The effect of financial characteristics on earnings management moderated by corporate governance*

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ABSTRACT

The case for earnings management has often been made by companies that aim to improve company performance. The concept of Good Corporate Governance is applied to reduce various risks in earnings management, therefore, this study aims to empirically test whether there is an effect of profitability leverage and free cash flow on earnings management, as well as whether good corporate governance approached by self-assessment can moderate the effect of leverage, profitability, and free cash flow on earnings management in state-owned enterprises. The data used is secondary data from the Indonesian stock exchange and the company's website. The population of this study is state-owned companies listed on the Indonesian Stock Exchange in 2013-2019. The data analysis technique used moderated regression analysis. The results showed that leverage and free cash flow influenced earnings management, while profitability has no effect on earnings management and self-assessment can moderate the effect of leverage on management and self-assessment cannot moderate the effect of profitability and free cash flow on earnings management.

KEYWORDS

Leverage; profitability; free cash flow; earnings management; self-assessment.

JEL CLASSIFICATION

M41; G38

CONTENT

Introduction; 1. Library Overview; 2. Research Methodology; 3. Results of Research and Discussion; 4. Conclusion; Bibliography

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* This article arises from the author's desire to obtain evidence on the subject. The case of earnings management has often been carried out by companies that aim to improve company performance. The concept of Good Corporate Governance (GCG) which is proxied by self-assessment is applied to reduce various risks in earnings management. This paper is the result of fundamental research on earnings management, self-assessment as a moderating variable in state-owned companies on the Indonesian stock exchange. The research was conducted with funding from the Institute for Research and Community Service, Universitas PGRI Madiun for the period 2020.

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El efecto de las características financieras en la gestión de resultados moderado por el gobierno corporativo

RESUMEN

El caso de la gestión de resultados a menudo ha sido presentado por empresas que tienen como objetivo mejorar el rendimiento de la empresa. El Buen Gobierno Corporativo se aplica en aquellas compañías que quieren reducir diversos riesgos en la gestión de ganancias. Este artículo tiene como objetivo evaluar empíricamente si existe un efecto del apalancamiento, la rentabilidad y el flujo de caja libre sobre la gestión de ganancias, así como si un buen gobierno corporativo abordado por la autoevaluación puede moderar el efecto del apalancamiento, la rentabilidad y el flujo de efectivo libre en la gestión de ganancias en las empresas estatales. Los datos utilizados son datos secundarios de la bolsa de valores de Indonesia y del sitio web de la empresa. La población de este estudio son empresas estatales que cotizan en la Bolsa de Valores de Indonesia en 2013-2019. La técnica de análisis de datos utilizó un análisis de regresión moderada. Los resultados mostraron que el apalancamiento y el flujo de caja libre tuvieron un efecto en la gestión de ganancias, mientras que la rentabilidad no tiene ningún efecto en la gestión de ganancias y la autoevaluación puede moderar el efecto del apalancamiento en la gestión y la autoevaluación no puede moderar el efecto de la rentabilidad y el flujo de caja libre en la gestión de ganancias.

PALABRAS CLAVE

Apalancamiento; rentabilidad; flujo de caja libre; administración de ganancias; autoevaluación.

CLASIFICACIÓN JEL

M41; G38

CONTENIDO

O efeito das características financeiras sobre a administração dos lucros moderado pelo governo coorporativo

RESUMO

A administração dos lucros tem sido defendida pelas empresas pela sua capacidade de contribuir na melhoria do desempenho das mesmas. O conceito de Bom Governo Coorporativo é aplicado para reduzir os riscos na administração das empresas, portanto, esta pesquisa tem como objetivo aprovar empiricamente se existe um efeito da alavancagem dos lucros e o fluxo de caixa livre sobre a administração de lucros, assim como aprovar se um bom governo coorporativo focado a partir da auto-avaliação pode moderar o efeito da alavancagem, da rentabilidade e do fluxo de caixa livre nas empresas estatais. Os dados utilizados são dados secundários da bolsa de valores da Indonésia e do site dessa mesma empresa entre 2013 e 2019. A técnica de análise dos dados utilizada foi a análise regressivo. Os resultados mostraram que a alavancagem e o fluxo de caixa livre tiveram um efeito sobre a administração dos lucros e a auto-avaliação pode moderar o efeito da alavancagem na administração dos laboratórios e a auto-avaliacao não pode moderar o efeito da rentabilidade sobre o fluxo de caixa livre na administração dos lucros.

PALAVRAS CHAVE

Alavancagem; rentabilidade; fluxo de caixa livre; administração de lucros; auto-avaliação.

CLASSIFICAÇÃO JEL

M41; G38

CONTEÚDO

INTRODUCTION

This study aims to provide empirical evidence of the effect of leverage, profitability, and free cash flow on earnings management in the presence of good corporate governance proxied by self-assessment as a moderating variable with samples of state-owned companies listed on the Indonesian Stock Exchange (IDX) in 2013-2019. Companies were founded with various purposes, one of which is for profit. Managers in companies use an accrual basis in preparing financial reports to achieve the desired targets. The condition of the company that has not reached the management target uses accounting standards by modifying earnings in the financial statements to make it look good and get maximum profit. Thus management uses an accounting method that informs financial statements well, called earning management, (Mahawyahrti & Nyoman, 2016). Agency theory states that managers as agents know more internal information about the company than the principal, so managers must provide information about the condition of the company to the owner. The information submitted by the manager is not in accordance with the actual conditions of the company because it tends to report something that maximizes its utility. This situation is known as information asymmetry which can provide opportunities for managers to practice earnings management.

Companies can use leverage for smooth operations. This can be done by looking at how many obligations the company can fulfill. Companies that are financed with debt can be measured using the leverage ratio (Kasmir, 2019). The large ratio between debt and equity owned makes companies tend to violate debt covenants in which the agreement has certain benefits and advantages. Besides, higher earnings in accounting methods also tend to be selected and used by the company (Sulistyanto, 2008).

Research by Ardison et al., (2012) shows that the opportunity for profit management will be higher when the leverage or corporate debt will be high. That way managers report earnings not following reality. In contrast to the research above, that leverage does not affect earnings management. The amount of debt will make investors more careful in monitoring the performance of managers In order to decrease the motivation to perform earnings management.

Profitability is a benchmark for getting benefits and the level of effectiveness (Kasmir, 2019). The high return on assets in the company will increase the profit income. Company performance measures are used to measure earnings. Brigham & Houston (2009) and Oktasari (2020) explain the effect of profitability on earnings management. The greater the profit the company gets, the more influential it will be on investors in predicting the risks that occur and so that investors are more confident in investing This result is contrary to Jogiyanto & Hartono's (2013) research which shows that profitability does not affect earnings management. Companies with high or low profitability will not affect the level of earnings management. This is because the Return On Assets (ROA) information in the company is often ignored by investors so that the opportunity to carry out profit management does not occur in company profits (Oktasari, 2020).

Earnings management can be influenced by the existence of free cash flow. Subramanyam (2017) also explained that the amount of cash available for business activities after the provision for investment funding is a reflection of positive free cash flow. It aims to maintain current production capacity and future production capacity. The amount of free cash flow in doing business reflects a healthy company. This is because the company uses cash flow for growth, debt payments and dividends. This is supported by Cardoso, Martines & Teixeira (2014) and Nekhili, et al. (2016), who show that free cash flow affects earnings management. On the other hand, Rusmin et al. (2014) research results state that free cash flow does not affect earnings management. Investors want a good life in business so that they are right in making decisions by enhancing good corporate governance in the company. The concept of good corporate governance or what is called Good Corporate Governance (GCG) is applied to reduce various risks to earnings management. In GCG, there are principles, namely: transparency, accountability, responsiveness, independence, and the achievement of business continuity by observing stakeholders, thus, there is a need for equality and fairness in it. The implementation of GCG in BUMN companies[1] is regulated in the ministerial regulation Number SK-16 / S. MBU / 2012 concerning Indicators of Assessment and Evaluation of Good Corporate Governance in BUMN companies, which is measured annually by BUMN (self-assessment) which applies an assessment from internal parties or assisted by government agencies that play a role in GCG assessment. The implementation of GCG in BUMN aims to measure the quality of GCG and provide a score and improve the quality of the implementation of corporate governance, in order to observe the implementation of governance in the company environment and see if it can develop every year or not, and spot weaknesses that need to be improved or developed for increasing the assessment score.

1. LITERATURE REVIEW

1.1 Agency Theory

Agency theory is a theory that originated from financial economics in which a company consists of a contractual relationship between the company owner and the manager (Sochib, 2016), (McConnell & Servaes, 1995), (Alonso et al., 2005). This theory explains

[1] By its Indonesian acronym: Badan Usaha Milik Negara (BUMN)

that when management is given the trust by investors and the owner of the company to manage the company and make decisions, an agency relationship emerges.

1.2. Earning management

The process of preparing financial statements involves external interference to make a profit. This action is called earnings management, in which the party does not agree to obtain personal benefits which are intended to finance operations that are not related to a process. To look good to investors, the performance that is carried out in the company can be influenced by a Schipper manager (Sulistyanto, 2008).

1.3. Leverage

Companies can use leverage for smooth operations. This can be done by seeing how much current or non-current liabilities are which can be fulfilled with the company's capabilities. Companies that are financed with debt can be measured using the leverage ratio (Kasmir, 2019). One of the causes of liquidity is the company's debt which is at extreme leverage. Extreme leverage is debt owed by the company which is in the category of endangering the company itself (Basir & Muslih, 2019). Compared to companies that have low leverage, companies with high leverage will tend to violate debt covenants. The large ratio between debt and equity owned makes companies tend to violate debt covenants in which the agreement has certain benefits and advantages. Besides, higher earnings in accounting methods also tend to be selected and used by the company (Sulistyanto, 2008).

1.4. Profitability

A company can use the profitability ratio to measure its ability to seek profit and the level of management effectiveness (Kasmir, 2019). The profit generated by the company becomes a benchmark for company performance, if the profit or profit that the company gets is high, it means that the company's performance is declared good and vice versa. According to Amelia & Hernawati (2016) earnings management is influenced by profitability because earning a profit is the ultimate goal of the company. To measure the resulting profit, companies use profitability ratios. The bigger profits the company has the greater the will of investors to invest.

1.5. Free Cash Flow

Withdrawal of company cash that is used for operations in the next year without endangering the company. This can be called Free Cash Flow (FCF) in a company

(Brigham and Houston, 2010). Other than that, Subramanyam (2017) also explained that the amount of cash available for business activities after the provision for investment funding is a reflection of positive free cash flow. It aims to maintain current production capacity and future production capacity. For Basir & Muslih (2019) there is a need for reinvestment, acquiring asset purchases, debt repayment, and payment of dividends to the company using cash flow. That cash is involved in the FCF concept. The amount of free cash flow in doing business reflects a healthy company. This is because the company uses cash flow for growth, debt payments, and dividends. The low free cash flow of a company means that the company is not healthy, so it cannot be used for company growth, debt repayment and company dividends (Puspitasari, Diana, & Cholid, 2019).

1.6. Self-assessment

All company stakeholders can be given additional value using a system where the company can be managed and controlled by the system. This system is called good corporate governance (Sulistyanto, 2008). Two rights must be prioritized by companies in the concept of good corporate governance. These rights are the rights of shareholders in which all information can be obtained precisely and accurately without exception by shareholders and obligations that must be fulfilled by the company, which means that all information regarding the company's performance must be properly reported by the company and the company must be responsible with appropriate information.

According to Sulistyanto (2008) fairness, transparency, accountability and responsibility are the four principles contained in good corporate governance. By applying these principles, a healthy, clean, and responsible business will be realized. The basis for good corporate governance can run well if the company implements a corporate system that includes independent commissioners and audit committees. The implementation of GCG in BUMN companies is regulated in the ministerial regulation SK-16/S.MBU/2012 concerning Indicators of Assessment and Evaluation of Good Corporate Governance in BUMN companies (State Owned Enterprises) which is measured annually by BUMN (self-assessment) with the implementation assessment from internal parties or can ask for the assistance of government agencies that have a role in GCG assessment.

1.7. Hypothesis Development

The amount of debt in a company will result in earnings management actions. Earnings management is performed by company management so that the company is seen as a good company by shareholders. The company will be threatened with default if it has high financial leverage. This means that the company cannot fulfill its obligation to pay debts on time. This results in less oversight of management so that decisions can be made by management itself and strategies that are detrimental to the company can be determined (Setiawati et al., 2019).

The benefits obtained by shareholders from the investment and the prospects for future companies can be seen and assessed using profitability. According to Widyaningrum et al. (2018) so that the company's performance is seen well by shareholders, a manager can carry out earnings management in the company. This can be influenced by the low profitability of the company. The higher the level of profitability, the higher the probability of earnings management action, on the other hand, the lower the profitability, the lower the probability of the earnings management action.

Good profit and performance in an enterprise can be described through high free cash flow. Large profits can describe how the company will keep improving. This is due to the high cash owned by the company's performance in the coming period. Investments occur due to the high free cash flow of a company (Widyaningrum et al., 2018). The low free cash flow owned by the company results in investments made by other companies. The investment is aimed at companies that do not have a positive NPV because the company's competence can decrease, with this, the manager manages the accrual discretionary to cover poor company performance according to Chung et al., (2005).

Initial funds that are in fixed expenses are called financial leverage. The company hopes that the source of funds will be able to provide greater additional benefits. It aims to increase the profit that shareholders have. Earnings management measures can be enhanced with high leverage. It is used to maintain company performance on earnings management (Setiawati et al., 2019).

Earnings management actions result in a lack of supervision. An agent who does not fulfill the wishes of the principal will cause the occurrence of a conflict within a company. To avoid this conflict, the company can use GCG to resolve it (Setiawati et al., 2019).

The profitability that the company has is in the form of profit or gained over a certain period. The company will act in a profit management manner when the company's profits decline so that the company's performance will still be viewed favorably by the shareholders. With the implementation of GCG in the company, earnings management can be minimized. That way the company will report the financial statements according to the actual situation.

In free cash flow, there will be a conflict between the shareholder and the manager who has their interests. The conflict is in the form of differences of opinion between the agent and principal when free cash flow is high. In this case, the future operations of the company use the free cash flow advantage that company managers want (Setiawati et al., 2019). Conversely, stock owners want the profits from free cash flow to be shared so that it will increase their profits. The implementation of GCG is to reduce conflicts between managers and shareholders by providing alignment of relationships between stakeholders so that the company can be directed and controlled. Besides, according to Setiawati et al. (2019) companies can reduce profit manipulation using GCG.

Based on the description above, the research hypothesis is stated as follows

H1: Leverage affects earnings management.

H2: Profitability affects earnings management.

H3: Free cash flow affects earnings management.

H4: Self-assessments moderates the effect of leverage on earnings management.

H5: Self-assessments moderates the effect of profitability on earnings management.

H6: Self-assessments moderates the effect of free-cash-flow on earnings management.

2. RESEARCH METHODOLOGY

2.1 Data, Population, and Sampling

This type of research is a quantitative study using secondary data in the form of annual financial reports which are downloaded from www.idx.co.id. Apart from these sites, researchers can also see the website of each company. The population of this study is state-owned companies listed on the IDX for the period 2013-2019. The sampling technique used was purposive sampling.

2.2 Definition and Measurement of Research Variables

1. Earning management

Earning management is the dependent variable. It is used in this study where these variables are proxied using discretionary accruals. In this case, the total accrual value (TAC) is used to calculate which one, between accounting profit during one period and operating flow, has decreased. The following is the formula used for calculating it:

$$\text{TAC} = \textit{Net income} - \textit{Cash Flows from operations}$$

Meanwhile, non-discretionary accruals (NDA) can be calculated using the Healy model. The Healy model is a method for calculating it by dividing the average accruals (TAC) by the total assets of the previous period. The calculation uses the formula below:

$$NDA_t = \frac{TAit}{Ait - 1} \tag{1}$$

Description:

EDAit = Estimated accruals managed for period t

TA it = Total accrual for period t

Ait- 1 = Total assets for period t-1

2. Leverage

Companies experiencing difficulties in paying their debts on time will be threatened with default (Mahawyahrti & Nyoman, 2016). To solve this problem, companies can compare the total debt and total assets contained in the DAR (Debt On Asset Ratio) measurement tool used in leverage. The formula for the Debt on Asset Ratio that can be used for calculating it can be seen below:

$$\textit{Debt On Asset Ratio} = \frac{\textit{Total Count}}{\text{Total Assets}} \tag{2}$$

3.Profitability Ratio

The profitability ratio can be seen with the ROA (return on assets), where the net income on total assets can be used for measuring company performance. Researchers use the formula below which is contained in the ROA to measure the profitability of the company.

$$\textit{Return on assets} = \frac{\textit{Net Profit}}{\text{Total Assets}} \tag{2}$$

4. Free cash flow

After fulfilling all operational activities to maintain company performance and company profits, a company will get cash flow which is called free cash flow. According to Ross et al. (1999),the formula below is the formula for a ratio scale that can be used to calculate free cash flow. The formula is:

$$Free\ cash\ flow = \frac{AKO\text{-}PM\text{-}MK}{\text{Total Assets}} \tag{4}$$

Information :

AKO = Flow cash operation company

PM = Expenditures capital clean company

MK = Capital work clean company

5. Self-Assessment

In this study, the moderating variable used is self-assessment, which is calculated using the BUMN company index. The index is the value of good corporate governance which is assessed using self-assessment. The assessment, with the help of the corporate governance party or the assessment itself, can be used in the self-assessment. Also, items in the self-assessment are disclosed in PER-01/MBU/2011 in which the item is about the implementation of good governance in state-owned companies (BUMN).

2.3. Data analysis technique

The data analysis technique in this study was carried out in several stages, namely:

1. Descriptive Statistics Test.
2. Classical Assumption Test which consists of a normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.
3. Multiple linear regression test.
4. Moderated regression analysis test.
5. Hypothesis testing consisting of t-test and determination coefficient test (R2).

3. RESULTS OF RESEARCH AND DISCUSSION

In this section, we will explain the results of the analysis of the effect of leverage profitability and free cash flow on earnings management with good corporate governance as a moderating variable.

3.1. Descriptive statistics

Table 1. Descriptive Statistical Test Results

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Leverage	86	.04	.84	.5362	.19116
Profitability	86	-.12	.21	.0413	.05964
FCF	86	-.54	.34	-.0490	.17753
Earnings Management	86	-.13	.23	-.0028	.06511
Valid N (listwise)	86				

Source: own elaboration.

Based on the descriptive statistics table above, it can be seen that the amount of data on each variable of leverage, profitability, FCF, and earnings management is 86.

a. The leverage variable has the smallest value of 0.04, the largest value is 0.84, an average value of 0.5362, and a standard deviation value of 0.19116.
b. The profitability variable has the smallest value -0.12, the largest value is 0.21, the average value is 0.0413 and the standard deviation value is 0.05964.
c. The FCF variable FCFhas the smallest value of -0.54, the largest value of 0.34, the average value of -0.0490, and the standard deviation value of 0.17753.
d. The earnings management variable has the smallest value -0.13, the largest value is 0.23, the average value -, 0028, and a standard deviation value of 0.06511.

3.2. Classic assumption test

3.2.1 Normality test

Table 2. Kolmogorov-Smirnov Normality Test Results

		Unstandardized Residual
N		86
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.05289088
Most Extreme Differences	Absolute	.103
	Positive	.076
	Negative	-.103
Kolmogorov-Smirnov Z		.952
Asymp. Sig. (2-tailed)		.325

a. Test distribution is Normal.

Source: own elaboration.

Based on table 2 above, it can be seen that the Asymp. Sig. value (2-tailed) is 0.325 greater than the significance level of 0.05 (0.325> 0.05). It can be concluded that the data used in this study were normally distributed.

3.2.2 Autocorrelation Test

Table 3. Autocorrelation Test Results

Model	*Durbin-Watson*
1	1.833

a. Predictors: (Constant), FCF, leverage, profitability
b. Dependent Variable: earnings management

Source: own elaboration.

Based on table 3 above, the Durbin-Waston value is 1.833. The value of DL = 1.5780 and DU 1.7221

$$\text{Du} < d < 4\text{-Du } 1.7221 < 1.833 < 2.2779 \quad [5]$$

The conclusion is that there is no autocorrection in the regression model equation of the study.

3.2.3 Multicollinearity Test

Table 4. Multicollinearity Test Results

Model	*Collinearity Statistics*	
	Tolerance	VIF
(Constant)		
Leverage	.839	1.192
Profitability	.825	1.212
FCF	.956	1.047

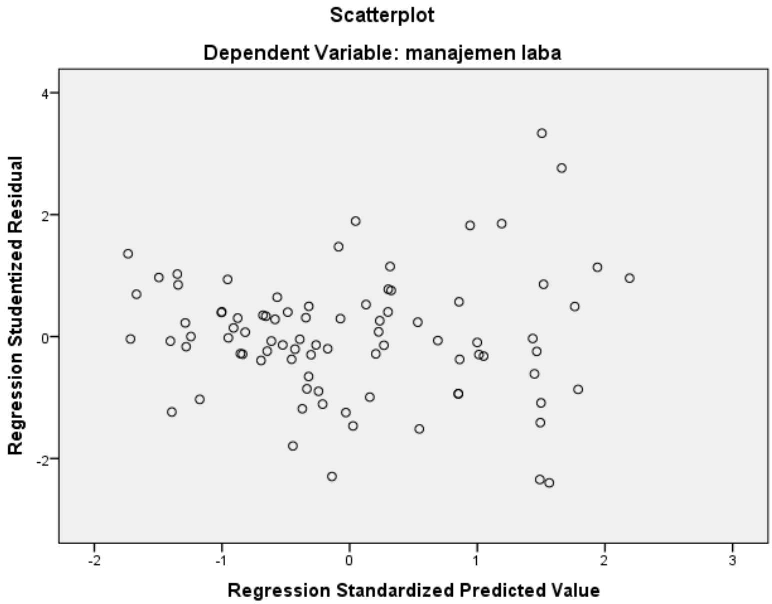
a. Dependent Variable: earnings management

Source: own elaboration.

Based on table 4 above, the acquisition of each independent variable has a Tolerance value > 0.10 and a VIF value < 10. It can be concluded that in this study there was no multicollinearity between the independent variables.

a. Heteroscedasticity Test

Figure 1. Heteroscedasticity Test Results



Source: own elaboration.

Based on figure 4.1 above, the dots are not in the form of a clear pattern and spread evenly under or above the 0 on the y-axis. This figure shows that the data used in this study do not cause heteroscedasticity.

3.3. Multiple Linear Regression Analysis

Table 5. Multiple Linear Regression Analysis Test Results.

Model		*Unstandardized Coefficients*		*Standardized Coefficients*
		B	*Std. Error*	*Beta*
1	(Constant)	-. 080	. 021	
	Leverage	. 112	. 033	. 329
	Profitability	. 181	. 108	. 166
	FCF	-. 189	. 034	-. 514

Source: own elaboration.

Based on table 5 above, the regression equation is obtained:

$$Y = -0.080\ a + 0.112\ \text{leverage} + 0.181\ \text{profitability} - 0.189\ \text{FCF} + e \quad [6]$$

The regression equation that has been obtained above can be interpreted as follows:

The constant of the regression equation is -0.080, meaning that if the three variables of leverage, profitability, and FCF or their changes are equal to zero, then earnings management is -0.080. The regression coefficient of the leverage variable is 0.112. This shows that every one-unit increase in the leverage variable will be followed by an increase in earnings management of 0.112. Conversely, every one-unit decrease in the leverage variable will be followed by a decrease in earnings management of 0.109. The regression coefficient of the profitability variable is 0.181. This indicates that every one-unit increase in the profitability variable will be followed by an increase in earnings management of 0.181. Conversely, every one-unit decrease in the profitability variable will be followed by a decrease in earnings management of 0.

3.4. Moderated Regression Analysis (MRA) Test

Table 6. Moderated Regression Analysis (MRA)

Model		*Unstandardized Coefficients*	*Standardized Coefficients*	
		B	*Std. Error*	*Beta*
1	(Constant)	. 376	. 317	
	Leverage	-. 972	. 460	-2.853
	Profitability	-. 742	. 606	-. 680
	FCF	-. 348	. 533	-. 949
	Self assessment	-1.591	1.093	-. 180
	leverage * Self-assessment	3.767	1.592	3.212
	profitability * Self-assessment	3.204	2.007	. 882
	FCFFCF * Self-assessment	. 522	1.846	. 408

a. Dependent Variable: earnings management

Source: own elaboration.

Based on table 4.7 above, the regression equation is obtained:

Y = 0.376 a - 0.972 leverage - 0.742 profitability - 0.348 FCFFCF + 3.767 leverage * Self-assessment + 3.204 profitability * Self-assessment + 0.522 FCFFCF * Self-assessment + e [7]

The regression equation that has been obtained above can be interpreted as follows:

The constant of the regression equation is 0.376, which means that if the three variables of leverage, profitability, and FCF or the changes are equal to zero, then earnings management is equal to 0.376. The regression coefficient of the leverage variable * Self-assessment is 3.767. This shows that every one-unit increase in the leverage variable * Self-assessment, will be followed by an increase in earnings management of 3,767. Conversely, every one-unit decrease in the leverage variable * Self-assessment, will be followed by a decrease in earnings management of 3,767. The regression coefficient of the profitability variable * Self-assessment is 3.204. This shows that every one-unit increase in the profitability variable will be followed by an increase in earnings management of 3.204. Conversely, every one-unit decrease in the profitability variable will be followed by a decrease in earnings management of 3.204. The regression coefficient of the variable FCF * Self-assessment is 0.522. This shows that every one-unit increase in the FCF * Self-assessment variable will be followed by an increase in earnings management of -0.522. In contrast, every one-unit decrease in the FCF * Self-assessment variable will be followed by a decline in earnings management of -0.522.

3.5 Hypothesis testing

3.5.1 Statistical test t

Table 7. Statistical Test Results for t Multiple Linear Regression

Model	T		*Sig.*
1	(Constant)	-3.798	. 000
	Leverage	3.358	. 001
	Profitability	1.679	. 097
	FCF	-5.605	. 000

a. Dependent Variable: earnings management

Source: own elaboration.

Based on table 7 can be interpreted as follows:

1. The leverage variable has a t count of 3.358 and a t table of 1.989 so that t count > t table. The significant value is 0.001 < 0.05. This shows that leverage affects earnings management, thus H1 is accepted. Currently, there are many

regulations and supervision from regulators regarding dysfunctional behavior. Therefore, management remains reluctant to practice earnings management even though the company's liabilities are high. Currently, access to find information on a company is also easy so the reputation of management and the company is at stake when management takes deviant actions. Reputation is believed to be more important than the company's financial fluctuations.

2. The profitability variable has a t count of 1.169 and a t table of 1.989 so that t count < t table. The significant value is 0.097 > 0.05. This shows that profitability does not affect earnings management, thus H2 is rejected. Companies with high profits do not practice income smoothing by lowering the level of profit. Companies today tend to act carefully in managing their earnings and tend to manage profits as efficiently as possible. This is because there are many regulatory bodies and regulations to oversee dysfunctional acts.

3. The free cash flow (FCF) variable has t count -5.605 and t table of 1.989 so t count > t table. The significant value is 0.000 < 0.05. This shows that free cash flow (FCF) does not affect earnings management, thus H3 is accepted. Companies with high free cash flow tend not to do earnings management. Investors believe the company has excess cash for dividend distribution and has no effect on stock prices.

3.5.2 MRA t statistical test

Table 8. MRA Statistical Test

Model	T		*Sig.*
1	(Constant)	1.185	.240
	Leverage	-2.114	.038
	Profitability	-1.225	.224
	FCF	-. 653	.516
	Self-assessment	-1.457	.149
	leverage * Self-assessment	2.366	.020
	profitability * Self-assessment	1.597	.114
	FCF * Self-assessment	. 283	.778

a. Dependent Variable: earnings management

Source: own elaboration.

Table 8 can be interpreted as follows:

1. The leverage variable * Self-assessment has a t count of 2.366 and a t table of 1.989 so t count > t table. The significant value is 0.020 <0.05. This shows that Self-assessment moderates the effect of leverage on earnings management, thus H1 is accepted.

2. The profitability variable * Self-assessment has a t count of 1.597 and a t table of 1.989 so that t count < t table. The significant value is 0.114> 0.05. This shows that Self-assessment does not moderate the effect of profitability on earnings management, thus H2 is rejected.

3. The variable free cash flow * Self-assessment has a t count of 0.283 and a t table of 1.989 so t count > t table. The significant value is 0.778> 0.05. This shows that Self-assessment does not moderate the effect of free cash flow on earnings management, thus H3 is rejected.

3.5.3 Coefficient of Determination (R2)

Table 9. The Result of Determination Coefficient Test

Model	R	R *Square*	*Adjusted* R *Square*
1	.583a	.340	.316

a. Predictors: (Constant), FCF, leverage, profitability
b. Dependent Variable: earnings management

Source: own elaboration.

Based on table 9 above, it can be seen that the Adjusted R Square has a value of 0.316. This means that the percentage of independent variables (leverage, profitability, and free cash flow) that affect the dependent variable (earnings management) is 31.6 %, then the remaining 68.4 % is explained by other variables outside the research variables.

4. CONCLUSION

This study succeeded in finding that, first, leverage affects earnings management. The results of this study are supported by research conducted by Herlambang & Roy (2017) which states that leverage affects earnings management. This explains that companies that have a high debt value will improve the company's performance. If the increase in company performance is not in accordance with the company's wishes, it will impose opportunistic actions that encourage managers to take earnings management actions by reporting financial statements that are not in accordance with current circumstances.

Second, profitability does not affect earnings management. The results of this study are supported by research conducted by Jogiyanto & Hartono (2013) which states that profitability does not affect earnings management. This means that the high and low profitability of the company will not affect earnings management. Because investors always ignore information about ROA, there is no reason to do earnings management.

Third, that free cash flow affects earnings management. The results of this study are supported by research conducted by Cardoso, Martines & Teixeira (2014) and Nekhili, et al., (2016) which states that free cash flow affects earnings management. This means that low free cash flow will increase earnings management actions. In contrast to the research of Rusmin et al., (2014) which states that free cash flow has no effect on earnings management. This proves that free cash flow is the most important part of the company. With high cash flow earnings, management action will not occur because the company has a lot of cash to distribute dividends.

Fourth, good corporate governance moderates the effect of leverage on earnings management. After being moderated, good corporate governance can modify the effect of leverage on earnings management. The result of this study is in line with research conducted by Muhsin & Fadli (2019) which shows that good corporate governance can moderate the effect of leverage on earnings management. This means that good corporate governance in the company goes well so that it can reduce earnings management actions.

The fifth conclusion is that self-assessment does not moderate the effect of profitability on earnings management. The results of this study are in line with the research conducted by Mawati et al. (2017) which shows that good corporate governance cannot moderate profitability in earnings management. This proves that the low profitability of the company's earnings management actions are carried out by high management, so that good corporate governance cannot minimize earnings management actions in the company.

The sixth conclusion is that self-assessment does not moderate the effect of free cash flow on earnings management. The results of this study are in line with research conducted by Erma (2019) which states that good corporate governance cannot moderate free cash flow in earnings management. The level of free cash flow in the company is an earnings management action carried out by high management, so that self-assessment cannot minimize earnings management actions in the company.Based on the results of the hypothesis testing, the following conclusions can be drawn:

1. Leverage affect earnings management.
2. Profitability does not affect earnings management.
3. Free cash flow affects earnings management.
4. Self-assessment moderates the effect of leverage on earnings management.
5. Self-assessment does not moderate the effect of profitability on earnings management.
6. Self-assessment does not moderate the effect of free cash flow on earnings management.

The suggestions that can be conveyed from this research are:

1. Using other independent variables such as company size, company value, and so on.
2. Using other measurements in the independent and dependent variables.
3. Expanding the population and research sample.
4. Adding years of research.

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