theory

Signalling theory is a theory that was first announced by Spence [11], which says that there is a sender as the owner of information giving signal or a hint about the company's condition that is beneficial for the recipient. In this situation, the sender is the company, while the recipient is the investors or the shareholders. In addition to Spence's theory [11], Brigham and Houston [12] conclude that signal theory generates a perception that the signal sent by the company as the sender is a form of hint to the investors about the company's management's point of view and possible actions towards the company's prospect in the future. The signal that is given by the company to the investor could be in the form of information that potrays the company's financial condition or the company's effort in fulfilling and actualizing the company's interest. Therefore, it is very important for companies to pay attention to what signals will be given to the recipient. The signal given is expected to attract shareholders or investors to invest their capital in the company. With this expectation, the company will try to present financial reports with the best quality information. This also encourages the company management to implement earnings management practices.

Earnings Management

Earnings management is an intervention done with a certain purpose in the process of making an external financial report, that is to gain profits that are exclusive and private [12]. Earnings management is the action of a company manager who increases or decreases the profit earned by the company, which is not directly related to changes in the company's long-term profitability [13]. However, those changes on the financial report are still based the accounting standard which is written on the Generated Adopted Accounting Principle (GAAP) [14]. This act raises the pros and cons where earnings management is considered a form of choosing an accounting method that is in accordance with the company's financial condition while on the other hand it is also considered an effort to manipulate data and reduce information in the company's financial reports.

Leverage

Leverage is a ratio that calculates the ability of a company to finance its assets using the company's liabilities [15]. This ratio reflects the amount of debt from external parties that finance the company compared to the total assets owned. According to Fahmi [16], the use of debt that is too high in excess of assets will endanger the company because it falls under extreme leverage, which will cause the company to be trapped in debt. But on the other hand, if leverage is used properly by the company, it can help the company in dealing with failure. H₁: Leverage has a negative effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

Firm Size

Firm size is a scale used to classify how big or small a company is by measuring the total assets, the sales growth, the stock value, etc. [17]. In Ponziani and Azizah's research also clarifies that the size of a company is the reflection of the total asset it has [18]. H₂: Firm size has a negative effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

Profitability

Profitability is a profit ratio that is used to see the company's ability to generate profits during a certain period and how the company operates efficiently. This ratio is used by the company to measure its efficiency in using the company's asset [19]. This ratio also reflects the company's ability to generate profits by utilizing all capabilities and resources owned by the company, namely in the form of sales proceeds, use of assets, or use of capital [20]. H₃: Profitability has a negative effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

Liquidity

Liquidity is a ratio that is used by the company to see the company's ability to fulfill or pay off its financial liabilities which are due or can soon be disbursed [21]. This shows the availability of company funds that can be used to cover existing liabilities. Besides that, Kariyoto [22] stated that liquidity is the company's ability in fulfilling its short-term liabilities, which can be measured by comparing its current assets with its short-term liabilities. With this liquidity ratio,

the company can compare its short-term liabilities with the company's short-term resources, which are available to meet the short-term liabilities.

H₄: Liquidity has a negative effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

Information Asymmetry

Information Asymmetry is a condition where there is an imbalance between the information obtained by the company's management and the information obtained by the shareholders [23]. This unbalance or asymmetric in information occurs when the company's management is the party that have control over the information instead of the investors or the creditors. This leads to the company management having more information compared to what they inform to the investors and creditors. This is also supported by the opinion of Barus and Setiawati [24] who say that information asymmetry is a condition where the manager as an agent has more information than the principal regarding the company's prospects in the future. The existence of these circumstances encourages the company's management to take actions to gain profits for the company by utilizing information that is not known to the principal.

H₅: Information Asymmetry has a negative effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

Earnings Power

Earnings power is the ability of a company to earn or generate profits for the company [25]. When there is a variation in the value of earnings power within the company, it will encourage the company management to take earnings management actions. Earnings power also shows the level of profit that is expected to be achieved in the future, which is used as one of the main factors in evaluating the company [26]. Earnings power shows how the company achieve its profit by utilizing its sources, one of which is the number of total sales of the company. Therefore, this research uses Net Profit Margin as the calculation for earnings power.

H₆: Earnings power has a positive effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

3. METHODS

This research uses descriptive research design, where research is done to see and evaluate every independent variable, either one or more variables, by not making comparisons or connecting with other variables [27]. This research uses panel data consisting of time series data and cross section data which are obtained from data on manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2020 period. Based on the research population, which is all the manufacturing companies listed on IDX in the 2018-2020 period, the samples obtained are 57 manufacturing companies with the total of 171 data observations. The sampling technique used in this research is purposive sampling based on predetermined sample criteria which are: 1) manufacturing companies listed on the Indonesia stock exchange in 2017-2020, 2) companies that have been listed before December 2016, 3) companies that are not suspended / has not been delisted during 2017-2020, 4) companies that earn consecutive profits during 2017-2020, and 5) companies that present financial statements in rupiah currency. The data in this research is managed using Microsoft Excel 2016 and processed using E-Views ver. 12, with the following analysis technique: 1) Descriptive Statistics, 2) Regression Model, 3) F-Test, 4) t-Test, 5) Adjusted R-Squared, 6) Multicollinearity Test, and 7) Heteroscedasticity Test.

Earnings management is the dependent variable of this research, which uses the Discretionary Accruals of the Modified Jones Model as the measurement in accordance with [28]. The formula is as follows:

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

The independent variable of this research is leverage, firm size, profitability, liquidity, information Asymmetry, and earnings power. In measuring the independent variable leverage, this research uses the Debt to Asset ratio. This measurement is based on [29] with the formula as follows:

$$DAR = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Firm size is calculated by logarithm of the total assets of the company, which is in accordance with the research of Purba and Surjandari [30] where the formula is as follows:

$$SIZE = Ln(\text{Total Assets})$$

The independent variable of profitability is calculated by the Return of Assets ratio, which is based on [31] where the formula is as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

Liquidity is measured by calculating the current ratio of the company. This measurement is in accordance with [32] with the formula as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

In measuring the information Asymmetry, this research uses the spread calculation, which is based on the research of Rizki [33] with the formula as follows:

$$SPREAD = \frac{ASK_{it} - BID_{it}}{(ASK_{it} + BID_{it}) / 2} \times 100\%$$

The independent variable of earnings power is calculated by the Net Profit Margin ratio, which is based on [34] where the formula is as follows:

$$NPM = \frac{\text{Net Income After Tax}}{\text{Total Sales}}$$

4. RESULTS

Descriptive Analysis

Descriptive analysis is done with the aim of obtaining an overview data which shown by the average (mean), maximum, minimum, and standard deviation value. This analysis describes every variable that is used as the object of research and to make it easier to interpret the data.

Table 1 below shows the results of descriptive analysis to each of the variables used in this research, both dependent and independent variables.

Table 1 Descriptive Analysis

	EM_Y	LEV_X1	UP_X2	PROF_X 3	LIQ_X4	AI_X5	EP_X6
Mean	0,0000459	0,373381	28,98081	0,086338	5,697614	0,041991	0,103930
Maximum	0,001085	0,783046	33,49453	0,920997	303,2819	0,280488	1,974927
Minimum	-0,001014	0,003453	26,10483	0,000282	0,288899	0,000000	0,000455
Std. Dev.	0,000259	0,173361	1,591664	0,103503	27,88074	0,047780	0,211966

Based on the table above, the explanation of each variable is as follows:

1. Earnings management has an average of -0.00004593 with a standard deviation of 0.000259, which shows that the data spread of earnings management is high. Earnings management has a maximum value of 0.001085 and the minimum value of -0.001014.
2. Leverage has an average of 0.373381 with a standard deviation of 0.173361, which shows that the data spread of leverage is relatively low. Leverage has a maximum value of 0.783046 and the minimum value of 0.003453.
3. Firm size has an average of 28.98081 with a standard deviation of 1.591664, which shows that the data spread of firm size is low. Firm size has a maximum value of 33.49453 and the minimum value of 26.10483.
4. Profitability has an average of 0.920997 with a standard deviation of 0.103503, which shows that the data spread of profitability is relatively high. Profitability has a maximum value of 0.920997 and the minimum value of 0.000282.
5. Liquidity has an average of 5.697614 with a standard deviation of 27.88074, which shows that the data spread of liquidity is high. Liquidity has a maximum value of 303.2819 and the minimum value of 0.288899.
6. Information Asymmetry has an average of 0.041991 with a standard deviation of 0.47780, which shows that the data spread of information Asymmetry does not deviate from the average value. Information Asymmetry has a maximum value of 0.280488 and the minimum value of 0.000000.
7. Earnings power has an average of 0.103930 with a standard deviation of 0.211966, which shows that the data spread of earnings power is relatively high. Earnings power has a maximum value of 1.974927 and the minimum value of 0.000455.

Multicollinearity Test

Multicollinearity test is conducted to test whether in the regression model used in this research there is a correlation between the independent variables. Multicollinearity is tested by evaluating the correlation value between the independent variables, with the condition if the correlation value is less than 0.85, then the regression model is free from multicollinearity. Based on the test result, it is shown that there is no correlation value more than 0.85, hence there is no multicollinearity in the regression model. This result shows that there is no correlation between each of the independent variables.

Heteroscedasticity Test

Heteroscedasticity test is conducted to test whether in the regression model used in this research there is an inequality of variance in the residuals of one observation with another.

Heteroscedasticity is tested using White Test by evaluating the significant value of the independent variables, with the condition if the Prob. Chi-Square value is more than 0.05, then the regression model is free from heteroscedasticity. The test result shows that the significant Prob. Chi-Square value is 0.0598, which is more than 0.05. Hence there is no heteroscedasticity in the regression model. This result shows that the residual variance of one observation and another is the same or equal.

Multiple Linear Regression Analysis

Multiple linear regression analysis is based on the panel data regression model that has been tested using the Chow Test and Hausman Test. Both tests conducted resulting in Fixed Effect Model (FEM) as the panel data regression model, which assumes that every object has consistent amount in every time-period, therefore has a fixed effect. Table 2 shows the result of the test using FEM:

Table 2 Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.003322	0.002138	1.553448	0.1232
LEV_X1	-0.001098	0.000272	-4.030081	0.0001
UP_X2	-9.64E-05	7.48E-05	-1.289732	0.1999
PROF_X3	-0.002776	0.000510	-5.446460	0.0000
LIQ_X4	-1.17E-06	1.01E-06	-1.162624	0.2475
AI_X5	-8.47E-05	0.000244	-0.346946	0.7293
EP_X6	0.000841	0.000280	3.005251	0.0033
Adjusted R-squared		0.319924		
Prob (F-statistics)		0.000080		

Based on the table above, can be generated a multiple regression equation consisting of dependent and independent variables. The equation generated from the table is as follows:

$$\text{Earnings Management (EM)} = 0.003322 - 0.001098 \text{ LEV} - 0.0000964 \text{ UP} - 0.002776 \text{ PROF} - 0.00000117 \text{ LIQ} - 0.0000847 \text{ AI} + 0.000841 \text{ EP} + \varepsilon$$

From the multiple regression equation, it is concluded that the constant coefficient value is 0.003322, meaning that if the independent variables is constant then the value of the dependent variable earnings management is 0.003322 in manufacturing companies listed on IDX throughout 2018-2020. As for the independent variables, it is shown that leverage, firm size, profitability, liquidity, and information Asymmetry has a coefficient value of -0.001098, -0.0000964, -0.002776, -0.00000117, and -0.0000847 consecutively. This means that those independent variables have a negative effect to earnings management. If the value of each independent variable increases one unit, assuming other independent variable is constant, then the value of earnings management value becomes lower. Therefore, the higher the value is, the lower the earnings management value will be. In contrast, earnings power has a coefficient value of 0.000841 which shows a positive effect to earnings management. The higher the value of earnings power, the earning management value will also increase.

F-Test

F Test is conducted to test and measure the significance of the regression equation that is used in the research, as well as knowing the effect of independent variables simultaneously on the dependent variable. The test is done by comparing the Prob. F value with the significant value of 0.05. If the Prob. F is less than 0.05, then the independent variables simultaneously effect the dependent variable. According to test result, it is shown that the Prob. F-statistic value is 0.000080, which is less than 0.05. That is, all independent variables simultaneously effect the dependent variable, meaning leverage, firm size, profitability, liquidity, information Asymmetry, and earnings power simultaneously effect earnings management in manufacturing companies listed on IDX in 2018-2020.

t-Test

t-Test is conducted to test and see the effect of independent variable partially or individually on the dependent variable. The test is done by comparing the probability value of each independent variable with the significant value of 0.05. If the probability value of each independent variable is less than 0.05, then the independent variable individually effects the dependent variable.

Based on the result of the test, leverage and profitability have a significant negative effect on earnings management. On the other hand, earnings power has a significant positive effect on earnings management. This is shown by the probability value, which is less than 0.05, hence the significant effect. However, firm size, liquidity, and information Asymmetry have a probability value that is more than 0.05. This means that firm size, liquidity, and information Asymmetry have an insignificant effect on earnings management.

Adjusted R-Squared

Adjusted R-Squared is coefficient determination test that shows the percentage of changes on the dependent variable causes by the independent variables. The bigger the coefficient determination value, the bigger the percentage of changes on the dependent variable. This percentage also shows how the independent variables explain the dependent variable that is used in the research. In the result it is shown that the adjusted R-squared value is 0.319924, meaning that 31.99% of the dependent variable can be explained by the independent variables that is used in this research, which is leverage, firm size, profitability, liquidity, information Asymmetry, and earnings power. This also means that the rest 68,01% of the dependent variable is explained by other independent variables that is not included in this research.

5. DISCUSSION

The Effect of Leverage on Earnings Management

Based on the result of the t test conducted, the hypothesis regarding the effect of leverage on earnings management is accepted, where leverage has a negative effect on earnings management and the probability value is less than 0.05. Therefore, the independent variable leverage significantly has a negative effect on earnings management in manufacturing companies listed on IDX in 2018-2020. Leverage of a company reflects the amount of debt or liabilities that the company uses to fund their assets and it also shows how dependent a company towards their liabilities. The increase in company's liabilities will increase the

supervision of external parties, especially creditors, on the company's performance. Creditors depends on the company's leverage as one of their consideration whether to lend their money or not. Increased supervision results in companies being limited and inflexible in acting to regulate company finances, including in carrying out earnings management practices. In other words, the increase in leverage will lessen the earnings management practice in the company. The result of this research is in line with the findings of Widjaja and Susanto (2021), where leverage has a significant negative effect on earnings management. However, this result contrary with the findings from Purnama and Taufiq (2021), Rosalita (2021), and Habibie and Parasetya (2022), because it shows that leverage has a significant positive effect on earnings management [32, 34]. Meanwhile, according to the research of Jennifer and Sudirgo (2020), Merchellina and Firnanti (2021), and Chandra and Djashan (2018), leverage has an insignificant effect on earnings management [29, 31].

The Effect of Firm Size on Earnings Management

Based on the result of the t test conducted, the hypothesis regarding the effect of firm size on earnings management is rejected, where firm size has a negative effect on earnings management and the probability value is more than 0.05. Therefore, the independent variable firm size insignificantly has a negative effect on earnings management in manufacturing companies listed on IDX in 2018-2020. Firm size of a company does not affect the company's decision on carrying out earnings management practice [30]. This is because every company regardless of its size will tend to do the earnings management practice. This opinion in line with ther research of Purba and Surjandari (2021) and Chandra and Djashan (2018). The firm size itself can be measured with various of measurment and calculation, and those measurment is not significant because the company tends to focus on other measurment rather than the firm size. On the other hand, this result is contrary with the research of Nurkholik and Fitriyanti (2021), and Putri et al. (2020), because it shows that firm size has a significant positive effect on earnings management, while the research of Rizki (2021) results in firm size has a significant negative effect on earnings management [5, 33].

The Effect of Profitability on Earnings Management

Based on the result of the t test conducted, the hypothesis regarding the effect of profitability on earnings management is accepted, where profitability has a negative effect on earnings management and the probability value is less than 0.05. Therefore, the independent variable profitability significantly has a negative effect on earnings management in manufacturing companies listed on IDX in 2018-2020. The increase in profitability of a company is marked by the increase of its profit. The increase in profitability shows that the company can manage the profit that has been generated and increase it even more. This also shows the company's ability to organize its profit, whether cost efficiency or increase in sales. This resulting in company to not do the practice of earnings management because the company can manage the profit by themselves and generate profits based on their plans and estimations. This result in line with the findings of Rizki (2021), where profitability has a significant negative effect on earnings management [33]. On the other hand, Jennifer and Sudirgo (2020), Monica and Sufiyati (2019), and Rosalita (2021) stated that profitability has a significant positive effect on earnings management [31-32] whereas Asyik (2020) and Widjaja and Susanto (2021) stated that profitability is insignificant towards earnings management.

The Effect of Liquidity on Earnings Management

Based on the result of the t test conducted, the hypothesis regarding the effect of liquidity on earnings management is rejected, where liquidity has a negative effect on earnings management and the probability value is more than 0.05. Therefore, the independent variable liquidity insignificantly has a negative effect on earnings management in manufacturing companies listed on IDX in 2018-2020. The liquidity of a company shows how much the current asset that the company have to pay off the debts. High liquidity indicates that the company holds a high value in its current assets, which is obtained from its operational turnover in the form of profit. However, the liquidity value does not directly affect earnings management. Changes in current assets and current liabilities owned by the company have no relationship with the company's decision to implement earnings management practices. This also means that liquidity is not a determining factor for companies to implement earnings management practices. This opinion is the same as the opinion of Wibowo and Herawaty (2018) and Habibie and Parasetya (2022). On the other hand, Putri et al. (2020) states that liquidity has a significant positive value on earning management, while Paramitha and Idayati (2020) states that it has a significant negative value [7].

The Effect of Information Asymmetry on Earnings Management

Based on the result of the t test conducted, the hypothesis regarding the effect of information Asymmetry on earnings management is rejected, where information Asymmetry has a negative effect on earnings management and the probability value is more than 0.05. Therefore, the independent variable information Asymmetry insignificantly has a negative effect on earnings management in manufacturing companies listed on IDX in 2018-2020. The unbalance or asymmetric information between the company's management and the investors cannot be the measurement of earnings management practice in a company. This is considered because the profits obtained by managers from information asymmetry are not so significant compared to the profits obtained from the company's operations and investment activities. That way, the company focuses more on its operations and investment activities, rather than the information Asymmetry. These findings are in line with Jennifer and Sudirgo (2021) and Rizki (2021), where information Asymmetry does not affect the earnings management practice in a company [31, 33]. In contrast, Yando and Lubis (2018) stated that information Asymmetry has a significant positive effect on earnings management [8].

The Effect of Earnings Power on Earnings Management

Based on the result of the t test conducted, the hypothesis regarding the effect of earnings power on earnings management is accepted, where earnings power has a positive effect on earnings management and the probability value is less than 0.05. Therefore, the independent variable earnings power significantly has a positive effect on earnings management in manufacturing companies listed on IDX in 2018-2020. Based on the research of Loen (2022), which findings are in line with the test results, the increase in earnings power reflects the increase in the company's ability to generate profits. The increase encourages the company to do the earnings management practice by modifying the profit by using income increasing accrual or income decreasing accrual with the purpose of postponing the company's good performance. On the other hand, Pahmi (2018) stated that earnings power has a significant negative effect on earnings management, whereas Purnama and Taufiq (2021) stated that earnings power is insignificant to earnings management [5, 34].

6. CONCLUSION

In the process of analyzing the data, this research uses descriptive statistic analysis and multiple linear regression model. Based on the multiple linear regression analysis, the F test resulting in all the independent variables simultaneously effect earnings management. Meanwhile, the result of the coefficient determination test (adjusted R-squared) is that the independent variables can briefly explain the dependent variable of the research. Also, classical data assumption test was conducted and showed that there is no multicollinearity and heteroscedasticity in the data. The conclusion of this research is leverage and profitability significantly has a negative effect on earnings management in manufacturing companies listed on IDX in 2018-2020. On the other hand, earnings power significantly has a positive effect on earnings management in manufacturing companies listed on IDX in 2018-2020. Besides that, firm size, liquidity, and information Asymmetry shows that the effect on earnings management is insignificant.

Regarding the implication of this research, practically this research can be used by future investors and the company's management as an additional information in decision-making. This research can also be used as a strategy to manage company's profit. However, this research has several limitations as follows: 1) this research contains limited independent variables, 2) the subject of this research only focuses on manufacturing companies, 3) the period of this research is only three years. In order to be more relevant, future researches can use other independent variables that is not used in this research. Also, it is suggested that this research can be conducted on other industries and extended the period of research. Hopefully this research can be helpful and implemented in understanding earnings management.

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