Jurnal Ilmu Keuangan dan Perbankan (JIKA)
Volume 13 Nomor 2 (Juni 2024)
E-ISSN: 2338-292X (Online) P-ISSN: 2086-0455 (Print)
E-mail: jika@email.unikom.ac.id
Website: https://ojs.unikom.ac.id/index.php/jika

How Do Asymmetric Information and Financial Factors Influence Earnings Management?

Amir Hamzah[1*], Hilda Nopiyanti[2]

amir.hamzah@uniku.ac.id[1]*

Universitas Kuningan, Jl. Tjut Nyak Dhien No 36A, Cijoho, Kuningan, Jawa Barat, Indonesia

Received Date : 20.03.2024
Revised Date : 28.05.2024
Accepted Date : 14.06.2024

ABSTRACT

The purpose of this study is to analyze the influence of information asymmetry, deferred tax assets, deferred tax expenses, free cash flow, and investment opportunities set on earnings management practices in consumer service sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2017-2021. This research uses a descriptive and verificative method with a population of 47 companies. Through the purposive sampling technique, this research selects 22 companies for the period 2017-2021, resulting in a total of 110 observation data. The analysis method used is Panel Data Regression, which involves stages of classic assumption, model estimation, and model selection testing, as well as the coefficient of determination, and hypothesis testing. The partial testing results show that all observed variables have a positive and significant impact on earnings management practices. This research provides an important contribution to understanding the dynamics of earnings management practices in the context of the consumer service industry in Indonesia.

Keywords : Information Asymmetry; Deferred Taxes; Free Cash Flow; Investment Opportunity; Earnings Management Practices

ABSTRAK

Tujuan dari penelitian ini adalah untuk menganalisis pengaruh asimetri informasi, aset pajak tangguhan, beban pajak tangguhan, arus kas bebas, dan investment opportunities set terhadap praktik manajemen laba pada perusahaan sektor jasa konsumsi yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2017-2021. Penelitian ini menggunakan metode deskriptif dan verifikatif dengan populasi sebanyak 47 perusahaan. Melalui teknik purposive sampling, penelitian ini memilih 22 perusahaan untuk periode 2017-2021, sehingga menghasilkan total 110 data observasi. Metode analisis yang digunakan adalah Regresi Data Panel, yang melibatkan tahapan uji asumsi klasik, estimasi model, dan pemilihan model, serta koefisien determinasi, dan uji hipotesis. Hasil pengujian secara parsial menunjukkan bahwa seluruh variabel yang diamati memiliki pengaruh positif dan signifikan terhadap praktik manajemen laba. Penelitian ini memberikan kontribusi penting dalam memahami dinamika praktik manajemen laba dalam konteks industri jasa konsumen di Indonesia.

Kata Kunci : Asimetri Informasi; Pajak Tangguhan; Arus Kas Bebas; Peluang Investasi; Praktik Manajemen Laba

INTRODUCTION

Financial statements are documents that provide crucial information about the condition and performance of a company to external parties. This information encompasses the company's financial position, operational results, and changes in its financial status over time. High-quality financial statements are highly sought after by investors because they rely on this data to evaluate management performance, with a particular focus on the company's earnings. Earnings information is essential for users of financial statements, including both internal and external parties such as investors, creditors, and other stakeholders. It plays a key role in assessing the company's net cash flow prospects, which is a vital metric for making informed investment and lending decisions.

However, management often engages in earnings management, a practice where they manipulate financial statements to inflate earnings and serve their own interests. This manipulation can significantly distort the true financial health and performance of the company, misleading investors and creditors who depend on accurate information for their decision-making processes. Earnings management undermines the integrity of financial statements, presenting an inaccurate picture that can obscure the company's actual risks and financial prospects. As a result, it is crucial for users of financial statements to be vigilant and conduct thorough analyses to detect any signs of manipulation, ensuring that the information they base their decisions on is both reliable and truthful.

Earnings management is an accounting practice chosen by managers to achieve certain objectives. This is important to understand by accountants because it affects the use of net earnings information by investors, creditors, and other parties. Earnings management occurs when managers alter transaction records in financial statements to mislead investors and other stakeholders about the company's performance. Components that are often manipulated in earnings management include the basis of calculation, revenue, and expenses. Earnings management practices can be carried out by taking advantage of opportunities to make accounting estimates, changing calculation methods, or manipulating operational activities. Although earnings management can benefit the company, it can also harm investors and other parties by not providing transparent earnings information. Therefore, it is important to understand this practice in order to avoid misleading information in financial statements.

Earnings management practices are not only common in Indonesia but also in large companies abroad such as the United States. Cases of financial statement manipulation have occurred in various sectors, indicating that earnings management practices still occur frequently and can cause losses to related parties. One example of a case, according to Detik Finance, is PT Garuda Indonesia, which was accused of engaging in earnings management practices by window dressing its financial statements to maximize the company's income performance. A similar phenomenon occurred in PT Tiga Pilar Sejahtera Food Tbk (AISA) where there were allegations of overstatement and non-transparent cash flows. These cases highlight the importance of supervision and transparency in company financial reporting to prevent harmful earnings management practices for related parties.

Based on the research analysis of earnings management in consumer service sector companies from 2017 to 2021, the average discretionary accruals (DAC) fall within the standard range between -0.075 and 0.075. According to previous research by (Seraj et al., 2022), DAC values are considered not indicative of earnings management if they fall within this range. However, from the calculation results of DAC, there are 27 companies indicated to engage in earnings management and 8 companies that are not indicated to engage in earnings management. This situation does not meet the expectations of investors who desire high-quality financial statements that can assist them in investment decision-making without intentional interference by managers to achieve personal goals in determining earnings.

Information asymmetry occurs when one party in a transaction has more or better information than the other party. In the business world, management often has access to more detailed and accurate information about the company's condition and prospects compared to investors, creditors, and other stakeholders. This imbalance of information can create opportunities for management to take advantage of the situation for personal gain, one of which is through earnings management. Earnings management is the practice of manipulating financial statements to present a better performance of the company than what is actually the case. In situations of information asymmetry, management might be tempted to engage in this manipulation because they know that the users of the financial statements lack the ability to detect inaccuracies or irregularities. By artificially inflating earnings, management can meet performance targets, attract investment, or fulfill certain contractual requirements. However, this practice harms the users of financial statements because the information presented does not reflect the true condition of the company, leading to misguided and potentially harmful decisions. Therefore, it is crucial for users of financial statements to be aware of information asymmetry and to conduct thorough analyses to ensure the reliability of the data they rely on. This is in line with research conducted by (Widyaningrum, 2021), (Machdar, 2022) and (Balqis, 2021). Information asymmetry serves as a catalyst for earnings management, as managers possess privileged insights into a company's internal affairs and prospects, enabling them to manipulate earnings for personal gain. While studies by (Tanko, 2023) and (Kennedy et al., 2023)) affirm a positive correlation between information asymmetry and earnings management, conflicting results are presented by (Ndum, 2022), (Jacob et al., 2022), (Mura, 2023) and (Karmilah & Prastyani, 2020) suggesting a negative impact.

Deferred tax assets are closely linked to earnings management practices. DTAs arise from temporary differences between the book and tax values of assets and liabilities, or from recognizing tax losses that can be utilized in future periods. Management can manipulate financial statements by making optimistic assumptions about future profitability to recognize larger DTAs, thereby boosting current earnings. Additionally, management can time the recognition of DTAs to smooth out earnings fluctuations, presenting a more stable and favorable financial performance to investors and creditors. Furthermore, management may postpone the recognition of deferred tax liabilities to avoid reducing current period earnings. By selectively recognizing DTAs and deferring tax liabilities, they can create financial statements that appear more positive than reality. While not illegal, these practices can obscure the true financial condition and mislead financial statement users. Therefore, it's crucial for investors and analysts to scrutinize the assumptions behind DTA recognition and deferred tax liabilities to detect potential earnings management and ensure a more accurate understanding of the company's financial position. This is in line with research conducted by (Wati & Sumaryati, 2022),(Sutadipraja et al., 2020), and (Aqiriani & Pratomo, 2022), Deferred tax assets represent another determinant of earnings management, arising from timing differences that lead to smaller tax expenses under commercial accounting compared to tax law. The disclosure of deferred tax assets can be indicative of earnings management practices. While (Purwaningsih et al., 2020), (Simanjuntak, 2022), (Yuliza & Fitri, 2020), and(Ball & Nikolaev, 2022) assert a positive relationship between deferred tax assets and earnings management (Saragih & Manullang, 2022),(Mohrmann & Riepe, 2023) and (Kaira, 2023) present conflicting evidence.

The relationship between deferred tax expenses and earnings management practices holds significant implications in financial reporting. Deferred tax expenses, stemming from changes in the values of deferred tax assets and liabilities, reflect the amount of income tax payable or recoverable by the company in future periods. Management can leverage this variable to influence reported earnings in various ways. One approach involves manipulating the timing of recognizing deferred tax expenses. By delaying or expediting the recognition of these expenses, management can affect the reported earnings in a given period. For instance, they might opt to postpone recognizing deferred tax expenses in periods of low earnings, thereby artificially boosting the reported earnings. Furthermore, management can exploit deferred tax expenses by adjusting deferred tax assets and liabilities. Through adjustments to the valuation or underlying assumptions, management can impact the magnitude of these expenses, consequently influencing the reported earnings. However, such practices may introduce distortions in financial statements and mislead stakeholders regarding the company's performance and tax obligations. Therefore, it is crucial for stakeholders, such as investors and creditors, to carefully scrutinize the recognition and measurement of deferred tax expenses to identify potential earnings management practices and ensure the quality and reliability of the company's financial reporting. This is in line with research conducted by (Sihite & Sudjiman, 2022) and (Nofrivul et al., 2022). Deferred tax expenses, stemming from temporary differences between taxable income and income based on commercial accounting, are another factor influencing earnings management. The use of liberal accounting standards can indicate management's manipulation of income. While (Tambunan et al., 2022), (Suheri et al., 2020), and (Froymovich, 2022) posit a positive association between deferred tax expenses and earnings management,(Widyaningrum, 2021) (Gulo & Mappadang, 2022), (Jaggi et al., 2022) and (Thalita et al., 2022)present opposing views.

The relationship between free cash flow (FCF) and earnings management practices reflects the significant role of cash flow in corporate profit management. Free cash flow, representing the residual cash available after meeting working capital and investment needs, serves as a resource that management can leverage to influence reported earnings in financial statements. One common approach involves manipulating capital expenditures, where management adjusts the level of investment to impact the recorded free cash flow. For instance, they may delay planned investments to increase free cash flow in a specific period, consequently boosting reported earnings. However, the utilization of free cash flow in earnings management practices can pose risks concerning long-term growth and the financial health of the company. Actions such as deferring or reallocating debt payments or other expenses to manipulate free cash flow can also disrupt the company's financial balance. Therefore, it is crucial for stakeholders, including investors and creditors, to be mindful of earnings management practices related to free cash flow and understand their implications for the overall financial health of the company. This is in line with research conducted by (Purnama et al., 2021) and (Wahyuni et al., 2023). Moreover, companies with constrained free cash flow are more inclined to engage in earnings management. While studies by (Widyaningrum, 2021), (M. M. Putri et al., 2020), and (Amel-Zadeh et al., 2023) confirm a positive impact of free cash flow on earnings management, (Jelanti, 2020),(Thyas et al., 2022), and (Sagala & Simbolon, 2021) suggest a negative relationship.

The relationship between investment opportunities and earnings management practices illustrates the connection between a company's growth prospects and its financial reporting strategies. Investment opportunities refer to potential projects or ventures that a company can undertake to generate future profits and expand its operations. Management's perception of these opportunities can influence their decisions regarding earnings management. In situations where significant investment opportunities exist, management may be more inclined to engage in earnings management practices to present a more favorable financial picture. They might manipulate financial statements to show higher earnings or smoother earnings trends to attract investors and other stakeholders, thereby facilitating access to capital for investment in growth projects. However, excessive earnings management practices can undermine the integrity of financial reporting and mislead stakeholders about the true financial condition and growth potential of the company. Therefore, it is crucial for investors and analysts to carefully scrutinize financial statements, assess the quality of earnings, and consider the underlying investment opportunities to make informed decisions about the company's prospects and performance. This is in line with research conducted by (Xue, 2022) and (Narayanaswamy, 2022). the investment opportunity set influences earnings management, as it reflects decisions regarding future investments. A growing investment opportunity set prompts management to make strategic decisions to meet principal targets, potentially involving earnings management. Research by (Nurul Jannah & Wibowo, 2021) and (Farhan, 2023) supports a positive effect of the investment opportunity set on earnings management.

The novelty of this research lies in its significant contribution by combining factors that are rarely explored together in the context of earnings management practices within the consumer services industry in Indonesia. By considering information asymmetry, deferred tax assets, deferred tax liabilities, free cash flow, and investment opportunity set in a holistic manner, this study offers a deeper understanding of the dynamics of earnings management practices. Furthermore, it provides fresh insights into how these factors interact and influence management decisions regarding earnings management amidst the complexity of the consumer services industry. With a focus on this industry, characterized by volatile markets and sensitivity to consumer trends, the research also broadens understanding of the motivations and strategies of companies in executing earnings management practices. Thus, the study not only offers comprehensive insights but is also relevant and valuable to practitioners, regulators, and academics interested in understanding earnings management practices in the consumer services sector in Indonesia.

RESEARCH METHOD

This research employs a quantitative approach to examine the phenomenon of earnings management within the consumer service sector in Indonesia. The study population comprises financial statements obtained from 47 companies listed on the Indonesia Stock Exchange (IDX) over the period from 2017 to 2021. Using purposive sampling, a subset of 22 companies within the consumer service sector was selected, resulting in a dataset of 110 observations. The analysis is conducted using Panel Data Regression, which involves several systematic stages, including Classical Assumption Testing, Model Estimation Testing, Model Selection Testing, Coefficient of Determination Testing, and Hypothesis Testing. The operationalization of variables in this research can be seen in Table 1:

Table 1. Operationalization of Variables

Variable	Indicator	Scale
Earnings Management (Y)	1. Calculating *Total Accrual* (TAC) $$TAC = NI_{it} - CFO_{it}$$ 2. Estimating *Total Accrual* (TAC) $$\frac{TA_{it}}{A_{it-1}} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{PP\ E_{it}}{A_{it-1}}\right) + \varepsilon$$ 3. Calculating *Non-Discretionary Accrual* (NDA) $$NDA_{it} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left[\left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) - \left(\frac{\Delta Rec_{it}}{A_{it-1}}\right)\right] + \beta_3\left(\frac{PP\ E_{it}}{A_{it-1}}\right)$$ 4. Calculating *Discretionary Accrual* (DA) $$DA_{it} = \left(\frac{TA_{it}}{A_{it-1}}\right) - NDA_{it}$$	Ratio
Information Asymmetry (X1)	$$SPREAD_{it} = \frac{(ask\ it - bid\ it)}{\frac{(ask\ it\ +\ bid\ it)}{2}}\ x\ 100$$	Ratio
Deferred Tax Assets (X2)	$$APT_{it} = \left(\frac{deffered\ tax\ asset_t - deffered\ tax\ asset_{t-1}}{deferred\ tax\ assers_t}\right)$$	Ratio
Deferred Tax Expenses (X3)	$$BPT_{it} = \frac{deffered\ tax\ expanse}{Total\ Aset\ t - 1}$$	Ratio
Free cash flow (X4)	$$Free\ Cash\ Flow = \left(\frac{Operating\ cash\ flow - investing\ cash\ flow}{Total\ Asser}\right)$$	Ratio
Investment Opportunity Set (X5)	$$MBVE = \left(\frac{(Total\ Assets - Total\ Equity) + (Outstanding\ Shares\ x\ Stock\ Prices)}{Total\ Equity}\right)$$	Ratio

RESULTS AND DISCUSSION

Results

The research findings indicate that the classical assumption test criteria have been met, including normally distributed residual data, no autocorrelation, no multicollinearity, and no heteroskedasticity in the regression panel model equation. Consequently, the next step involves testing the estimation model, including the common effect model, fixed effect model, and random effect model. Through analysis using E-views software, the chosen model for panel data regression in this study is the fixed effects model, as shown in Table 2.

Table 2. The results of the Fixed Effect Panel Data Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.290812	0.680132	7.779096	0.0000
AI?	0.490126	0.159812	3.066891	0.0132
APT?	0.050219	0.024091	2.084554	0.0315
BPT?	0.674391	0.200189	3.368772	0.0049
FCF?	0.907931	0.226941	4.000736	0.0000
IOS?	0.325611	0.070823	4.597532	0.0000
Fixed Effects (Cross)				
_AKKU--C	0.048912	_MAPB--C	0.704899	
_ARTA--C	0.306879	_MINA--C	0.509813	
_BAYU--C	0.581023	_NASA--C	-0.698102	
_BLTZ—C	0.460812	_PANR--C	0.769381	
_FAST—C	0.898001	_PDES—C	-0.231097	
_IKAI—C	0.689132	_PGLI--C	-0.598713	
_JGLE—C	0.540081	_PJAA--C	0.997311	
_JIHD—C	0.290134	_PNSE--C	0.497131	
_JSPT—C	0.544091	_PSKT--C	0.223113	
_KPIG—C	0.339761	_PTSP--C	0.600351	
_MAMI--C	0.281097	_SHID--C	-0.776304	

Source: Eviews 9 Output, 2024

Based on the Table 2, the intercept and slope values for each independent variable for every company can be determined. Consequently, the fixed effects model equation can be formulated, as in Equation 1.

$$\boldsymbol{Y_{1-it} = \beta_0 + d_{AKKU} + d_{ARTA} + d_{BAYU} + d_{BLTZ} + d_{FAST} + d_{IKAI} + d_{JGLE} + d_{JGLE} + d_{JIHD} + d_{JSPT} + d_{KPIG} + d_{MAMI} + d_{MAPB} + d_{MINA} + d_{NASA} + d_{PANR} + d_{PDES} + d_{PGLI} + d_{PJAA} + d_{PNSE} + d_{PSKT} + d_{PTSP} + d_{SHID} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon} \quad (1)$$

$$\boldsymbol{Y_{1-it} = 5.290812 + 0.048912_{AKKU} + 0.306879_{ARTA} + 0.581023_{BAYU} + 0.460812_{BLTZ} + 0.898001_{FAST} + 0.689132_{IKAI} + 0.540081_{JGLE} + 0.290134_{JIHD} - 0.544091_{JSPT} + 0.339761_{KPIG} + 0.281097_{MAMI} + 0.704899_{MAPB} + 0.509813_{MINA} - 0.698102_{NASA} + 0.769381_{PANR} - 0.231097_{PDES} - 0.598713_{PGLI} + 0.997311_{PJAA} + 0.497131_{PNSE} + 0.223113_{PSKT} + 0.600351_{PTSP} - 0.776304_{SHID} + 0.490126_{AI} + 0.050219_{APT} + 0.674391_{BPT} + 0.907931_{FCF} + 0.325611_{IOS} + \varepsilon} \quad (1)$$

Result of Coefficient of Determination Analysis

The coefficient of determination (R^2) essentially measures the extent to which the independent variables in a panel data regression model explain the variation in the dependent variable. Based on data processing using the Eviews 9 software application, employing the fixed effects model, the results are shown in Table 3.

Table 3. Result of Coefficient of Determination

R. Squared	Adjusted R-Squared
0.780912	0.751893

Source: Eviews 9 Output, 2024

Based on the Table 3, the Adjusted R-Squared value obtained is 0.751893. This indicates that the independent variables—namely, asymmetric information, deferred tax assets, deferred tax expenses, free cash flow, and investment opportunity set—together explain 75.19% of the variance in the dependent variable, which is earnings management. The remaining 24.81% of the variation is accounted for by other unexamined variables or factors beyond the scope of this study.

Hypothesis Testing Results

The hypothesis testing results in this study aim to examine the influence of the independent variables on the dependent variable using a panel data regression model. Based on data processing with the Eviews 9 software application and using the fixed effects model, the analysis results are presented in Table 3.

Table 4. Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.290812	0.680132	7.779096	0.0000
AI?	0.490126	0.159812	3.066891	0.0132
APT?	0.050219	0.024091	2.084554	0.0315
BPT?	0.674391	0.200189	3.368772	0.0049
FCF?	0.907931	0.226941	4.000736	0.0000
IOS?	0.325611	0.070823	4.597532	0.0000

Source: Eviews 9 Output, 2024

Based on the Table 4, the t-tests conducted for various variables in earnings management revealed significant results. Asymmetric information showed a positive impact on earnings management, with a t-value of 3.066891 and a significance value of 0.0132. Similarly, deferred tax assets exhibited a positive influence on earnings management, with a t-value of 2.084554 and a significance value of 0.0315. Deferred tax expenses also had a positive effect on earnings management, supported by a t-value of 3.368772 and a significance value of 0.0049. Furthermore, free cash flow demonstrated a positive impact on earnings management, as indicated by a t-value of 4.000736 and a significance value of 0.0000. Lastly, the investment opportunity set positively influenced earnings management, with a t-value of 4.597532 and a significance value of 0.0000. These findings reject the null hypotheses, confirming the positive associations between these variables and earnings management.

Discussion

In this study, we will delve deeply into exploring the influence of several variables on earnings management practices within the consumer service sector in Indonesia. The variables under scrutiny include information asymmetry, deferred tax assets, deferred tax expenses, free cash flow, and the investment opportunity set. The discussion will be based on the analysis results.

The Influence of Asymmetric Information on Earnings Management

The research findings suggest that asymmetric information significantly influences earnings management practices Higher levels of asymmetric information are associated with increased likelihood of companies engaging in earnings management. This phenomenon underscores the conflict of interest between management and investors, where asymmetric information facilitates financial statement manipulation. These findings align with agency theory, highlighting conflicts arising from information disparities. Asymmetric information enables management to manipulate financial statements, particularly in companies with weaker financial performance. This corresponds with previous studies by (Gustafsson & Palmqvist, 2023), (Hamzah, Suhendar, et al., 2023) and (Chen, 2022) all affirming the positive impact of asymmetric information on earnings management.

The Influence of Deferred Tax Assets on Earnings Management

The study findings suggest that deferred tax asset variables significantly influence earnings management practices. This significant impact implies broader applicability across the population. Companies with higher deferred tax asset values are more likely to engage in earnings management practices. Manipulating revenue recognition or deferring expense recognition can affect deferred tax asset values, indicating potential earnings management activities. These findings align with positive accounting theory, which explains earnings management motivations while emphasizing associated consequences in tax financial reporting. Management should assess risks and losses related to deferred tax assets, such as recognizing temporary deferred tax liabilities or accumulating unresolved transactions over subsequent years. Incorrect recognition of these assets and liabilities may undermine financial statement credibility, eroding stakeholders' trust in the company. This corroborates with research by (Simanjuntak, 2022), (Nofrivul et al., 2022),(Hamzah, Rahayu, et al., 2023) and (Fristanti & Senjani, 2022) all supporting the positive impact of deferred tax assets on earnings management.

The Influence of Deferred Tax Expenses on Earnings Management

The research findings suggest that deferred tax expenses significantly influence earnings management practices. This implies the generalizability of the study results to the population of these companies. Higher deferred tax expenses are associated with increased likelihood of earnings management practices by company management. Companies are obligated to adhere to both accounting standards and tax regulations when preparing financial statements. Discrepancies between financial statements prepared under these standards can impact reported profits. Consequently, companies may defer or save deferred tax expenses to reduce reported profits. These findings align with positive accounting theory, which explores managerial responses to accounting and tax standards in profit management. Therefore, higher deferred tax expenses increase the likelihood of management engaging in earnings management practices to achieve profit reporting objectives, such as avoiding losses, mitigating profit declines, and meeting profit predictions by analysts. This corresponds with research by (Fan et al., 2023), (Permatasari & Trisnawati, 2022), (Xue, 2022), (Hamzah & Suhendar, 2020) and (Hashfi & Martani, 2023), all supporting the positive impact of deferred tax expenses on earnings management.

The Influence of Free Cash Flow on Earnings Management

The research findings suggest that free cash flow significantly influences earnings management practices These findings are broadly applicable to the population of these companies. Companies with high free cash flow are more likely to engage in earnings management, attributed to increased agency problems. This phenomenon aligns with agency theory, highlighting conflicts of interest between management (agent) and shareholders (principal). Shareholders typically prefer free cash flow distribution as dividends to enhance their welfare, while management often favors reinvestment, even if not always beneficial. Inefficient reinvestment of free cash flow may result in company losses or decreased profits, prompting management to resort to earnings management to offset such losses. Additionally, management may manipulate earnings to secure incentives or bonuses, consistent with the bonus plan hypothesis. Despite potentially beneficial company expansions, recorded profits may stem from managerial manipulation. Hence, companies with high free cash flow demonstrate a heightened motivation for earnings management, driven by agency problems between management and shareholders. These findings are in line with research by (Tanko, 2023), (N. L. M. D. P. Putri

& Wirakusuma, 2022), (Hamzah & Suhardi, 2019) and (Karjalainen et al., 2023) all affirming the positive impact of free cash flow on earnings management.

The Influence of Investment Opportunity Set on Earnings Management

The research findings suggest that the investment opportunity set variable significantly influences earnings management practices. These findings are applicable across the population of these companies. A higher investment opportunity set corresponds to increased levels of earnings management, indicating the company's profit growth and high returns. This phenomenon is grounded in agency theory, which highlights the conflict of interest between managers and company owners. Managers possess extensive knowledge about the company's prospects due to their direct involvement in its operations. They aim to convey information about the company's growth prospects to stakeholders. Moreover, it aligns with signaling theory, emphasizing the importance of information companies convey to investors. Timely, accurate, complete, and relevant information is vital for investors when making capital market investment decisions. Therefore, companies with a high investment opportunity set are inclined to engage in earnings management by adjusting earnings to signal to investors that the company possesses promising future growth prospects. These research findings resonate with the study by (Nurul Jannah & Wibowo, 2021), (Hamzah & Suhendar, 2020), (Hamzah, Syarifudin, et al., 2023), (Jaggi et al., 2022) which affirm the positive impact of the investment opportunity set on earnings management. Additionally, (Sawitri et al., 2022),(Lu et al., 2023), and (Pertiwi et al., 2023) also support the notion that the investment opportunity set has a positive influence on earnings management.

CONCLUSION

Based on partial testing, it has been found that all variables under observation, including asymmetric information, deferred tax assets, deferred tax expenses, free cash flow, and investment opportunity set, exert a positive and significant influence on earnings management practices in consumer services subsector companies listed on the Indonesia Stock Exchange. This implies that as the value of each variable increases, there is a heightened probability of company management engaging in earnings management practices Based on partial testing, it has been found that all observed variables—including asymmetric information, deferred tax assets, deferred tax expenses, free cash flow, and investment opportunity set—have a positive and significant influence on earnings management practices in consumer services subsector companies listed on the Indonesia Stock Exchange. This implies that as the value of each variable increases, the likelihood of company management engaging in earnings management practices also increases.

Asymmetric information has a positive and significant impact on earnings management, indicating that higher levels of asymmetric information increase the probability of management manipulating financial reports. This situation arises because management (agents) possess more information than shareholders (principals), allowing them to manipulate financial statements for personal gain. Deferred tax assets also show a positive and significant effect on earnings management, suggesting that companies use timing differences between financial accounting and tax recognition to manage earnings. Higher deferred tax assets imply a greater opportunity for management to influence earnings reports.

Similarly, deferred tax expenses have a positive and significant influence on earnings management. This indicates that when deferred tax expenses increase, companies are more likely to engage in earnings management. Deferred tax expenses reflect temporary differences between accounting and tax treatment, which companies can use to smooth earnings over time. Free cash flow has a positive and significant impact as well, suggesting that companies with higher free cash flow are more likely to engage in earnings management. High free cash flow provides management with the flexibility to adjust financial statements to present a more favorable performance to investors.

Lastly, the investment opportunity set has a positive and significant influence on earnings management. Companies with numerous investment opportunities tend to manage earnings to enhance their attractiveness to investors and secure funding for future projects. High investment opportunities are often associated with better growth prospects, motivating management to report better financial performance.

RECOMMENDATION

Companies should consider factors such as asymmetric information, deferred tax assets, deferred tax expenses, free cash flow, and investment opportunity set in their earnings management practices. Enhancing transparency in information provided to investors to reduce asymmetric information that may lead to earnings management is advised. Attention should be paid to the risks associated with using deferred tax assets and ensuring compliance with tax and accounting rules to prevent fraud in financial reporting. Monitoring free cash flow and sales growth can help ensure healthy growth and minimize earnings manipulation practices. For investors, it's important to consider accrual information in financial statements before investing. Further research should consider additional variables such as tax planning, tax avoidance, and profitability to deepen understanding of earnings management practices. Despite providing valuable insights, there are limitations in generalizing findings, research methods, considered variables, data quality, and interpretation of results, necessitating further comprehensive research for a deeper understanding of earnings management.

REFERENCES

Amel-Zadeh, A., Glaum, M., & Sellhorn, T. (2023). Empirical goodwill research: Insights, issues, and implications for standard setting and future research. *European Accounting …*. https://doi.org/10.1080/09638180.2021.1983854

Ball, R., & Nikolaev, V. V. (2022). On earnings and cash flows as predictors of future cash flows. *Journal of Accounting and Economics*. https://www.sciencedirect.com/science/article/pii/S0165410121000458

Balqis, B. (2021). Determinasi Earning Per Share Dan Return Saham : Analisis Return on Asset, Debt To Equity Ratio, Dan Current Ratio. *Jurnal Ilmu Manajemen Terapan*, *2*(5), 665–675. https://doi.org/10.31933/jimt.v2i5.511

Fan, H., Mawani, A., & Chen, L. (2023). The role of information asymmetry in closely-held firms' tax and financial reporting choices. *Accounting and Business Research*. https://doi.org/10.1080/00014788.2021.1986366

Fristanti, V., & Senjani, Y. P. (2022). Taxation Aspects, Information Asymmetry and Earnings Management:(Empirical Study on Goods and Consumer Goods Sector Listed on Indonesia Sharia Stock Index …. *Journal of Accounting Inquiry*. https://ejournal.uin-suka.ac.id/febi/JAI/article/view/1884. https://doi.org/10.14421/jai.2022.1.2.112-129

Gulo, M. M., & Mappadang, A. (2022). Pengaruh Aset Pajak Tangguhan, Beban Pajak Tangguhan Dan. *Ultima Accounting*, *14*(1), 162–175. https://core.ac.uk/download/pdf/148619470.pdfhttps://doi.org/10.31937/aku

ntansi.v14i1.2627
Hamzah, A., Rahayu, A. L., Khaerunnisa, H. F., Riska, & Aulia, D. H. (2023). Factor Affecting Community Participation In Paying Land And Building Tax In Kuningan Regency. *Jambura Equilibirium Journal*, *4*(1), 88–100. https://doi.org/10.37479/jej.v5i1.16887
Hamzah, A., & Suhardi, D. (2019). Tingkat Literasi Keuangan dan Finansial Technology pada Pelaku Usaha. *Jurnal Ilmiah Manajemen Fakultas Ekonomi*, *5*(Desember), 97–108. https://doi.org/10.34203/jimfe.v5i2.1485
Hamzah, A., & Suhendar, D. (2020). Financial Inclusion Model On The Development Of Batik SMEs In Cirebon Regenvy. *Jurnal Minds : Manajemen Ide Dan Inspirasi*, *7*(2), 95–104. https://doi.org/10.24252/minds.v7i2.16512
Hamzah, A., Suhendar, D., & Arifin, A. Z. (2023). Factors Affecting Cloud Accounting Adoption In SMEs. *Jurnal Akuntansi*, *27*(3), 442–464. https://doi.org/10.24912/ja.v27i3.1520
Hamzah, A., Syarifudin, S., & Nurhayati, E. (2023). *Determination Analysis Of Investment Decision-Making*. *9*(2), 15–26. https://doi.org/10.34203/jimfe.v9i2.7211
Hashfi, M. H. Al, & Martani, D. (2023). Earnings Management and Tax Minimization: Comprehensive Analysis of Book-Tax Differences in Indonesia. *Jurnal Kajian Akuntansi*. https://jka.ugj.ac.id/index.php/jka/article/view/3. https://doi.org/10.33603/jka.vol7.no2.a3
Jacob, M., Wentland, K., & Wentland, S. A. (2022). Real effects of tax uncertainty: Evidence from firm capital investments. *Management Science*. https://doi.org/10.1287/mnsc.2021.4072
Jaggi, B., Allini, A., Casciello, R., & Meucci, F. (2022). Firm life cycle stages and earnings management. *Review of Quantitative Finance …*. https://doi.org/10.1007/s11156-022-01069-5
Jelanti, D. (2020). *123-Article Text-372-1-10-20200909*. *3*(2), 289–303. https://doi.org/10.33753/madani.v3i2.123
Kaira, L. (2023). An analysis of Earning Management and Manager's Behavior towards Earnings in the Banking Industry (Guaranty Trust Bank) Sierra Leone, West Africa. *International Journal of Economics and Business …*. https://www.ij-ebi.com/index.php/files/article/view/25. https://doi.org/10.59092/ijebi.vol2.Iss1.25
Karjalainen, J., Kasanen, E., Kinnunen, J., & ... (2023). Dividends and tax avoidance as drivers of earnings management: Evidence from dividend-paying private SMEs in Finland. *… Business Management*. https://doi.org/10.1080/00472778.2020.1824526
Kennedy, P. S. J., Franstitus, T. F., & ... (2023). The Effect of Tax Planning on Earnings Management. *Asia Pacifit Fraud …*. http://repository.uki.ac.id/id/eprint/13534. https://doi.org/10.21532/apfjournal.v8i2.298
Lu, X., Qi, T., & Xie, W. (2023). Earnings Management of Chinese Listed Multinational Corporations. *China \&World Economy*. https://doi.org/10.1111/cwe.12513
Machdar, N. M. (2022). Does tax avoidance, deferred tax expenses and deferred tax liabilities affect real earnings management? Evidence from Indonesia. *Institutions and Economies*. http://ojie.um.edu.my/index.php/ijie/article/view/36024. https://doi.org/10.22452/IJIE.vol14no2.5
Mohrmann, U., & Riepe, J. (2023). Deferred tax asset revaluations, costly information processing, and bank deposits: Evidence from the Tax Cuts and Jobs Act. *Management Science (Forthcoming)*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4596392.

https://doi.org/10.1287/mnsc.2022.03176
Mura, A. (2023). Reconciling competing reporting objectives through deferred tax accounts: Evidence on private Italian firms. *Accounting in Europe*. https://doi.org/10.1080/17449480.2023.2213249
Nofrivul, N., Amran, E. F., & ... (2022). Does Tax Planning and Deferred Tax Expense Affect Earnings Management? *Accounting Analysis* …. https://journal.unnes.ac.id/sju/aaj/article/view/61002. https://doi.org/10.15294/aaj.v11i3.61002
Nurul Jannah, S. S., & Wibowo, D. H. (2021). Pengaruh Manajemen Laba dan Struktur Modal Terhadap Nilai Perusahaan (Studi Kasus Pada Perusahaan Asuransi yang Terdaftar di BEI Periode 2015-2019). *Neraca : Jurnal Akuntansi Terapan*, *3*(1), 29–35. https://doi.org/10.31334/neraca.v3i1.1967
Permatasari, M., & Trisnawati, E. (2022). Deferred Tax On Real Profit Management With Tax Planning As Moderating. *Jurnal Akuntansi*. http://ecojoin.org/index.php/EJA/article/view/886. https://doi.org/10.24912/ja.v26i2.886
Purnama, D., Hamzah, A., Puspasari, O. R., & Nurfatimah, S. N. (2021). *Free Cash Flow , Financial Distress and Debt Policy Toward Earnings Management in Indonesian Banking Sector*. https://doi.org/10.4108/eai.12-12-2020.2305112
Putri, M. M., Saebani, A., & Putra, A. M. (2020). Pengaruh Manajemen Laba Riil terhadap Kinerja Perusahaan setelah Konvergensi IFRS. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, *6*(1), Press. https://doi.org/10.34204/jiafe.v6i1.1848
Putri, N. L. M. D. P., & Wirakusuma, M. G. (2022). Analisis Pengaruh Perencanaan Pajak, Free Cash Flow, Dan Kecakapan Manajerial Pada Manajemen Laba. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, *11*(12), 1557–1565. https://ojs.unud.ac.id/index.php/EEB/.https://doi.org/10.24843/EEB.2022.v11.i12.p12
Sagala, E., & Simbolon, R. (2021). Pengaruh Capital Intencity Ratio, Free Cash Flow, Leverage Terhadap Manajemen Laba Pada Perusahaan Manufaktur yang Terdaftar di BEI Periode 2018-2020. *Jurnal Sosial Teknologi*, *1*(12), 563–571. https://doi.org/10.59188/jurnalsostech.v1i12.264
Saragih, A. E., & Manullang, A. R. (2022). Pengaruh Perencanaan Pajak Dan Aset Pajak Tangguhan Terhadap Manajemen Laba Pada Perusahaan Infrastruktur, Utilitas, Dan Transportasi Yang Terdaftar Di Bursa Efek Indonesia (2015-2017). *Jurnal Riset Akuntansi & Keuangan*, *8*(2), 172–190. https://doi.org/10.54367/jrak.v8i2.2123
Sawitri, R. A. D., Lutfillah, N. Q., & ... (2022). The Influence of Firm Size, Ownership Structure, Leverage, and Audit Quality on Earnings Management. *3rd Annual Management* …. https://www.atlantis-press.com/proceedings/ambec-21/125977842. https://doi.org/10.2991/978-94-6463-026-8_34
Simanjuntak, S. P. (2022). Pengaruh Aset Pajak Tangguhan, Nilai Perusahaan, Ukuran Perusahaan, Perencanaan Pajak Terhadap Manajemen Laba Pada Perusahaan Farmasi Yang Terdaftar Di Bursa Efek Indonesia Tahun 2015-2020. *Jurnal EMBA*, *10*(1), 1089–1103.
Suheri, T. R. R., Fitriyani, D., & Setiawan, D. (2020). Analisis Pengaruh Beban Pajak Kini, Aset Pajak Tangguhan, Discretion Accrual, Dan Tax Planning Terhadap Manajemen Laba. *Jurnal Manajemen Terapan Dan Keuangan*, *9*(03), 157–171. https://doi.org/10.22437/jmk.v9i03.12043. https://doi.org/10.2991/978-94-6463-026-8_34
Sutadipraja, M. W., Ningsih, S. S., & Mardiana, M. (2020). Pajak Kini, Pajak Tangguhan, Aset Pajak Tangguhan, Liabilitas Pajak Tangguhan Terhadap Manajemen Laba. *Journal*

of Applied Accounting and Taxation, *5*(2), 158–1665. https://doi.org/10.30871/jaat.v5i2.1306
Tambunan, B. E., Nuryati, T., & Khasanah, U. (2022). Pengaruh Perencanaan Pajak, Beban Pajak Tangguhan dan Beban Pajak Kini Terhadap Manajemen Laba: Studi Empiris Perusahaan Manufaktur Sub Sektor Industri yang Terdaftar di Bursa Efek Indonesia Pada Tahun 2019—2021. *Mulia Pratama Jurnal Ekonomi Dan Bisnis*, *2*(1), 50–60. https://doi.org/10.37888/bjra.v2i1.108
Tanko, U. M. (2023). Financial attributes and corporate tax planning of listed manufacturing firms in Nigeria: moderating role of real earnings management. *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-05-2022-0198
Thalita, A. A., Hariadi, B., & Rusydi, M. K. (2022). The effect of earnings management on tax avoidance with political connections as a moderating variable. *… Journal of Research in Business and …*. https://www.ssbfnet.com/ojs/index.php/ijrbs/article/view/1864. https://doi.org/10.20525/ijrbs.v11i5.1864
Thyas, N. A. C., Wijayanti, A., & Astungkara, A. (2022). Analisis Pengaruh Leverage, Ukuran Perusahaan, Free Cash Flow, Dan Operating Cash Flow Terhadap Manajemen Laba Perusahaan. *FINANSIA : Jurnal Akuntansi Dan Perbankan Syariah*, *5*(01), 55. https://doi.org/10.32332/finansia.v5i01.4545
Wahyuni, W., Maulidianti, A., Yulianto, Y., & Dosinta, N. F. (2023). Determinan Manajemen Laba pada Sektor Transportasi Saat Pandemi COVID-19. *Jurnal Akuntansi Dan Keuangan*, *11*(2), 119. https://doi.org/10.29103/jak.v11i2.11666
Wati, T. T., & Sumaryati, A. (2022). Pengaruh Ukuran Perusahaan, Beban Pajak Tangguhan, Aset Pajak Tangguhan, Perencanaan Pajak, Dan Leverage Terhadap Manajemen Laba. *Urnal Akuntansi Dan Manajemen Mutiara Madani*, *10*(1), 18–36. https://doi.org/10.55916/jsar.v18i1.24
Xue, Y. (2022). Does an abnormal change in deferred tax assets interfere with analysts' earnings forecasts? *China Journal of Accounting Research*. https://www.sciencedirect.com/science/article/pii/S1755309122000351. https://doi.org/10.1016/j.cjar.2022.100255