Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

Earnings Management Factors In The Consumer Goods Industry During The Covid-19 Pandemic

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Submitted *12-05-2023* ***Reviewed*** *17-05-2023* ***Revised*** *08-06-2023* ***Accepted*** *08-06-2023* ***Published*** *08-09-2023*

Abstract: The global proliferation of the Covid-19 pandemic has adversely impacted public health, society, and the economy. To face the pandemic, managers are frequently required to make highly complicated decisions about financial reports. Earnings management occurs when managers modify financial statements for the advantage of stakeholders by evaluating opportunities in certain business activities. This paper investigates the impact of audit opinion and tax incentives on earnings management and leverage as a moderating variable among consumer goods manufacturing companies. A purposive sampling technique was performed to select 15 manufacturers in the consumer goods industry subsector listed on the Indonesia Stock Exchange between 2019 and 2021, which matched the research criteria. This study's findings indicate that audit opinion and tax incentives influence earnings management among consumer goods companies in the COVID-19 pandemic era. Moreover, leverage was a moderating variable for audit opinion and earnings management, but it did not moderate the effect of tax incentives on earnings management.
Keywords: Earnings Management; Audit Opinion; Tax Incentive; Leverage.

Abstrak: Penyebaran virus Covid-19 telah berdampak bagi kesehatan publik, kehidupan masyarakat, dan ekonomi dunia. Untuk menghadapi pandemi, manajer perusahaan sering kali dituntut untuk membuat keputusan yang sulit terkait laporan keuangan. Manajemen laba terjadi ketika manajer memodifikasi laporan keuangan untuk keuntungan *stakeholder* dengan mengevaluasi peluang dalam aktivitas bisnis tertentu. Makalah ini menyelidiki dampak opini audit dan insentif pajak terhadap manajemen laba dan leverage sebagai variabel moderasi di antara perusahaan manufaktur barang konsumsi. Teknik purposive sampling dilakukan untuk memilih 15 perusahaan manufaktur subsektor industri barang konsumsi yang terdaftar di Bursa Efek Indonesia tahun 2019 sampai dengan tahun 2021 yang sesuai dengan kriteria penelitian. Temuan penelitian ini menunjukkan bahwa opini audit dan insentif pajak berpengaruh terhadap manajemen laba pada perusahaan barang konsumsi di era pandemi Covid-19. Selain itu, leverage merupakan variabel moderasi opini audit dan manajemen laba, namun tidak memoderasi pengaruh insentif pajak terhadap manajemen laba.
Kata Kunci: Manajemen Laba; Opini Audit; Insentif Pajak; Leverage.

INTRODUCTION

Globally, the spread of the COVID-19 pandemic has harmed society, the economy, and public health (Brammer et al., 2020; Shen et al., 2020). Several business sectors have experienced a decline in sales and production due to restrictions implemented by the governments of numerous countries (Sultana et al., 2021). To deal with a pandemic, managers must frequently make complex decisions, such as managing financial reporting (Tibiletti et al., 2021). It is due to the importance of financial reports in decision-making (Hariasih et al., 2020; Osadchy et al., 2018; Thi and Thi, 2022), particularly in analyzing

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

investment and credit decisions related to the company's future (Atuilik and Salia, 2018; Widarti and Pramajaya, 2018).

One of the pieces of information presented in the financial statements is about company profits. Profit can describe management's capacity to manage firm resources and indicate future business expansion prospects (Maqfiroh and Mauliyah, 2022; Michelon et al., 2020). Internal and external stakeholders utilize profit reporting in financial reports for distinct purposes. Due to this, a firm's success, as described in its financial statements, is frequently modified in a structured manner, also known as earnings management (Hanifah, 2020).

Earnings management is changing financial statements to acquire business opportunities that align with stakeholders' opportunistic interests (Tifanny and Wijaya, 2020). Earnings management does not always refer to manipulating data or information; it can also refer to selecting accounting-compliant methods to manage a company's finances (Minanari and Rahayu, 2019). Natural Earning Management (REM) and Accrual Earnings Management (AEM) techniques are acknowledged globally (Strakova, 2021). Accrual Earnings Management and Real Earning Management differ in their impact on cash flow operations, with Accrual Earnings Management having limited effect. In contrast, Real Earning Management has more significant long-term implications. Additionally, Accrual Earnings Management faces higher scrutiny from auditors, has timing limitations, and requires auditor approval. At the same time, Real Earning Management is less likely to be detected by auditors, can be arranged throughout the year, and remains under the control of managers (Ali and Kamardin, 2018).

It cannot be denied that this earnings management approach helps businesses enhance their financial performance and gain many competitive advantages (Gajdosikova et al., 2022). Typically, corporations engage in earnings management to achieve an unqualified audit opinion (Susanto et al., 2021). On the other hand, tax incentives also encourage companies to manipulate financial reporting to meet specific profit goals through earnings management (Sánchez-Ballesta and Yagüe, 2020). Previous research has shown a relationship between audit opinion and earnings management. However, investigations of the direct relationship between these variables produce inconsistent findings. The study of (Krismiaji and Sumayyah, 2022) confirms that the relationship between audit opinion and earnings management is positive and significant. Nevertheless, the research by (Devie et al., 2019) indicates that earnings management strategies do not influence audit opinion.

The inconsistent research results about the correlation between audit opinion and earnings management suggest an opportunity for further research involving the tax incentive variable as a factor influencing earnings management and the leverage variable as a moderation of the relationship between audit opinion and tax incentives on earnings management. In addition, based on the findings of prior research studies, no studies have found an association between these variables by analyzing the conditions of manufacturing companies during the COVID-19 pandemic. For this reason, the authors fill in the previous research gap by investigating the effect of audit opinion and tax incentives on earnings management with leverage as a moderating variable during the COVID-19 pandemic in Indonesia (Study case on manufacturers in the consumer goods sub-sector).

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

THEORETICAL REVIEW

Earnings Management. Typically, investors and creditors evaluate a company's health based on its profits (Iriyadi, 2019). Earnings management involves purposefully manipulating financial reports to gain certain advantages. This practice is often seen as a manipulative effort to present favourable results. Hence, management tends to declare accurate firm profits even if it requires changing the financial statements to reflect consistent earnings that do not fluctuate significantly from period to period, so it is regarded as a good achievement (Hamzah et al., 2021). In accounting, *earnings management* can be defined as manipulating the financial reporting process for personal gain (Okafor et al., 2018).

(Ali and Kamardin, 2018) It is stated that earnings management has the same goals as fraud in affecting reported earnings and the quality of financial reporting. Contrary to fraud, however, earnings management does not violate accounting principles. Users of financial statements should be cautious and look for signs of earnings management, such as abnormal revenue growth, accounts receivable, inventory, operating costs, and significant capitalization of expenses above industry norms. The most effective indicator of earnings management is typically extraordinary growth and profits combined with negative cash flow. Separating accrual earnings into the accrual component and cash flow helps identify potential manipulation and assess the extent of earnings management. **Figure 1** summarizes the effects of different activities on the quality of financial reporting.

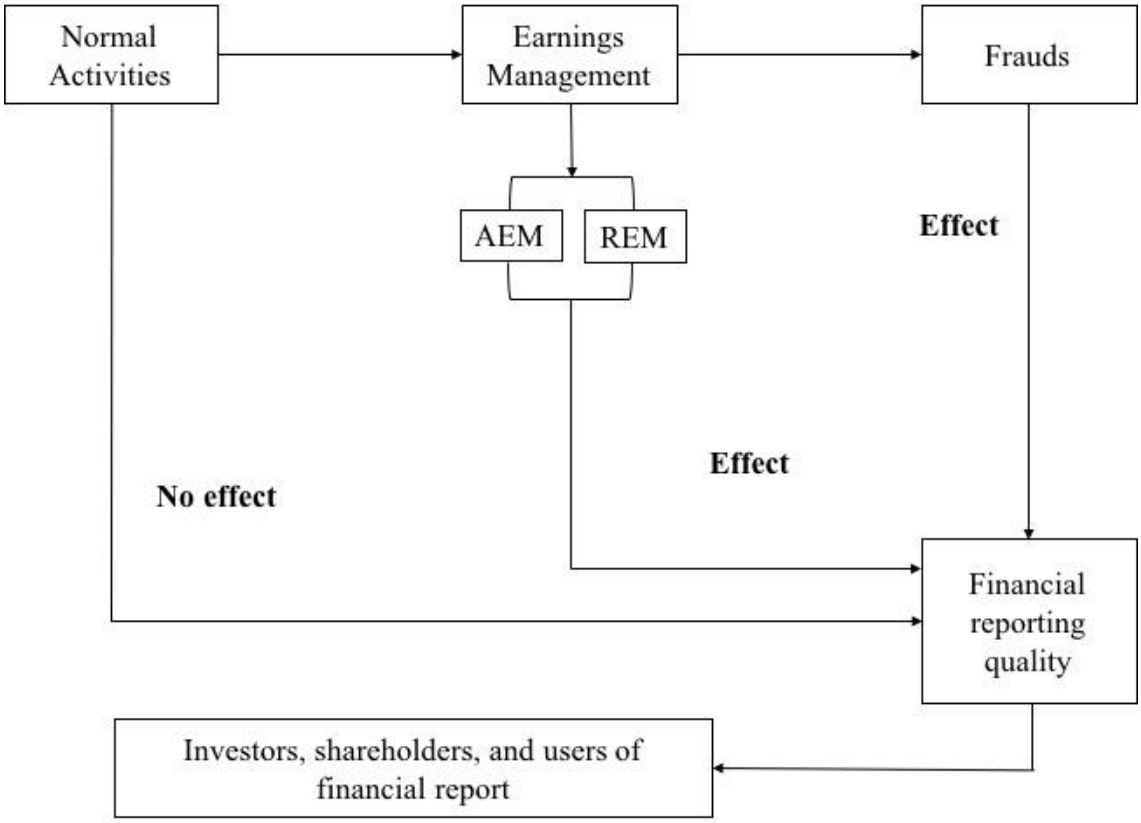

Figure 1. Actions impacting the quality of financial reporting
Source: (Ali and Kamardin, 2018)

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E-ISSN 2549-8800
P-ISSN 1410-3591

Agency Theory. The system of a free-market economy offers opportunities for investors to own a company without being actively involved in its management. This arrangement, known as the separation of ownership and control, often leads to conflicts and relationship issues between owners and managers. According to agency theory, if both parties in the relationship prioritize their interests, it is unlikely that managers will always act in the owners' best interests. Consequently, it is unrealistic to expect owners and managers, who are rational actors, to maximize the company's profits consistently. **Figure 2** shows Laughlin's Accountability Model, which explains that the structure of an interactive causal relationship that is transparent regarding resources gives the principal the rights, expectations, and reasons to question the agent's responsibilities (Cumbe and Inácio, 2018).

The agency relationship between shareholders (principals) and managers (agents) is the basis of earnings management (Nalarreason et al., 2019). Depending on the manager's motivations, the effects of earnings management practices can be either positive or negative. It can be harmful if earnings management is used to satisfy personal interests. However, it can be positive if utilized efficiently and responsibly (Abbas, 2018). Companies engage in earnings management for a variety of reasons (Kjærland et al., 2020), including bonus motivation and debt agreements (Marantika et al., 2021), industry and government regulations (Jiang, 2020), for better security prices (Strakova, 2021), and to meet the expectations of financial analysts, management, investors, and social and political pressures (Li et al., 2019).

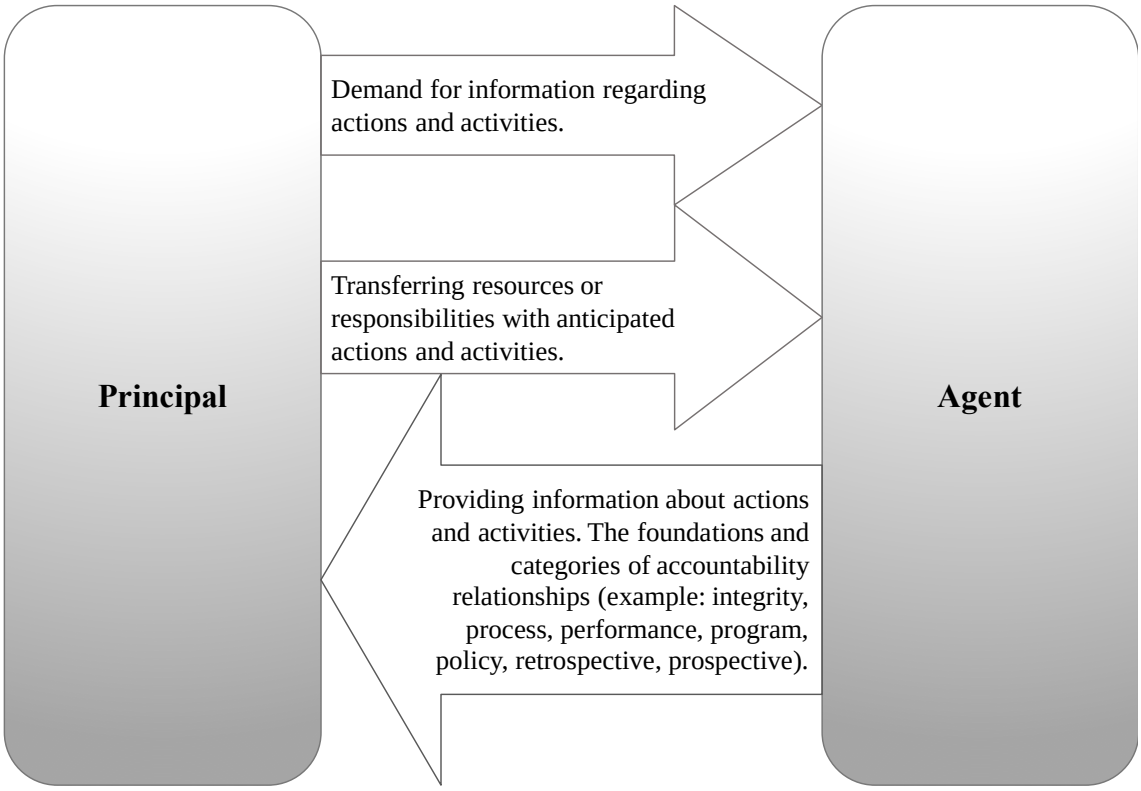

Figure 2. The model of accountability proposed by Laughlin
Source: (Cumbe and Inácio, 2018)

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

Audit Opinion. For financial statement users, good audit quality can provide acceptable and responsible opinions and ensure no fraud or material misstatement (Li et al., 2019). An audit opinion is a disclosure that the financial statements are fair and issued by a certified public accountant (Sumaryati et al., 2021). The more often a company receives an unqualified opinion, the more likely it is that the company has excellent performance (Utami et al., 2020). Consequently, the audit opinion on financial statements is the basis for investor considerations when making investment decisions. Investors will invest in a company that can assure high returns (Kuswara and Yanto, 2019).

Previous literature studies have explained the relationship between audit opinion and earnings management, but there are no clear and consistent conclusions (Lu, 2020). (Krismiaji and Sumayyah, 2022) Research reveals that these two variables are positively related. On the other hand, research by (Devie et al., 2019) indicates that earnings management practices do not influence audit opinion. Hence, the following research hypotheses were developed:

H1: Audit opinion affects earnings management practices.

Tax Incentives. Tax incentives significantly impact the expansion of the business sector and the economy (Deyganto, 2022). Tax incentives are specific tax reductions for certain investment projects (Siregar and Patunru, 2021) that encourage companies and people to participate in socially responsible and beneficial behaviour (Deyganto, 2022). According to (Larhlid et al., 2017), several tax incentives can be observed in practice: tax deductions, tax exemptions, tax deferrals, and loss relief. These tax incentives can be used individually or in combination as part of an incentive scheme. The form of tax incentive is outlined in **Figure 3**.

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E-ISSN 2549-8800
P-ISSN 1410-3591

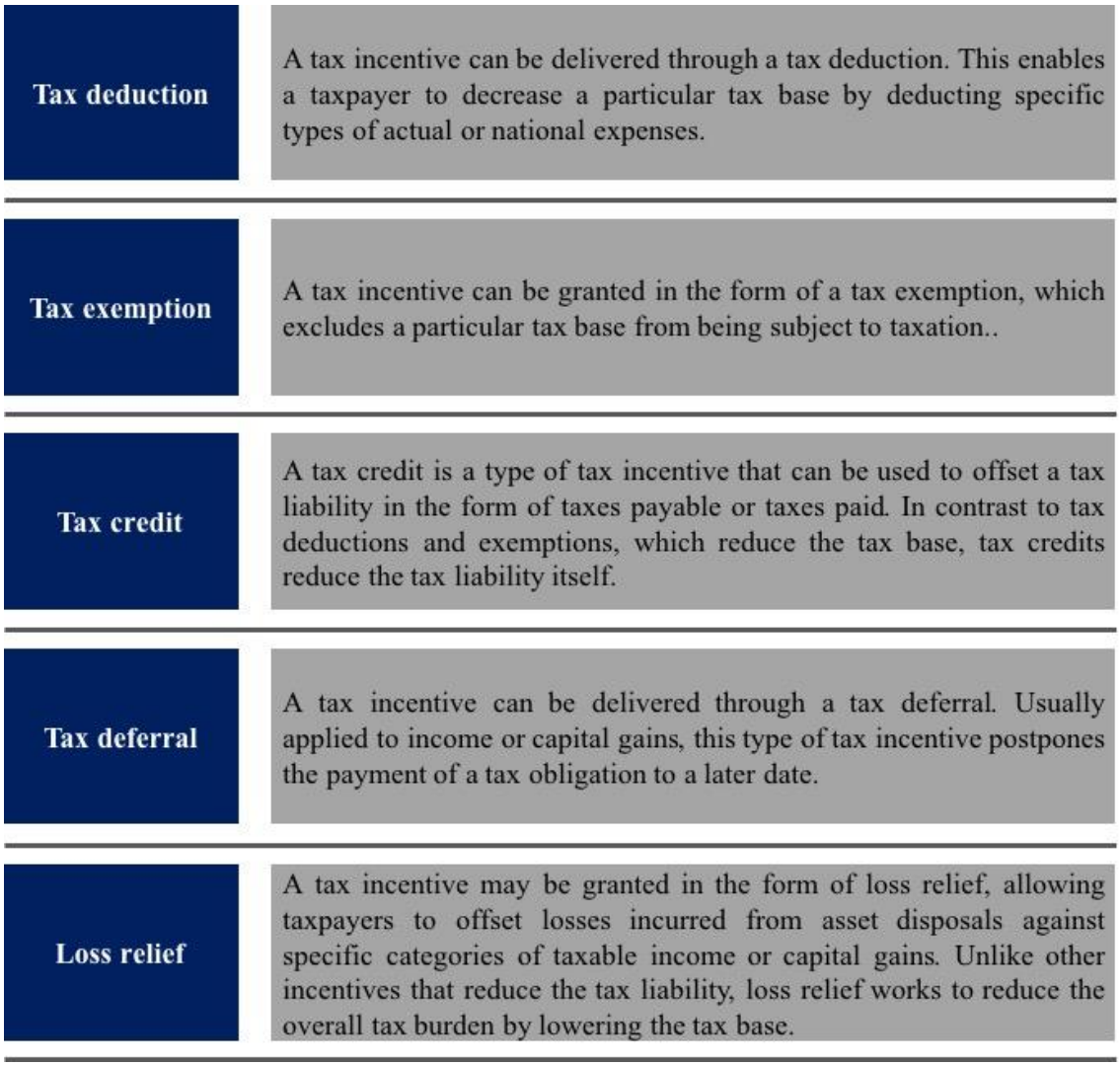

Figure 3. Forms of tax incentives
Source: (Larhlid et al., 2017)

During the Covid-19 pandemic, some businesses encountered financial difficulties. In light of this, on April 27, 2020, the Indonesian government released Minister of Finance Regulation (PMK) No. 44/PMK03/2020 about tax advantages for taxpayers affected by the Covid-19 pandemic (Marlinah and Syahribulan, 2020). (Ernie and Marcelino, 2021)'s research demonstrates that tax incentives in Indonesia are beneficial for dealing with financial difficulties during a pandemic.

According to (Callao et al., 2021), the company's primary motive for managing earnings is tax incentives. This statement validates the findings (Almashaqbeh et al., 2018) that tax incentives affect earnings management activities conducted by companies. These studies became the basis for the authors to formulate the following hypothesis:

H2: Tax incentives affect earnings management practices.

Leverage. Leverage uses borrowed funds to finance a business's fixed assets (Taqi et al., 2020). In other words, leverage is a tool for measuring the amount of debt a firm has

Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

to finance its assets (Utami et al., 2020). Leverage significantly negatively impacts a company's performance (Chen, 2020). It means that if the company has a high level of leverage, its performance will worsen because it relies heavily on external loans to finance its assets. At the same time, investors' confidence is influenced by a company's leverage ratio (Jihadi et al., 2021).

Previous research has discovered a correlation between earnings management and leverage, although the conclusions are inconsistent. According to (Cudia and Cruz, 2018) and (Lazzem and Jilani, 2018), leverage has a positive and significant relationship with earnings management. However, (Hutauruk et al., 2022), (Ghofir and Yusuf, 2020), and (Santoso, 2023) concluded otherwise, that leverage has no significant impact on earnings management. According to these studies, the following hypothesis was developed:

H3: Leverage affects earnings management practices.

H4: Leverage moderated the effect of audit opinion on earnings management practices.

H5: Leverage moderated the effect of tax incentives on earnings management practices.

Based on the initial literature review and hypotheses, the research model represented in **Figure 4** was developed.

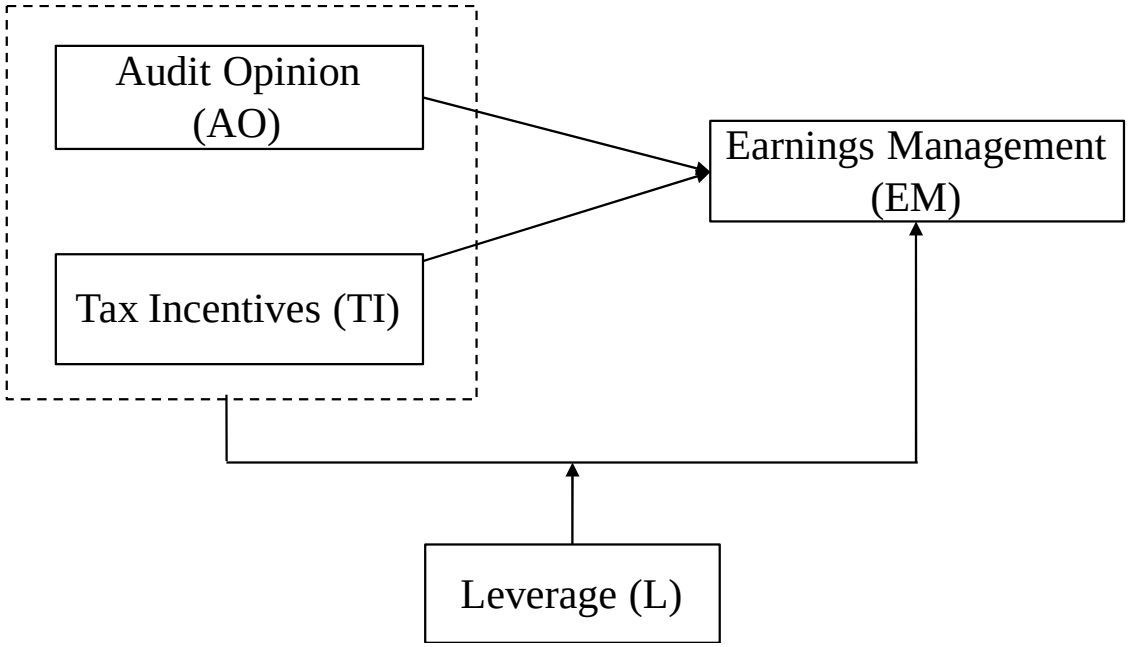

Figure 4. Research Model

METHODS

This study was performed to test the hypothesis regarding the effect of several independent variables on the dependent variable; thus, this type of research is hypothesis-testing (Patel and Patel, 2019). This research used a quantitative method and a descriptive

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

approach to describe the characteristics of the population or phenomenon being researched (Manjunatha, 2019).

The data source used is secondary. Secondary data are acquired by a party unrelated to the research project for various other objectives and at different times in the past (Kalu et al., 2018). Purposive sampling was employed to collect the financial reports of manufacturing companies in the consumer goods industry subsector for this study. Based on Kelly, as cited by (Campbell et al., 2020), purposive sampling picks respondents who are most likely to provide relevant and usable data or information. Tests on data were conducted with Eviews 12 by utilizing descriptive statistical analysis.

Variable Operational Definition and Variable Measurement. The dependent, independent, and moderating variables are used in this study. This study's main focus was earnings management, the dependent variable. The independent variables were audit opinions and tax incentives, and leverage was the variable that changed the effects of the other two.

Dependent Variable. Earnings management is "the regulation of profits in line with the objectives of specific parties or accounting principles for management that are genuinely based on the many objectives and purposes contained therein." In this study, earnings management was measured using absolute discretionary accruals from (Jones, 1991), cited as follows (Simamora, 2019):

Total Accruals Companies (TAC),

$$TAC = NI_{it} - CFO_{it} \quad \text{..... (1)}$$

TAC stand for Total Accrual Company, NI_{it} means Net Income company i in period t, and CFO_{it} means cash flow from operating activities company i in period t.

Total Accrual. The estimation of Total Accrual was conducted using Ordinary Least Square in the following manner:

$$\frac{TA_{it}}{A_{i,t-1}} = ß_1 \left(\frac{1}{A_{i,t-1}}\right) + ß_2 \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + ß_3 \left(\frac{PPE_{it}}{A_{i,t-1}}\right) \quad \text{..... (2)}$$

Where TA_{it} means Total Acrual company i in period t, $A_{i,t-1}$ means Asset company i in period t-1, ΔREV_{it} means Deviation of Revenue company i between period t and t-1, PPE_{it} means Fix asset value company i in period t.

By the regression coefficient obtained in formula (2), the Non-Discretionary Accruals (NDA) are computed using the following formula:

$$\frac{\boldsymbol{TA_{it}}}{\boldsymbol{A_{i,t-1}}} = ß_1 \left(\frac{1}{\boldsymbol{A_{i,t-1}}}\right) + ß_2 \left(\frac{\boldsymbol{\Delta REV_{it}}}{\boldsymbol{A_{it-1}}} - \frac{\boldsymbol{\Delta REC_{it}}}{\boldsymbol{A_{it-1}}}\right) + ß_3 \left(\frac{\boldsymbol{PPE_{it}}}{\boldsymbol{A_{i,t-1}}}\right) \quad \text{..... (3)}$$

Next, the following formula is used to calculate the Discretionary Accruals (DA) value as a measure of earnings management:

$$DACC_{it} = \left(\frac{TACC_{it}}{TA_{i,t-1}}\right) - NDACC_{it} \quad \text{..... (4)}$$

Where $DACC_{it}$ means Discretionary Accruals company i during period t, $TACC_{it}$ means Total Accrual company i during period t, $TA_{i,t-1}$ means Total Asset company i

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E-ISSN 2549-8800
P-ISSN 1410-3591

during period t-1, $NDACC_{it}$ means Non-Discretionary Accruals company i during period t.

The following provisions were utilized to detect earnings management using the Discretionary Accrual (DA) approach. Whereas, if DA is positive, there was an earnings management practice by increasing profits. If DA is negative, there was an earnings management practice by decreasing profits. If DA was zero, then there was no earning management practice.

Independent variable. Independent variables are defined as those values which influence other variables. The variables considered as independent in this study are audit opinion and tax incentives.

Audit opinion. According to Public Accountant Professional Standards, there exist five categories of audit opinions: unqualified, modified, qualified, adverse, and disclaimer of opinion.

Tax incentives. Incentives relate to tax facilities from the government for particular taxpayers in the form of reduced tax rates. This facility aims to decrease the amount of the tax burden that must be paid. The measurement used in tax incentives is tax planning to analyze the size of the effectiveness of tax management with the following formula:

$$\text{TRR} = \frac{\text{Net Income}_{it}}{\text{Pre Tax Income EBIT}_{it}} \quad \ldots\ldots (5)$$

TRR stand for Tax-Retention-Rate company i year t, Net Income_{it} means Net Income company i year t, and PreTax Income ($EBIT_{it}$) means Profit before tax company i year t.

Moderation Variable. Moderating variables can make the relationship between the two main variables stronger or weaker. The moderating variable in this research was leverage. In this study, leverage can be proxied by using the Debt-to-Asset Ratio (DAR), which compares the total liabilities with the total assets the company possesses, demonstrating the amount to which the funds borrowed have been utilized to purchase assets.

$$\text{DEBT TO ASSET RATIO (DAR)} = \frac{\text{TOTAL DEBT}}{\text{TOTAL ASSET}} \quad \ldots\ldots (6)$$

Population and Research Sample. The population is the whole collection of elements from which some conclusions are to be drawn. This study's population consists of the Indonesia Stock Exchange-listed consumer goods manufacturers that submitted financial reports between 2019 and 2021. **Figure 5** shows the company data for the consumer goods industry sector on the Indonesia Stock Exchange.

On the other hand, a sample represents a portion of the population's size and characteristics and does not represent the entire population. Fifteen samples were selected based on the research criteria. **First,** manufacturing companies in the consumer industry sub-sector are listed on the Indonesia Stock Exchange and are not delisted during the 2019 to 2021 research period. **Second**, audited manufacturers' financial statements available on the Indonesia Stock Exchange website from 2019 to 2021. **Third**, companies report audited financial statements using the rupiah currency.

Analysis Method. The data analysis approach used in this research was panel regression analysis. As a data processing tool using Eviews 12 software. Analysis using panel data combines cross-section and time series data by accommodating those bound by

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E-ISSN 2549-8800
P-ISSN 1410-3591

cross-section and time series variables in the information model. The analysis approach was performed in several stages: descriptive analysis, model selection test, classical assumption test, and hypothesis testing.

Descriptive Analysis. *Descriptive statistical methods* involve analyzing data by describing the collected data as it is, without drawing broader conclusions or generalizations. The author utilizes the descriptive approach to depict the research findings in addressing the problem formulation concerning the description of each studied variable.

Indonesian Consumer Goods Companies List

Year 2019-2021

Company Name	Code	Company Name	Code
Food and Beverage Industry Sub Sector		**Cigarette Sub Sector**	
Tiga Pilar Sejahtera Food Tbk, PT	AISA	Gudang Garam Tbk	GGRM
Tri Banyan Tirta Tbk, PT	ALTO	Handjaya Mandala Sampoerna Tbk	HMSP
Campina Ice Cream Industry Tbk, PT	CAMP	Indonesia Tobacco Tbk	ITIC
Wilmar Cahaya Indonesia Tbk, PT	CEKA	Bentoel International Investama Tbk	RMBA
Sariguna Primatirta Tbk, PT	CLE	Wismilak Inti Makmur Tbk	WIIM
Wahana Interfood Nusantara Tbk, PT	COCO		
Delta Djakarta Tbk	DLTA	**Pharmaceutical Sub Sector**	
Diamond Food Indonesia Tbk,PT	DMND	Darya Variao Laboratoria Tbk ()	DVLA
Sentra Food Indonesia Tbk, PT	FOOD	Indofarma (Persero) Tbk ()	INAF
Garudafood Putra Putri Jaya Tbk, PT	GOOD	Kimia Farma (Persero) Tbk ()	KAEF
Buyung Poetra Sembada Tbk, PT	HOKI	Kalbe Farma Tbk ()	KLBF
Indofood CBP Sukses Makmur Tbk, PT	ICBP	Merck Indonesia Tbk ()	MERK
Era Mandiri Cemerlang Tbk	IKAN	Phapros Tbk,PT ()	PEHA
Indofood Sukses Makmur Tbk, PT	INDF	Pyridam Farma Tbk ()	PYFA
Mulia Boga Raya Tbk, PT	KEJU	Industri Jamu and Farmasi Sido Muncul Tbk	SIDO
Multi Bintang Indonesia Tbk, PT	MLI	Pasific Tbk	TSPC
Mayora Indah TBK, PT	MYOR		
Pratama Abadi Nusa Industri Tbk, PT	PANI	**Cosmetics and Household Goods Sub Sector**	
Prima Cakralawa Abadi Tbk	PCAR	Akasha Wira International Tbk	ADES
Prashida Aneka Niaga Tbk, PT	PSDN	Kino Indonesia Tbk	KINO
Palma Serasih Tbk, PT (PSGO)	PSGO	Cottonindo Ariesta Tbk	KPAS
Nippon Indosari Corporindo Tbk, PT	ROTI	Martina Berto Tbk	MBTO
Sekar Bumi Tbk, PT	SKBM	Mustika Ratu Tbk	MRAT
Sekar Laut Tbk, PT	SKLT	Mandom Indonesia Tbk	TCID
Siantar Top Tbk, PT	STTP	Unilever Indonesia Tbk	UNVR
Ultrajaya Milk Industry and Trading Company Tbk, PT	ULTJ		
Household Appliances Sub Sector			
Chitose International Tbk, PT	CNIT		
Kedaung Indah Can Tbk, PT	KICI		
Langgeng Makmur Industry Tbk, PT	LMPI		
Integra Indocabinet Tbk, PT	WOOD		

Figure 5. Indonesia Stock Exchange-Listed Consumer Goods Companies
Source: Indonesia Stock Exchange, 2022

Model Selection Test. This research uses the panel data regression model estimation approach, which was carried out with three methods, namely: (1) Common Effect Model (CEM), the simplest model that ignores the dimensions of time and space with pooled panel data; (2) Fixed Effect Model (FEM), a model with a constant slope coefficient but the intercept varies between individuals; (3) Random Effect Model (REM), a model used

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

in determining the degree of freedom if the data used has many cross-sectional units that vary between individuals.

Classical Assumption Test comprises tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. After successfully passing through these stages, the regression equation model is obtained and subjected to subsequent testing.

$$EM = \alpha + \beta 1\,AO + \beta 2\,TI + \beta 3\,L + \beta 4AOL + \beta 5\,TIL + \varepsilon \quad \text{..... (7)}$$

Where EM stand for Earnings Management, AO means Audit Opinion, TI Tax Incentives, L means Leverage, α for constant value, β for regression coefficient, and ε for error.

RESULTS

This study conducts an in-depth analysis of manufacturing firms operating in Indonesia's consumer goods industry sub-sector during the challenging COVID-19 period. The research approach encompasses descriptive analysis, rigorous testing of classical assumptions, and hypothesis testing to derive meaningful insights and conclusions.

Descriptive Analysis. Table 2 presents a descriptive analysis of the variables related to earning management, audit opinion, tax incentives, and leverage. The study reveals that the mean value of earning management is -0.114, indicating that, on average, companies tend to engage in harmful earnings management practices. This finding is supported by the median value of -0.250, suggesting that half of the observations fall below this value. Furthermore, the standard deviation of 0.339 indicates moderate variation around the mean.

Meanwhile, the audit opinion variable, with a mean value of -0.918, suggests that, on average, companies tend to receive negative audit opinions. The median value of -0.790 indicates that half of the observations have audit opinions below this value, further confirming the prevalence of negative opinions. The standard deviation of 0.159 shows relatively low variability in the audit opinion data. During the COVID-19 Pandemic, the results of this study show that audit opinion affects earnings management within the consumer goods industry sub-sector listed on the Indonesia Stock Exchange.

The descriptive analysis indicates a mean value of 0.722 regarding the tax incentive variable, suggesting that companies, on average, receive positive tax incentives. The wide range of tax incentives is reflected in the maximum value of 1.610 and the minimum value of -0.290. The standard deviation of 0.410 indicates a moderate variation in the tax incentive data. These findings suggest that tax incentives during the pandemic significantly affected the consumer goods industry sub-sector.

Furthermore, examining the leverage variable, the descriptive analysis shows a mean value of 0.538, indicating a moderate level of leverage among the companies in this study. The median value of 0.525 suggests that half of the observations fall below this level. The standard deviation of 0.306 indicates moderate variation in the leverage data. These findings suggest that leverage significantly affects earnings management during a pandemic. Meanwhile, leverage did not moderate tax incentives for earnings management in manufacturing companies.

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E-ISSN 2549-8800
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Table 2. Descriptive Analysis

	Earnings Management (EM)	Audit Opinion (AO)	Tax Incentives (TI)	Leverage (L)
Mean	-0.114	-0.918	0.722	0.538
Median	-0.025	-0.790	0.660	0.525
Maximum	0.410	-0.790	1.610	1.560
Minimum	-1.470	-1.110	-0.290	0.080
Std. Dev.	0.339	0.159	0.410	0.306
Skewness	-2.268	-0.408	0.038	1.293
Kurtosis	9.742	1.166	3.572	5.860
Jarque-Bera	82.565	5.034	0.417	18.598
Probability	0.000	0.080	0.811	0.000
Sum	-3.420	-27.540	21.680	16.160
Sum Sq. Dev.	3.344	0.737	4.884	2.731

Source: Proceed by Authors, 2022

Classical Assumption Test Analysis. The classic assumption tests used in this study are normality, heteroscedasticity, multicollinearity, and autocorrelation tests. Kolmogorov Smirnov was employed in the normality test to assess whether the data were normally distributed. **Figure 6** shows a probability value of 0.706, more than 0.050, so it can be stated that the data are spread out normally.

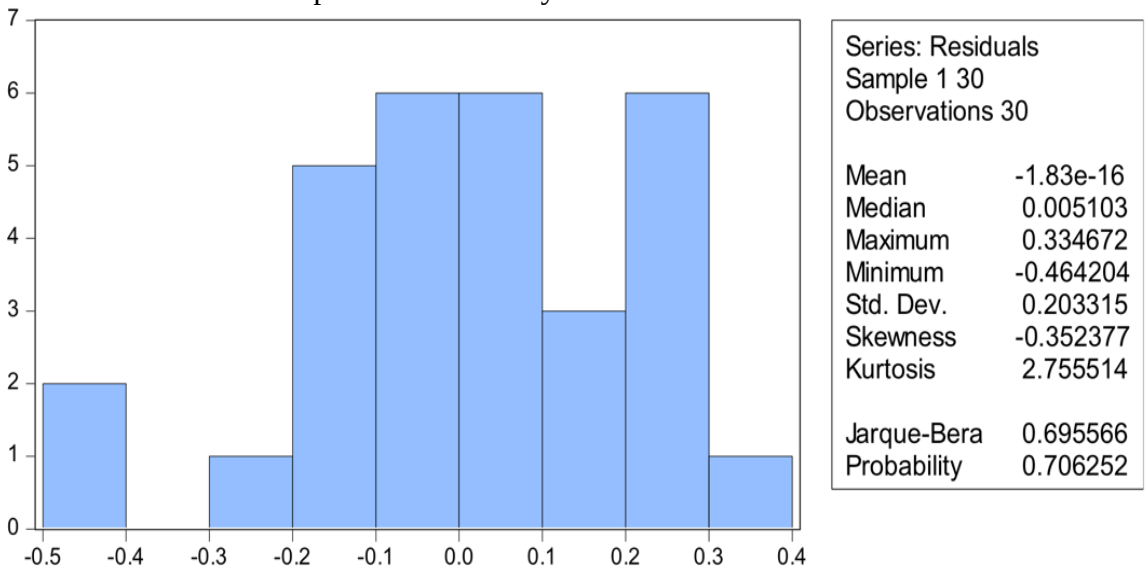

Figure 6. Normality Test

An essential principle of the classical linear regression model is that the disturbances appearing in the regression are homoscedasticity; all the disturbances have the same variance. **Table 3** shows that each variable's probability value is more than 0.050, indicating that the study's suggested variables do not reflect heteroscedasticity.

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E-ISSN 2549-8800
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Table 3. Heteroscedasticity Test

F-statistic	2.912	Prob. F(3,26)	0.053
Obs*R-squared	7.545	Prob. Chi-Square(3)	0.056
Scaled explained SS	13.49	Prob. Chi-Square(3)	0.003

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares

Variable	Coefficient	Standard error	t-Statistic	Probability
Earnings Management (EM)	0.029	0.226	0.131	0.896
Audit opinion (AO)	0.134	0.212	0.631	0.533
Tax incentives (TI)	0.214	0.082	2.588	0.015
Leverage (L)	0.048	0.108	0.445	0.659

Source: Proceed by Authors, 2022

The multicollinearity test identifies potential correlations between the model's independent variables. Good regression models are those in which the independent variables are uncorrelated. The Variance Inflation Factor (VIF) and tolerance (α) values can be used to identify the existence of multicollinearity. The results of the multicollinearity test are displayed in **Table 4** shows where each variable has a VIF value of 10, indicating that multicollinearity does not exist.

Table 4. Multicollinearity Test

Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centred VIF
Earnings Management (EM)	0.163	48.335	NA
Audit opinion (AO)	0.143	36.928	1.046
Tax incentives (TI)	0.021	4.442	1.055
Leverage (L)	0.037	4.267	1.019

Source: Proceed by Authors, 2022

The autocorrelation test was conducted to assess if there is a deviation from the classic autocorrelation assumptions. **Table 5** shows the probability value of chi-square 0.719 more than 0.050; it can be stated that the autocorrelation does not exist.

Table 5. Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.269	Prob. F(2,24)	0.766
Obs*R-squared	0.657	Prob. Chi-Square(2)	0.719

Test Equation:
Dependent Variable: RESID
Method: Least Squares

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P-ISSN 1410-3591

Variable	Coefficient	Std. Error	t-Statistic	Probability
Earnings Management (EM)	0.067	0.428	0.158	0.875
Audit opinion (AO)	0.065	0.405	0.162	0.872
Tax incentives (TI)	-0.013	0.155	-0.087	0.930
Leverage (L)	0.004	0.206	0.020	0.983
RESID(-1)	0.153	0.211	0.725	0.475
RESID(-2)	-0.007	0.215	-0.035	0.972

Source: Proceed by Authors, 2022

Hypothesis Test. The model for moderated regression analysis was evaluated simultaneously (F test) or in part (t-test). The rules for the significance test when using the F test or t-test are Accept Ha: If the probability (p) is less than 0.050, then the independent variables significantly affect the dependent variable, either simultaneously or partially.

Moderation Regression Analysis. The step to decide the best model among the three equation models: Fixed Effect Model (FEM), the Common Effect Model (CEM), and Random Effect Model (REM), needs to be tested on each of these models using the Chow, Hausman, and lag range multiplier. From the Chow Test - between the Fixed Effect Model and Common Effect Model, the chosen one is the Common Effect Model 0.350 more than 0.050**.** From the Hausman Test - between the Fixed Effect Model and Random Effect Model, the chosen one is the Random Effect Model 0.813 more than 0.050**.** From the Lagrange Multiplier Test - between the Random Effect Model versus the Common Effect Model, the chosen one is the Common Effect Model 0.138 more than 0.050. According to these three tests, the Common Effect Model was selected as the best model. As a result, the Common Effect Model is the best.

Table 6. Moderation Regression Analysis

Dependent Variable: Y
Method: Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Earnings Management (EM)	-0.510	0.321	-1.587	0.125
Audit opinion (AO)	-0.910	0.319	-2.853	0.008
Tax incentives (TI)	-0.807	0.134	-5.990	0.000
Leverage (L)	-0.405	0.185	-2.182	0.039
Audit opinion*Leverage (AO*L)	0.124	0.058	2.120	0.044
Tax incentives*Leverage (TI*L)	0.883	0.170	5.190	0.000

Source: Proceed by Authors, 2022

Table 6 shows displays the panel regression calculations performed with the Eviews for Windows software, resulting in the equation below:

$$EM = -0.510 - 0.910AO - 0.807TI - 0.405L - 0.124AOL + 0.883TIL \ldots\ldots (8)$$

The constant is -0.510. It suggests that if no audit opinion, tax incentives, leverage, AO*L, or TI*L variables influence earnings management, earnings management is -0.510 units. β1 is 0.910, which suggests that the audit opinion rises by one unit, and earnings management rises by 0.910, assuming all other independent variables remain constant. β2

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P-ISSN 1410-3591

is -0.807, indicating that the tax incentive rises by one unit, earnings management will increase by 0.807, presuming that other independent variables remain constant. β3 is -0.405, suggesting that leverage increases by one unit earnings management increase by 0.4053, assuming all other independent variables remain constant. β4 is 0.124, which indicates that if the audit opinion*leverage variable rises by one unit, earnings management rises by 0.124, assuming the other independent variables remain constant. β5 is 0.883; if the tax incentive*leverage variable increases by one unit, earnings management will rise by 0.883, presuming that other independent variables remain constant.

Partial hypothesis testing (t-test). The probability value and t-count represent the outcome of the partial-t test. Based on **Table 6**, the following can be concluded: the probability value of audit opinion is 0.008 less than 0.050, or the t count value is 2.085 more than t table 1.753. This value can prove that H1 is accepted, which means that "audit opinion has a significant and negative effect on earnings management." The probability value of tax incentives is 0.000 less than 0.050, or the t-count value is 5.990 less than 1.750. This value can prove that H2 is accepted, which means that "Tax Incentives have a significant and negative effect on Earnings Management." The probability value of leverage is 0.039, less than 0.050, or the t value is 2.890, more than 1.750 t table. This value can prove that H3 is accepted, meaning that "Leverage has a significant effect on Earnings Management." The probability value of audit opinion*leverage is 0.044 less than 0.050, or the t-count value is 2.120 more than 1.750 t-table. This value can prove that H4 is accepted, which means that "Leverage can moderate the Audit Opinion on Earnings Management." The probability value of tax incentives*leverage is 0.000 less than 0.050 t count 5.190 more than 1.750 t table. This value can prove that H5 is accepted, which means that "Leverage can moderate Tax Incentives on Earnings Management."

Coefficient of Determination (Adjusted R2). Table 10 shows an adjusted R2 coefficient of 0.641, indicating that the variables audit opinion, tax incentives, leverage, audit opinion*leverage, and tax incentives*leverage influence earnings management by 64.100 per cent, while other factors outside the scope of this research model influence the remaining 35.900 per cent.

DISCUSSION

The Effect of Audit Opinion on Earnings Management. Preparing financial statements on an accrual basis can lead to earnings management. This accrual accounting technique gives managers accounting flexibility when reporting company profits. The findings of this research reveal that in the COVID-19 period, audit opinion affects earnings management in Indonesia Stock Exchange-listed consumer goods manufacturing companies. The status of "unqualified opinion (Unqualified Opinion)" indicates that the company's financial statements do not contain data suspected of being problematic or that can manipulate financial data. This study confirms the results of previous studies belonging to (Krismiaji and Sumayyah, 2022), which concluded that there is a significant relationship between audit opinion and earnings management.

Agency theory can explain the reasons for earnings management practices. The theory of agency states that principals (shareholders) have less info than agents (managers) because principals can only observe some business activities continuously. In an unbalanced condition like this, a third party is needed who is considered capable of intermediary for the interests of both parties in managing the company's finances, namely

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P-ISSN 1410-3591

the auditor (Aljana and Purwanto, 2017). Management must report profits to related parties according to the audit opinion made by the auditor.

These findings have research implications that can help managers implement better budget control. Because the management of the company will be more likely to adopt better budget planning and control approaches if the audit report is favourable, to make sure that reported results are based on actual transactions and are not skewed by accounting manipulation, they will typically set realistic budgets and monitor financial performance more closely. Additionally, keeping the audit opinion promotes management accountability to stakeholders like shareholders, creditors, and investors and demonstrates transparency in financial reporting.

The Effect of Tax Incentives on Earnings Management. According to the panel regression analysis, the t-test result shows that tax incentives significantly affect earnings management among Indonesia Stock Exchange-listed manufacturers in the consumer goods industry subsector. This study validates the findings of (Callao et al., 2021) that tax incentives are the company's primary motive for managing earnings.

According to agency theory, the dynamics of tax planning significantly impact earnings management, primarily because the government, as the principal, and management, acting as agents, possess divergent tax-paying interests. The direction endeavours to minimize tax burdens as much as possible, while the government requires tax revenues to finance its various spending initiatives. The COVID-19 pandemic led the government to extend multiple tax incentives to businesses as part of its pandemic response and support measures. In such a challenging economic environment, enterprises naturally find it essential to resort to earnings management strategies by capitalizing on tax planning to secure these incentives and ensure their survival during the pandemic. The interplay between tax planning, earnings management, and government support measures exemplifies the intricate balancing act that companies navigate during uncertain times to optimize their financial standing and fulfil their obligations to stakeholders.

The relationship between tax incentives and earnings management in the consumer goods industry sub-sector can have implications for investment decision-making. When incentives encourage tax savings or reduce tax burdens, companies allocate resources to projects that provide more significant tax benefits than actual economic ones. It can lead to earnings management practices, in which companies manipulate financial reports to optimize tax benefits.

Leverage Moderated the Effect of Audit Opinion on Earnings Management. Leverage measures a company's ability to fulfil all its short- and long-term commitments when dissolved. This study's findings indicate that leverage can moderate audit opinions on earnings management. This is in line with the results of (Cudia and Cruz, 2018) and (Lazzem and Jilani, 2018), who found that leverage is significantly and positively related to earnings management.

The research findings align with agency theory and positive accounting theory concerning debt contracts. It has been observed that businesses with high leverage often resort to earnings management practices as they face difficulties in making timely debt payments, which can eventually lead to bankruptcy. As per agency theory, when a company is at a higher risk of violating an accounting-based loan agreement, the likelihood of management implementing accounting manoeuvres to shift potential profits into the current quarter becomes more probable. Such actions are driven by avoiding breaches in loan covenants and maintaining a favourable relationship with creditors to secure ongoing

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P-ISSN 1410-3591

financial support. The confluence of these theories sheds light on the complex interplay between leverage, earnings management, and financial health, influencing the decision-making processes within businesses striving to maintain their financial stability and meet their debt obligations.

Leverage Moderated the Effect of Tax Incentives on Earnings Management. According to the findings of the research, it has been observed that the level of leverage can moderate the influence of tax incentives on the practice of earnings management. Tax evasion, which involves exploiting legal loopholes and weaknesses in the tax system, has been identified as a prevalent strategy some companies use. Additionally, the t-test results indicate that certain companies strategically utilize operating leverage, anticipating that changes in sales will directly affect profit fluctuations before facing higher interest rates and taxes. These insights shed light on the complex interplay between leverage, tax incentives, and earnings management strategies employed by various companies in their pursuit of financial optimization and risk mitigation.

This study is consistent with the (Wardani, 2019) finding that leverage can weaken the relationship between tax planning and earnings management at a significant level of 0.012 less than 0.050. This study demonstrates that leverage strengthens tax planning for earnings management. The higher the debt and equity ratio, the closer the company is to the limit of credit agreements or regulations, so the more likely managers are to choose accounting methods that can increase company profits. When a company faces a high tax burden, it may select investment projects that generate more significant tax benefits, even if the real economic gains are low. However, if the leverage (debt ratio) is high, the corporation may prioritize debt interest payments to mitigate the effect of tax incentives on investment policy.

To mitigate losses arising from elevated debt levels, managers resort to earnings management tactics to reduce reported earnings. Conversely, substantial profits entail a significant tax liability, prompting large companies to adopt effective tax planning strategies to minimize their tax obligations. A high level of leverage further strengthens tax planning initiatives. However, increased corporate leverage and rising interest expenses may diminish corporate profitability, compelling managers to intensify their efforts in implementing earnings management techniques.

CONCLUSION

Amidst the COVID-19 pandemic, the audit opinion exerts a noteworthy influence on earnings management within the consumer goods industry sector, encompassing the manufacturers listed on the Indonesia Stock Exchange. Given that auditors have no incentive to manipulate audit data during such challenging times, the audit opinion remains consistent. Conversely, the impact of tax incentives on earnings management is significantly pronounced for the manufacturers operating in the sub-sector of consumer goods listed on the Indonesia Stock Exchange, specifically during the pandemic period.

As a moderating variable, leverage significantly reinforces the relationship between audit opinion and earnings management. However, regarding the effect of tax incentives on earnings management during the COVID-19 pandemic, leverage does not exert any moderating influence. This observation is specifically for manufacturing companies in the consumer goods sector, all listed on the Indonesia Stock Exchange.

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E-ISSN 2549-8800
P-ISSN 1410-3591

Furthermore, the authors strongly recommend that auditors conduct their fieldwork with utmost efficiency and diligence, adhering to the auditing procedures and standards set forth by the Indonesian Institute of Certified Public Accountants. This meticulous approach ensures the timely completion of audit reports and, in turn, helps to mitigate earnings management practices that might pose risks to investors' interests.

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