THE EFFECT OF FINANCIAL DISTRESS, INTERNAL CONTROL, AND DEBT STRUCTURE ON EARNINGS MANAGEMENT IN COMPANIES REGISTERED IN INDONESIA STOCK EXCHANGE

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Abstract: Earnings management is a manager's attempt to influence the information in the financial statements to trick stakeholders. Earnings management has two perspectives, namely positive and negative. If earnings management is practiced for a long period, it will be detrimental to the company. Managers have two main tools for performing earnings management: accrual earnings management and real earnings management. This study aims to test and prove the effect of financial difficulties, internal control, and debt structure on accrual and real earnings management. This research is quantitative by using multiple linear regression analysis methods. The sample selection used purposive sampling. The sample of this research is 28 manufacturing companies listed on the Indonesia Stock Exchange with five years of research, namely from 2015-2019. This research indicates that financial difficulties do not affect accrual earnings management but do affect real earnings management. Furthermore, this research suggests that companies experiencing greater financial difficulties carry out low real earnings management. Meanwhile, internal control and debt structure do not affect earnings management. The existing control variable only has an impact on the effect of debt structure on accrual earnings management.

Keywords: Financial Distress, Internal Control, Structure Debt, Earnings Management.

INTRODUCTION

Financial reports are information about the company's financial condition that external parties use to assess a company's performance and are also a means of accountability for managers to owners for the resources they manage. The financial statements are considered the final result of the accounting process that can be used to weigh the performance of the company's management. One of the important components in financial reports reflecting management performance is income (Purnama, 2017). Profit is a very important component for investors, so managers often use profit as an engineering target to attract investors. The tendency of stakeholders to pay more attention to earnings as a company performance parameter has prompted managers to take deviant actions, namely manipulating earnings reporting referred to as earnings management (Chairunesia et al., 2018). Earnings management is a manager's effort to influence or intervene in financial statements to trick stakeholders who want to know the development of the company's performance and financial condition (Agustia & Elly, 2018). As a result of earnings management, stakeholders cannot obtain valid and sufficient information to determine the policies that should be taken to maintain the company's business.
Earnings management practices arise because of agency conflicts. Agency problems occur because of the separation between ownership and company management, where the owner wants maximum profit. In contrast, management wants to maximize its interests, namely creating good working conditions, but it will also impact costs that can reduce company profits. That matters because of information asymmetry or differences in information (Taco & Ilat, 2016).

Earnings management is viewed from a positive perspective as an effort to please shareholders and also as an effort to maximize firm value (Wiyadi et al., 2017). Meanwhile, from a negative perspective, it is a manager's effort to maximize their utility with compensation contracts, debt contracts, and regulations from the asymmetry of information between internal and external parties of the company (Priantinah, 2016). Accrual earnings management and real earnings management are the two main tools available for managers to manipulate earnings (Li et al., 2020). Managers can use accrual earnings management through discretionary accruals, which is done by changing the accounting method that has been used or by changing the estimates in recording a transaction that affects the income of a company. Meanwhile, real earnings management can be done by manipulating the company's real activities, which directly impact the company's cash flow (Febrininta & Siregar, 2014). Managers are increasingly using accrual earnings management because it is easy to detect and receive oversight from regulators and auditors. Therefore, managers gradually turn to real earnings management, as they are less vulnerable to oversight by regulators and auditors.

The most recent case of earnings management that occurred in Indonesia is in the scope of BUMN, namely by PT Garuda Indonesia (Persero) Tbk, PT Perusahaan Listrik Negara (Persero) and PT Pertamina (Persero). The three BUMNs have a similar key to success in pocketing profits, namely recording receivables as income. They provide make-up financial statements because they are required to get profits even though, on the one hand, their expenses are high. On the other hand, nominal earnings management is also not small, and it is detrimental to many parties (Arieza, 2019).

The condition of a company that is experiencing financial distress will put pressure on and influence the decision-making process and manager's behavior. Financial distress occurs when the liquidation of the company's total assets is less than the creditors' claims' total value. Companies experiencing financial distress have a strong desire to manipulate their income to achieve certain targets and result in misleading stakeholders (Li et al., 2020).

In the short term, earnings management actions can benefit the company, but earnings management actions are detrimental to the company in the long term. Companies can implement good corporate governance through company internal control (Rice, 2016).

The company has many policies in obtaining sources of funds to carry out its operating activities, one of which is debt. The debt structure (leverage) is a ratio that measures how far its liabilities finance a company. Leverage is also an effort to increase profit which is a benchmark for seeing manager behavior. Managers' mistakes in making decisions (leverage
high) can result in the company being threatened with failure to pay its obligations. It allows managers to carry out earnings management to maintain its good name among investors (Suwanti & Wahidahwati, 2017).

This research focuses on manufacturing companies that are included in the sectors most affected and severely (suffer) due to the impact of the corona pandemic (Covid-19) as classified by the Ministry of Industry and also listed on the Indonesia Stock Exchange (IDX) in 2015-2019. According to the Ministry of Industry, the researcher focuses on this sector. The industrial sector in the class can reach 60% of the entire industry. Because in addition to their large numbers, the contribution of these industries to industrial GDP is quite large (Pers, 2020).

Agency theory is the basis used to understand earnings management practices. Agency theory is a theory that explains the relationship between the principal, namely as the owner, and the agent, namely as the manager. According to Jensen & Meckling (1976), the agency relationship occurs because of a contract between the manager (agent) and the owner or shareholder (principal). The existence of an agreement between the principal and the agent will create responsibility between the two parties (Jensen & Meckling, 1976). Three basic human nature assumptions explain agency theory: self-interest, bounded rationality, and risk-averse. The agency relationship between the owner (principal) and manager (agent) raises several problems. The first is information Asymmetry, where managers generally have more information about the entity's actual financial position and operating position than the owner. The second is conflicts of interest due to unequal goals, where managers do not always act in the owner's interests (Suwanti & Wahidahwati, 2017). There are two kinds of information asymmetry. The first is adverse selection. Adverse selection is caused because managers know more about the company's circumstances and prospects than owners and investors so that managers can choose the information to be shared. The second is moral hazard. A moral hazard is caused because the owner or investor does not fully know the manager's activities. As a result, the manager can take actions beyond the owner's knowledge who violates the contract. As a result, the action is ethically unfit to do (Scott, 2012, p. 359). The problem of information asymmetry can be solved in several ways, namely: (1) There is an optimal contract between management and investors; (2) There is a board of commissioners whose role is to monitor manager behavior by the interests of the principal and other stakeholders; (3) There is sufficient information from intermediaries, such as financial analysts and rating agencies (Zulfikar et al., 2015)

Underlying company funding through debt in the capital structure theory is called the pecking order theory. This theory is based on information asymmetry (Anwar, 2019). Pecking order theory assumes that the company aims to maximize shareholder welfare.

The pecking order theory states that companies prefer internal funding, namely funding from the company's operations in retained earnings. If external funding is required, the company will issue the safest securities first. So it is starting with the issuance of bonds, then followed by securities with option characteristics. Finally, they will issue new shares if they are still insufficient. So the order of using funding sources concerning the pecking order
theory is internal funds, debt, and equity. Internal funds are preferred over external funds because internal funds allow companies not to "open themselves up again" from the spotlight of outside investors. In addition, the effect of information asymmetry and stock issuance costs tends to encourage behavior pecking order (Myers, 1984).

Pecking order theory makes predictions about the maturity and priority structure of debt. The pecking order theory also explains that very profitable companies generally have less debt. It happens not because its target debt ratio is low but because it does not need funds from external parties (Nuswandari, 2013).

This study aims to test and prove the effect of financial distress, internal control, and debt structure on earnings management. The hypotheses in this study are:
H1a: Companies experiencing financial distress perform higher accrual earnings management.
H1b: Companies experiencing financial distress perform lower real earnings management.
H2a: High-quality internal control can limit accrual earnings management.
H2b: High-quality internal control can limit real earnings management.
H3a: Debt structure affects accrual earnings management.
H3b: Debt structure affects real earnings management.

METHODS

This study uses quantitative methods to research financial distress, internal control, debt structure, and earnings management. According to the Ministry of Industry's classification and listed on the IDX, the population in this study are all manufacturing companies in the sector suffer (most affected and severely) due to the corona pandemic (Covid-19) according to the Ministry of Industry's classification in 2015-2019, The sampling technique used was purposive sampling with the following criteria: (1) Manufacturing companies included in the class sector suffer according to the Ministry of Industry and registered on the IDX in 2015-2019; (2) Companies that issued consecutive annual reports in 2015-2019; (3) Companies that do not use foreign currencies in their financial statements; (4) Companies that have complete information regarding the measurement of variables that produce a sample of 28 companies with the 2015-2019 research period. Financial distress (X1) in this study was measured using the Altman model Z-Score proposed by (Altman, 1968). With the model Z-Score, the company's financial condition can be categorized into three categories, namely: (1) Companies that have a Z-Score value <1.81 are categorized as companies that have the potential to experience bankruptcy; (2) Companies that have a Z-Score > 2.67 are categorized as healthy (not potentially bankrupt); (3) Companies that are between the numbers 1.81-2.67 are categorized as gray areas (it cannot be determined whether the company is experiencing bankruptcy or not having the potential to go bankrupt).

Systematically, the prediction of financial distress produced by Altman (1968) is formulated as follows:

\[ Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + \]
0.006X_4 + 0.999X_5

Notes:
Z = Z-score
X_1 = Working Capital/Total Assets
X_2 = Retained Earnings/Total Assets
X_3 = Earnings Before Interest and Taxes/Total Assets
X_4 = Market Value of Equity/Book Value of Total Liabilities
X_5 = Sales/Total Assets

Internal control (X_2) in this study is measured by the opinion or opinion given by the auditor on the company’s financial statements. Internal control is measured using a variable dummy, which takes the value of one of the companies gets an unqualified opinion (WTP) and zero if the company gets an opinion other than unqualified.

The debt structure (X_3), commonly referred to as leverage in this study, is measured by the ratio, leverage, namely debt to total assets or debt ratio (DAR). The ratio leverage is the ratio to estimate how much a company is financed with debt (Agustia & Elly, 2018). The formula for calculating leverage is as follows:

\[ \text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \]

Accrual earnings management (AM) in this study is measured using the formula Modified Jones Model. The Modified Jones Model is considered the best model for detecting earnings management and can provide strong results (Suwanti & Wahidahwati, 2017). The following stage calculation discretionary accruals Modified Jones Model:

1. Calculate the value of total accruals using the cash flow approach (cash flow approach):
   \[ \text{TAC}_{it} = \text{NI}_{it} - \text{CFO}_{it} \]
2. Further seeking regression coefficient and total accruals to find the value of the coefficient \( \beta_1, \beta_2, \) and \( \beta_3 \), regression technique was performed.
   \[ \frac{\text{TAC}_{it}}{\text{TA}_{it - 1}} = \beta_1 \left( \frac{1}{\text{TA}_{it - 1}} \right) + \beta_2 \left( \frac{\Delta \text{REV}_{it}}{\text{TA}_{it - 1}} \right) + \beta_3 \left( \frac{\text{PPE}_{it}}{\text{TA}_{it - 1}} \right) + \varepsilon_{it} \]
3. Then calculate Non-discretionary accruals (NDAC) with the following formula:
   \[ \text{NDAC}_{it} = \beta_1 \left( \frac{1}{\text{TA}_{it - 1}} \right) + \beta_2 \left( \frac{\Delta \text{REV}_{it} - \Delta \text{REC}_{it}}{\text{TA}_{it - 1}} \right) + \beta_3 \left( \frac{\text{PPE}_{it}}{\text{TA}_{it - 1}} \right) + \varepsilon_{it} \]
4. The final step is to find the accrual value using the following equation:
   \[ \text{DAC}_{it} = \left( \frac{\text{TAC}}{\text{TA}_{it - 1}} \right) - \text{NDAC}_{it} \]
In this study, real earnings management (RM) is measured using the number of abnormal cash flows from operating activities (AbCFO), discretionary expenses. Abnormal (AbDISX) and abnormal production costs (AbPROD) to measure real earnings management. First, calculate normal cash flow from operating activities, normal discretionary expenses, and normal production costs. Then, obtain the residuals by running a regression to estimate abnormal cash flow from operating activities (AbCFO), abnormal discretionary expenditures (AbDISX), and abnormal production costs (AbPROD) (Li et al., 2020).

Normal CFO can be expressed as a linear function of sales and sales changes as follows:

$$\frac{CFO_{it}}{Ait - 1} = \alpha_0 + \alpha_1 \left( \frac{1}{Ait - 1} \right) + \alpha_2 \left( \frac{Sit}{Ait - 1} \right) + \alpha_3 \left( \frac{Sit}{Ait - 1} \right) + \varepsilon_{it}$$

The normal rate of production costs is estimated as follows:

$$\frac{PROD_{it}}{Ait - 1} = \alpha_0 + \alpha_1 \left( \frac{1}{Ait - 1} \right) + \alpha_2 \left( \frac{Sit}{Ait - 1} \right) + \alpha_3 \left( \frac{Sit}{Ait - 1} \right) + \alpha_4 \frac{Sit}{Ait - 1} + \varepsilon_{it}$$

The normal rate of discretionary spending is estimated using the following equation:

$$\frac{DISX_{it}}{Ait - 1} = \alpha_0 + \alpha_1 \left( \frac{1}{Ait - 1} \right) + \alpha_2 \left( \frac{Sit}{Ait - 1} \right) + \varepsilon_{it}$$

Finally, real earnings management measures are combined into one proxy, real earnings management or real earnings. Hence, real earnings management (RM), by taking the sum of the three as follows:

$$RM_{it} = AbPROD_{it} + AbDISX_{it} + AbCFO_{it}$$

Company size (Z1) is a scale where large and small companies can be classified in various ways, including total assets, log C size, sales, and market capitalization (Agustia & Elly, 2018). In this study, company size as a control variable is expressed as total assets with the formula:

Firm Size = Ln (Total Asset)

Operating Cash Flow (OCF) (Z2) is cash flow from the company's operational activities related to revenue, expenditure, income, and expenses. In this study, OCF as a control variable is measured or scaled by total assets (Li et al., 2020).

Return on Equity (ROE) (Z3) is a ratio calculation that shows the company's ability to generate net income using its capital (Li et al., 2020). The formula for measuring ROE is included as a control variable, namely:

$$ROE = \frac{Net \ Income \ After \ Tax}{Equity}$$
A higher concentration of ownership (Z4) is associated with a higher probability of earnings manipulation. In this study, the largest shareholder ownership concentration is included as a control variable to measure ownership concentration (OWNCON), which uses a variable dummy that takes the value of one if the ownership of Top 1 shareholders exceeds 50% and zero if the ownership of Top 1 shareholders is less than 50%.

In this study, the audit quality of Big4 (Z5) as a control variable is included because it can help limit the company's earnings management. Audit quality is measured using a variable dummy Big4 which is equal to one of the financial statements are audited by one of the four largest accounting firms (Big4) and zero if the company's reports are audited by other than the four largest accounting firms (Big4).

The relationship between the stock market price and the book value per share or price to book value (Z6) can be used as an alternative approach to determining the value of a share (Karlina & Widanaputra, 2016). In this study, PBV as a control variable has the formula:

\[ PBV = \frac{\text{Stock Marker Price}}{\text{Book Value Per Share}} \]

Total Asset Turnover (TOTA) (Z7) is the ratio of inventory to total assets. TOTA was included as a control variable because it could reflect inventory level through sales in the company. The formula for calculating TOTA is:

\[ TOTA = \frac{\text{Net Sales}}{\text{Average Total Assets}} \]

Sales growth (Z8) can reflect the growth rate of a company's business income (Li et al., 2020). Therefore, in this study, sales growth is also included as a control variable, with the formula:

\[ SG = \frac{\text{Net Sales}(t) - \text{Net Sales}(t - 1)}{\text{Net Sales}(t - 1)} \times 100\% \]

The multiple linear regression equation used by researchers is:

Regression 1 to analyze accrual earnings management (AM)
\[
AM = \alpha_0 + \alpha_1\text{Distress} + \alpha_2\text{IC} + \alpha_3\text{Leverage} \\
AM = \alpha_0 + \alpha_1\text{Distress} + \alpha_2\text{IC} + \alpha_3\text{Leverage} + \alpha_4\text{Size} + \alpha_5\text{OCF} + \alpha_6\text{ROE} + \alpha_7\text{OWNCON} + \alpha_8\text{Big4} + \alpha_9\text{PBV} + \alpha_{10}\text{TOTA} + \alpha_{11}\text{Sales Growth} + \varepsilon
\]

Regression 2 to analyze real earnings management (RM)
\[
RM = \beta_0 + \beta_1\text{Distress} + \beta_2\text{IC} + \beta_3\text{Leverage} \\
RM = \beta_0 + \beta_1\text{Distress} + \beta_2\text{IC} + \beta_3\text{Leverage} + \beta_4\text{Size} + \beta_5\text{OCF} + \beta_6\text{ROE} + \beta_7\text{OWNCON} + \beta_8\text{Big4} + \beta_9\text{PBV} + \beta_{10}\text{TOTA} + \beta_{11}\text{Sales Growth} + \varepsilon
\]
\[ \beta_3 \text{Leverage} + \beta_4 \text{Size} + \beta_5 \text{OCF} + \beta_6 \text{ROE} + \beta_7 \text{OWNCON} + \beta_8 \text{Big4} + \beta_9 \text{PBV} + \beta_{10} \text{TOTA} + \beta_{11} \text{SalesGrowth} + \varepsilon \]

RESULT AND DISCUSSION

**Statistik Deskriptif**

Descriptive statistics in this study aim to analyze data based on the minimum, maximum, mean, and standard deviation values. The following are the results of the descriptive statistics in this study.

<table>
<thead>
<tr>
<th>Tabel 1. Statistic Deskriptif Variabel</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>140</td>
<td>0.24</td>
<td>8.43</td>
<td>1.04</td>
<td>1.03</td>
</tr>
<tr>
<td>X2</td>
<td>140</td>
<td>0.00</td>
<td>1.00</td>
<td>0.67</td>
<td>0.47</td>
</tr>
<tr>
<td>X3</td>
<td>140</td>
<td>0.10</td>
<td>1.57</td>
<td>0.51</td>
<td>0.24</td>
</tr>
<tr>
<td>Z1</td>
<td>140</td>
<td>25.64</td>
<td>33.49</td>
<td>28.93</td>
<td>1.67</td>
</tr>
<tr>
<td>Z2</td>
<td>140</td>
<td>1.37E+11</td>
<td>3.52E+14</td>
<td>1.8859E+13</td>
<td>5.63121E+1</td>
</tr>
<tr>
<td>Z3</td>
<td>140</td>
<td>-0.19</td>
<td>0.32</td>
<td>0.06</td>
<td>0.11</td>
</tr>
<tr>
<td>Z4</td>
<td>140</td>
<td>0.00</td>
<td>1.00</td>
<td>0.51</td>
<td>0.50</td>
</tr>
<tr>
<td>Z5</td>
<td>140</td>
<td>0.00</td>
<td>1.00</td>
<td>0.46</td>
<td>0.50</td>
</tr>
<tr>
<td>Z6</td>
<td>140</td>
<td>-0.13</td>
<td>11.05</td>
<td>1.73</td>
<td>2.11</td>
</tr>
<tr>
<td>Z7</td>
<td>140</td>
<td>0.21</td>
<td>2.07</td>
<td>0.88</td>
<td>0.41</td>
</tr>
<tr>
<td>Z8</td>
<td>140</td>
<td>-0.39</td>
<td>0.43</td>
<td>0.04</td>
<td>0.17</td>
</tr>
<tr>
<td>AM</td>
<td>140</td>
<td>-0.16</td>
<td>0.13</td>
<td>-0.02</td>
<td>0.06</td>
</tr>
<tr>
<td>RM</td>
<td>140</td>
<td>-0.21</td>
<td>0.20</td>
<td>-0.0003</td>
<td>0.08</td>
</tr>
</tbody>
</table>

Source: data that has been processed by the author (2021)

Based on table 1, financial distress (X1) has a minimum value of 0.24 and a maximum value of 8.43. The average value of financial distress is greater than the standard deviation value. It means that the data deviation is low, and the value is evenly distributed. Internal control (X2) has a minimum value of 0 and a maximum value of 1. The average value of internal control is greater than the standard deviation value, which means that the data deviation is low and the value distribution is even. Meanwhile, the debt structure (X3) has a minimum value of 0.10 and a maximum value of 1.57. The average value of the debt structure is greater than the standard deviation value, which means that the data deviation is low and the value is evenly distributed.

Based on the results of descriptive statistics, it can also be seen that the three control variables have an average value that is greater than the standard deviation value, which means that the data deviation is low and the value is evenly distributed. The three variables are firm size (Z1), ownership concentration (Z4), and total asset turnover (Z7). Meanwhile, the other five control variables have an average value smaller than the standard deviation value, which means that the data deviation is high and the value distribution is uneven. The
five variables are operating cash flow (Z2), return on equity (Z3), big4 audit quality (Z5), price to book value (Z6), and Sales Growth (Z8).

In the accrual earnings management variable (AM), it can be seen that the minimum value is -0.16 and the maximum value is 0.13. The average value of accrual earnings management is smaller than the standard deviation value, which means that the data deviation is high and the value distribution is uneven. Meanwhile, real earnings management (RM) has a minimum value of -0.21 and a maximum value of 0.20. The data deviation from real earnings management is also high, and value distribution is uneven because the average value of real earnings management is smaller than the standard deviation value.

**Hasil Uji Regresi**

This study uses two tests. The first is the F test, which aims to test the model's fit between the independent and dependent variables. The second is the t-test which aims to prove how much influence the independent variable has on the dependent variable.

**Tabel 2. Hasil Uji F Regresi 1**

<table>
<thead>
<tr>
<th>Model</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regresi (X-Y1/AM)</td>
<td>1.350</td>
<td>0.261</td>
</tr>
<tr>
<td>Regresi (X-Z-AM)</td>
<td>2.364</td>
<td>0.011</td>
</tr>
</tbody>
</table>

Source: data that has been processed by the author (2021)

Based on table 2, for regression, the independent variable (X) and the dependent variable (AM) have a significance value of 0.261>0.05. So it can be concluded that there is no influence between the independent and dependent variables. However, as for the regression of the independent variable (X) - the control variable (Z) and the dependent variable (AM), it has a significant value of 0.011<0.05, which means that the control variable controls the independent variable affects the dependent variable.

**Tabel 3. Hasil Uji F Regresi 2**

<table>
<thead>
<tr>
<th>Model</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regresi (X-Y1/RM)</td>
<td>1.864</td>
<td>0.139</td>
</tr>
<tr>
<td>Regresi (X-Z-RM)</td>
<td>2.507</td>
<td>0.007</td>
</tr>
</tbody>
</table>

Source: data that has been processed by the author (2021)

Based on table 3, for regression, the independent variable (X) and the dependent variable (RM) have a significance value of 0.139>0.05. So it can be concluded that there is
no influence between the independent and dependent variables. However, as for the regression of the independent variable (X) - the control variable (Z) and the dependent variable (RM), it has a significant value of 0.007<0.05, which means that the control variable controls the independent variable affects the dependent variable.

<table>
<thead>
<tr>
<th>Tabel 4. Hasil Uji Partial (Uji t) Regresi 1</th>
<th>Regresi (X-AM)</th>
<th>Regresi (X-Z-AM)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>Sig</td>
</tr>
<tr>
<td>X1</td>
<td>-0.92</td>
<td>0.357</td>
</tr>
<tr>
<td>X2</td>
<td>-0.18</td>
<td>0.855</td>
</tr>
<tr>
<td>X3</td>
<td>-1.75</td>
<td>0.083</td>
</tr>
<tr>
<td>Z1</td>
<td>-0.94</td>
<td>0.347</td>
</tr>
<tr>
<td>Z2</td>
<td>1.328</td>
<td></td>
</tr>
<tr>
<td>Z3</td>
<td>-0.006</td>
<td></td>
</tr>
<tr>
<td>Z4</td>
<td>1.748</td>
<td></td>
</tr>
<tr>
<td>Z5</td>
<td>-1.701</td>
<td></td>
</tr>
<tr>
<td>Z6</td>
<td>-1.956</td>
<td></td>
</tr>
<tr>
<td>Z7</td>
<td>-1.138</td>
<td></td>
</tr>
<tr>
<td>Z8</td>
<td>0.329</td>
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</tr>
</tbody>
</table>

Source: data that has been processed by the author (2021)

<table>
<thead>
<tr>
<th>Tabel 5. Hasil Uji Partial (Uji t) Regresi 2</th>
<th>Regresi (X-RM)</th>
<th>Regresi (X-Z-RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
<td>Sig</td>
</tr>
<tr>
<td>X1</td>
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<td>0.666</td>
</tr>
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<tr>
<td>X3</td>
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</tr>
<tr>
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<td>0.402</td>
</tr>
<tr>
<td>Z2</td>
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<td></td>
</tr>
<tr>
<td>Z3</td>
<td>1.021</td>
<td></td>
</tr>
<tr>
<td>Z4</td>
<td>-1.223</td>
<td></td>
</tr>
<tr>
<td>Z5</td>
<td>1.889</td>
<td></td>
</tr>
<tr>
<td>Z6</td>
<td>0.147</td>
<td></td>
</tr>
<tr>
<td>Z7</td>
<td>-1.969</td>
<td></td>
</tr>
<tr>
<td>Z8</td>
<td>-0.628</td>
<td></td>
</tr>
</tbody>
</table>

Source: data that has been processed by the author (2021)
Financial Distress (X1)

Based on the results of the t-test on accrual earnings management in table 4, the significance value of financial distress before the control variable is 0.855. However, after the control variable, the significance value drops to 0.470, which is still greater than 0.05, so that H1a is rejected. Thus financial distress does not affect accrual earnings management practices.

The results of this study cannot support agency theory (Melinda & Widyasari, 2019) which states that with interest in getting bonuses or rewards from shareholders, managers will provide good information about company performance even though this is inversely proportional to the company's proper condition.

These results align with (Melinda & Widyasari 2019) and (Sucipto & Zulfa 2021), which show that financial distress does not affect accrual earnings management. However, the results of this study are not in line with the research conducted by Chairunesia et al. (2018) and (Li et al. 2020), which shows that financial distress has a positive effect on accrual earnings management.

Based on the partial test results on real earnings management in table 5, the significance value of financial distress before the control variable is 0.022, which is less than 0.05, so H1b is accepted. However, after the existence of the control variable, the significance value of financial distress increases to 0.648, which is greater than 0.05, which indicates that the control variable does not affect the relationship between financial distress and real earnings management. Thus financial distress affects real earnings management practices.

That result supports agency theory (Scott 2012), which states that information asymmetry is an adverse selection because managers know more about the company's conditions and prospects than owners and investors. So managers can pick and choose information, which will be distributed to owners and investors. Three basic assumptions of human nature also explain agency theory: humans always avoid risk (Sari & Meiranto, 2017). Therefore, the impact of financial distress experienced by the company will be detrimental to managers whose performance is measured based on the performance of the financial statements. It creates an initiative for managers to carry out real earnings management to avoid the risk of poor performance appraisals.

Companies that experience financial distress perform lower real earnings management because it requires high costs. It is because the company uses these high costs to make adjustments to its business strategy, and companies experiencing financial distress do not have the resources to do real earnings management. These results align with research conducted by (Li et al., 2020), which shows that companies with greater financial distress will carry out lower real management practices.
Internal Control (X2)

The partial test results on accrual earnings management in table 4 show the significant value of internal control before the control variable is 0.083. However, after the control variable, the significance value drops to 0.075, which is still greater than 0.05, so H2a is rejected. Likewise, with the partial test results on real earnings management in table 5, the significance value of internal control before the control variable is 0.759. However, after the control variable, the significance value rises to 0.977, greater than 0.05. It means H2b is rejected. Thus, internal control without and in the presence of control variables does not affect accrual earnings management and real earnings management.

The results of this study cannot support agency theory (Zulfikar et al., 2015) which states that the problem of information asymmetry is a moral hazard (where managers can take action beyond the knowledge of the principal who violates the contract), can be solved in one way. That is the presence of a board of commissioners who has the role of monitoring manager behavior (through internal control) in the interests of company owners and investors. However, the quality of good internal control must be accompanied by increased supervision of earnings management actions, not only as a form of formality to comply with existing regulations.

These results align with (Rahmadani & Haryanto 2018) and (Anzelya & Kurniawati 2020), which show that internal control does not affect earnings management. However, the results of this study are not in line with research conducted by Wiryakriyana & Widhiyani (2017) and (Li et al., 2020), which shows that internal control affects accounting fraud behavior, one of which is earnings management.

Debt Structure (X3)

Based on the partial test results on accrual earnings management in table 4, the significance value of debt structure before the control variable is 0.347, which is greater than 0.05, so H3a is rejected. However, after the control variable, the significance value of the debt structure fell to 0.020, which is small from 0.05. Therefore, it means H3a was accepted. It shows that the control variable has an impact on the effect of structure debt on accrual earnings management, where the effect of debt structure on accrual earnings management depends on firm size (Z1), operating cash flow (Z2), return on equity (Z3), ownership concentration (Z4), audit quality big4 (Z5), price to book value (Z6), total asset turnover (Z7), and sales growth (Z8).

This research supports the pecking order theory (Agustia & Elly, 2018), which states that companies with high ratio leverage will tend to carry out earnings management because the company is threatened with default. Even though outside investors prefer debt financing to equity, the high ratio value leverage is also less profitable for investors because they are considered to have much debt to external parties. So managers carry out accrual earnings management to maintain investor interest.
These results align with (Agustia & Elly 2018) and (Damayanti & Kawedar 2018), which show that leverage affects earnings management. However, the study results are not in line with (Sari & Meiranto 2017) research and (Dimarcia & Krisnadewi 2016), which show that leverage does not affect earnings management.

Based on the partial test results on real earnings management in table 5, the significance value of the debt structure before the control variable is 0.402. However, after the control variable, the significance value drops to 0.204, which is still greater than 0.05, so H3b is rejected. So the debt structure does not affect real earnings management.

Based on this research, the debt structure cannot support the pecking order theory (Agustia & Elly, 2018), which states that companies with high ratios leverage will tend to carry out earnings management because the company is threatened with default. Companies that are threatened with default must continue to fulfill their obligations, and the fulfillment of these obligations cannot be completed with real earnings management. In other words, real earnings management practices cannot be used as an alternative to avoid defaults that occur in companies.

The results of this study align with (Sari & Meiranto 2017) and Dimarcia & Krisnadewi 2016), which show that leverage does not affect earnings management. (However, the results of this study are not in line with research conducted by (Agustia & Elly 2018) and (Damayanti & Kawedar 2018), which show that leverage affects earnings management.

CONCLUSION

Based on the existing discussion, it can be concluded that financial distress and internal control do not affect accrual earnings management without and with control variables. Meanwhile, the existence of the structure control variable has a debt effect on accrual earnings management. It shows that companies with a high level of leverage will tend to carry out accrual earnings management because they are threatened with default. In addition, internal control and structure debt do not affect real earnings management. Meanwhile, financial distress affects real earnings management. It shows that companies experiencing financial distress tend to lower real earnings management because it requires high costs.

REFERENCES


