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Earnings Management Analysis of Basic Materials Firms Listed on the Indonesian Stock Exchange (2021-2023) with Firm Size as a Moderating Variable

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Abstract

This study was conducted to investigate how Audit Quality, Profitability, Leverage, Information Asymmetry, and Tax Planning influence Earnings Management. It also aims to understand how Firm Size moderates or affects the impact and form of the connection among the variables that are independent and dependent. The methodological framework applied is causal comparative with a quantitative approach. Financial reports of firms within the Basic materials that are listed between 2021 and 2023 on the Indonesia Stock Exchange provided the data for this scrutiny. Employing a purposive sampling technique to select the research sample, resulting in 84 firms which satisfied the research requirements, yielding 252 observations. Multiple linear regression analysis was used to evaluate the first hypothesis, while the absolute difference test methodology was used to examine the second. The findings revealed that Audit Quality, Profitability, and Information Asymmetry did not have a major impact on Earnings Management. However, Leverage and Tax Planning had a negative impact on Earnings Management. The results also indicated that Firm Size significantly moderated the connection between Tax Planning and Earnings Management. However, Firm Size was not proven to moderate the connection among Audit Quality, Profitability, Leverage, and Information Asymmetry with Earnings Management.

Keywords: Profitability, Tax Planning, Earnings Management, Firm Size

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Introduction

In a firm's financial statements, profit information is essential, serving as a benchmark to evaluate its performance in conducting business. Investors rely on financial statements to assess the progress the company has made. The considerable influence of earnings information on stakeholders motivates management to participate in earnings management. This practice involves the manipulation of financial reporting data to improve its presentation. Managers are involved in earnings management to alter the figures of earnings presented in financial reports, which are then used by stakeholders such as investors, creditors, and market analysts (Herawati, 2024). Through earnings management, management aims to maximize bonus income, as bonuses received are dependent on the company's performance. Consequently, management will strive to highlight its achievements by generating profits for the company(Wijayanti, 2024). Moreover, earnings management is also employed by management seeking to minimize tax burdens by manipulating financial reports to reduce or minimize tax expenses. Efficient earnings management is non-opportunistic earnings management, where it is carried out for the benefit of shareholders in particular. However, to portray the company's performance based on its earnings, management will resort to more opportunistic actions to maximize personal satisfaction (Wijayanti, 2024).

Earnings management is considered legal if the activities comply with regulations. However, if there is concealment or information not disclosed by auditors or other relevant parties, then the earnings management activities are deemed illegal. Earnings management practices will reduce the accuracy of the firm's financial data. Earnings management is conducted to address organizational performance and to influence the company's stock value.Consequently, earnings management can be detrimental to financial reports and mislead users of financial statements as they have projected a company's financial performance.

Another phenomenon, PT Semen Indonesia (Persero) Tbk, which is indicated to have inflated its budget in the 2022 transactions. PT Semen Indonesia (Persero) Tbk engaged in "window dressing" in its financial reports. A discrepancy of Rp15.082 billion was discovered in the reporting of a Rp37.070 billion transaction, which was subsequently changed to Rp21.988 billion. In the financial reports for the First and Second Quarters of 2023, the figure of Rp37.070 billion was not recorded. Subsequently, in the financial report for the Third Quarter of 2023, the figure of Rp37.070 billion reappeared. However, in the financial report for the Fourth Quarter of 2023, compiled or uploaded by the SIG accountant on March 10, 2024, the figure of Rp37.070 billion changed to Rp21.988 billion. This anomaly is suspected to be an act of financial report manipulation (Tabur, 2024).

Many aspects that can affect earnings management have been proposed by previous studies. Audit quality is a central point of external oversight, serving as a key factor in earnings management practices. The auditor's objective is to identify and disclose any fraudulent activities or errors that may affect the accuracy and credibility of the corporation's financial reports. If the auditor conducts effective supervision, the opportunistic behavior of company managers can be prevented. High audit quality is essential because of the auditor's crucial role in ensuring the firm's financial statements adhere to applicable accounting standards. Existing literature suggests a negative correlation between audit quality and the practice of earnings management (Syarif M Helmi et al., 2023). Nevertheless, certain studies

have produced results that do not support a link between audit quality and earnings management(Setiawati & Ifgayani, 2021). Companies subject to higher quality audits are less likely to manipulate financial statements, as good audit quality makes companies more averse to earnings management practices.

Profitability measures a firm's efficiency in converting sales, assets, and shareholder investments into profits. One indicator utilized in this evaluation is the Return on Assets (ROA) ratio. Most users of financial statements look at ROA to determine a company's financial viability. In the event that ROA value produced by the company is low, it indicates that the company is not very effective in generating profits with the amount of assets it has, thereby creating the potential to engage in earnings management. Prior studies have demonstrated that profitability positively impacts earnings management (Syarif M Helmi et al., 2023). Other studies have also suggested that profitability does not influence earnings management (Devanka et al., 2022). In order to achieve the targeted profits and win over investors to engage in the business, the company must constantly enhance its performance.

Leverage, referred to as the share of debt in a firm's capital structure, which indicates its capacity to pay its debts and fulfill its financial commitments. A higher leverage ratio is posited to increase the incentive for earnings management, as companies facing greater financial pressure may be more inclined to manipulate reported earnings. This positive connection between leverage and earnings management has been substantiated by a body of prior research (Devanka et al., 2022). Conversely, other research has posited that leverage does not influence earnings management (Setiawati & Ifgayani, 2021). Elevated leverage ratios, signifying a considerable debt burden, can prompt management to manipulate earnings to convey a sense of financial stability to investors and creditors (Tambuati Subing & Purnama Sari, 2023).

The information gap between company insiders and external stakeholders, known as information asymmetry, is a key factor contributing to earnings management behavior. Information asymmetry encourages corporations to change financial reports when one party has more information about the organization than the other, thus one party will exploit this privilege from the other party. Prior research results indicate that information asymmetry positively affects earnings management (Nasution et al., 2021). Other studies have suggested that information asymmetry has no impact on earnings management (Devanka et al., 2022).

Tax planning aims to minimize tax burdens as much as possible by leveraging tax regulations and legal provisions, allowing companies to achieve greater profits. Businesses can allocate their finances more efficiently and enhance liquidity, and create added value in financial management. Companies can engage in earnings management to reduce profits, thereby reducing the company's tax burden (Putri et al., 2024). Prior research results indicate that tax planning positively affects earnings management (Kartika et al., 2023). The other research has posited that tax planning does not influence earnings management (Jesika, 2022). The effectiveness of a company's tax planning framework can impact its ability to utilize earnings management techniques to optimize its tax position.

Firm size is one of the references that determines how much funding will be needed for the firm's operations. The more assets, revenue, and market capitalization a firm has, the larger the firm size. A larger company size will involve a larger base of company interests, thus management must present financial reports

that can meet the expectations of the firm's interest base, which leads management to engage in earnings management practices. Prior research results indicate that company size positively influences earnings management (Niranda & Muid, 2020).

This research is predicated on the aforementioned background, the documented phenomena associated with earnings management, and the necessity to address the identified research gaps. It aims to inspect the determinants of earnings management within the basic materials firms that are listed between 2021 and 2023 on the IDX, while also considering the moderating influence of firm size.

Methodology

This research aims to further develop previous quantitative research, which utilized numerical and figures data. In this research, time series data is used because the data is obtained over more than one period, namely 2021-2023. The absolute difference test and multiple linear regression analysis were performed on the data. The research population comprises firms within the basic materials sector listed on the Indonesia Stock Exchange (IDX) from websites such as http://www.idx.co.id. This study employs purposive sampling, a method wherein participants are selected based on pre-defined criteria aligned with the research objectives.

To gauge earnings management, this study utilizes the Modified Jones Model of Discretionary Accruals with discretionary accruals as a proxy variable for the construct of earnings management, the operationalization of which is achieved through the subsequent procedural steps (Sulistyanto, 2018):

1. Calculate the total accrual value using the formula:

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

2. Discretionary accruals, a component of total accruals for a given year, are calculated using a regression analysis. The independent variable is gross property, plant, and equipment (PPE), while the dependent variable is total accruals.

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_0 \left(\frac{1}{TA_{it-1}}\right) + \beta_1 \left(\frac{\Delta Sales_{it}}{TA_{it-1}}\right) + \beta_2 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + \varepsilon$$

All of the above values are regressed using $\frac{TAC_{it}}{TA_{it-1}}$ as the dependent variable, while $1/TA_{it-1}$, $\Delta Sales_{it}/TA_{it-1}$, PPE_{it}/TA_{it-1} serve as independent variables. Thus, to calculate Nondiscretionary Accruals, the following formula is used:

$$NDA_{it} = \beta_0 \left(\frac{1}{TA_{it-1}}\right) + \beta_1 \left(\frac{\Delta Sales_{it} - \Delta TR_{it}}{TA_{it-1}}\right) + \beta_2 \left(\frac{PPE_{it}}{TA_{it-1}}\right)$$

3. Calculating discretionary accruals with the formulation:

$$DA_{it} = \frac{TAC_{it}}{TA_{it-1}} - NDA_{it}$$

Explanation:

TAC_{it}	= Firm I's total accruals for period t
NI_{it}	= Firm I's net profit for period t
CFO_{it}	= Firm I's operating cash flow for period t
TA_{it-1}	= Firm I's total assets for period t-1
β_0	= Firm I's estimated intercept for period t-1
β_1, β_2	= *Slope* for firm i period t
$\Delta Sales_{it}$	= Change in firm I's sales for period t
PPE_{it}	= Firm I's gross property, plant, and equipment for period t

NDA_{it} = Firm I's non-discretionary accruals for period t
ΔTR_{it} = Company I's change in accounts receivable for period t
DA_{it} = Firm I's discretionary accruals for period t
ε = Error Term

Table 1 Formula of Variable Operation

Variable	Parameter
Earnings Management (Y)	$DA_{it} = \frac{TAC_{it}}{TA_{it-1}} - NDA_{it}$
Audit Quality (X1)	Code 1 = Big Four PAF, Code 0 = Non-Big Four PAF
Profitability (X2)	$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \text{x} 100\%$
Leverage (X3)	$DER = \frac{Total\ Liability}{Equity} x100\%$
Information Asymmetry (X4)	$ASYM = \frac{(ask_{it} - bid_{it})}{(\frac{ask_{it} + bid_{it}}{2})}$
Tax Planning (X5)	$TRR = \frac{Net\ Income_{it}}{Pretax\ Income\ (EBIT)_{it}}$
Firm Size (Z)	Firm Size = Ln (Total Assets)

Source : Research Data

Framework Research

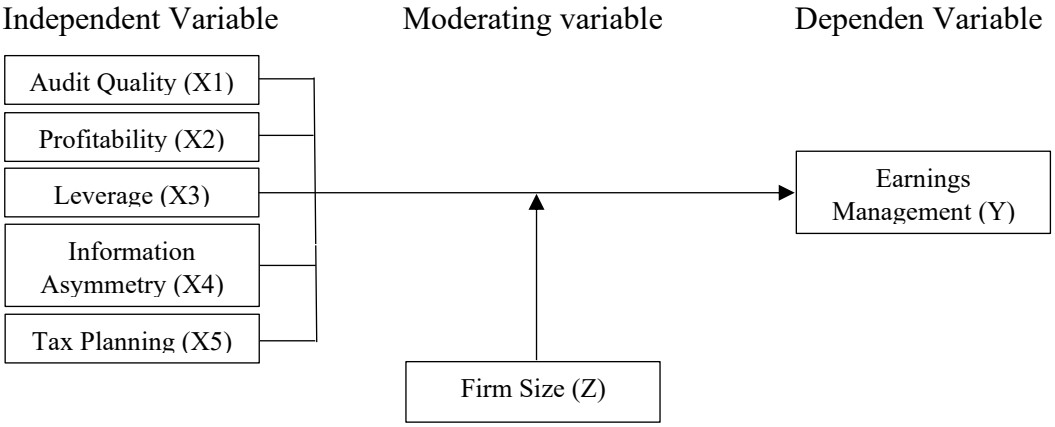

Figure 1. Framework Research

Source: Research Data

Hypothesis

H_{1a}: Audit quality influences earnings management.
H_{2a}: Firm size is able to moderate the connection between audit quality and earnings management.
H_{1b}: Profitability influences earnings management.
H_{2b}: Firm size is capable of moderating the connection between profitability and earnings management.
H_{1c}: Leverage influences earnings management.
H_{2c}: Firm size is capable of moderating the connection between leverage and earnings management.
H_{1d}: Information asymmetry influences earnings management.

H_{2d}: Firm size is capable of moderating the connection between information asymmetry and earnings management.
H_{1e}: Tax Planning influences earnings management.
H_{2e}: Firm size is is capable of moderating the connection between tax planning and earnings management.

Result and Discussion

Descriptive Statistics

This study employs a secondary data approach, focusing on publicly available information pertaining to firms operating within the basic materials sector and listed on the Indonesia Stock Exchange (IDX). The data obtained is processed and tested using SPSS version 25. The research sample selection is comprehensively presented in the following tabular representation:

Table 2 Sample Determination Distribution

No	Descriptions	Total
	Research Population: Basic materials firms that are listed between 2021 and 2023 on the Indonesia Stock Exchange	103
	Criteria:	
1.	Basic materials sector manufacturing firms that were not consecutively listed on the IDX during the 2021-2023 period	(10)
2.	Basic materials sector manufacturing firms whose shares were suspended during the 2021-2023 period	(9)
	Number of samples obtained	84
	Number of observation periods (2021-2023) = 84 x 3	252

Source: Research Data

A review of the aforementioned tabular data reveals that the application of the sample selection criteria—specifically, the inclusion of firms classified within Basic materials firms that are listed between 2021 and 2023 on the Indonesia Stock Exchange, the exclusion of firms whose shares were subject to suspension during this period, the requirement that all relevant data be available resulted 84 firms as the sample meeting the study's criteria.

Table 3 Descriptive Statistics

Descriptive Statistics					
	N	Min	Max	Mean	Std.Deviation
Audit Quality(X1)	252	0	1	0.28	0.449
Profitability(X2)	252	-0.447583	47.650389	0.218823	3.00098
Leverage (X3)	252	-231.262848	12.877006	0.184487	14.720479
Information Asymmetry (X4)	252	-0.230088	2.000000	0.033894	0.153307
Tax Planning (X5)	252	-11.659596	1.799167	0.745663	0.817842
Earnings Management (Y)	252	-0.922763	0.515951	0.067395	0.122168
Firm Size (Z)	252	24.471445	32.681829	28.497748	1.824327

Source : *Dataset processed and interpreted using SPSS version 25*

Descriptive statistics derived from 252 data points (2021-2023) for basic materials manufacturing firms listed on the IDX reveal considerable variation across key financial metrics. The average of Profitability that evaluated by Return on Asset (ROA) was 0.219. Leverage, evaluated by the debt-to-equity ratio (DER),

averaged 0.184. Information asymmetry had an average of 0.034, while the average tax retention rate (TTR), representing tax planning, was 0.746. Earnings management averaged 0.067, and company size averaged 28.498. Each of these metrics exhibited a wide range between minimum and maximum values, reflecting the diverse financial profiles and strategies employed by companies within basic materials firms on the Indonesia Stock Exchange.

Frequencies

Table 4 Table Frequencies of Audit Quality

Audit Quality (X1)			
		Frequency	Percent
Valid	Code 0	182	72,2
	Code 1	70	27,8
	Total	252	100,0

Source : *Dataset processed and interpreted using SPSS version 25*

The data reveals a significant difference in the use of audit services. A large majority of the companies in the sample (72.2%) hired non-Big Four accounting firms, while only 27.8% used Big Four firms. This indicates that most companies in the basic materials sector preferred non-Big Four auditors for their financial reports during the 2021-2023 period.

Classical Assuption Test

A classical assumption test is implemented with the aim of obtaining a proper and precise analysis model. This study employs the following classical assumption tests: Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

Normality Test

The function of the normality test is to examine whether, in the regression model, the portion of the data that cannot be explained through the independent variables (residuals) follows a normal distribution pattern.

Table 5 One-Sample Kolmogorov-Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
Asymp. Sig. (2-tailed)			,005[c]
Monte Carlo Sig. (2-tailed)	Sig.		,169[d]
	99% Confidence Interval	Lower Bound	,159
		Upper Bound	,178

Source : *Dataset processed and interpreted using SPSS version 25*

Referring to the table above, the data show that the Monte Carlo sig. (2-tailed) value of 0.178 is greater than 0.05. Therefore, it can be inferred that the test for the normality assumption has been passed by the regression model.

Multicollinearity Test

The multicollinearity diagnostic procedure is implemented to ascertain the existence and magnitude of intercorrelations among the predictor variables within

the specified regression model. Assessment of multicollinearity is operationalized through an examination of both the tolerance values and their reciprocals, alongside the Variance Inflation Factor (VIF), thereby providing a comprehensive evaluation of potential collinearity issues.

Table 6 Multicollinearity Test

Model		Tolerance	VIF	Description
1	(Constant)			
	TRANS_X1	,817	1,224	
	TRANS_X2	,818	1,223	
	TRANS_X3	,852	1,174	No multicollinearity
	TRANS_X4	,895	1,118	
	TRANS_X5	,899	1,113	
	TRANS_Z	,796	1,257	

Source : *Dataset processed and interpreted using SPSS version 25*

Referring to the table above, the audit quality, profitability, leverage, information asymmetry, tax planning, and firm size variables have a Tolerance > 0.10 and all variables have a VIF value < 10, based on the aforementioned diagnostic procedures, it can be definitively inferred that intercorrelations among the independent variables are none, thereby confirming that the regression model satisfies the requisite criteria for the multicollinearity assumption test.

Heteroscedasticity Test

The function of the heteroscedasticity test is to ascertain the presence of variance heterogeneity among observations within the regression model. When the variance of the residuals between observations is constant, this is referred to as Homoscedasticity; when it varies, it is known as Heteroscedasticity. The statistical test applied in this research to detect the existence of heteroscedasticity is the Park test. The Park test proposes a way to determine how the independent factors affect the variance (s2).

Table 7 Heteroscedasticity Test Results with Park Test

Model		t	Sig.	Description
1	(Constant)	1,709	,089	
	TRANS_X1	1,317	,189	
	TRANS_X2	-1,828	,069	
	TRANS_X3	,223	,824	No Heteroscedasticity
	TRANS_X4	,336	,738	
	TRANS_X5	,073	,942	
	TRANS_Z	1,146	,253	

Source : *Dataset processed and interpreted using SPSS version 25*

A review of the aforementioned tabular data, specifically the significance values associated with each independent variable, reveals that all such values exceed the established threshold of 0.05. The data provide clear evidence that heteroscedasticity is not present in this regression model, ensuring the validity of the model's conclusions.

Autocorrelation Test

This study investigates autocorrelation in the linear regression model by

examining the link between error terms at time t and the previous period (t-1). The Runs Test, a non-parametric method, is used to detect autocorrelation by assessing the randomness of the residuals.

Table 8 Autocorrelation Test

Runs Test	
	Unstandardized Residual
Asymp. Sig. (2-tailed)	.056

Source : *Dataset processed and interpreted using SPSS version 25*

Examination of the data displayed in the table above reveals that the significance value (Asymp. Sig. (2-tailed)), which is 0.056, is greater than 0.05. This result indicates that the data within the regression model satisfy the criteria for the autocorrelation test.

Coefficient of Determination (R2) Test

The degree to which the model can account for the observed variance in the dependent variable is indicated by the coefficient of determination (R^2).

Table 9 Coefficient of determination (R2) Test Results

Model Summary[b]	
Model	Adj. R Square
1	,070

Source : *Dataset processed and interpreted using SPSS version 25*

Referring to the table above, the data show that the Adjusted R Square (R2) value is 0.070 or 7%, in indicating that the ability of the Audit Quality, Profitability, Leverage, Information Asymmetry, and Tax Planning variables in explaining the Earning Management variable is 7%, on the other side, other unstudied variables account for the remaining 93% of the variance.

Simultaneous Significance Test (F Test)

The t-statistic, in essence, quantifies the individual impact of each independent (or explanatory) variable in accounting for the variance observed in the dependent variable. It essentially measures how well each predictor variable explains changes in the outcome variable on its own.

Table 10 F-test

ANOVA[a]		
Model	F	Sig.
1	3,874	,001[b]

Source : *Dataset processed and interpreted using SPSS version 25*

Referring to the table above, the data indicate that the df numerator = 6, df denominator = 224 and the significant value is carried out at a level of α 0.05. So that the F_{count} of 3.874 and the F_{table} value of 2.13 are obtained so that the results (F_{count} = 3.874) > (F_{table} = 2.13) and a significant value = 0.001 or less than (<) 0.05. In light of the findings, it is thus determined that the variables encompassing Audit

Quality, Profitability, Leverage, Information Asymmetry, and Tax Planning collectively exert a statistically significant influence upon the practice of earnings management within the population of firms constituting the basic materials sector listed on IDX over the years 2021-2023. This outcome consequently warrants the acceptance of the Ha and the rejection of the H0.

Partial Significance Test (t Test)

The t-statistic, in essence, quantifies the individual impact of each independent (or explanatory) variable in accounting for the variance observed in the dependent variable. It essentially measures how well each predictor variable explains changes in the outcome variable on its own.

Table 11 t-Test

Coefficients[a]					
Model		T	Sig.	Tolerance	VIF
1	(Constant)	-,558	,578		
	TRANS_X1	-1,260	,209	,817	1,224
	TRANS_X2	,667	,505	,818	1,223
	TRANS_X3	-3,000	,003	,852	1,174
	TRANS_X4	,586	,558	,895	1,118
	TRANS_X5	-2,296	,023	,899	1,113

Source : *Dataset processed and interpreted using SPSS version 25*

Referring to the table above, the data show that the df value is 224, where the n value representing the number of data and the k value representing the quantity of variables (231-6-1), so that a t_{table} value of 1.9706 can be obtained.

The Effect of Audit Quality on Earnings Management

The calculated t_{value} for Audit Quality of (|-1.260|) < t_{table} (1.9706) and a significance value of 0.209 > 0.05, meaning H0 is accepted and H1 is denied. Therefore, audit quality appears to have no impact on earnings management for these IDX-listed firms (2021-2023). This research is in line with research that states that Audit Quality has no impact on Earnings Management (Setiawati & Ifgayani, 2021). However, it is not in line with other studies which state that Audit Quality affects Earnings Management (Syarif M Helmi et al., 2023). The results of this research indicate a lack of a significant relationship between audit quality and earnings management. This is because the size of the Public Accounting Firm (PAF) cannot guarantee that a company that uses its audit services to audit its financial statements does not take earnings management actions. Big four and non-big four PAFs still have the possibility of getting clients who take earnings management actions so that it does not influence the company's choices regarding earnings management. Therefore, it can be inferred that there is no difference between financial statement audits at Big Four and Non-Big Four PAFs so that it does not affect a company in taking earnings management actions.

The Effect of Profitability on Earnings Management

The calculated t_{value} for Profitability of (|0.667|) < t_{table} (1.9706) and a significance value of 0.505 > 0.05, meaning H0 is accepted and H1 is denied. Therefore, the findings indicate that profitability does not exert a significant

influence on earnings management for these IDX-listed firms (2021-2023). This research is in line with research that states that Profitability does not affect Earnings Management (Devanka et al., 2022). However, it is not in line with other studies which state that Profitability affects Earnings Management (Syarif M Helmi et al., 2023). This study's findings demonstrate no statistically significant impact of profitability on earnings management. This is because high or low profitability will not affect a company in carrying out earnings management practices. Earnings management is not carried out based on the size of the profit generated by the firm, but rather for the personal interests of the firm's managers. Therefore, Profitability cannot influence companies in carrying out earnings management practices.

The Effect of Leverage on Earnings Management

The calculated t_{value} for Leverage of ($|-3.000|$) > t_{table} (1.9706) and a significance value of 0.003 < 0.05, meaning H0 is rejected and H1 is accepted, so it can be inferred that Leverage has a negative and significant effect on Earnings Management for these IDX-listed firms (2021-2023). The results of the present study are congruent with existing literature that demonstrates the influence of leverage on earnings management (Devanka et al., 2022). However, it is not in line with other studies, Leverage does not affect Earnings Management (Setiawati & Ifgayani, 2021). Leverage is defined as the ratio between total liabilities and total equity. Leverage shows a firm's capacity to manage its long-term liabilities. The high level of a firm's leverage ratio reflects the high value of the firm's debt. If a firm has a high leverage ratio, the firm will make large amounts of long-term loans which can heighten the risk of going bankrupt, so the firm manipulates financial reports in the form of earnings management to avoid violating debt agreements.

The Effect of Information Asymmetry on Earnings Management

The calculated t_{value} for Information Asymmetry of ($|0.586|$) < t_{table} (1.9706) and a significance value of 0.558 > 0.05, meaning H0 is accepted and H1 is denied, information asymmetry was not found to significantly affect earnings management for these firms during the specified period. This research reinforces the lack of a demonstrated relationship between information asymmetry and earnings management (Devanka et al., 2022). However, these findings contradict other studies that have reported a significant relationship between information asymmetry and earnings management (Nasution et al., 2021).The results of this study provide no evidence that information asymmetry influences earnings management. The more information known by company management cannot encourage company management to manipulate financial reports and when the company is performing well, earnings management is not needed. Therefore, it can be inferred, information asymmetry cannot influence the level of company earnings management.

The Effect of Tax Planning on Earnings Management

The calculated t_{value} for Tax Planning of ($|-2.296|$) > t_{table} (1.9706) and a significance value of 0.023 < 0.05, meaning H0 is denied and H1 is accepted, tax planning is negatively related to earnings management for these companies during this period. The results of the present study are congruent with existing literature that demonstrates the influence of tax planning on earnings management (Kartika et al., 2023). However, it is not in line with other studies which state that Tax

Planning does not affect Earnings Management (Jesika, 2022). Tax planning is a strategy for company management to minimize the tax burden as much as possible to get maximum profit while still complying with applicable tax regulations. In order that the reported tax burden is not high, the company's management will do earnings management by allocating the company's financial resources efficiently to produce a company profit amount that is not too high. The less profit in this financial reporting will make the tax burden paid by the company lower.

Absolute Difference Test

The Absolute Difference Test is related to the combination between independent variables and moderating variables and affects the dependent variable. The Absolute Difference Test is carried out by regressing the absolute difference of the standardized independent variables with the variable hypothesized as the standardized moderating variable.

Table 12 Absolute Difference Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,655	,009		71,208	,000
	Zscore(TRANS_X1)	-,002	,005	-,033	-,481	,631
	Zscore(TRANS_X2)	-,002	,005	-,025	-,324	,746
	Zscore(TRANS_X3)	-,014	,007	-,200	-2,084	,038
	Zscore(TRANS_X4)	-,006	,008	-,079	-,669	,504
	Zscore(TRANS_X5)	-,011	,005	-,157	-2,348	,020
	AbsX1_Z	,009	,007	,088	1,250	,213
	AbsX2_Z	-,003	,006	-,041	-,554	,580
	AbsX3_Z	-,007	,008	-,094	-,877	,381
	AbsX4_Z	-,008	,008	-,133	-,997	,320
	AbsX5_Z	,019	,006	,277	3,084	,002

Source : *Dataset processed and interpreted using SPSS version 25*

Referring to the table above, The Absolute Difference Test can be summarized as follows:

The Effect of Audit Quality on Earnings Management with Firm Size as a Moderating Variable

The results indicate that firm size does not play a moderating role in the connection between audit quality and earnings management, as the significant value for AbsX1_Z is 0.213 > 0.05. The absence of a moderating effect of firm size on the connection among audit quality and earnings management is attributable to the fact that firm size does not dictate the choice between Big Four and Non-Big Four auditors, as large firms do not invariably utilize Big Four audit services.

The Effect of Profitability on Earnings Management with Firm Size as a Moderating Variable

The significant value of AbsX2_Z of 0.580 > 0.05, so the Firm Size variable is not able to moderate the connection between Profitability and earnings management. This is because the size of a firm, whether large or small, cannot

influence the profitability of a firm. Large firms do not always generate high profitability, so they cannot influence earnings management.

The Effect of Leverage on Earnings Management with Firm Size as a Moderating Variable

The significance value of AbsX3_Z is 0.381 > 0.05, so the Firm Size variable is not able to moderate the connection between Leverage and earnings management. The relationship between leverage and earnings management is not moderated by firm size because larger firms, with their greater access to resources, generally maintain lower leverage, thus reducing earnings management behavior.

The Effect of Information Asymmetry on Earnings Management with Firm Size as a Moderating Variable

The significance value of AbsX4_Z is 0.320 > 0.05, so the Firm Size variable is not able to moderate the connection between Information Asymmetry and earnings management. This is because large and small companies still have information asymmetry. Thus, the existence of information asymmetry does not significantly impact management's propensity to engage in earnings management.

The Effect of Tax Planning on Earnings Management with Firm Size as a Moderating Variable

The significance value of AbsX5_Z is 0.002 < 0.05, so the Firm Size variable is able to moderate the connection between Tax Planning and earnings management. Large firm size has high revenue, assets and market capitalization of the company. The profits generated by large companies are usually high and also have large assets, so large companies often carry out efficient tax planning to reduce the firm's tax obligations. So large companies must pay more attention to their earnings management strategies because tax authorities will pay more attention to large companies. The large size of the company strengthens the connection between strategic tax planning and earnings management.

Conclusion

This study investigated the impact of audit quality, profitability, leverage, information asymmetry, and tax planning on earnings management, with firm size as a moderating variable, within the basic materials firms that are listed between 2021 and 2023 on the Indonesia Stock Exchange. Analysis of the 84 samples collected across this time-frame yielded the following conclusions: Audit Quality demonstrated no statistically significant influence on earnings management ($p = 0.209 > 0.05$). Profitability exhibited no significant connection with earnings management ($p = 0.505 > 0.05$). Leverage demonstrated a statistically significant negative connection with earnings management ($p = 0.003 < 0.05$). Information Asymmetry also showed no significant impact on earnings management ($p = 0.558 > 0.05$). Tax Planning presented a statistically significant negative connection with earnings management ($p = 0.023 < 0.05$). Regarding the moderating role of firm size, the analysis revealed that firm size did not significantly moderate the connection between audit quality and earnings management ($p = 0.213 > 0.05$), nor the connection between profitability and earnings management ($p = 0.580 > 0.05$), nor the connection between leverage and earnings management ($p = 0.381 > 0.05$),

nor the connection between information asymmetry and earnings management ($p = 0.320 > 0.05$). However, the connection between tax planning and earnings management was considerably moderated by firm size. ($p = 0.002 < 0.05$).

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