

## CAPITAL STRUCTURE AND FIRM SIZE AS DETERMINANTS OF REAL EARNINGS MANAGEMENT

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### ABSTRACT

The effect of DAR, DER, and firm size on the earnings management of food and beverage producers listed on the IDX is investigated in this study. For the years 2018–2021, the study's population consists of food and drink producers that are listed on the IDX. Purposive sampling was used to collect the samples. Secondary data was sourced from company financial filings that were documented on the website of the Indonesia Stock Exchange (IDX). The study used SPSS for a variety of statistical tasks, including classical assumption testing, descriptive analysis, and multiple linear regression. Size of the firm is the only factor that affects earnings management; DAR and DER are irrelevant. According to the study, earnings management is influenced by DAR, DER, and the size of the firm. Due to the fact that highly leveraged organisations aren't always good at managing their profits, creditors and investors should think about the company's leverage when making loans and investments.

**Keywords:** Company Size, Leverage and Earning Management

### 1. Introduction

In this cutthroat sector, businesspeople need to step up their game if they want to continue to be competitive and assist their firms in achieving their goals, which may include growing the wealth of their shareholders or the worth of their company. It is clear that the company has been successful in achieving its goals, as shown by the fact that it has expanded and increased its performance (Sari, 2020). In today's increasingly competitive economic environment, organisations are under continual pressure to increase their bottom lines in order to maintain their existence. As a result, these revenues will either be used to finance future expansion or distributed to investors in the form of dividends. Investors are motivated to put their money into businesses that have a high rate of profitability, especially if that rate of profitability continues to increase over time. The year 2020; "Yuyetta" A great amount of importance is attached to profitability for companies since it is one of the cornerstones that is used to evaluate the condition of a firm. One way to evaluate the success of a business is to consider the degree of profitability, which takes into consideration the amount of profit generated. If a company is able to generate a profit, it indicates that it has tremendous promise for the future. If a company's profitability improves, there is a greater likelihood that the company will be able to obtain more capital for the purposes of growth and investment. When it comes to profitability, businesses in the food and beverage sector that have been listed on the Indonesia Stock Exchange (BEI) in Jakarta are not at all different from any other firm.

Companies that have a high profitability rate on the IDX are the ones that investors will put their money into. On the other hand, the fact of the matter is that not every publicly listed firm is capable of maintaining a profit year after year. It is without a doubt the case that investors have absolutely no interest in businesses that are unable to create a profit. In the absence of the information that is shown in the business's financial reports, investors in a company are unable to make an informed investment decision. In the process of determining whether or not to make an

investment, investors evaluate many sections of financial reports, one of which is the profitability report. For investors, it is essential to take into consideration the profitability of a firm, as well as any promises of profitability. Through the examination of the financial statements for the purpose of reporting on profitability, the objective is to be able to recognise any indications of earnings management. Earnings Management is designated as the dependent variable for the purpose of this investigation. Earnings management refers to the many managerial decisions that deviate from the norm that are made in the course of company operations. Cohen and Zarowin (2010) and Roychowdhury (2006) state that the basic purpose of earnings management is to achieve the goals that have been set for profits. For the purpose of the research, atypical operational cash flow will serve as a proxy for the purpose of measuring earnings management.

Roychowdhury (2006) outlines two primary approaches to earnings management: real earnings management, which is often referred to as Earnings management, and pure accrual earnings management. Both of these approaches are considered to be very effective. It is via the utilisation of discretionary accruals that the management of pure accrual profit is performed. Discretionary accruals are what are meant by the term "accrual earnings management." With the completion of the period of time during which the manager is aware of the profitability prior to engineering, he or she is able to do accrual earnings management and ascertain the amount of manipulation that is necessary to achieve the profitability aim. At any point in time throughout the accounting period, it is possible for real activity manipulation, real earnings management, or real earnings management to take place. The implementation of standard operating procedures is the cornerstone of true profits management strategy. Real earnings management is the practice of managers purposefully misleading stakeholders into believing that particular financial reporting targets have been accomplished in the course of ordinary business operations. This is done with the aim of bolstering the company's bottom line. Real earnings management, which is often referred to as earnings management, is a tool that is used to govern profitability. It enables one to adjust the output of the accounting system by altering the timing or structure of activities, investments, and financial transactions (Agustia, 2018).

The success of a firm may be evaluated by looking at its financial records and using financial ratios to make the determination. One of the ratios that is used in ratio analysis to assess the health and performance of a company is the solvency ratio. Additional ratios are also utilised. In accordance with Agustia (2018), the debt-to-asset ratio is taken into consideration while calculating the solvency ratio. In order for banks to expand their companies and weather the inevitable losses that come with investing in hazardous productive assets and other assets, the solvency ratio is an important indicator. This is because capital is needed for banks to develop their operations effectively. The debt-to-asset ratio, more often referred to as DAR, is one method that may be used to compare total debt to total assets. To put it another way, the quantity of debt that a company carries at any one time or the proportion of its assets that are backed by debt may have an effect on asset management. A high ratio suggests increased debt funding, which means that further loans will be more difficult to come by for the company. This is the conclusion that can be drawn from the data of the measurement. Specifically, this is due to the fact that creditors are concerned that the firm may not have sufficient assets to satisfy its debts. Additionally, a lower ratio suggests that a smaller company will be employing debt financing (Kasmir, 2016).

This is in line with the previous point. A high Debt to Asset Ratio (DAR) indicates that a company is not in good financial form, which in turn influences the volatility of stock prices and

stimulates managers to participate in earnings management. According to Kasmir (2016), the debt to asset ratio (DAR), which is also often referred to as the debt ratio, is a measure that reflects what proportion of an organization's assets are funded by loans or credit. According to Astriah (2021), the debt-to-asset ratio is a measurement that considers the total debt in proportion to the total assets. When this is taken into consideration, it can be deduced that the degree of debt financing of a company's assets has an effect on asset management. In other words, management is motivated to engage in earnings management. It is possible to determine the degree to which a company's assets are financed by debt by analysing its leverage. The quantity of debt that a company carries is directly related to the level of risk that the company is exposed to. A high leverage ratio is another indicator of how dependent the company is on third parties, namely its creditors in this particular instance. As a substitute for leverage, the Debt to Equity Ratio (DER) is used in this research and analysis. According to Kasmir (2016), a debt-to-equity ratio (DER) is a measurement of debt in proportion to equity. This ratio is also known as it. By dividing the entire debt, which includes the current debt, by the total equity, this ratio is obtained. Examining this ratio might provide you with information on the amount of capital that was contributed to the company by both the owner of the business and the borrower (creditor). To put it another way, this ratio is used in order to ascertain the worth of each individual rupiah of personal capital that is offered as collateral for a loan guarantee. It is possible to determine the degree to which a bank is able to satisfy its short-term and long-term debt commitments by using its own capital, as shown by the DER. A debt ratio is a measurement that compares the amount of debt to the total capital or the amount of capital that is owned. The primary objective of the debt ratio is to determine the proportion of a company's funding that is derived from debt. When debt levels increase, the likelihood of filing for bankruptcy increases as well. After dividing the two amounts, one can get the overall debt to capital ratio of the company. Consider the fact that this ratio compares the amount of money that comes from the owner of the company to the amount that goes to creditors. This is a key aspect of this ratio that you should be aware of. The purpose of this ratio is to ascertain the proportion of each rupiah's capital that is used as collateral when obtaining a loan. A approximate estimate of the debtor's financial risk and creditworthiness may be obtained via the use of this ratio. When creditors provide loans to persons who have a high debt-to-equity ratio, they expose themselves to a greater risk of adverse consequences in the event that the debtor has a financial collapse. When managers implement methods for earnings management, they do so with the assumption that, with improved profits, they will be able to reduce the amount of debt that the firm would incur. The premise that earnings management may benefit from the use of leverage is supported by evidence from research conducted by Astari and Suryanawa (2017), Indracahya and Faisal (2017), and Giovani (2017). In contrast to the findings of Pasilongi et al. (2018), which indicate that leverage has a detrimental effect on earnings management, Gunawan et al. (2015) conclude that leverage has no influence whatsoever on earnings management. The size of a corporation may be classified using a variety of different measures, such as the total assets of the firm, the size of its log, the stock market price, and so on (Astriah, 2021). Larger businesses are often the focus of increased attention from outside parties such as investors, analysts, and even governments. It is likely that enterprises will abstain from greatly increasing their revenues because of the possibility of new responsibilities, such as more tax obligations. According to the majority of big firms, the purpose of their yearly profit reporting is to seem constant. Sartono (2010) asserts that the size of a firm is a factor in determining whether or not it is successful in obtaining more funding from external sources to

finance day-to-day operations. Companies that have a higher market capitalization will have an easier time getting enormous quantities of financing from external sources. This will result in an increase in the operational activity, productivity, and eventually profitability of the company. When a company grows larger, it has a greater opportunity of selling its products to a wider audience, which results in a greater number of prospective consumers and leads to an increase in the amount of money in the bank (Cahyani, 2020).

Therefore, this is the driving force behind the decision of managers to engage in earnings management. Both Giovani (2017) and Wardani and Santi (2018) came to the conclusion that the size of the company has a negative and quite large impact on earnings management. According to Gunawan et al. (2015), Arifin and Destriana (2016), and Indracahya and Faisol (2017), the size of the company has no impact on the management of earnings. Given the context of the aforementioned problem and the absence of research that is pertinent to the issue, the author is eager to fill those gaps by conducting an investigation into the impact of company size, debt-to-equity ratio (DER), and debt-to-asset ratio (DAR) on the earnings management of food and beverage companies that are listed on the Indonesian Stock Exchange between the years 2018 and 2021.

## 2. Theoretical Foundation

### 2.1 Agency Theory

Within the framework of agency theory, a legally enforceable agreement is constructed between the principal, who is the owner or shareholder, and the agent, who is the management. According to Jensen and Meckling (1976), shareholders, who are considered to be principals, are the ones who employ managers inside a firm in order to supervise its activities. It is the concept upon which agency theory is based that contractual arrangements between principals (owners) and agents (managers) are inherently fraught with difficulties owing to the presence of conflicting interests.

### 2.2 Earnings Management

Earnings Management (Y) is designated as the dependent variable for the purpose of this investigation. Earnings management refers to the many managerial decisions that deviate from the norm that are made in the course of company operations. Cohen and Zarowin (2010) and Roychowdhury (2006) state that the basic purpose of earnings management is to achieve the goals that have been set for profits. For the purpose of the research, atypical operational cash flow will serve as a proxy for the purpose of measuring earnings management. According to Roychowdhury (2006), this research used the Earnings Management measurement technique that is described below. In the following, you can find the metric model for earnings management:

$$CFO_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \beta_2(S_t/A_{t-1}) + \beta_3(\Delta St/A_{t-1}) + \epsilon_t$$

Information:

$CFO_t/A_{t-1}$  = Actual operating activity cash flow in year t scaled by total assets in year t-1,

$A_{t-1}$  = Total assets at the beginning of the period,

$S_t$  = Sales in year t,

$S_{t-1}$  = Change in sales in year t from t-1.

$\alpha_1(1/A_{t-1})$  = Intercept scaled by total assets in year t-1 with the aim that cash flow from operating activities does not have a value of 0 when it is sold.

$S_t / A_{t-1}$  = Sales in year t scaled by total assets in year t-1  
 $\Delta S_t / A_{t-1}$  = Sales in year t minus sales in year t- 1 scaled by total assets in year t-1.  
 $\alpha_0$  = Constant.  
 $E_t$  = Error term in year t

### 2.3 Variable X1, namely *Debt To Asset Ratio (DAR)*

According to Kasmir (2016), the debt to asset ratio (DAR), which is also often referred to as the debt ratio, is a measure that reflects what proportion of an organization's assets are funded by loans or credit. According to Astriah (2021), the debt-to-asset ratio is a measurement that considers the total debt in proportion to the total assets. When this is taken into consideration, it can be deduced that the degree of debt financing of a company's assets has an effect on asset management. The formula that may be used to determine DAR is that which is shown below:

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

### 2.4 Variable X2, namely *Debt Equity Ratio (DER)*

According to Kasmir (2016), a debt-to-equity ratio (DER) is a measurement of debt in proportion to equity. This ratio is also known as it. By dividing the entire debt, which includes the current debt, by the total equity, this ratio is obtained. Examining this ratio might provide you with information on the amount of capital that was contributed to the company by both the owner of the business and the borrower (creditor). To put it another way, this ratio is used in order to ascertain the worth of each individual rupiah of personal capital that is offered as collateral for a loan guarantee. The following is the formula that may be used to calculate the debt to equity ratio, which can then be used to the comparison that is shown below:

$$\text{Debt to equity ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

### 2.5 Variable X3 is Company Size

The size of a corporation may be classified using a variety of different measures, such as the total assets of the firm, the size of its log, the stock market price, and so on (Astriah, 2021). Larger businesses are often the focus of increased attention from outside parties such as investors, analysts, and even governments. It is likely that enterprises will abstain from greatly increasing their revenues because of the possibility of new responsibilities, such as more tax obligations. According to the majority of big firms, the purpose of their yearly profit reporting is to seem constant. In order to determine the size of your business, you should follow this method:

**Size= Log Total Assets**

## 3. Research Methods

The sample, the population? All 46 food and beverage businesses that were registered on the Indonesia Stock Exchange (BEI) between the years 2018 and 2021 are included in the

population that is being studied in this study. It was determined by the use of purposive sampling. Calculations for this investigation were carried out by fifteen different firms. This approach of data collecting is based on research conducted in libraries, which may include the internet, print sources, and academic sources. For the purpose of this investigation, quantitative data is used, which is then quantitatively represented by research variables.

This investigation makes use of secondary data obtained from the financial report of an Indonesian manufacturing business that was only recently made public (<http://www.idx.co.id/>). The data were analysed using a technique known as Multiple Linear Analysis. Numerous independent factors that have an influence on dependent variables may be uncovered via the use of multiple regression analysis.

## 4. Research Results

### 4.1. Descriptive Statistical Test

**Table 1**  
**Descriptive Test**

	N	Minimum	Maximum	Mean	Std. Deviation
DAR	60	0.11	0.93	.4081	.20211
DER	60	0.12	13.55	1.0815	1.85280
Company Size	60	14.88	30.62	24.5076	5.15694
Real Earnings Management	60	0.09	.44	.1375	.08031
Valid N (Listwise)	60				

Source: SPSS Processing Data, 2024

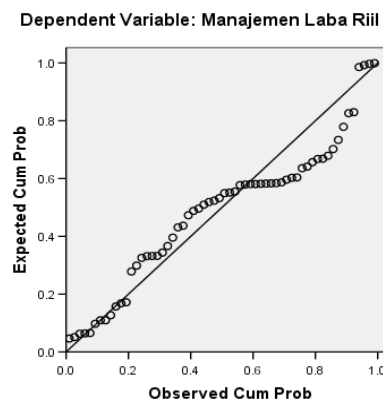
Based on the data shown in Table 1, the Debt to Asset Ratio fluctuated between 0.11 and 0.93 during the course of the study period, with an average value of 0.4081. To put it into perspective, the standard deviation is 0.20211. A range of 0.12 to 13.55 was observed for the Debt to Equity Ratio over the study period, with 1.0815 being the average value. At the same time, the standard deviation is equal to 1.85280 respectively. During the course of the study, the average size of a company was around 24.5076, with a range that extended from 14.88 to 30.62. This is in addition to the fact that the standard deviation is 5.5169. Throughout the course of the study, Real Activity Manipulation was assessed, with the average value coming in at 0.1375 and ranging from a low of 0.09 to a high of 0.44. In the meanwhile, the standard deviation is around 0.08031.

### 4.2. Classic assumption test

#### 1. Normality test

**Figure 2**  
**Normality Test Results**

Normal P-P Plot of Regression Standardized Residual

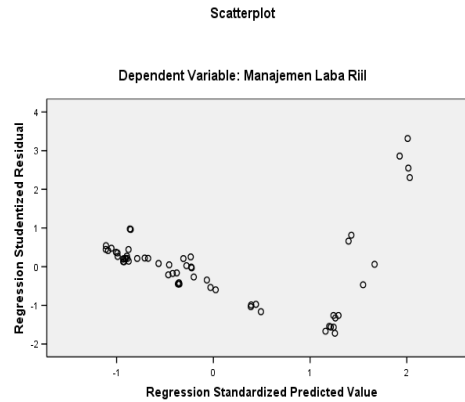


Source: SPSS Processing Data, 2024

According to the results of the data processing performed by SPSS, the PP Plots exhibit a pattern that is consistent with a normal distribution. In the same way, the points that were formed in the figure that was just shown are dispersed along the diagonal line.

## 2. Heterodasticity Test

**Figure 3**  
**Heterodasticity Test Results**



Source: SPSS Processing Data, 2024

The fact that the residual plot in the figure above is distributed both above and below the point 0 or that it does not create a U pattern or an inverted U pattern is evidence that the regression model does not show heteroscedasticity.

## 3. Autocorrelation Test

**Table 2**  
**Autocorrelation Test Results**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.577(a)	.333	.297		.09949	1,791

a Predictors : (Constant), Company Size, DAR, DER

b Dependent Variable: Real Earnings management

Source: SPSS Processing Data, 2024

The Durbin-Watson statistics table also includes DL and DU values. When  $T = 75$  and  $k = 3$ , the values that are determined are  $DL = 1.53$  and  $DU = 1.70$ . Subtracting  $DU$  from 4 yields a value of 2.30. Because the values of  $DU$  and  $4 - DU$  are within the range of 1.70 1.79 2.30, the result is 1.791 for the Durbin-Watson value. Since the DW value is between  $DU$  and  $4 - DU$ , it may be inferred that autocorrelation does not exist.

## 4. Multicollinearity Test

**Table 3**  
**Multicollinearity Test Results**

Correlations			Collinearity Statistics	
Zero-order	Partial	Part	Tolerance	VIF
.136	.149	.113	.548	1,825
.006	-.052	-.039	.546	1,831
-.654	-.652	-.642	.986	1,015

a Dependent Variable: y  
Source: SPSS Processing Data, 2024

According to the table above, the VIF value for all independent variables, including DAR, DER, and company size, is less than 10, suggesting that this study's regression model is not multicollinear.

### 4.3. Multiple Linear Regression Test

**Table 4**  
**Multiple Linear Regression Test Results**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.362	.044		8,146	.000
	DAR	0.061	.054	0.152	1,131	0.263
	DER	-0.000	0.263	-0.053	-0.392	0.696
	Company Size	-0.010	0,000	-0.646	-6,436	0,000

a Dependent Variable: Earnings Management  
Source: SPSS Processing Data, 2024

Mathematically, the results of the multiple linear regression analysis can be written as follows:

$$Y = 0.362 + 0.061 X1 - 0.000 X2 - 0.010X3$$

The regression equation has the following meaning:

a. Constant ( $\beta_0$  Coefficient)

The constant value is 0.362, which means that if the value of Debt To Asset Ratio, Debt To Equity Ratio, company size is equal to zero, or there are no independent variables that influence real activity to decrease, then the magnitude of the decrease in real activity will be 0.362.

b . Debt To Asset Ratio Coefficient (X1)

The value of the Debt To Asset Ratio regression coefficient is 0.061. The regression coefficient value is positive, indicating that there is a unidirectional relationship between the Debt To Asset Ratio variable and Earnings Management. This indicates that the higher the Debt To Asset Ratio, the more it will influence the implementation of Earnings management.

c . Debt To Equity Ratio Coefficient (X2)

The value of the Debt To Equity Ratio regression coefficient is -0.000. The regression coefficient value is negative, indicating that there is an inverse relationship between the Debt To Equity Ratio variable and Earnings Management. This indicates that the higher the Debt To Equity Ratio, the lower Earnings management will be.

d . Company Size Coefficient (X3)

Company size (X3) has a negative relationship with real activity, with a regression coefficient of -0.010. The existence of this negative relationship means that company size (X3) and Earnings Management show an opposite relationship. The increasing company size (X3) causes Earnings management to decrease, likewise, as the company size (X3) decreases, real activity increases.

#### 4.4 T test

- a. One of the variables that has an effect on earnings management is the debt-to-asset ratio. There is a difference between the t-table value of 1.667 and the t value of 1.131 for the Debt To Asset Ratio variable, which is 0.263, which is more than 0.05. Because of this, we are able to draw the conclusion that the variable known as the Debt to Asset Ratio does not have any partial effect on Earnings Management. The fact that this is the case reveals that the value of the Debt to Asset Ratio does not have any influence on the way in which the firm manages its profits. Consequently, the first hypothesis, which asserts that the Debt to Asset Ratio has a partial influence on Earnings Management, is not supported by the relevant evidence.
- b. The To Equity Ratio is a statistic that has an impact on the management of profits. The t-value for the Debt to Equity Ratio variable is 0.392, which is lower than the t-table value of 1.667 (0.696 is more than 0.05: a significant difference). Therefore, it is possible to draw the conclusion that the variable known as the Debt to Equity Ratio does not have any partial effect on Earnings Management. The fact that this is the case reveals that the value of the Debt to Equity Ratio does not have any influence on the earnings management process that the firm employs. Consequently, the second hypothesis, which asserts that the Debt to Equity Ratio has a negligible effect on Earnings Management, is not supported by the evidence.
- c. Earnings management is affected by the size of the company. The company size variable has a t value of -6,436 that is more than the t table value of 1.667, which indicates that 0.002 is less than the significance level of 0.05. As a consequence of this, we are able to draw the conclusion that the variable of business size has some of an impact on earnings management. Based on this evidence, it is clear that the size of the company will have an effect on the implementation of Earnings management. It may be concluded that the hypothesis has been accepted since it is supported by the third hypothesis, which states that the size of the firm has a partial influence on earnings management.

#### 4.5. F test

**Table 5**  
**F Test Results**

ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,169	3	,056	14,867	,000 <sup>a</sup>
	Residual	,212	56	,004		
	Total	,381	59			

a. Predictors: (Constant), Ukuran Persh, DAR, DER

b. Dependent Variable: Manajemen Laba Riil

Source: SPSS Processing Data, 2024

The table f data demonstrate, as stated by Sarwono (2016), that the independent factors (Debt to Asset Ratio, Debt to Equity Ratio, and Company size) all have an impact on the outcome at the same time.  $df = (k-1) = (3-1) = 2$  and  $(nk) = (60-3) = 57$  are the values that were computed for f and table f. The outcome of these calculations is that  $F_{table} = 3.16$  and  $F_{count} = 14.867$  will be obtained. The value of significance is 0.000, which is less than the threshold of 0.05. The study hypothesis suggests that the Debt to Asset Ratio (DAR) variable has the greatest impact owing to its high beta value. This is because the independent factors have partial and simultaneous effects on the dependent variable.

#### 4.6. Coefficient of Determination Test

**Table 6**  
**Coefficient of Determination Test Results**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.577(a)	.333	.297		.09949	1.791

a Predictors : (Constant), Company Size, DAR, DER

b Dependent Variable: Real Earnings management

Source: SPSS Processing Data, 2024

The table below shows that the year's R Square ( $R^2$ ) is 0.333, or 33.3%. This shows that Debt To Asset Ratio, Debt To Equity Ratio, and firm size affect Earnings management. Variables not stated in this research account for 66.7% of variation. The multiple correlation coefficient considers how closely connected the independent and dependent variables are. The independent variable is significantly related to the dependent variable, according to the multiple correlation coefficient (R) of 0.577, or 57.7%.

#### 4.7. Discussion

##### 1. Debt to Asset Ratio partially influences the company's Earnings management

Earnings Management is influenced by a number of characteristics, one of which is the debt to asset ratio. It is important to note that the t-value of the Debt To Asset Ratio variable is 1.131, which is lower than the t-table value of 1.673 (0.263 is more than 0.05). According to Kasmir (2016), the debt to asset ratio (DAR), which is also often referred to as the debt ratio, is a measure that reflects what proportion of an organization's assets are funded by loans or credit. According to Astriah (2021), the debt-to-asset ratio is a measurement that considers the total debt in proportion to the total assets. When this is taken into consideration, it can be deduced that the degree of debt financing of a company's assets has an effect on asset management. Because of this, we are able to draw the conclusion that the variable known as the Debt to Asset Ratio does not have any partial effect on Earnings Management. One of the conclusions that can be drawn from this research is that the Debt to Asset Ratio does not have any impact on the Earnings management activities that are carried out by corporate management. As a result of the fact that the bigger the number of the Debt to Asset Ratio, the greater the number of Earnings management activities that may be undertaken to cover significant amounts of debt and avoid financial disaster. According to Jao and Paroll (2011), businesses that have a high degree of leverage as a result of a substantial

ratio of total debt to total assets have a high risk of default. This predicament indicates that the firm may be unable to fulfil its obligations. The conclusion that can be drawn from this is that earnings management efforts cannot be employed to avert default. It has been shown by Dimarcia (2016) that the debt-to-asset ratio does not have a significant impact on the management of profits. Agustia and Suryani (2018) conducted a research in which they discovered that the Debt to Asset Ratio has an effect on the management of real profits. This finding is in line with their findings.

## **2. Debt to Equity Ratio has a partial influence on company Earnings management**

Regarding earnings management, the debt-to-equity ratio is an essential component to consider. There is a correlation between the Debt To Equity Ratio variable and a t-value of 0.392, which is less than the ttable value of 1.673, or 0.696, which is more than 0.05. According to Kasmir (2016), a debt-to-equity ratio (DER) is a measurement of debt in proportion to equity. This ratio is also known as it. By dividing the entire debt, which includes the current debt, by the total equity, this ratio is obtained. Examining this ratio might provide you with information on the amount of capital that was contributed to the company by both the owner of the business and the borrower (creditor). To put it another way, this ratio is used in order to ascertain the worth of each individual rupiah of personal capital that is offered as collateral for a loan guarantee. Because of this, the variable known as the Debt to Equity Ratio does not have any influence whatsoever on Earnings Management. According to the debt-to-equity ratio (DER), which is one of the indicators of a company's solvency, the amount of a company's capital that has been utilised to pay down debt is reflected in the ratio. According to Dewi (2012), when a corporation uses debt rather than its own capital, the fixed burden is large, and the income is decreased. However, according to Jao and Paroll (2011), companies that have a high debt-to-asset ratio, also known as leverage, have a greater likelihood of going bankrupt because they are unable to pay their loans on time. Since this is the case, steps taken to control profits cannot, on their own, avert default. The ongoing necessity to fulfil responsibilities is something that cannot be ignored by earnings management. According to Dimarcia (2016), there is no correlation between the Debt to Equity Ratio and the management of profits. As a result of the fact that Agustia and Suryani (2018) found that the Debt to Equity Ratio has an effect on actual earnings management, this makes perfect sense.

## **3. Company size has a partial influence on company Earnings management**

Earnings management is conditional on the company's size. The crucial t-value is 1.75305, or 0.002, which is less than 0.05; the t-value for the firm size variable is -6,436, hence it is significant. The size of a corporation may be classified using a variety of different measures, such as the total assets of the firm, the size of its log, the stock market price, and so on (Astria, 2021). Larger businesses are often the focus of increased attention from outside parties such as investors, analysts, and even governments. It is likely that enterprises will abstain from greatly increasing their revenues because of the possibility of new responsibilities, such as more tax obligations. According to the majority of big firms, the purpose of their yearly profit reporting is to seem constant. Consequently, it's reasonable to assume that company size is a factor that affects earnings management to some extent. One way to measure the extent to which a firm engages in profits management is to look at its size. Large corporations are expected to be more forthcoming with information about their financial situation, more transparent, and provide more detailed reports because they are aware that they will be subject to increasing public scrutiny. Companies as a

result use less tactics to control their revenue. Conversely, earnings management is common among smaller firms, which entails inflating profits artificially to demonstrate adequate business performance (Dewi, 2012). Agustia and Suryani (2018) found that actual earnings management is affected by a company's size, and our results are in line with that.

#### **4. Debt to Asset Ratio, Debt to Equity Ratio and company size simultaneously influence the company's Earnings management**

Company Size, Debt to Equity Ratio, and Debt to Asset Ratio all have an impact on Earnings management, the dependent variable, according to the significance value of  $0.000 < 0.05$ . The independent variable is somewhat associated with the dependent variable, according to the multiple correlation coefficient (R) of 0.577, which is 57.7. Within the framework of agency theory, a legally enforceable agreement is constructed between the principal, who is the owner or shareholder, and the agent, who is the management. According to Jensen and Meckling (1976), shareholders, who are considered to be principals, are the ones who employ managers inside a firm in order to supervise its activities. It is the concept upon which agency theory is based that contractual arrangements between principals (owners) and agents (managers) are inherently fraught with difficulties owing to the presence of conflicting interests. Percent. It is common practice to use financial ratios to evaluate a company's competence or performance over a given time frame. A company's financial health and performance can be assessed using financial ratio analysis, which can expose estimates in the financial statements. Consequently, financial reports are crucial for monitoring and evaluating the operation of the organisation. Future enhancements and an evaluation of the company's status can be informed by the study's findings (Henry, 2015). Because management's decisions regarding Earnings management will influence the value of the company and be considered by investors seeking to reinvest, this study's findings suggest that company size, Debt to Equity Ratio, and Debt to Asset Ratio are important factors to consider. That fits with what Agustia and Suryani (2018) discovered regarding the effects of business size, debt-to-asset ratio, and debt-to-equity ratio on real earnings management.

#### **5. Conclusion Suggestions**

The study's findings are based on the previously described analysis and discussion. Between 2018 and 2021, the debt-to-asset ratio has a significant impact on earnings management for food and beverage companies listed on the Indonesian stock exchange. The Debt to Equity Ratio has a significant impact on the earnings management of food and beverage companies listed on the Indonesian stock exchange between 2018 and 2021. Between 2018 and 2021, the scale of food and beverage companies listed on the Indonesian stock exchange influenced their earnings management techniques. Earnings management strategies for food and beverage companies listed on the Indonesian stock exchange between 2018 and 2021 are determined by the company's size, debt to asset ratio, and debt to equity ratio.

Based on the study's findings, the following suggestions could be made: To avoid activities that could undermine stakeholder confidence and to encourage more transparency in business discussions with investors about organisational performance. Taking this step will allow the organisation to acquire the trust and support of its stakeholders and investors. Before deciding on

an earnings management policy, management should consider Earnings management's appraisal of the policy's potential impact on the organization's performance. More research with longer observation periods are required to make the findings more relevant to a larger population.

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