

Examining The Influence of Leverage, Tax Planning, and Audit Quality on Earnings Management

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Abstract

Earnings management refers to managerial actions aimed at selecting accounting policies to modify or influence reported earnings in order to achieve specific objectives, often related to personal interests. This study analyzes the effect of leverage, tax planning, and audit quality on earnings management. The research focuses on companies in the non-cyclical consumer sector listed on the Indonesia Stock Exchange (IDX) during 2019–2023. Using purposive sampling and casewise diagnostics, a final sample of 23 companies with 98 observations was obtained. Data were analyzed using descriptive statistics and multiple linear regression, with IBM SPSS version 27. The results show that leverage positively affects earnings management, while tax planning negatively affects it. In contrast, audit quality has no significant effect on earnings management.

Keywords: *leverage, tax planning, audit quality, earnings management.*

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INTRODUCTION

The rapid advancement of technology today has facilitated access to, processing, and distribution of information, creating opportunities for new business ventures as well as expansion of existing ones, while simultaneously intensifying competition with the emergence of more creative and innovative competitors. To ensure business sustainability and build a strong image in consumers' eyes, companies must offer unique and innovative products or services. At the same time, corporate reputation among stakeholders can be strengthened through sound performance and optimal profits reflected in financial statements. Apart from serving as a form of managerial accountability, financial statements represent a company's condition, with earnings being the primary indicator of performance. High earnings signal effective financial management and management's ability to optimize resources (Yovianti & Dermawan, 2020).

To project favorable performance, managers may engage in actions that lead to earnings management. For example, in 2018, PT Garuda Indonesia Tbk was suspected of manipulating its financial statements, reporting a net profit of USD 809,850 (IDR 11.33 billion at IDR 14,000/USD). However, an audit conducted by the Financial Professional Development Center (PPPK) of the Ministry of Finance and the Financial Services Authority (OJK) revealed misstatements, requiring a

restatement. After corrections, the company instead posted a net loss of USD 175.028 million (IDR 2.4 trillion). Adjustments also affected the recognition of other income, particularly a correction of USD 239.94 million from cooperation with PT Mahata Aero Teknologi, which should have been recorded as receivables. As a result, the initially reported other income of USD 278.8 million fell to USD 38.8 million. This case illustrates earnings management through premature revenue recognition in order to present profits in financial reports (detikFinance, July 26, 2019).

Scott (2015) defines earnings management as managerial decisions to choose accounting policies or real actions that influence reported earnings to achieve specific objectives. According to Undrian & Yanti (2023), such practices aim to create a favorable impression of financial performance or to influence stakeholder perceptions. Scott (2015) identifies several motivations for earnings management, including bonus incentives, political motives, contractual obligations, CEO turnover, taxation, communication with investors, and Initial Public Offerings (IPOs). Furthermore, as agents of the company, managers have opportunities to manage earnings because they have greater access to information than owners (Panjaitan & Muslih, 2019).

Funding needs in business operations are often met through debt. Leverage refers to the use of borrowed funds to finance (Sutama & Lisa, 2018). Firms with high leverage ratios face greater interest expenses and risks, which can put pressure on earnings. To maintain an image of strong performance, managers may engage in earnings management to present higher profits, thereby attracting investors, creditors, and other stakeholders. High earnings also reflect a company's financial resilience and sustainability, enhancing creditor trust and investor appeal. Research by Agustia & Suryani (2018) shows that leverage has a significant positive effect on earnings management. Conversely, Susanti & Margareta (2019) found a significant adverse effect, while studies by Hapsoro & Annisa (2017) and Kalbuana et al. (2022) concluded that leverage has no effect. These studies generally employ the Debt-to-Assets Ratio (DAR) as a proxy for leverage and the modified Jones model as a proxy for earnings management.

Another factor influencing earnings management is tax planning, which involves managing tax obligations, including income tax and other levies, to minimize payments within the framework of prevailing regulations (Zain, 2005). The goal is to ensure tax efficiency (Pohan, 2013). To reduce tax burdens, companies may engage in earnings management through income-minimizing strategies, such as tax avoidance, the use of accounting methods, tax-saving transactions, or the exploitation of tax incentives. Research by Sumomba & Hutomo (2012) demonstrated that tax planning (proxied by the Tax Retention Rate [TRR]) has a significant positive effect on earnings management (proxied by Profit Distribution). However, Achyani & Lestari (2019) found no significant effect between tax planning (TRR) and earnings management (modified Jones model).

In addition to leverage and tax planning, audit quality also affects earnings management. Watkins et al. (2004) define audit quality as the auditor's ability to ensure that financial statements are presented fairly in accordance with applicable accounting standards. Audit Standard 240 (Revised 2021) states that a high-quality audit can identify and assess the risks of material misstatement due to fraud and obtain sufficient audit evidence through appropriately designed and implemented responses (IAPI, 2021). Audit quality is commonly proxied by the size of the Public

Accounting Firm (PAF), distinguishing between Big Four and Non-Big Four auditors. Big Four firms generally have auditors with higher reputations, expertise, and experience, supported by adequate audit facilities, making them better able to detect fraud and material misstatements. Consequently, companies audited by Big Four firms are less likely to engage in earnings management to protect their reputations. Kalbuana et al. (2022) and Hapsoro & Annisa (2017) found that audit quality has a significant positive effect on earnings management. In contrast, Susanti & Margareta (2019) reported a negative effect when earnings management was measured using the modified Jones model.

The inconsistency in prior findings motivates further research on the effect of leverage, tax planning, and audit quality on earnings management. This study focuses on non-cyclical consumer sector companies listed on the IDX during 2019–2023. The objectives are to examine: (1) the positive effect of leverage on earnings management, (2) the effect of tax planning on earnings management, and (3) the negative effect of audit quality on earnings management. This study is expected to serve as a reference for academic research, provide companies with insights to avoid earnings management practices, and enhance investors' understanding of financial statements for investment decision-making.

Previous studies on the effect of leverage, tax planning, and audit quality on earnings management have yielded mixed results, even though similar proxies were used for each variable. The inconsistency in findings may be attributed to differences in research samples and periods. Susanti & Margareta (2019), for instance, examined manufacturing firms listed on the IDX during 2013–2017, measuring earnings management using both the modified Jones model and the DeAngelo model. Their findings indicated that leverage negatively affects earnings management under both models. In contrast, audit quality negatively affects earnings management in the modified Jones model but has no effect under the DeAngelo model.

In contrast, Agustia & Suryani (2018) found a significant positive relationship between leverage and earnings management in mining companies listed on the IDX from 2014–2016. Similarly, Hapsoro & Annisa (2017), who studied manufacturing firms during 2012–2014, and Kalbuana et al. (2022), who focused on retail and wholesale firms during 2016–2020, reported that leverage does not significantly affect earnings management. However, audit quality has a significant positive effect.

Regarding tax planning, Sumomba & Hutomo (2012) found a significant positive relationship between tax planning (proxied by the Tax Retention Rate, TRR) and earnings management (proxied by profit distribution) in manufacturing firms during 2008–2009. Conversely, Achyani & Lestari (2019) found no significant effect of tax planning (TRR) on earnings management (modified Jones model) in manufacturing firms during 2015–2017. Trijovianto (2021) reported, however, a significant negative relationship between tax planning (TRR) and earnings management. The diversity of these findings can be explained through three main theoretical perspectives: signaling theory, stakeholder theory, and agency theory.

Signaling Theory. This theory explains how managers signal prospects to investors through financial statements, which serve as the basis for decision-making (Godfrey et al., 2010). Spence (1973), who first introduced signaling theory, highlighted that parties with more information (management) provide signals to those with less information (stakeholders) to reduce information asymmetry. Managers may use financial reports to convey both good news and bad news. To

maintain investor and creditor confidence, managers may engage in earnings management to ensure that financial statements continue to present positive signals, even when underlying conditions are less favorable.

Stakeholder Theory. This theory emphasizes that a company does not operate solely for its own benefit but must also provide value to stakeholders, including shareholders, investors, creditors, customers, suppliers, government, society, analysts, and other parties (Ghozali & Chariri, 2007). Corporate sustainability depends on stakeholder support, and therefore, companies must strive to maintain stakeholder trust by delivering satisfactory performance and mutually beneficial relationships (Gray et al., 1994, in Ghozali & Chariri, 2007). As a result, companies may resort to earnings management, as higher reported profits signal strong performance that sustains stakeholder confidence and preserves cooperation.

Agency Theory. Jensen & Meckling (1976) define agency theory as the contractual relationship between principals (owners/shareholders) and agents (managers). In this relationship, principals delegate authority to agents to act on their behalf, including decision-making powers. However, managers may not always act in shareholders' best interests. Because managers have greater access to internal information, this information asymmetry may lead to agency conflicts when managers use it for personal gain.

Earnings Management. Scott (2015) defines earnings management as managerial decisions to select accounting policies or take real actions that affect reported earnings to achieve specific objectives. Managers often manipulate earnings to portray favorable performance, whether to meet corporate targets or to conceal unfavorable information. Watts & Zimmerman (1990) identify three key hypotheses underlying earnings management:

- Bonus Plan Hypothesis: managers increase reported earnings to maximize compensation.
- Debt Covenant Hypothesis: managers inflate earnings to comply with debt agreements and maintain external credibility.
- Political Cost Hypothesis: managers reduce reported earnings to minimize regulatory scrutiny and tax obligations.

Earnings management may take several forms (Scott, 2015), including “taking a bath,” income minimization, income maximization, and income smoothing.

Leverage. In financial management, leverage is used to enhance returns by financing company operations through debt. Leverage ratios measure the extent to which a company's assets are financed with debt. Standard measures include the Debt-to-Assets Ratio ($DAR = \text{Total Debt} / \text{Total Assets}$), the Debt-to-Equity Ratio ($DER = \text{Total Debt} / \text{Total Equity}$), and the Equity Multiplier ($\text{Total Assets} / \text{Total Equity}$) (Ross et al., 2022).

Tax Planning. Tax planning is the process of organizing a company's tax obligations to pay taxes efficiently (Pohan, 2013). This involves structuring business activities to minimize both income tax and other tax liabilities (Zain, 2005). The goal is to exploit loopholes in tax regulations to reduce tax burdens legally. According to Pohan (2013), there are three strategies: (1) Tax Avoidance—legal tax planning strategies using loopholes in tax laws; (2) Tax Evasion—illegal practices such as concealing information or manipulating reports; and (3) Tax Saving—restructuring transactions to reduce tax exposure.

Audit Quality. Audit quality is closely tied to the reliability of financial reporting, as auditor opinions provide critical information for decision-making (Tarigan & Saragih, 2020). Watkins et al. (2004) define audit quality as the auditor's ability to ensure fair presentation of financial statements. Watts & Zimmerman (1990) argue that audit quality consists of two elements: (a) auditor competence in detecting misstatements, and (b) auditor independence in reporting findings. Audit quality is often proxied by auditor size, distinguishing between Big Four and non-Big Four firms (Ulina et al., 2018). Big Four auditors are associated with higher reputation, expertise, and resources, making them more likely to deliver high-quality audits (Klein, 2002; Ratmono, 2010; Tarigan & Saragih, 2020). Sanjaya (2016, in Felicya & Sutrisno, 2020) further notes that Big Four firms train their auditors in standardized procedures and use more effective audit programs. Likewise, Sari & Susilowati (2021) argue that large audit firms provide superior quality to safeguard their reputation. In Indonesia, the Big Four are represented by local partnerships: (a) PwC with KAP Wibisana, Tanudiredja, Rintis & Rekan; (b) EY with KAP Purwantono, Suherman, & Surja; (c) Deloitte with KAP Liana Ramon Xenia & Rekan; and (d) KPMG with KAP Sidharta, Widjaja & Rekan (Pohan et al., 2023).

Development of Conceptual Hypotheses

Leverage refers to the extent to which borrowed funds (liabilities) are used to finance a company's operations. Leverage plays a crucial role, as a high level of leverage may raise doubts among creditors regarding the company's ability to repay its debts. Likewise, investors may hesitate to invest due to concerns about low returns resulting from a heavy debt burden. The higher the leverage, the greater the reliance on borrowed funds, meaning that the company must generate sufficient profits to cover both interest expenses and principal repayments. According to the debt covenant hypothesis (Watts & Zimmerman, 1990), managers tend to manipulate earnings to increase reported profits in companies with high financial leverage. Such earnings management practices are often used to present the firm's performance more favorably and to signal its ability to meet debt obligations, thereby reducing concerns from creditors and investors. Prior research by Agustia & Suryani (2018) supports this view, showing that leverage has a significant positive effect on earnings management, indicating that higher leverage increases the likelihood of such practices.

H₁: *Leverage has a positive effect on earnings management.*

Companies naturally aim to achieve high profits; however, this also implies higher tax obligations. Tax planning is therefore a strategy undertaken to minimize the tax burden, ensuring that the amount of tax paid remains as low as legally possible. The higher the company's profits, the larger the tax expense it must bear. In such cases, firms often seek loopholes by adopting appropriate tax planning strategies. One such strategy is tax avoidance, which involves legally minimizing tax payments in compliance with tax laws and regulations. Within this context, earnings management may occur when managers practice income minimization—for example, by deferring revenue recognition or accelerating expense recognition—so that reported earnings are lower, thereby reducing the company's tax burden. On the other hand, tax planning strategies such as tax-saving—avoiding taxable transactions

and utilizing tax incentives—may reduce the tendency toward earnings management. Prior studies provide mixed evidence. Sumomba & Hutomo (2012) found that tax planning has a positive effect on earnings management, suggesting that more effective tax planning increases the likelihood of such practices. Conversely, Trijovianto (2021) reported that tax planning has a significant adverse effect on earnings management, implying that stronger tax planning reduces the tendency for earnings manipulation.

H₂: Tax planning affects earnings management.

Financial reporting plays a critical role in presenting a company's financial condition, serving as a basis for stakeholders' decision-making (Tarigan & Saragih, 2020). Hence, high-quality financial statements are essential to support sound decision-making. To ensure quality, companies may engage external audit services to provide oversight of management's performance in preparing financial reports, thereby strengthening external trust. Engaging large public accounting firms (Big Four auditors) can enhance audit quality (Klein, 2002). High audit quality is expected to increase investor and creditor confidence, encouraging managers to be more cautious in managing earnings and to avoid earnings manipulation, given the substantial risks it poses to both the company and themselves. Empirical findings by Susanti & Margareta (2019) support this argument, showing that audit quality has a significant negative effect on earnings management. This indicates that higher audit quality is associated with a lower likelihood of earnings manipulation.

H₃: Audit quality has a negative effect on earnings management.

METHODOLOGY

The research variables include leverage, tax planning, and audit quality as independent variables, and earnings management as the dependent variable. Leverage (LEV) refers to the fulfillment of loans used to finance company assets, measured by the Debt to Asset Ratio (DAR), formulated as follows (Ross, 2022):

$$DAR = \text{Total Debt} / \text{Total Assets}.$$

Tax planning (TP) is an effort to optimize the efficiency of corporate tax payments (Pohan, 2013). The Tax Retention Rate (TRR), which assesses the effectiveness of tax management within a given period, is used as a proxy for tax planning. It is calculated using the following formula (Wild et al., 2005, cited in Sumomba & Hutomo, 2012):

$$TRR = \text{Net Income} / \text{Pretax Income (EBT)}.$$

Audit quality (AQ) refers to the auditor's ability to ensure that the client's financial statements are fairly presented and comply with applicable accounting standards (Watkins et al., 2004). In this study, audit quality is represented as a dummy variable measured based on the Public Accounting Firm (KAP) engaged by the company. Companies audited by a Big Four accounting firm are assigned a value of 1, while those audited by Non-Big Four firms receive a value of 0. Earnings management (EM) is defined as managers' decisions to choose accounting policies or

real actions that influence profits to achieve specific objectives (Scott, 2015). It is measured using discretionary accruals via the Modified Jones Model. The calculation formula is as follows (Agustia & Suryani, 2018):

i) Determine the value of Total Accruals (TAC):

$$TAC_{it} = NI_{it} - CFO_{it}$$

ii) Estimate total accruals using the ordinary least squares (OLS) regression equation:

$$\frac{TAC_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + e$$

iii) Calculate Non-Discretionary Accruals (NDAC):

$$NDAC_{it} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right)$$

iv) Calculate *Discretionary Current Accruals* (DAC):

$$DAC_{it} = \left[\frac{TAC_{it}}{A_{it-1}} \right] - NDAC_{it}$$

Description:

TAC_{it}: Total accruals of company i in period t.

NI_{it}: Net income of company i in period t.

CFO_{it}: Cash flow from operating activities of company i in period t.

NDAC_{it}: Non-discretionary accruals of company i in period t.

A_{it-1}: Total assets of company i in period t-1.

ΔREV_{it}: Change in revenue of company i in period t.

ΔREC_{it}: Change in receivables of company i in period t.

PPE_{it}: Property, plant, and equipment of company i in period t.

β₁, β₂, β₃: Regression coefficients.

DAC_{it}: Discretionary accruals of company i in year t.

To obtain an overview/description of the research data, descriptive statistics were used, including minimum, maximum, mean, and standard deviation for the variables earnings management, leverage, and tax planning. For the audit quality variable, the mode was used. The influence of one or more independent variables on the dependent variable in this study was analyzed using multiple linear regression. Testing was conducted at a 95% confidence level or a significance level (α) of 5%. IBM SPSS version 27 was used to process the research data.

This study used secondary data obtained from financial reports available on the official IDX website (www.idx.co.id) and the respective company websites. The

population consisted of consumer non-cyclicals sector companies listed on the IDX during the period 2019-2023. Purposive sampling was used to select the research sample based on the following criteria:

- Consumer non-cyclicals sector companies listed on the IDX during the 2019-2023 period.
- Companies that reported consecutively audited financial statements for the years 2019-2023.
- Companies that published financial statements with periods ending on December 31.
- Companies that presented financial statements in Indonesian Rupiah.
- Companies that reported positive earnings or did not incur losses consecutively during the 2019-2023 period.

RESULTS AND DISCUSSION

Results

Table 1. Number of research samples

No	Sample Selection Criteria	Number of Companies	Number of observation data
1	Companies operating in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period.	124	
2	Companies that did not report consecutively audited financial statements for the 2019-2023 period.	(48)	
3	Companies that did not publish financial statements with periods ending on December 31.	0	
4	Companies that did not present financial statements in Indonesian Rupiah.	(2)	
5	Companies that did not report positive earnings (i.e., experienced losses) consecutively during the 2019-2023 period.	(36)	
6	Number of companies meeting the criteria during 2019-2023.	38	190
7	Data outliers (2 standard deviations)	(15)	(92)
8	TOTAL	23	98

Source: Processed by the researcher

Using purposive sampling, 36 companies were selected (totaling 190 observations). However, after identifying 15 companies (92 observations) as outliers based on casewise diagnostics, the final sample consisted of 23 companies (98 observations).

Table 2. Descriptive Statistics Results for EM, LEV, and TP

Variable	N	Min	Max	Average	Std Dev
EM	98	-0,4144	0,2608	-0,0796	0,1417
LEV	98	0,1045	0,8640	0,4235	0,2099
TP	98	0,0781	0,8309	0,7305	0,1309

Source: Processed by the researcher

Table 3. Descriptive Statistics Results for AQ

Classification	Frequency	Percent	Cumulative Percent
Big Four	15	65,20%	65,20%
Non-Big Four	8	34,80%	100,00%
Total	23	100,00%	

Source: Processed by the researcher

The earnings management variable (EM) is measured using discretionary current accruals (DAC_it) with the Modified Jones Model. A higher DAC_it value indicates a greater tendency of the company to engage in earnings management. Based on Table 3, the minimum DAC_it value is -0.4144, indicating a lower tendency toward earnings management, while the maximum value of 0.2608 suggests a higher level of earnings management. The average DAC is -0.0796, indicating that companies in this study exhibit low earnings management on average. The EM variable data are heterogeneous, with a wide spread because the mean (-0.0796) is smaller than the standard deviation (0.1417).

From Table 2, the leverage variable (LEV), measured by the debt-to-assets ratio (DAR), ranges from 0.1045 to 0.8640. The higher the leverage, the greater the amount of debt (liabilities) the company uses to finance its assets. A DAR of 0.8640 indicates that liabilities finance 86.40% of total assets. The average DAR of 0.4235 shows that most companies rely more on equity than debt to finance their assets. With a standard deviation (0.2099) lower than the mean (0.4235), the LEV variable data are homogeneous and exhibit a narrow spread. Next, another independent variable in this study is tax planning (TP), measured using the tax retention rate (TRR). Based on Table 4.2, the minimum value is 0.0781, while the maximum is 0.8309. The higher the TRR, the better the tax planning. The average value is 0.7305 with a standard deviation of 0.1309, indicating that most companies have implemented effective tax planning. Furthermore, the TP variable data are narrowly distributed (homogeneous) because the mean exceeds the standard deviation.

The audit quality variable (AQ) shows that 34.80% of observations used audit services from Non-Big Four Public Accounting Firms, while the remaining 65.20% used audit services from Big Four firms. This result indicates that the majority of observations relied on audit services from Big Four firms.

Table 4. Results of Classical Assumption Tests

Classical Assumption Tests	Test Results	Conclusion
1. Normality (Kolmogorov-Smirnov Test)	Significance value (Asymp. Sig.) = 0.199, which is greater than 0.05	Data is normally distributed
2. Multicollinearity (Tolerance and Variance Inflation Factor)	Tolerance values for LEV (0.907), TP (0.940), AQ (0.936) all > 0.1, and VIF values for LEV (1.103), TP (1.064), AQ (1.068) all < 10	No multicollinearity detected
3. Heteroskedasticity (Glejser Test)	Significance values for LEV (0.598), TP (0.489), and AQ (0.994) are all > 0.05	No heteroskedasticity detected
4. Autocorrelation (Durbin-Watson Test)	DW value is between Du and 4-Du (1.7345 < 2.241 < 2.2655)	No autocorrelation detected

Source: Processed by the researcher

Table 4 shows that all the data used in the study meet the classical assumptions for testing (normality, absence of multicollinearity, heteroskedasticity, and autocorrelation). Therefore, the next step is to test the regression model's fitness using the F-test and the coefficient of determination (R-squared).

Table 5. Regression Model Fit Test
F-Test (ANOVA^a)

Model	Sum of Squares	Df	Mean Square	F	Sif
1 Regression	0,460	3	0,153	9,681	.000 ^b
Residual	1,488	94	0,016		
Total	1,948	97			

a. Dependent Variable: EM

b. Predictors: (Constant), LEV, TP, QA

Source: Processed by the researcher

Table 6. Coefficient of Determination (R²) Test Results
Model Summary^b

Model	R	R Square	Adjusted R-Square	Std Error of the Estimate
1	0,486 ^a	0.236	0.212	0,1258296

a. Predictors: (Constant), LEV, TP, QA

b. Dependent Variable: EM

Source: Processed by the researcher

Table 6 shows the F-test significance value of 0.000, which is less than the 0.05 threshold, indicating that the variables LEV, TP, and AQ simultaneously have a significant effect on the EM variable. Therefore, the regression model is considered suitable for use. Furthermore, the Adjusted R-Square value of 0.212, or 21.20%, indicates that the combination of the variables leverage, tax planning, and audit quality can explain 21.20% of the variation in earnings management. In comparison, the remaining 78.80% is influenced by other variables outside the scope of this study.

Table 7. Hypothesis Testing Results
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	Std Error	Beta		
1	(Constant)	-0,023	0,083		-0,276	0,783
	LEV	0,267	0,064	0,396	4,182	0,000
	TP	-0,231	0,101	-0,214	-2,300	0,024
	QA	-0,001	0,027	-0,004	-0,043	0,966

a. Dependent Variable: EM

Source: Processed by the researcher

Based on Table 7, the multiple linear regression model can be formulated as follows:

$$EM = -0.023 + 0.267 LEV - 0.231 TP - 0.001 AQ$$

Discussion

The leverage variable (LEV) in Table 6 has a significance value of 0.000, which is below the 0.05 threshold set in this study. It also has a positive regression coefficient (0.267), consistent with the hypothesized direction. Therefore, leverage positively influences earnings management. This indicates that the greater the leverage (debt capital), the higher the company's tendency to engage in earnings management, and vice versa.

Similarly, the tax planning variable (TP) has a significance value of 0.024, which is less than the 0.05 threshold, and a negative regression coefficient (-0.231), in line with the hypothesis. This shows that tax planning negatively affects earnings management, meaning better tax planning reduces the tendency to manipulate earnings, and vice versa.

In contrast, the audit quality variable (AQ) has a significance value of 0.966, exceeding the 0.05 threshold, indicating no significant effect on earnings management. This suggests that both Big Four and Non-Big Four Public Accounting Firms have comparable capabilities in detecting earnings management practices.

The positive association between leverage (LEV) and earnings management (EM) suggests that higher leverage increases managers' tendency to engage in EM. In this study, leverage is measured by the debt-to-asset ratio (DAR), which reflects the proportion of liabilities to total assets. High leverage increases interest expenses and business risk, which may signal to creditors and investors that the company is overleveraged. The COVID-19 pandemic (2019-2021) worsened these conditions by reducing sales and profits. According to signaling theory, this reduced external stakeholders' confidence, prompting management to manipulate earnings to portray more stable financial performance. Additionally, these findings align with the debt covenant hypothesis (Watts & Zimmerman, 1990), which posits that managers tend to manipulate earnings to improve reported profits in firms with high debt levels. These results are consistent with Agustia & Suryani (2018), who found a positive and significant effect of leverage on earnings management, but differ from Susanti & Margareta (2019), who reported a negative effect.

The effect of tax planning (TP) on earnings management indicates that corporate tax strategies are associated with the level of earnings management. The negative effect indicates that effective tax planning reduces the incentive to manipulate earnings, whereas poor tax planning increases it. During the COVID-19 pandemic, companies sought to reduce taxes through careful tax planning and accounting methods (tax avoidance) due to declining revenues and profits, thereby lowering incentives for earnings management. Moreover, government tax incentives that lower tax payments further reduced the motivation to manipulate earnings, consistent with the political cost hypothesis. Good, transparent tax planning also minimizes conflicts of interest between shareholders and management, thereby reducing opportunities for earnings management. These findings support Trijovianto (2021), who found a significant negative effect of tax planning on earnings management, but contrast with Kalbuana et al. (2022), who reported a significant positive effect. Achyani & Lestari (2019) found no relationship between tax planning and earnings management.

The lack of a significant effect of audit quality (AQ) on earnings management suggests that both Big Four and Non-Big Four auditors have equivalent ability to detect earnings management. According to stakeholder theory, auditors are expected

to act professionally and comply with auditing standards to ensure transparency and accuracy in financial reporting, protecting stakeholders' interests. The study data show that 96% of companies retained the same auditor throughout the study period, despite changes in earnings management levels. These findings align with Susanti & Margareta (2019), who found no effect of audit quality on earnings management, but differ from Kalbuana et al. (2022), who reported a negative effect—meaning better audit quality reduces earnings management tendencies.

CONCLUSION

This study aimed to analyze the impact of leverage, tax planning, and audit quality on earnings management. The results show that two hypotheses (H1 and H2) are accepted: leverage positively and significantly affects earnings management, and tax planning negatively affects earnings management. The third hypothesis, regarding audit quality, is rejected as audit quality does not significantly affect earnings management. Higher leverage means greater liabilities and interest burdens that can reduce profits. High leverage also increases business risk, potentially lowering creditors' and investors' confidence. To maintain the company's image, managers tend to manipulate earnings by reporting higher profits to retain stakeholder trust.

Effective tax planning strategies can influence the extent of earnings management. The observed negative effect indicates that effective tax planning reduces the tendency toward earnings management. Companies that implement effective tax planning adopt strategies compliant with tax regulations and leverage accounting methods and government tax incentives to minimize tax burdens, thereby reducing earnings management. Audit quality has no significant effect on earnings management, indicating that both large and smaller accounting firms fulfill their auditor roles professionally, adhering to auditing standards to produce quality audit reports aligned with accounting standards.

The adjusted R² of 21.20% is relatively low, suggesting that future research should include additional independent variables, such as corporate governance, company size, and CEO turnover. Expanding the study to other sectors would also help generalize the results. Additionally, using the DeAngelo model to measure earnings management could provide a different perspective and a helpful comparison.

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