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The Effect of Profitability and Green Accounting on Earnings Management in Companies on the Indonesia Stock Exchange (IDX) during Covid 19 Pandemic

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A B S T R A C T

The Covid 19 pandemic has been going on for the past three years. There have been many changes that have occurred in human life at this time. The Covid 19 pandemic has not only disrupted the health sector, but also disrupted the economic sector. The existence of restrictions on social activities and regional quarantine has hampered economic activity so that it has an impact on business activities which has worsened the level of profitability and economic growth of companies, especially in Indonesia. Not to mention that companies have to pay more attention to Green Accounting due to the prolonged pandemic. The budgets of these companies related to Green Accounting will certainly affect the financial statements of these companies. This of course can affect the performance of existing financial reports in companies that will be related to earnings management of a company. The implementation of earnings management will also affect internal and external parties of the company. Earnings management is an action taken by company management to influence reported earnings which can provide information about economic benefits to both internal and external parties. Where earnings management is a central issue and has become a common phenomenon that occurs in a number of companies today. Earnings management practices have increased every year until now.

INTRODUCTION

The Covid 19 pandemic has been going on for the past three years. There have been very many changes that have occurred in human life today. The Covid 19 pandemic is not only disrupting health, but also disrupting the economic sector. The existence of restrictions on social activities and regional quarantine has hampered economic activity so that it has an impact on business activities which has worsened the level of profitability and economic growth of companies, especially in Indonesia.

According to Wirakusuma (2016) earnings management is a deliberate process, with the limits of financial accounting standards to direct profit reporting at a certain level. The information presented in the financial statements is very important, because it reflects the company's performance and can be used for decision making. During the Covid 19 pandemic, there were hampered business activities that would affect profit reporting in the financial statements.

Based on this phenomenon, the researchers took the title The Effects of Profitability and Green Accounting on Earning Management, with the object of research on all companies engaged in the manufacturing sector from 2019 to 2021, namely during the Covid 19 pandemic. The reason for choosing the Manufacturing Sector is because manufacturing companies are companies at the level of large companies that support the country's economy. So that it can be a qualified sample to determine the effect of profitability and green accounting on earnings management.

LITERATUR REVIEW

Based on research conducted by Wiyadi, Trisnawati, Sasongko, Fauzi (2015) and Rina Dwiarti, Anna Nubua Hasibuan (2019) the profitability variable has

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no significant effect on earnings management. Meanwhile, according to research conducted by Alesia Heni Selviani (2017) the profitability variable has a significant effect on earnings management. In the sense that the higher the profitability, the higher the earnings management that occurs and conversely the lower the profitability, the lower the earnings management that occurs. In this case there is a research gap that occurs or what is called a research gap. So researchers want to re-examine the effect of the variable profitability on earnings management. Likewise with the concept of green accounting which will be seen by researchers by looking at the concept of profit related to the performance of earnings management in the financial statements presented by the company.

METHOD

This research uses multiple linear regression test method. This multiple linear regression study uses data in the form of numbers as a tool to analyze information about what you want to study. It is also hoped that this multiple linear regression study will show the effect of these variables on earnings management. The research locations were all manufacturing companies listed on the Indonesia Stock Exchange in the period 2019 to 2021. The research sampling technique was taken from a population of manufacturing companies using a purposive sampling method. The analytical tools in this study consist of descriptive analysis and statistical analysis, both of these tools are used to obtain optimal results.

a. Independent Variable

1) Profitability

In this study, the proxy used is Return on Assets (ROA) which shows the rate of return on assets. The measurement of this variable is the ratio between net profit after tax and total assets so that a percentage is obtained.

Formula:

ROA = (Net profit after tax / total assets) x 100%

2) Green Accounting

According to Aniela (2012) Green Accounting is accounting in which it identifies, measures, presents and discloses costs associated with company activities related to the environment. Green accounting is a dummy variable. If a company has one of the components of environmental costs, environmental operational costs, product recycling costs and environmental development and research costs in the annual report, it will be given a value of 1, if it does not have a value of 0.

b. Dependent Variable

In this study, earnings management is proxied as discretionary accruals as measured using the modified Jones model (Dechow et al., 1995). This model is used because it is the best model in detecting earnings management by management and can detect earnings management consistently.

The earnings management formula according to Cahyana (2012:129):

$$T_{at} = Earn_t - CFO_t$$

Where:

Tat = total accruals

Earn = Income (earnings)

CFO = operating cash flow (Cash Flow Operation)

RESULTS AND DISCUSSION

1. Description of the Research Object

Based on the sample criteria, a sample that meets the requirements will be selected. From a population of 125 listed manufacturing companies, the sample for this study was 68 companies with an observation period of 3 years so that the number of observations was 204 observations.

2. Descriptive Statistics

Descriptive statistics are used to provide an overview of the research data used as samples used in research. Descriptive statistics in this study are focused on the minimum, maximum, average and standard deviation values.

3. Classical Assumption Test

Classical assumption testing is needed to find out whether the regression estimation results are completely free from heteroscedasticity, multicollinearity, and autocorrelation symptoms. The regression model can be used as an unbiased estimate if it meets the BLUE (Best Linear Unbiased Estimator) requirements, namely there is no heteroscedasticity, no multicollinearity and no autocorrelation.

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3.1 Normality Test

The normality test aims to determine whether the dependent and independent variables used in the study have a normal distribution or not. An appropriate regression model is a model that has a normal distribution. Testing the normality of the data in this study used the Kolmogorov-Smirnov (K-S) non-parametric statistical test, which is to determine whether the data is normally distributed or not. The results of the normality test using the Kolmogorov-Smirnov test (K-S). Normality testing is done by looking at Asymp. Sig. (2-tailed). If the significance level is greater than 0.05, it is said that the residual data is normally distributed. Based on the statistical results of the data, it can be seen that the Asymp. Sig (2-tailed) is 0.000, this means that the value is below a significant value of 5 percent (0.05). Therefore, according to the Kolmogorov-Simirnov (K-S) non-parametric statistical test also states that the residual variables are not normally distributed.

Table 1. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		204
Normal Parameters	Mean	-.0000096
	Std. Deviation	406571223927.42820000
Most Extreme Differences	Absolute	.270
	Positive	.237
	Negative	-.270
Test Statistic		.270
Asymp. Sig. (2-tailed)		.000

3.2 Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between the independent variables, if there is a correlation it means there is a multicollinearity problem. A good regression model should not have a correlation between the independent variables. To detect whether or not there is multicollinearity in the regression model, it can be seen from the Tolerance value and its opposite Variance Inflation Factor (VIF). Tolerance measures the variability of the selected independent variables and is not explained by other variables. The cutoff value that is commonly used to indicate the presence of multicollinearity is the Tolerance value $\leq 0.10 \geq 10$.

From the table it can be seen that all variables have tolerance values above 0.1 and VIF values below 10, so it can be concluded that the regression model in this study did not occur multicollinearity. That is, there is no correlation between the ROA (X1) and Green Accounting (X2) variables so that it can be stated that the independent variables in this study stand alone.

Table 2. Multicollinearity Test

Model		Unstandardized Coefficients		Collinearity Statistics	
		B	Std. Error	Tolerance	VIF
1	(Constant)	-1114228 65721.189	3269037 1340.874		
	Return on Asset	9258875 147.120	2028205 012.051	.939	1.065
	Green Accounting	-3845608 7051.557	7121445 5487.964	.939	1.065

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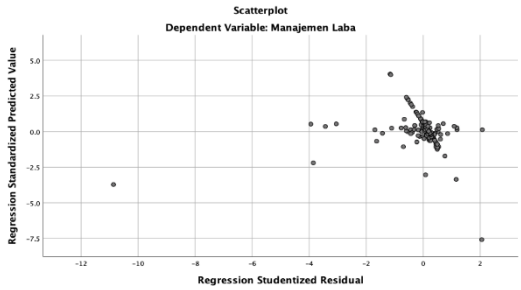
3.3 Heteroscedasticity Test

The heteroscedasticity test can be seen from the scatter plots. If the data spreads, does not narrow and forms a certain pattern, it can be said that the regression model is free from heteroscedasticity. The heteroscedasticity test aims to test whether the regression model is not unequal in variance from the residuals of one observation to another. If the variance from the residual of one observation to another observation remains, then it is called homoscedasticity and if it is different it is called heteroscedasticity. There are several ways to find out whether there is heteroscedasticity by looking at the graphs on the plot. Based on the figure, it can be seen that in the Heteroscedasticity test using scatterplots graphs where the data is spread randomly and spread both above and below the number 0 on the Y axis. It can be concluded that there is no heteroscedasticity.



3.4 Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between confounding errors in period t and errors in period t-1 (previously). If there is a correlation, then there is called an autocorrelation problem. Autocorrelation arises because successive observations over time are related to one another. The test used in this study to detect the presence or absence of autocorrelation can be seen using the Durbin-Watson test.

Based on Table, it can be seen that the Durbin Watson (DW) value is 1.607 where if d> du then there is no positive autocorrelation, it can be concluded that we cannot reject H0 which states that there is no positive autocorrelation.

4. Hypothesis Testing

4.1 Simultaneous Significance Test (F)

From the table with a probability of 0.00 or less than 0.05. In other words, there is a simultaneous significant effect of the independent variables ROA and Green Accounting on Earnings Management.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1114228657 21.189	3269037 1340.874		-3.408	.001
	Return on Asset	9258875147 .120	2028205 012.051	.316	4.565	.000
	Green Accounting	-3845608705 1.557	7121445 5487.964	-.037	-.540	.590

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3541354278132397 700000000.000	2	1770677 13906619 88000000000.00 0	10.606	.000
	Residual	3355593250554692 000000000.000	201	1669449 37838541 90000000000.000		
	Total	3709728678367932 000000000.000	203			

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4.2 Partial Significance Test (t)

Based on the table it can be seen that:

1. The ROA variable (X1) has a significance value of 0.000 <0.05. It can be concluded that ROA has a positive and significant effect on Earnings Management. If ROA increases, Earnings Management will also increase significantly, and vice versa.
2. The Green Accounting variable (X2) has a significance value of 0.590 > 0.05. Thus, Green Accounting has no significant effect on Earnings Management.

4.3 Multiple Linear Regression

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-111422865721.189	32690371340.874		-3.408	.001
	Return on Asset	9258875147.120	2028205012.051	.316	4.565	.000
	Green Accounting	-38456087051.557	71214455487.964	-.037	-.540	.590

Multiple linear regression analysis aims to determine the direction of influence of two or more independent variables on the dependent variable.

Multiple linear regression analysis is used to determine how much influence the independent variable (X) consisting of ROA (X1), Green Accounting (X2) has on the dependent variable (Y), namely Profit Management. From the table it can be seen that of the two variables there is one variable that is significant and one that is not significant, namely: the variable significantly influences Earnings Management (Y), namely the ROA variable (X1). The variable that has the greatest influence on Earnings Management (Y) is the ROA variable (X1), namely 9258875147.120.

$$Y = -1114.189 + 9258.120.X1 - 3845.557\,X2 + e$$

The interpretation of the regression above is as follows:

1. The constant (β0) = -111422865721.189 indicates a constant level, where if the ROA (X1) and Green Accounting (X2) variables are 0, then Profit Management (Y) will still exist at -111422865721.189 assuming other variables still.
2. ROA coefficient (β1) = 9258875147.120 > 0. This indicates that the ROA variable (X1) has a positive effect on Earnings Management. If ROA is increased by one unit, then Earnings Management will also increase by 9258875147.120 assuming other variables remain the same, and vice versa.
3. The coefficient of Green Accounting (β2) = – 38456087051.557 < 0. This shows that the Green Accounting variable (X2) has a negative effect on Earnings Management. If Green Accounting is increased by one unit, then Earnings Management will decrease by -38456087051.557 assuming other variables remain the same, and vice versa.

4.4 Coefficient of Determination

Table 4.11 it can be seen that the value of R Square is 0.095, Adjusted R Square is 0.86 and the Standard Error of the Estimate is 408588959516.21344. R Square 0.095 means that 9.5 percent of the variation in the Earnings Management variable can be explained by the ROA and Green Accounting variables. The remaining 90.5 percent can be explained by other factors not included in this study.

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Table 4.1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.309	.095	.086	40858895 9516.21344	1.607

CONCLUSION

Based on the F test it is concluded that the variables of profitability and green accounting simultaneously affect earnings management. Overall, it is able to explain the variation of Y variable by 0.05%, while the remaining 99.05% is influenced or explained by other variables not included in this research model. The results of partial hypothesis testing, it can be proven that only the profitability variable has a significant negative effect on earnings management, while green accounting has no significant effect. It is recommended for further researchers to add to the research sample. Not only manufacturing companies were used as research samples, but all companies listed on the IDX for better results in predicting factors affecting earnings management.

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