# EARNINGS MANAGEMENT IN CONSUMPTION GOODS MANUFACTURING COMPANIES MEDIATED WITH FINANCIAL DISTRESS

RidoArianggoro<sup>1</sup>, UmiMuawanah<sup>2</sup>, Oyong Lisa<sup>3</sup>

<sup>1</sup>Postgraduate Student - Gajayana University Malang <sup>2, 3</sup>Postgraduate Lecturer - Gajayana University Malang

**Abstract:** Financial reports issued by manufacturing companies can be key information in assessing company performance. This research aims to determine the influence of earnings management carried out by goods manufacturing companies through leverage and profitability. In addition, financial distress is seen as a mediating variable in earnings management practices and financial pressure. The research uses secondary data with a quantitative descriptive approach on companies in the Consumer Goods Industry sector on the Indonesian IDX. The research results show that leverage is significant to financial distress, profitability is not significant to financial distress, profitability and financial distress support earnings management practices, other results for the relationship between leverage and earnings management practices were found to be insignificant. Apart from that, financial distress is a good mediator of the relationship between leverage and profitability and earnings management.

Key Word: Leverage, Financial Distress, Profitabilitas, Earnings Management, Manufacturing Company

#### I. Introduction

The profit report is one indicator in assessing company performance (Dirman, 2021), profit is the profit obtained due to the positive difference between income and costs (Vahid, et al., 2013). To attract potential investors by putting their money into the business, companies will try to make the profits reported in their financial statements appear higher than they actually are (Purwanto, et al, 2023). The tendency to make earnings information the main concern in assessing company performance can encourage company management to carry out earnings management (García Lara, et al., 2005; Heidarpoor, et al., 2014). Earnings management can be done in ways such as increasing, decreasing and leveling profits to influence the value of profits in a certain period (Kalbuana, et al., 2021). Furthermore, Siekelova, et al (2020) explained that earnings management actions were carried out by companies deliberately and within the limits of the rules permitted by accounting principles. On the other hand, earnings management has a bad impact on the company, for example: resulting in financial scandals (Ibrahim, et al., 2020), loan defaults (Dyreng, et al., 2022), rejection of financial reports by stakeholders (Saleh, et al., 2020) and bankruptcy (Baskaran, et al., 2020).

Previous research explains leverage as one of the factors that can influence earnings management in companies (Ghofir, A., & Yusuf, 2020; Kalbuana, et al., 2021). Prawida&Sutrisno (2021) explain Leverage as a comparison between total company debt and company equity. If a company's leverage is high, it indicates that the company's performance is not good and management will be encouraged to carry out earnings management (Ghofir, A., & Yusuf, 2020). Companies will face leverage problems if they bear higher burdens or costs (Kalbuana, et al., 2021), both from operational costs and financial costs (Bognárová, 2019; Jiao, et al., 2019). The leverage ratio shows how far a company is financed with debt or loans from external parties compared to its ability to use its capital (Denis & McKeon, 2012) which will then influence the company's earnings management practices (Dyreng, et al., 2022).

Another factor that plays a role in earnings management is profitability (Ernawati, et al., 2021; Hernawati, et al., 2021). Profitability is seen as how well a company is able to generate profits during a certain period (Ernawati, et al., 2021). High profitability indicates good company performance, thus encouraging management to reduce earnings management actions, and vice versa (Gunny, 2010). According to Hernawati, et al., (2021), the higher the profits obtained by the company, the lower the practice of earnings management. Profitability will influence the selling value of company shares (Lestari &Armayah, 2016) and investors see profitability as one of the key factors in evaluating investment potential (Shafi, 2021).

In this research, financial distress is used as a mediating variable because companies experiencing financial difficulties will carry out earnings management practices (Campa, 2019; Purba, et al., 2022). Management tends to choose to increase profits when the company's financial condition is experiencing a decline to maintain investor confidence and satisfaction (Kalbuana, et al., 2022). Furthermore, financial distress was found to strengthen profitability and leverage in earnings management practices by companies (Dirman, 2020; Durana, et al., 2021).

This research aims to determine the influence of earnings management carried out by goods manufacturing companies through leverage and profitability. Leverage can increase a company's financial flexibility in the short term by increasing liquidity (Pattiruhu&Paais, 2020), but it can also increase pressure to achieve profit targets to pay interest and debt principal (Brown, et al., 2021). This can encourage managers to carry out earnings management practices to show better performance and meet market expectations (Ghofir, A., & Yusuf, 2020). On the other hand, companies with low profitability may feel greater pressure to carry out earnings management in order to create the impression of better company performance (Andreicovici, et al., 2021). This activity can be a strategy to maintain the interest of investors and creditors (Hasanuddin, et al., 2021), or to avoid violating loan agreements or other provisions (Dyreng, et al., 2022). In addition, financial distress is seen as a mediating variable in earnings management practices and when a company experiences significant financial pressure, such as low liquidity or a sharp decline in revenue (EL Deeb& Ramadan, 2020), management may feel compelled to take extra action so that the company looks better in the eyes of stakeholders (Bachmid, et al., 2021).

#### II. The Art Of Research

1. The Effect of Leverage on Financial Distress

The leverage ratio shows the company's ability to fulfill its obligations, both short-term and long-term obligations (Magli, et al., 2018). The leverage ratio emphasizes how large a proportion of debt is used in funding company assets (Šarlija&Harc, 2012). In addition, in agency theory, the survival of the company is in the hands of the agent (Lehn, 2021), such as the influence of the agent's decision in deciding whether to provide funding from a third party or not. If the proportion of debt owned by the company is too large, then the agent deliberately acted only to prioritize his own interests (Canarella& Miller, 2022). The agent's decision regarding funding company assets is very important, because if the agent uses too much third party funds as funding, the company will have greater obligations in the future (Lehn, 2021) and this will result in the company being vulnerable to financial difficulties. distress (Panda &Leepsa, 2017). Therefore, we are of the opinion that:

H1: The greater the leverage, the greater the probability of the company experiencing financial distress

2. The Effect of Profitability on Financial Distress

Profitability is the net final result of various policies and decisions (Mauris& Nora, 2019), where this ratio is used as a measuring tool for the company's ability to gain profits from every sale that can be generated (Rashid, 2021). Profitability is) the level of success or failure of a company over a certain period of time (Mauris& Nora, 2019). A company that has high profitability means it has large profits and this means that the company is less likely to experience financial distress (Aryantini&Jumono, 2021). Therefore, we are of the opinion that:

H2: The high profitability obtained by companies can prevent them from financial distress

3. The Effect of Leverage on Earnings Management

The leverage ratio is a ratio used to measure the extent to which a company's assets are financed with debt, meaning how much debt the company bears compared to its assets (Magli, et al., 2018). Šarlija&Harc (2012) explain that the greater the amount of debt used, the higher the risk faced by the company. Companies that have a high level of solvency will have high financial risks for creditors and investors, so the company will carry out earnings management. According to (Dahiyat, et al., 2021) regarding managers' efforts to deal with high levels of solvency, namely by hiding their obligations so that the current period's obligations are smaller than the actual obligations. This will make the company's performance for the current period appear to be better when compared to its actual performance (Aryantini&Jumono, 2021)). Therefore, we are of the opinion that:

H3: Leverage has a significant effect on earnings management

4. Effect of Profitability on Earnings Management

According to Aryantini&Jumono (2021), the results of profitability will influence managers in carrying out earnings management actions. The principal tends to demand management to achieve high profitability (Lestari &Armayah, 2016)). If management is able to achieve the targets set by the principal, management will be considered to have good performance (Purwanto, et al, 2023). Companies that have low profitability tend to carry out profit smoothing and this activity is a form of earnings management (Rashid, 2021). Profitability shows management's ability to generate profits by utilizing assets used in operational activities (Mauris& Nora, 2019). In

relation to earnings management, profitability can influence managers to carry out earnings management (Hernawati, et al., 2021). Because if the company's profitability is low, generally managers will take earnings management actions to save its performance in the eyes of the owner (Kalbuana, et al., 2021). Therefore, we are of the opinion that:

- H4: Profitability is very significant to earnings management
- 5. The Effect of Financial Distress on Earnings Management

Financial distress provides an overview of a company that is experiencing a financial decline. Companies that continuously experience financial distress have the worst possibility of going bankrupt (Baskaran, et al., 2020). This situation raised investors' concerns which ultimately led to a change in managerial structure (Saleh, et al., 2020). Stakeholders consider that management performance is not good and causes the company's finances to worsen (Shafi, 2021). On the other hand, management does not want to be replaced just like that. One way management does this is by implementing earnings management practices as an effort to maintain investor confidence (Siekelova, et al., 2020). By implementing this practice, management tends to choose to increase profits when the company's financial condition is experiencing a decline (Andreicovici, et al., 2021). This is done so that the financial information shared with investors can look better than before (Durana, et al., 2021). Therefore, we are of the opinion that:

H5: Financial distress is significant to earnings management

6. Financial Distress Mediates the Effect of Leverage on Earnings Management

The leverage ratio emphasizes how large a proportion of debt is used in funding company assets (Magli, et al., 2018). Besides that, in agency theory the survival of the company is in the hands of the agent (Lehn, 2021). Whether the agent decides to provide funding from a third party or not. However, if the proportion of debt owned by the company is too large, then it is necessary to question whether there was an error in decision making by the agent in managing the company or whether the agent deliberately acted in a way that was only for himself (Saleh, et al., 2020). The agent's decision regarding funding the company's assets is very important (Campa, 2019), when the agent uses too many third party funds as funding, greater obligations will arise in the future (Rashid, 2021), and this will result in the company being vulnerable to financial difficulties (Baskaran, et al., 2020). In addition, management tends to choose to increase profits when the company's financial condition is experiencing a decline to gain the trust and satisfaction of investors (Bachmid, et al., 2021). Therefore, we are of the opinion that:

H6: Financial distress mediates the effect of leverage on earnings management

H7: Financial distress mediates the effect of profitability on earnings management

## III. Research methods

1. Population and Research Sample

The research approach used in this research is a quantitative descriptive method to explain the relationship between the independent variable and the dependent variable through hypothesis testing. The population in this study is 59 manufacturing companies in the Consumer Goods Industry sector listed on the Indonesia Stock Exchange (BEI) in the 2019-2021 period (See Table 1). This research sample uses a purposive sampling technique with criteria, namely: 1. registered on the Indonesia Stock Exchange for the 2019-2021 period, 2. using rupiah currency units in financial reporting, 3. submitting annual financial reports for the 2019-2021 period, 4. Not experiencing losses during the 2019-2021 period. From the research sample provisions, 13 companies were obtained during the 3 periods 2019-2021 (see table 2). Secondary data sources were obtained through financial reports published by companies on the Indonesia Stock Exchange (BEI) in 2019-2021 (http://www.idx.co.id).

Tab	Table 1. List of Manufacturing Consumer Goods Companies							
No	Code	Company Name	No	Code	Company Name			
1		Akasha Wira International Tbk d.h	31					
	ADES	Ades Waters Indonesia Tbk		KPAS	Cottonindo Ariesta Tbk			
2	AISA	Tiga Pilar Sejahtera Food Tbk	32	LMPI	Langgeng Makmur Industry Tbk			
3	ALTO	Tri Banyan Tirta Tbk	33	MBTO	Martina Berto Tbk			
4	BTEK	Cumi Teknokulura Unggul	34	MERK	Merck Tbk			
5	BUDI	Budi Starch & Sweetener Tbk	35	MGNA	Magna Investama Tbk			
6	CAMP	Campine Ice Cream Industry Tbk	36	MLBI	Multi Bintang Indonesia Tbk			
7	CBMF	Cahaya Bintang Medan Tbk	37	MRAT	Mustika Ratu Tbk			
8	CEKA	Wilmar Cahaya Indonesia Tbk d.h	38	MYOR	Mayora Indah Tbk			
*Co	rrespond	ing Author: RidoArianggoro <sup>1</sup>		www	<b>v.aijbm.com</b> 71   Page			

		Cahaya Kalbar Tbk			
9	CINT	Chitose Internasional Tbk	39	PANI	Pratama Abadi Nusa Industri Tbk
10	CLEO	Sariguna Primatirta Tbk	40	PCAR	Prima Cakrawala Abadi Tbk
11	COCO	Wahana Onterfood Nusantara Tbk	41	PEHA	Phapros Tbk
12	DLTA	Delta Jakarta Tbk	42	PSDN	Prashida Aneka Niaga Tbk
13	DMND	Diamond Food Indonesia Tbk	43	PYFA	Pyridam Farma Tbk
14	DVLA	Darya Varia Laboratoria Tbk	44	RMBA	Bentoel International Investama Tbk
15	ENZO	Morenzo Abadi Perkasa Tbk	45	ROTI	Nippon Indosari Corpindo Tbk
16	FOOD	Sentra Food Indoensia Tbk	46	SCPI	Merck Sharp Dohme Pharma Tbk
17			47		Industri Jamu dan Farmasi Sido Muncul
	GGRM	Gudang Garam Tbk		SIDO	Tbk
18	GOOD	Garudafood Putra Puri Jaya Tbk	48	SKBM	Sekar bumi Tbk
19	HOKI	Buyung Poetra Sembada Tbk	49	SKLT	Sekar Laut Tbk
20	HMSP	H.M. Sampoerna Tbk	50	SOFA	Boston Furniture Industries Tbk
21	HRTA	Hartadinata Abadi Tbk	51	SOHO	Soho Global Health
22	ICBP	Indofood CBP Sukses Makmur Tbk	52	STTP	Siantar Top Tbk
23	IIKP	Inti Agri Resources Tbk	53	TCID	Mandom Indonesia Tbk
24	IKAN	Era Mandiri Cemerlang	54	TOYS	Sunindo Adipersada Tbk
25	INAF	Indofarma Tbk	55	TSPC	Tempo Scan Pasific Tb
26			56		Ultrajaya Milk Industri & Trading Company
	INDF	Indofood Sukses Makmur Tbk		ULTJ	Tbk
27	KAEF	Kimia Farma Tbk	57	UNVR	Unilever Indonesia Tbk
28	KICI	Kedaung Indah Can Tbk	58	WIIM	Wismilak Inti Makmur Tbk
29	KINO	Kino Indonesia Tbk	59	WOOD	Integra Indocabinet Tbk
30	KLBF	KMI Wire and Cable Tbk			

2. Research Construction

Research data was obtained through searching secondary data originating from the literature and company financial reports. Moderated multiple regression analysis was chosen to determine cause and effect between construction variables and answer the research hypothesis. There are 4 construction variables in this research with respective provisions for each panel and construction of the research variables, namely: leverage, profitability, financial distress and earnings management.

Table 2. Criteria for Research Sample Companies							
No	Code	Company Name	No	Code	Company Name		
1	ADES	Akasha Wira International Tbk d.h	Q	KVEE	Kimia Farma Thk		
1	ADES	Tige Dilar Sciekters Faced The	0	KAEF	Kinna Farma Tok		
2	AISA	liga Pilar Sejantera Food Ibk	9	KINO	Kino Indonesia Tbk		
3	CAMP	Campine Ice Cream Industry Tbk	10	ROTI	Nippon Indosari CorpindoTbk Industri Jamu dan Farmasi Sido		
4	DVLA	Darya Varia Laboratoria Tbk	11	SIDO	Muncul Tbk		
5	HMSP	H.M. Sampoerna Tbk	12	SKBM	Sekar Bumi Tbk		
6	HRTA	Hartadinata Abadi Tbk	13	UNVR	Unilever Indonesia Tbk		
7	INDF	Indofood Sukses Makmur Tbk					

# IV. Results

## 1. Descriptive Statistical Analysis

Descriptive statistics in this research are to explain the data into easy-to-understand information about the research from the research construction variables. The results of the research findings (see table 3) show that Leverage has a minimum value of 12.17, a maximum value of 341.27, an average value of 89.3672, which means that the total assets financed by debt are relatively low and the company's total debt is smaller. rather than total assets, so the financial condition is still relatively good. The standard deviation value is 78.34620 and is smaller than the average, indicating that the leverage data has a small deviation range. A high solvency ratio value indicates a high level of debt used to finance assets, so that the company has a higher risk on the financial side.

\*Corresponding Author: RidoArianggoro<sup>1</sup>

Table 3. Descriptive Statistics								
	Ν	Minimum	Maximum	Mean	Std. Deviation			
Leverage	39	12.17	341.27	89.3672	78.34620			
Profitabilitas	39	.05	60.72	13.5887	14.96109			
Earnings Management	39	33	.46	.0082	.16042			
Finansial Distress	39	-1.15	7.22	3.4410	1.92623			
Valid N (listwise)	39							

Profitability has a minimum value of 0.05, a maximum value of 60.72, while the average value is 13.5887, meaning that during the research period the average company generated a profit of 1.358%. The standard deviation value of 14.96109 is greater than the average value, indicating a large data deviation, although the minimum value does not show a negative value. A high value of the profitability ratio indicates that the company has improved performance and reflects the level of profit return on the size of the assets managed by the company. Earnings Management has a minimum value of -0.33, a maximum value of 0.46, an average value of 0.0082, and a standard deviation value of 0.16042. This means that the company is likely to carry out earnings management by manipulating the average profit amount of 0.82%. A standard deviation value for earnings management that is greater than the average indicates that there is a large spread of data variables. A negative value indicates that there are several companies that have greater current liabilities than current assets. And finally, the Financial Distress value ranges from a minimum of -1.15 to a maximum value of 7.22, this means that companies with low scores have poor financial conditions and companies with high scores indicate that the company has the lowest potential for bankruptcy. The average value is 3.4410, and the standard deviation value is 1.92623. A financial distress standard deviation value that is smaller than the average indicates a small distribution of data variables so that it can be said that there is no large gap in the financial distress variable data between the lowest and highest values.

- 2. Classic Assumption Test
  - 1. Normality Test

The data normality test in this study used the One-Sample Kolmogorov Smirnov test with the help of SPSS 26.0 for Windows. The Kolmogorov-Smirnov Z value (see table 4) for the research construction variables is 0.106 with a sig value of 0.200 > 0.50 and passes the normality test.

Table 4. One-Sample Kolmogorov-Smirnov Test					
		Unstandardized			
		Residual			
Ν		39			
Normal Parameters <sup>a,b</sup>	Mean	.0000000			
	Std. Deviation	.08157041			
Most Extreme Differences	Absolute	.106			
	Positive	.088			
	Negative	106			
Test Statistic		.106			
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>			

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

2. Multicollinearity Test

The multicollinearity test of the research linear regression model stipulates that the tolerance value is greater than 0.1 and the VIF value is smaller than 10. The results of the multicollinearity test as shown in table 5 show that all research construction variables passed the multicollinearity test.

Table 5. UjiMultikolinearitasCoefficients <sup>a</sup>		
*Corresponding Author: RidoArianggoro <sup>1</sup>	www.aijbm.com	73   Page

		Collinearity S	tatistics
Model		Tolerance	VIF
1	(Constant)		
	Leverage	.783	1.278
	Profitabilitas	.920	1.087
	Finansial Distress	.824	1.214

a. Dependent Variable: absres

## 3. Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. The park test was carried out in this research to determine whether heteroscedasticity occurs provided that each construction variable has a sig value > 0.05 and as shown in table 6, all construction variables pass the heteroscedasticity test.

Tabl	Table 6. Heteroskedastisitas Test									
Coefficients <sup>a</sup>										
				Standardized						
		Unstandardized	Coefficients	Coefficients						
Model		В	Std. Error	Beta	t	Sig.				
1	(Constant)	.088	.026		3.434	.002				
	Leverage	-4.277E-5	.000	061	330	.743				
	Profitabilitas	.000	.001	119	692	.494				
	Finansial Distress	005	.005	193	-1.063	.295				

a. Dependent Variable: absres

#### 4. Autocorrelation Test

The autocorrelation assumption test aims to determine whether in a linear regression model there is a correlation between confounding errors in period t and confounding errors in period t-1 (Chen, 2016). The Durbin-Watson test was carried out in this study to determine the auto correlation test and as shown in table 7, the du (upper limit) value was 1.6575. The DW value of 2.147 is greater than the upper limit (du) which is 1.6575 and the DW value of 2.147 is less than (4 - du) 4 - 1.6575 = 2.3425. So it can be concluded that there is no autocorrelation in the regression model of this research.

Table 7. Autocorrelation Test Results							
Model	DU	DL	4-DU	DW	Keterangan		
1	1.6575	1.3283	2.3425	2.147	TidakterjadiAutokorelasi		

## 3. Hypothesis Testing

a. Coefficient of Determination Test  $(R^2)$ 

The coefficient of determination is a statistical tool used to measure the proportion of variance in the dependent variable that can be explained by the independent variables in the model (reference). The coefficient of determination has a range between 0 and 1. The results shown in table 8 show that the proportion of contribution of the influence of the independent variables (Leverage, Profitability and Financial Distress) to the dependent variable (Earnings Management) is 0.719 or 71.9%. For the second test, the influence of the independent variables (Leverage and Profitability) on the dependent variable (Financial Distress) is 0.176 or 17.6%.

Table 8. Determination Coefficient Test								
			Adjusted R	Std. Error of the				
Model	R	R Square	Square	Estimate				
1	.861 <sup>a</sup>	.741	.719	.08499				
2	.419 <sup>a</sup>	.176	.130	1.79649				

b. Research Model Determination

Testing the suitability of the model (Goodness of Fit) uses the total coefficient of determination (R2) from two equations, namely:

 $Q2 = 1 - (1 - R1^2) \times (1 - R2^2)$ 

\*Corresponding Author: RidoArianggoro<sup>1</sup>

74 | Page

 $\begin{array}{l} Q2 = 1 & (1 & -0.719^2) \ x \ (1 & -0.176^2) \\ Q2 = 1 & (1 & -0.516961) \ x \ (1 & -0.030976) \\ Q2 = 1 & (0.483039 \ x \ 0.969024) \\ Q2 = 1 & -0.46807638394 \\ Q2 = 0.532 \ (53,2\%) \end{array}$ 

The calculation result of the model determination is 0.532, this explains that the contribution of the model in explaining the indirect path relationship of the variables studied is 53.2%. Thus leverage and profitability on earnings management are mediated by financial distress.

c. T-test

The t test is used to determine whether the independent variables partially have a real effect on the dependent variable or not with a significance degree of 0.05. The partial test results for equation model 1 (see table 9) for the leverage variable have a significance value of 0.009 < 0.05 and a calculated t value of -2.745 (supports the hypothesis) for financial distress. For profitability, it has a significance value of 0.318 > 0.05 and a t-table value of 2.023 (rejects the hypothesis) on financial distress.

Table 9.	Cable 9. T test model equation 1								
Coefficients <sup>a</sup>									
Unstandardized Coefficients				Standardized Coefficients					
Model		В	Std. Error	Beta	t	Sig.			
1	(Constant)	4.104	.480		8.547	.000			
	Leverage	010	.004	427	-2.745	.009			
	Profitabilitas	.020	.020	.157	1.013	.318			

a. Dependent Variable: Finansial Distress

The partial test results for equation model 2 (see table 10) for the Leverage variable have a significance value of 0.286 > 0.05 and a calculated t value of 1.084 (rejecting the hypothesis) for earnings management, then for profitability it has a significance value of 0.000 < 0.05 and the t-table value of 9.005 (supports the hypothesis) on earnings management, finally for the partial financial distress test it has a significance value of 0.048 < 0.05 and a t-table value of 2.048 (supports the hypothesis) on earnings management.

#### Table 10. T test model equation 2

		Unstandardized Coefficients		Standardized Coefficients		
Model		В	Std. Error	Beta	t	Sig.
1	(Constant)	184	.040		-4.659	.000
	Leverage	.000	.000	.105	1.084	.286
	Profitabilitas	.009	.001	.807	9.005	.000
	Finansial Distress	.016	.008	.194	2.048	.048

a. Dependent Variable: Earnings Management

d. Path Analysis

The results of the Sobel test to determine the mediating effect of financial distress for equation 1, namely: the leverage variable on earnings management through financial distress (see Figure 1) shows a Sobel value < t-table value (23.64751565 < 2.023) and a sig value of 0.000. These results indicate that financial distress can mediate leverage on earnings management.



Gambar1.UjiSobelPersamaan 1

The results of the Sobel test to determine the mediating effect of financial distress for equation 2, namely: profitability on earnings management through financial distress (see Figure 2) show that the static value is > t-table (7.46844144 > 2.023) and the sig value is 0.000 < 0.05 so that It can be seen that there is an influence of Profitability on Earnings Management through Financial Distress. So it can be concluded that Financial Distress can mediate Profitability on Earnings Management

#### Discussion

This research shows several different results, for example: first). Leverage was found to have a significance value of 0.009, t-count of 2.745 and supports the hypothesis. These results show that the ability of goods industry companies to pay off their obligations (short-term and long-term debt) is very good. If the proportion of the company's debt is too large, then it is necessary to question whether there was an error in decision making by the agent in managing the company or whether the agent deliberately acted in a way that was only for himself (Lehn, 2021). Therefore, the agent's decision regarding funding company assets is very important, because if the agent uses too much third party funds as funding, large liabilities will arise in the future, and this will result in the company being vulnerable to financial difficulties or financial distress (Panda &Leepsa, 2017). The greater the leverage, the greater the probability of the company experiencing financial distress. By disclosing financial distress with a Z-score value is higher, the company is in the safe zone category, so the lower the z-score value, the company is in distress.



#### Gambar 2.UjiSobelPersamaan 2

Second, profitability has a significance value of 0.318, the t-count value is 1.013 and does not support the hypothesis. A high profitability ratio in the financial statements of goods industry companies indicates that the company will make high profits, but this situation cannot keep them away from the threat of financial distress (Aryantini&Jumono, 2021). In this study, companies that were able to demonstrate their ability to gain profits had no effect on the possibility of an overall financial decline. Third, Leverage shows a significance value of 0.286 and a

calculated t value of 1.084 and does not support the hypothesis. The greater the amount of debt used means the higher the risk faced by the company (Šarlija&Harc (2012)). Therefore, companies that have a high level of solvency will have high financial risks for creditors and investors and earnings management efforts are widely used to obtain surpluses in financial statements (Ghazali, et al., 2015).

Fourth, profitability has a significance value of 0.000 < 0.05, t-count of 9.154 and supports the hypothesis. Goods industry companies that report their financials with profitability tend to avoid earnings management (Mauris& Nora, 2019). By many companies, the profitability ratio is used as a measuring tool for the company's ability to gain profits from every rupiah of sales generated (Kalbuana, et al., 2021). Fifth, financial distress has a significance value of 0.045 < 0.05, the t value is 2.080 and supports the hypothesis. When a company's financial reports experience a decline, management will try to maintain investor confidence (Siekelova, et al., 2020) and in this research, management's efforts to convince stakeholders can encourage the emergence of deliberate earnings management practices in accordance with the rules permitted through accounting principles (Heidarpoor, et al., 2014).

Sixth, the results of the Sobel test on the effect of leverage on earnings management through financial distress is - 23.64751565 with a sig value of 0.000 and supports the hypothesis. Management tends to choose to increase profits when the company's financial condition is experiencing a decline. This is done so that the financial information shared with investors can look better than before (Kalbuana, et al., 2021). In this way, the company can avoid bankruptcy or liquidity, and management hopes to maintain investor confidence and satisfaction in it (Siekelova, et al., 2020). Seventh, the results of the Sobel test on the effect of profitability on earnings management through financial distress are worth 7.46844144 with a sig value of 0.000 and support the hypothesis. Companies experiencing financial difficulties will have the risk of bankruptcy which is the worst possibility that may occur and management practices in increasing the company's profits are carried out to avoid situations that bring the company closer to financial distress and the financial information shared with investors can look better than before (Bachmid, et al., 2021).

## V. Conclusion

Profit management can be carried out by companies either intentionally or not within the limits of the rules permitted through accounting principles. This is done by large goods industry companies to make information on profitability and ability to pay debts the main information in assessing company performance. In addition, financial distress is a mediating variable in earnings management practices and when a company experiences significant financial pressure.

#### References

- [1]. Andreicovici, I., Cohen, N., Ferramosca, S., &Ghio, A. (2021). Two wrongs make a 'Right'? Exploring the ethical calculus of earnings management before large labor dismissals. *Journal of Business Ethics*, 172, 379-405.
- [2]. Aryantini, S., &Jumono, S. (2021). Profitability and value of firm: An evidence from manufacturing industry in Indonesia. *Accounting*, 7(4), 735-746.
- [3]. Bachmid, F., Sumiati, S., &Aisjah, S. (2021). The effect of financial distress using the Altman and Springate Models on stock return in mediated earnings management: A study on textile and garment companies listed on the Indonesia Stock Exchange 2015-2019 period. *International Journal of Research in Business and Social Science (2147-4478), 10*(5), 119-128.
- [4]. Baskaran, S., Nedunselian, N., Ng, C. H., Mahadi, N., & Abdul Rasid, S. Z. (2020). Earnings management: a strategic adaptation or deliberate manipulation?. *Journal of Financial Crime*, 27(2), 369-386.
- [5]. Bognárová, K. J. (2019). Contribution Of EVA Leverage To The Total Leverage Effect On The Company. *Challenges of the Knowledge Society*, 989-993.
- [6]. Brown, G., Harris, R., &Munday, S. (2021). Capital structure and leverage in private equity buyouts. *Journal of Applied Corporate Finance*, *33*(3), 42-58.
- [7]. Campa, D. (2019). Earnings management strategies during financial difficulties: A comparison between listed and unlisted French companies. *Research in International Business and Finance*, *50*, 457-471.
- [8]. Canarella, G., & Miller, S. M. (2022). Firm size, corporate debt, R&D activity, and agency costs: Exploring dynamic and non-linear effects. *The Journal of Economic Asymmetries*, 25, e00233.
- [9]. Chen, Y. (2016). Spatial autocorrelation approaches to testing residuals from least squares regression. *PloS* one, 11(1), e0146865.

- [10]. Dahiyat, A. A., Weshah, S. R., &Aldahiyat, M. (2021). Liquidity and solvency management and its impact on financial performance: Empirical evidence from Jordan. *The Journal of Asian Finance, Economics and Business*, 8(5), 135-141.
- [11]. Denis, D. J., & McKeon, S. B. (2012). Debt financing and financial flexibility evidence from proactive leverage increases. *The Review of Financial Studies*, 25(6), 1897-1929.
- [12]. Dirman, A. (2020). Financial distress: the impacts of profitability, liquidity, leverage, firm size, and free cash flow. *International Journal of Business, Economics and Law*, 22(1), 17-25.
- [13]. Durana, P., Michalkova, L., Privara, A., Marousek, J., &Tumpach, M. (2021). Does the life cycle affect earnings management and bankruptcy?. *OeconomiaCopernicana*, *12*(2), 425-461.
- [14]. Dyreng, S. D., Hillegeist, S. A., &Penalva, F. (2022). Earnings management to avoid debt covenant violations and future performance. *European Accounting Review*, *31*(2), 311-343.
- [15]. EL Deeb, M. S., & Ramadan, M. S. (2020). The impact of financial distress, firm size, and audit quality on earnings' management evidence from companies listed in the Egyptian Stock Exchange.
- [16]. Ernawati, S., Chandrarin, G., Respati, H., &Asyikin, J. (2021). The Effect of Profitability, Leverage and Company Size on Tax Avoidance through Earnings Management Practices in Go Public Manufacturing Companies in Indonesia. *East African Scholars Journal of Economics, Business and Management*, 4(7), 162-176.
- [17]. García Lara, J. M., GarcíaOsma, B., & Mora, A. (2005). The effect of earnings management on the asymmetric timeliness of earnings. *Journal of Business Finance & Accounting*, *32*(3-4), 691-726.
- [18]. Ghazali, A. W., Shafie, N. A., &Sanusi, Z. M. (2015). Earnings management: An analysis of opportunistic behaviour, monitoring mechanism and financial distress. *Proceedia Economics and Finance*, 28, 190-201.
- [19]. Ghofir, A., & Yusuf, Y. (2020).Effect of firm size and leverage on earning management. *Journal of Industrial Engineering & Management Research*, 1(3), 218-225.
- [20]. Gunny, K. A. (2010). The relation between earnings management using real activities manipulation and future performance: Evidence from meeting earnings benchmarks. *Contemporary accounting research*, 27(3), 855-888.
- [21]. Hasanuddin, R., Darman, D., Taufan, M. Y., Salim, A., Muslim, M., & Putra, A. H. P. K. (2021). The effect of firm size, debt, current ratio, and investment opportunity set on earnings quality: an empirical study in Indonesia. *The Journal of Asian Finance, Economics and Business*, 8(6), 179-188.
- [22]. Heidarpoor, F., Rafiee, S. Z., &Rafiee, S. Z. (2014). Drivers of earnings management: the profit and loss before earning management. *International Journal of Accounting and Financial Reporting*, 4(2), 23-49.
- [23]. Hernawati, R. I., Ghozali, I., Yuyetta, E. N. A., &Prastiwi, A. (2021). The effect of income and earnings management on firm value: Empirical evidence from Indonesia. *The Journal of Asian Finance, Economics* and Business, 8(4), 105-112.
- [24]. Ibrahim, G., Mansor, N., & Ahmad, A. U. (2020). The mediating effect of internal audit committee on the relationship between firms financial audits and real earnings management. *International Journal of Scientific and Technology Research*, 9(4), 816-822.
- [25]. Jiao, F., Nishihara, M., & Zhang, C. (2019). Operating leverage and underinvestment. *Journal of Financial Research*, 42(3), 553-587.
- [26]. Kalbuana, N., Prasetyo, B., Asih, P., Arnas, Y., Simbolon, S. L., Abdusshomad, A., ...& Mahdi, F. M. (2021). Earnings management is affected by firm size, leverage and roa: Evidence from Indonesia. Academy of Strategic Management Journal, 20, 1-12.
- [27]. Kalbuana, N., Suryati, A., & Pertiwi, C. P. A. (2022).Effect of Company Age, Audit Quality, Leverage and Profitability on Earnings Management. *International Journal of Economics, Business and Accounting Research (IJEBAR)*, 6(1), 305-315.
- [28]. Lehn, K. (2021). Corporate governance and corporate agility. *Journal of Corporate Finance*, 66, 101929.
- [29]. Lestari, S. A., & Armayah, M. (2016). Profitability and company value: empirical study of manufacture companies in Indonesia period 2009-2014. *Information Management and Business Review*, 8(3), 6-10.
- [30]. Magli, F., Nobolo, A., &Ogliari, M. (2018). The effects on financial leverage and performance: The IFRS 16. *International Business Research*, *11*(8), 76-89.
- [31]. Mauris, F. I., & Nora, A. R. (2019). The effect of collaterallizable assets, growth in net assets, liquidity, leverage and profitability on dividend policy. *Budapest International Research and Critics Institute* (*BIRCI-Journal*), 4(1), 937-950.
- [32]. Panda, B., &Leepsa, N. M. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian journal of corporate governance*, *10*(1), 74-95.

- [33]. Pattiruhu, J. R., &Paais, M. (2020).Effect of liquidity, profitability, leverage, and firm size on dividend policy. *The Journal of Asian Finance, Economics and Business (JAFEB)*, 7(10), 35-42.
- [34]. Prawida, N., &Sutrisno, S. (2021). Leverage, profitability, corporate governance mecanism and earning management: cases in manufacturing company in Indonesia Stock Exchange. *Asian Management and Business Review*, 35-45.
- [35]. Purba, G. K., Anastasia, S., & Joshi, P. L. (2022). The Financial Distress Intensity and Earnings Management Strategy. *SCMS Journal of Indian Management*, 19(3), 5-19.
- [36]. Purwanto, E. C., Halim, A., &Muawanah, U. (2023). Investment Opportunity Set as Moderation of Return on Assets and Debt to Equity Ratio to Stock Return. *Enrichment: Journal of Multidisciplinary Research and Development*, 1(7), 369-375.
- [37]. Rashid, C. A. (2021). The efficiency of financial ratios analysis to evaluate company's profitability. *Journal of Global Economics and Business*, 2(4), 119-132.
- [38]. Saleh, I., Afifa, M. A., &Haniah, F. (2020). Financial factors affecting earnings management and earnings quality: New evidence from an emerging market. *ACRN Journal of Finance and Risk Perspectives*, 9.
- [39]. Šarlija, N., &Harc, M. (2012). The impact of liquidity on the capital structure: a case study of Croatian firms. Business Systems Research: International journal of the Society for Advancing Innovation and Research in Economy, 3(1), 30-36.
- [40]. Shafi, K. (2021). Investors' evaluation criteria in equity crowdfunding. *Small Business Economics*, 56(1), 3-37.
- [41]. Siekelova, A., Androniceanu, A., Durana, P., & Michalikova, K. F. (2020). Earnings management (EM), initiatives and company size: An empirical study. *ActaPolytechnicaHungarica*, *17*(9), 41-56.
- [42]. Tulcanaza-Prieto, A. B., Lee, Y., & Koo, J. H. (2020). Effect of leverage on real earnings management: Evidence from Korea. *Sustainability*, *12*(6), 2232.
- [43]. Vahid, N., Reza Dehghanpour, M., &Nasirizadeh, H. (2013).Comparison between accounting profit and economic profit and its effect on optimal point of production. *European Online Journal of Natural and Social Sciences*, 2(3 (s)), pp-493.