

THE IMPACT OF PROFITABILITY AND FIRM SIZE TO COMPANY'S EARNINGS MANAGEMENT

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Abstract

Background - Earnings management has long been a concern in financial reporting, as it compromises the quality of financial information available to investors and stakeholders. Companies may manipulate earnings to meet financial targets or maintain market confidence in highly competitive sectors such as the food retail industry.

Purpose - This study aims to determine the effect of profitability and company size on earnings management, with financial distress as a moderating variable, in food retail trading companies listed on the Indonesia Stock Exchange during 2019-2021.

Methodology - The research adopts a descriptive design, utilizing a quantitative approach to assess the relationships between these variables.

Findings - The findings reveal that profitability significantly influences earnings management, indicating that more profitable companies are likely to engage in earnings manipulation. However, company size does not exhibit a direct effect on earnings management. Interestingly, when examined as a moderating variable, financial distress does not moderate the relationship between profitability and earnings management. On the other hand, financial distress strengthens the relationship between company size and earnings management, suggesting that larger firms under financial distress may resort to earnings management as a coping mechanism.

Originality - The study provides important implications for regulators, investors, and management. It contributes to the literature by providing novel insights into the moderating effect of financial distress on the relationship between firm characteristics (profitability and size) and earnings management in the Indonesian food retail sector.

Keywords: Earning Management, Financial Reporting, Asymmetric Information, Financial Distress