IJERLAS
International Journal of Educational Review, Law And Social Sciences

VARIABLES AFFECTING EARNINGS MANAGEMENT (CASE STUDY OF COMPANIES IN THE FOOD AND BEVERAGE MANUFACTURING SECTOR LISTED ON THE INDONESIAN STOCK EXCHANGE)

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ABSTRACT

This study aims to provide empirical evidence about the effect of bonus compensation, leverage, firm size and earning power on earnings management. This research was conducted at food and beverage manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The method of selecting the sample in this study used a purposive sampling technique of 21 companies. The data analysis method used in this study uses multiple linear regression analysis. The results of this study indicate that the leverage and earning power variables partially affect earnings management. While the bonus compensation variables and company size partially have no effect on earnings management and bonus compensation variables, leverage,

Keywords: ***Earnings Management, Bonus Compensation, Leverage, Company Size, Earning Power***

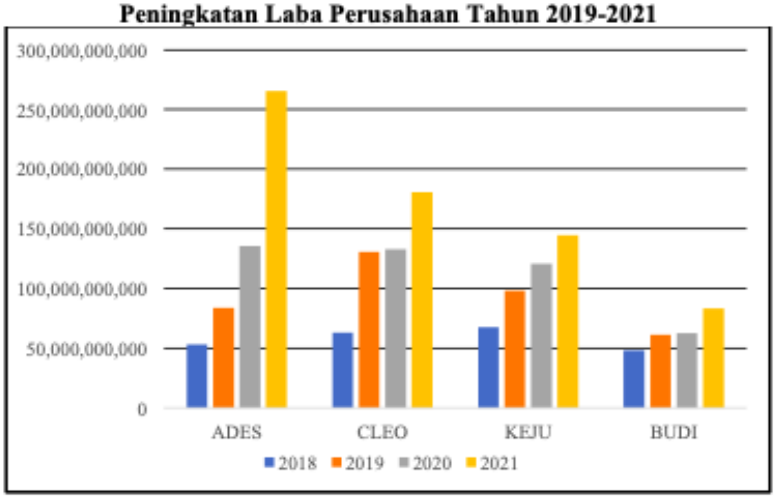
1. INTRODUCTION

Every company is required to have a competitive advantage in its field in order to continue to compete well. Effective and efficient use of company resources is very helpful in achieving success in the market. This success is measured by the company's performance, one of which is the profit it generates. Profit information is presented in the company's financial statements. Financial reports are an information base that can demonstrate a company's ability to manage resources effectively and efficiently. If the profit figure increases from year to year, it can be assumed that the company is able to manage its resources well and earn large profits. However, Such information can be misinformed to stakeholders when managers use judgment in the preparation of financial reports and transactions to change financial statements or to influence outcomes relating to contracts that rely on accounting numbers. This situation is called earnings management. The aim is to manipulate the amount of profit reported to shareholders and influence the results of the agreements that have been made (Ghazali et al, 2015; Handayani et al, 2020; Sihaloho and Sitanggang, 2016; Ramandhanty et al, 2021). In general, potential investors assess a company's good performance based on the profit value stated in the financial statements. Although this is reasonable, it must be watched out for because the value of profit stated in the financial statements is not necessarily accurate and there is a possibility that the financial statements have been manipulated. This condition has occurred in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX). Cases of profit manipulation are suspected to have occurred in drinking water supply companies with the ADES brand, where PT Akasha Wira International Tbk (ADES) managed to record a net profit growth of 38.48% last year to IDR 52.96 billion from the previous year IDR 38.24 billion . The company was also able to record an increase in net margin to 6.58% from 2017 which was only 4.7% (Ayuningtyas, 2019).

Cases of earnings management also occur at PT. Tiga Pilar Sejahtera Food TBK (AISA), where the results of the financial reports reported by PT AISA were surprising. Considering that the net profit reported by the parent entity AISA throughout 2019 exceeded IDR 1.13 trillion, even though in December 2018 the Taro snack producer still lost IDR 123.43 billion. In 2017, AISA's

financial statements were also restated, aka restatement. (Saleh, 2020). From the several cases that have been described, it can be concluded that the practice of earnings management is not a new thing in economic development in Indonesia. This practice is carried out to avoid bad financial reports in the eyes of investors and to attract new investors to invest in the company. Seeing this phenomenon, earnings management is a serious problem that must be addressed.

Grafik 1.1
Peningkatan Laba Perusahaan Tahun 2019-2021



In 2019-2021, based on chart 1.1, there has been an increase in profit every year of financial reporting from each company. Increasing the value of profits in a company is generally considered a good achievement, because the company has succeeded in maximizing the value of profits. However, before using the information presented in the financial statements, potential investors are required to be more careful and education and in-depth evaluation of the information presented before using the financial statements is required, so that potential investors can avoid earnings management practices that benefit one party. Factors that are thought to be related to earnings management practices are bonus compensation (Hasibuan, 2019; Dewi and Rego, 2018; Rosady and Abidin; 2019), leverage (Irawan, 2019; Jelanti, 2020; Asyati and Farida, 2020), company size (Benazir , 2019; Irawan, 2019; Arthawan and Wirasedana, 2018) and earning power (Rosady and Abidin; 2019; Saraswati and Atiningsih, 2021; Purnama and taufiq, 2021). Compensation refers to all forms of compensation, whether in the form of money, direct or indirect goods, received by employees as remuneration for the contributions that have been made to the company. If the company gives bonuses to managers based on the performance that has been achieved, then managers tend to do earnings management, because their performance is assessed from the profit information presented in the financial statements.

Leverage ratio can also be used as a benchmark to assess the behavior of managers in their efforts to increase company profits. High level of leverage motivates companies to practice earnings management to avoid debt breaches. Therefore, companies have to balance how much debt they will take on and what sources they can use to repay that debt. Company size can indicate the characteristics of an organization or company by using several parameters, such as the number of employees used in operational activities, total assets, total sales in a certain period, and number of shares outstanding (Benazir, 2019). Large companies tend to practice earnings management more often than small companies due to higher costs. So managers of large firms may use earnings management practices to reduce reported costs. This will also be seen from the earning power used to evaluate the efficiency of the company by looking at the company's ability to generate profits. The efficient performance of a company can not only be judged by the amount of profit generated,

Based on the description that has been explained, the study was conducted to examine bonus compensation, leverage, company size and earning power affect earnings management.

2. LITERATURE REVIEW

2.1.Profit Management

According to Scott (2015) earnings management is management's choice of accounting policies or concrete actions that affect earnings in order to achieve a certain goal. Meanwhile, according to Sulistyanto (2014) earnings management is an attempt by company managers to intervene or influence information in financial reports with the aim of tricking stakeholders who want to know the performance and condition of the company. The forms of earnings management are Taking A Bath, Income Minimization, Income Maximization, Revenue Timing and Expenses Recognition. Some of the reasons for carrying out earnings management are as follows:

a. *Bonus Plan Hypothesis*: Suggested that managers tend to choose and use accounting methods that can increase reported profits with the aim of maximizing compensation. This concept discusses bonus planning in the company that the owner promises to the company manager. However, this does not motivate managers to do better, but instead encourages them to commit fraud for personal gain.
b. *Debt To Equity Hypothesis*: Suggested that companies with high debt-to-equity ratios will use accounting recording methods that report higher profits and violate debt agreements to obtain certain benefits. This can affect the acceptance of wrong information for parties who want to know the actual condition of the company.
c. *Political Cost Hypothesis*: State that companies tend to choose and use accounting methods that can reduce or increase reported profits. It discusses how company managers tend to violate government regulations such as tax laws. If there are certain benefits and advantages that can be obtained, the manager will manipulate the value of reported profits so that payment obligations are not too high, so that profit sharing is in accordance with the wishes of the company.
d. *Taxation Motivation*: This motivation is most obvious to perform earnings management. The management will affect the taxes that must be paid by the company by reducing profits through the accounting method. This is done to reduce the tax burden that must be paid by the company.
e. Change of Directors: This motivation is carried out when a director of a company is about to end their term of office or retire. It is used by directors who fail to improve company performance to prevent or cancel their dismissal.
f. IPO (Initial Public Offering/Initial Public Offering): When a company conducts an IPO, the company does not yet have a market value. Therefore, companies need to increase reported earnings so that financial performance looks better and provides a signal to potential investors about the value of the company. This will motivate the company to carry out earnings management.

2.2. Bonus Compensation

All income in the form of money, direct or indirect goods received by employees in return for performance services provided to the company (Hasibuan, 2019; Handoko, 2016). According to Hartatik (2014), there are several factors that influence how companies compensate their employees, namely:

1. Government Factors

   This is related to government regulations that affect the determination of minimum wages, income taxes, raw material prices, and so on. This will have an impact on the compensation policy taken by the company.

2. Joint Offers Between Companies and Employees

   Compensation policies can be influenced by mutual agreements between companies and employees regarding the salary or wages received by employees. This is related to the expertise possessed by employees and market conditions when recruiting employees.
3. Employee Standard of Living Costs

   Companies must consider the minimum standard of living costs of employees to determine the appropriate compensation policy. This is important because the basic needs of employees must be met so that they can work well and have high motivation.
4. Wage Comparison

   Compensation policies are also related to company size, employee education level, and employee years of service in the company.
5. Requests and Offers

   Employee compensation levels should be considered based on demand and supply in the market. This can affect the level of wages provided by the company.
6. Ability To Pay

   Companies must consider their financial capabilities in determining employee compensation policies. This relates to the company's ability to pay employee wages that are considered proper and fair.

2.3. Leverage

*leverage*is a ratio used to measure the extent to which a company is capitalized with external debt or loans to carry out its operational activities with the company's ability to be described by capital (equity). The leverage ratio is also defined as the use of borrowed or debt funds in increasing profits in a business. A good company should have a larger capital composition than debt (Fahmi, 2013).

2.4.Company size

Company size is an indicator that provides an overview of the size of a company as seen from the number of employees, total assets, total sales, and market capitalization (Reviani and Djoko, 2012). Companies that are medium and large in size are more likely to have strong pressure from stakeholders so that the company's performance is in line with expectations. In addition, accounting theory states that large companies tend to manage profits, including when they earn high profits to avoid corporate income tax obligations. In addition, large companies will tend to report stable profits every year. According to the National Standardization Agency (BSN), company size is divided into three types, namely:

1. Large Companies: companies that have a net worth greater than Rp. 10 billion including land and buildings, and has sales of more than Rp. 50 billion/year.
2. Medium Companies: companies that have a net worth of Rp. 1-10 billion including land and buildings, and have sales proceeds greater than Rp. 1 billion and less than Rp. 50 billion/year.
3. Small Companies: companies that have a net worth of at most Rp. 200 Million excluding land and buildings and has results

2.5.Earning Power

*Earning power*is the ability to determine the efficiency of a company by assessing the size of it in generating profits (Purnama and Taufiq, 2019). An efficient company cannot be seen only from the acquisition of maximum profits, whether or not a company is efficient can be seen by comparing the profits earned with the wealth or capital that generates these profits. This ratio measures how much operational profit can be obtained from every rupiah of sales (Sosiawan, 2012). Kasmir (2016) states that the purpose of earning power for the company and outsiders is as follows:

1. To measure or count profits earned by the company in a certain period.
2. To assess the company's profit position in the previous year with now.
3. To assess the development of profits from time to time.
4. To assess the amount of net profit after tax with own capital.
5. To measure the productivity of all company funds used both loan capital and own capital.

The hypothesis in this study are as follows:

H1 : Bonus compensation partially affects earnings management.
H2 : Leverage partially affects earnings management.
H3 : Firm size partially influences earnings management.
H4 : Earning power partially affects earnings management.
H5 : Bonus compensation, leverage, firm size, and earning power simultaneously affect earnings management.

3. RESEARCH METHODS

The population used in this study were 39 food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021. The sample selection in this study used a purposive sampling method in which the sample was taken according to certain criteria. The criteria for sampling are as follows:

1. Food and beverage manufacturing companies that are listed on the Indonesian stock exchange and submit financial reports and have complete data on research variables consecutively during the 2019-2021 period.
2. Have a positive profit.
3. Companies with rupiah currency in their reporting.

After going through the sample selection stage based on predetermined criteria, it can be concluded that the sample in this study

No	Code	Company name
1	ADES	Akasha Wira International Tbk
2	AISA	Tiga Pilar Sejahtera Food Tbk
3	BUDI	Budi Starch & Sweetener Tbk
4	CAMP	Campina Ice Cream Industry Tbk
5	CHECK	Wilmar Cahaya Indonesia Tbk
6	CLEO	Sariguna Primatirta Tbk
7	DLTA	Delta Djakarta Tbk
8	DMND	Diamond Food Indonesia Tbk
9	GOOD	Garudafood Putra Putri Jaya Tbk
10	HOCKEY	Buyung Poetra Sembada Tbk
11	ICBP	Indofood CBP Sukses Makmur Tbk
12	FISH	Era Mandiri Cemerlang Tbk
13	INDF	Indofood Sukses Makmur Tbk
14	CHEESE	Mulia Boga Raya Tbk
15	MLBI	Multi Bintang Indonesia Tbk
16	MYOR	Mayora Indah Tbk
17	BREAD	Nippon Indosari Corpindo Tbk

18	SKBM	Sekar Bumi Tbk
19	SKLT	Sekar Laut Tbk
20	ULTJ	Ultrajaya Milk Industry & Trading Company Tbk
21	COCO	Wahana Interfood Nusantara Tbk

Operational Variables

The operational summary and variable indicators are as follows:

No	Variable	Operational definition	Indicator
1.	bonus compensation (X1)	Rewards or rewards given by the company to employees as feedback on their performance in achieving company goals.	Bonus compensation is measured by a dummy variable, namely companies that provide bonuses are given a value of 1, meanwhile a value of 0 for companies that do not provide bonuses.
2.	*leverage* (X2)	Is the debt ratio used to measure the comparison between total debt and total assets.	$\boldsymbol{DER}=\frac{total\ liabilitas}{total\ ekuitas}$
3.	Company Size (X3)	Is a benchmark for assessing the total assets of a company.	Company Size = Ln(Total Assets)
4.	*Earning Power*(X4)	Is the ability to know the company by looking at the size of the profits generated. In this study using return on assets	$\boldsymbol{ROA}=\frac{Earnng\ After\ Tax}{Total\ Assets}$
5.	Profit Management (Y)	Earnings management is management's choice of accounting policies or concrete actions that affect earnings in order to achieve a certain goal	Earnings management measurement uses the Jones model modified by Sulistyanto (2018). With 3 stages of the formula, namely as follows: Stage 1 TAC = NIit – CFOit Then total accruals are estimated with *ordinary least square*namely:

			$\frac{TAit}{Ait-1}\beta 1\left(\frac{1}{Ait-1}\right)\beta 2\left(\frac{\Delta ReVit-ReVit}{Ait-1}-1\right)+\beta 3\left(\frac{PPEit}{Ait-1}\right)+E$ Stage 2 $NDAit=\beta 1\left(\frac{1}{Ait-1}\right)\beta 2\left(\frac{\Delta ReVit-ReVit}{Ait-1}-1\right)+\beta 3\left(\frac{PPEit}{Ait-1}\right)+E$ Stage 3 *Discretionary accruals (DA)*as earnings management is determined by the following formula: $DAit=\frac{TAit}{Ait-1}=NDA$

Multiple Regression Analysis

The results of multiple linear regression analysis will test how much influence bonus compensation, leverage, firm size and earning power have on earnings management. The multiple linear regression equation is usually expressed in the following formula:

Y=α+β1X1 +β2X2 +β3X3 +β4X4 +ε

Information:

Y: Earnings Management
α:Constant
β: Regression Coefficient
X1:Bonus Compensation
X2:Leverage
X3:Company Size
X4:Earning Power
ε:standard error

4. RESULTS AND DISCUSSION

4.1. Research Results

Based on the results of the regression carried out the regression equation can be arranged as follows:

Y = -0.072 - 0.002 (X1) +0.149 (X2) - 0.006 (X3) +1.025 (X4)

Testing the coefficient of determination R2 is carried out to measure how far the model's ability to explain the variation of the dependent variable. In this study, testing the coefficient of determination R2 is by looking at the value of the adjusted R square which can be seen in Table 1.1 as follows:

Summary modelb

Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	0.862a	0.743	0.725	0.10332	2.106

a. Predictors: (Constant), Earning Power, Company Size, Leverage, Bonus Compensation
b. Dependent Variable: Earnings Management

Simultaneous effect test was carried out to show whether all independent variables (X) have a simultaneous influence on the dependent variable (Y). This test is carried out using the F test by comparing the values of Fcount and Ftable or with a significance level of 0.05 (5%) from the obtained SPSS output. With the basis of decision making as follows:

1. If Fcount > Ftable, then H0 is rejected and Ha is accepted.
2. If Fcount <Ftable, then Ha is rejected and H0 is accepted, or with the criteria.
3. If the significance level (sig <0.05) then H0 is rejected and Ha is accepted.
4. If the significance level (sig > 0.05) then Ha is rejected and H0 is accepted.

ANOVAa

Model		Sum of Squares	df	Means Square	F	Sig.
1	Regression	1,700	4	0.425	39,816	.000b
	residual	0.587	55	0.011		
	Total	2,287	59			

a. Dependent Variable: Earnings Management
b. Predictors: (Constant), Earning Power, Company Size, Leverage, Bonus Compensation

Based on the results of the F test, the Fcount value is 39.816, while the Ftable value is obtained through table F (Dk = k-1, Df: nk-1) so that Dk: 4-1 = 3, Df: 60-4-1 = 55, then it is obtained Ftable is 2.773 which means Fcount > Ftable (39.816 > 2.773) with a significance level obtained of 0.000 which is less than 0.05 or (0.000 <0.05) this shows that the independent variable (X) in this study simultaneously influences to the dependent variable (Y). Individual Parameter Significance Test (T test) is carried out to test whether the independent variable (X) partially has a significant effect on the dependent variable (Y), this test is carried out using the T test by comparing the values of Tcount and Ttable or with a significance level of 0.05 (5 %) of the obtained SPSS output. With the basis of decision making as follows:

1. If Tcount > Ttable, then H0 is rejected and Ha is accepted.
2. If Tcount <Ttable, then Ha is rejected and H0 is accepted, or with the criteria.

3. If the significance level (sig <0.05) then H0 is rejected and Ha is accepted.
4. If the significance level (sig > 0.05) then Ha is rejected and H0 is accepted.

Coefficientsa					
Model	Unstandardized Coefficients		standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	-0.072	0.227		-0.316	0.753
Bonus Compensation	-0.002	0.031	-0.004	-0.064	0.950
leverage	0.149	0.030	0.339	4,910	0.000
Company Size	-0.006	0.008	-0.053	-0.763	0.449
Earning Power	1025	0.095	0.750	10,803	0.000
a. Dependent Variable: Earnings Management					

Based on the Tcount value for each variable, while the Ttable value is obtained through Ttable (α: 0.05 and Df: n-4) so that it is 0.05 and Df: 60-4 = 56, then a Ttable value of 1.673 is obtained, then it can be concluded from each variable is as follows:

1. The bonus compensation variable (X1) has a Tcount value of -0.064 and a Ttable value of 1.673, which means that the Tcount value is smaller than Ttable or (-0.064 <1.673) and the significance level of this variable is 0.950 or (0.950 > 0.05) which means the significance value is greater than 0.05. So it can be concluded that H0 is accepted and Ha is rejected, meaning that bonus compensation partially does not affect earnings management.
2. The leverage variable (X2) has a Tcount value of 4,910 and a Ttable value of 1.673 which means that the Tcount value is greater than Ttable or (4,910 > 1.673) and the significance level of this variable is 0.000 or (0.000 <0.05) which means the significance value smaller than 0.05. So it can be concluded from this variable that H0 is rejected and Ha is accepted, meaning that leverage partially affects earnings management.
3. The company size variable (X3) has a Tcount value of = 0.763 and a Ttable value of 1.673 which means that the Tcount value is smaller than the Ttable value or (0.763 <1.673) and the significant level of this variable is 0.449 or (0.449 > 0.05) which means means that the significance value is greater than 0.05. So it can be concluded that H0 is accepted and Ha is rejected, meaning that company size has no effect on earnings management partially.

4.2.Discussion

Providing partial compensation bonuses has no impact on earnings management practices. The size of the bonus given is not a determining factor for company managers in practicing earnings management (Fitri, 2015). Although managers may wish to practice earnings management, the risks associated with doing so may outweigh the rewards. In addition, it is possible that there are other factors that encourage company managers not to practice earnings management, such as other benefits or facilities provided by the company. These factors can influence the behavior of managers to report company performance more accurately. This research is not in line with research conducted by Dewi & Rego (2018) and Panjaitan & Muslih (2019), which shows that the bonus compensation variable partially affects earnings management practices. According to the results of this study, company managers will be motivated to carry out earnings management in order to be able to report higher net income and obtain greater bonus compensation for their work. The bonus given is considered as a reward for the manager's work in reporting the company's net income, so that the manager will be motivated to perform optimal earnings management.

5. CONCLUSIONS AND SUGGESTIONS

5.1. CONCLUSION

1. The bonus compensation variable partially has no effect on earnings management in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
2. The leverage variable partially has a significant effect on earnings management in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
3. The company size variable partially has no effect on earnings management in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
4. The earning power variable partially has a significant effect on earnings management in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
5. Bonus compensation, leverage, company size, and earning power variables simultaneously affect earnings management in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.

5.2. SUGGESTIONS

Suggestions from researchers are proposed for further research regarding earnings management variables, namely:

1. The researcher suggests that further research is expected to be able to examine other variables that are still related and are suspected of having an influence on earnings management such as financial distress, managerial ownership, debt covenants, free cash flow and so on.
2. For future researchers to replace or expand the scope of their research, not only in the food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange (IDX).
3. Researchers suggest for further research to increase the time period to be studied so that the results obtained are more efficient.
4. Researchers suggest that in future research to replace other earnings management measurement models.

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