International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

The Impacts Of Liquidity, Leverage, And Profitability On Earnings Management

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Abstract

Earnings management is a management action in influencing the reported profit through certain accounting policies to achieve certain goals. This study aims to examine the impact of liquidity, leverage, and profitability on earnings management in banking sector companies listed on the Indonesia Stock Exchange for the period 2017–2024, with COVID-19 as the control variable. In this study, earnings management is measured using a discretionary accrual model. Liquidity is measured by the current ratio. Leverage is measured by the debt-to-equity ratio, and profitability is represented by return on assets. Data is selected with purposive sampling techniques from banking sector companies listed on IDX. Multiple regression analysis is employed to test the variables. The results of the study show that profitability has a significant positive impact on earnings management. It can be interpreted that the higher profit of the company, the higher intensity of management in conducting earnings management. However, this research reveals that liquidity and leverage do not have a significant impact on earnings management. Finally, COVID-19 as the control variable has a significant negative impact on earnings management.

Keywords: Earnings management, liquidity, leverage, profitability.

INTRODUCTION

In the midst of fierce business competition in the era of international integration, companies are required to present healthy and transparent financial statements as a form of accountability to stakeholders. Information in financial statements plays a crucial role in supporting appropriate economic decision-making (Widyantoro et al., 2022). However, the pressure to show stable net profit performance often encourages management to

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practice *income smoothing* to create a favourable financial image. Therefore, the integrity of an entity is highly dependent on its ability to present information that is relevant, reliable, and reflects the true economic reality of the company in order to ensure the effectiveness of decision-making for external parties.

Flexibility in the application of accounting standards provides room for management to carry out earnings management practices to achieve strategic objectives, such as increasing company value, meeting market expectations, or maintaining financial stability. Although not always illegal, this practice is a form of profit control according to managerial interests that can erode credibility and add bias to financial statements (Simanjuntak, 2022). This risks misleading stakeholders—such as investors, creditors, and regulators—in making economic decisions. This phenomenon is a serious concern, especially in the banking sector, which has a vital role in maintaining the stability of the national financial system.

The banking sector plays a vital role as an intermediary institution that collects and distributes public funds to strengthen the national economic structure and encourage sustainable growth (Simatupang, 2019) and (Pratama, 2021). The significance of this sector can be seen from its contribution to national stability and improving people's living standards, including its extraordinary resilience post-COVID-19 pandemic with an average ROA of stable at 2.2% during 2021–2023 (Kosasih et al., 2021; OJK). However, the large influence of banking on the economy and the existence of various internal factors create pressure for management to maintain the attractiveness of financial statements for stakeholders. This condition places liquidity ratios, *leverage*, and profitability as crucial factors that are often associated with the encouragement of earnings management practices in banking companies listed on the Indonesia Stock Exchange (IDX).

Liquidity is a crucial indicator in the banking sector that reflects the ability of entities to meet short-term obligations, especially related to the withdrawal of customer funds. According to Habibie & Parasetya (2022), a high level of liquidity serves as a benchmark for the health of a company that builds public trust and maintains financial stability. On the other hand, low liquidity risks trigger uncertainty and massive withdrawals (*rush*), which can threaten the bank's operational sustainability.

The strategic implications of this liquidity ratio often encourage management to carry out earnings management practices to maintain a positive image in the eyes of stakeholders. Although theoretically liquidity is closely related to a bank's reputation, various empirical studies show contradictory results. Research by Aroza et al. (2022) and

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Felicia & Natalylova (2022) found that liquidity does not have a significant impact on earnings management. However, this finding is different from the research of Pebrianti & Sudrajat (2023), which shows that liquidity actually has a positive impact on earnings management practices.

In addition to liquidity, leverage is a fundamental factor that affects earnings management practices. Leverage describes the extent to which a company relies on external funding sources through a comparison of total debt to total assets (Dewi & Fachrurrozie, 2021). High levels of leverage carry consequences in the form of large interest and principal loan obligations. According to Setiowati et al. (2023), excessive debt burdens can trap companies in extreme leverage conditions, which significantly increases the risk of bankruptcy.

Financial pressure due to debt often triggers management to manipulate financial statements through earnings management. This practice aims to display stable financial performance in order to maintain the confidence of creditors and investors in the company's ability to fulfil its obligations. However, there are inconsistencies in the results of empirical research regarding the influence of this variable. Winanda (2023) found that leverage has a significant positive impact on earnings management. In contrast, Aroza et al. (2022) showed a significant negative influence. Meanwhile, research by Felicia & Natalylova (2022), Saputri et al. (2024), and Yamin et al. (2023) found that leverage does not have a significant impact on earnings management practices. The existence of this difference in findings (research gap) reinforces the urgency to review the role of leverage in the context of earnings management.

The next factor identified to influence earnings management practices is profitability. Profitability reflects the effectiveness of a company in generating net profit through asset management and sales volume (Wowor et al., 2021). According to Setiowati et al. (2023), achieving maximum profit is a fundamental demand for stakeholders to ensure the welfare of owners and investment sustainability. Therefore, profitability is a crucial signal for external parties. A high profit rate represents performance success, while a low profit indicates poor managerial performance (Carolin et al., 2022).

In the framework of agency theory, non-ideal profitability conditions encourage managers to carry out earnings management as an effort to maintain the company's image, maintain stock price stability, and secure performance-based incentives. The relevance of this variable is supported by various empirical findings. Research by Aroza et al. (2022), Felicia & Natalylova (2022), Pebrianti et al. (2023), and Winanda (2023) has

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consistently found that profitability has a significant positive impact on earnings management. Similar results were also found by Saputri et al. (2024) and Yamin et al. (2023), who emphasised that profit fluctuations are the main determinant behind managerial decisions in manipulating financial statements.

This research is motivated by research gaps in previous studies and inconsistencies in testing and discussing factors that affect earnings management. Banking is one of the sectors affected by the event, but in the recovery and stability of the banking sector, there are earnings management issues, so further studies are required. The purpose of this study is to further examine the impact of liquidity, leverage, and profitability on earnings management in banking companies in Indonesia. This research also adds COVID-19 as the controlling variable. This research is expected to strengthen the empirical evidence that liquidity, leverage, and profitability can make a positive contribution to the earnings management of banking companies in Indonesia.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory

Agency theory, developed fundamentally by Jensen & Meckling (1976), describes a contractual relationship in which the principal delegates decision-making authority to the manager (agent) to act on behalf of the owner (Al-Faryan, 2024). The substance of this theory is the separation between ownership and control, which often triggers agency conflicts due to divergent interests between the two parties. This theory serves as a mechanism to understand and mediate the disalignment of these goals. In this perspective, owners need an effective monitoring mechanism to ensure that agents act in accordance with the interests of shareholders and not just pursue personal interests. The implementation of proper supervision is expected to motivate managers to work optimally and improve the quality and transparency of financial report presentation. Thus, the owner's trust in the agent's performance can be maintained, and information asymmetry can be minimised (Octavia & Sari, 2022).

Signaling Theory

Signal theory, introduced by Spence (1973), describes the mechanism by which insiders who have more information give signals to outsiders to reduce uncertainty due to information asymmetry. In the context of the capital market, these signals are used by companies to attract investors, increase intellectual value, and ultimately strengthen the company's overall value through the disclosure of its competitive advantage.

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The relevance of signal theory to earnings management practices lies in managerial policies to give a positive impression to the public. According to Setiawan et al. (2021), the profit level is a crucial signal because it is the basis for investors to assess the effectiveness of company management. Therefore, managers tend to practice earnings management as a strategy to ensure demand for stocks remains high through stable performance reports. However, in reality, not all companies are in ideal conditions or able to meet profit targets naturally. Inability to achieve these targets can provide negative signals that directly affect investment decisions and investors' perception of the company's prospects (Subagio & Januarti, 2022).

Earnings Management

Earnings management is a managerial action that is carried out to influence the amount of profit reported in financial statements to achieve certain goals, such as improving the company's image or influencing investor perception. According to Gulo and Mappadang (2022), this practice is carried out through two main methods: accrual earnings management and real earnings management. Accrual earnings management means leveraging discretion in accounting policies to change profit figures without directly affecting cash flow. Real earnings management means manipulating a company's operational activities (such as sales or production costs) that have a direct impact on cash flow.

Although it is often considered legitimate as long as it is still within the corridor of accounting standards, earnings management has a duality of perspective. Irawan & Apriwenni (2021) explained that some parties categorize this practice as fraud, while others see it as a reasonable accounting policy choice. However, in substance, this action has the potential to mislead users of financial statements because it can obscure the true economic condition of the company. The motivation behind earnings management is often closely related to contractual and personal interests. Fiqriansyah et al. (2024) revealed that managers tend to manipulate earnings when there are debt agreements that depend on the company's profitability to avoid the risk of renegotiation or contract cancellation. Broadly speaking, earnings management goals can be positive if they are used to maintain company stability in the eyes of stakeholders, or negative if they are driven by the manager's opportunistic motives to obtain greater bonuses or personal rewards.

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The Impact of Liquidity on Earnings Management

Liquidity is defined as a company's ability to meet its short-term obligations by using current assets such as cash, receivables, and inventory. According to Habibie & Parasetya (2022), the quality of liquidity is a crucial representation of the company's performance in paying off short-term debt. A company is categorised as *a* liquid entity if it is able to pay off its current obligations on time, while illiquid conditions occur when the company fails to fulfil these obligations, which directly increases the risk of bankruptcy.

In relation to accounting practices, liquidity generally has a negative relationship with earnings management. Low liquidity conditions create financial pressure for management, prompting them to perform earnings management to display financial statements that look healthy in the eyes of stakeholders. Conversely, high levels of liquidity minimize managers' motivation to manipulate profits because companies have sufficient capital resilience to meet their obligations. Liquid companies with smooth cash flow tend to occupy superior bargaining positions, especially in obtaining support from external parties such as creditors (Krisnugraha et al., 2021).

Liquidity is an indicator of how a company pays off its short-term liabilities using current assets at maturity. The larger the current assets and current liabilities, the higher the company's ability to cover its short-term liabilities. The growth of a company's income can also be increased by increasing the company's liquidity, because if the liquidity of a company is valued highly, investors are likely to think that the company can pay its short-term obligations. Of course, this condition will benefit the company because it will encourage investors to fund the company, so that it will help strengthen the company's business (Pebrianti & Sudrajat, 2023) Similar to the current ratio, if the liquidation is low, there is a problem; on the other hand, if the current ratio is too high, it means that the allocation of funds is not optimally carried out, which then risks having an impact on the company's profits (Latifah & Trisnawati, 2024)

The effectiveness of liquidity is also a limitation for management to always maintain integrity towards shareholders. Integrity to the company's liquidity is a form of moral responsibility for corporate management that is obtained by competence and consistency optimally. The impact of the company's management is to attract the interest of shareholders so as to increase confidence in the company's good performance, which increases the stock price. Companies with a high level of liquidity ratio will also provide good dividends to investors. However, if the liquidity level is low, management can still pay dividends to investors by manipulating financial statements so that management

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integrity is maintained (Rosalita, 2021) Based on the description above, this research propose the hipotheis 1 as follows:
H_1: Liquidity has a negative impact on earnings management

The Impact of Leverage on Earnings Management

Leverage is a ratio that describes the extent to which a company uses debt as a funding instrument to finance its assets and operational activities. The increase in leverage ratios reflects a greater reliance on external capital, which linearly increases interest expense and the risk of bankruptcy if a company fails to meet its long-term obligations. This condition often puts pressure on management to carry out earnings management practices to avoid debt covenant violations (Damayanti et al., 2022).

The correlation between leverage and earnings management is rooted in the manager's efforts to maintain the company's reputation in the eyes of creditors and investors. Through profit manipulation, companies seek to display strong enough financial performance to pay off liabilities, so that access to external funding remains open (Sholichah & Kartika, 2022). Additionally, a high level of leverage is often seen as a negative signal to a company's performance. As a form of responsibility to shareholders, managers tend to optimize earnings reporting to cover the financial risks arising from large debt burdens. The main motivation is to avoid reporting losses and maintain the stability of the company's image, which ultimately encourages the use of opportunistic accounting policies (Dewi & Nurhayati, 2022).

Leverage is part of an asset and is a guarantee of a company's debt to investors. A high level of leverage will burden the company in paying off the debt that is due, and if the total debt of the company is higher than the assets owned by the company, then the company is considered *insolvent.* This condition allows for earnings management in a company compared to a company with low leverage, this can be caused because a high level of leverage causes a delay in the payment of a company's debt and lowers the level of trust from external parties (Fatmala & Riharjo, 2021)

Basically, a high level of leverage of a company will negatively impact that company. This is because the company's high leverage means that the higher the company's debt, the more the company will have difficulty obtaining additional funding due to external parties' concerns about the company not being able to pay its debts with its assets. Therefore, management will overcome this by manipulating financial statements or commonly called earnings management (Sitanggang & Purba, 2022) Therefore, the burden of leverage is imposed on the company's management to maintain

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the integrity of the company towards external parties that the company is still able to repay the principal and interest of the loan, because the level of leverage will determine the company's funding sources in the long term (Yulianto & Aryati, 2022) This research proposed the following hypothesis 2.

H_2: Leverage has a positive impact on earnings management

The Impact of Profitability on Earnings Management

Profitability is an indicator of a company's ability to generate profits through the use of its assets, capital, and resources. This ratio serves as the primary measurement tool for assessing management effectiveness and is a crucial concern for investors, creditors, and shareholders in investment decision-making. Through the analysis of income statements and balance sheets in several periods, profitability provides an overview of the trend of development or decline in the company's performance.

The link between profitability and earnings management is complex and driven by several strategic motives. According to Amelia & Purnama (2023), a high level of profitability linearly increases a company's tax liability. This condition often encourages management to carry out earnings management practices to minimise the tax burden that must be paid.

In addition to tax motives, earnings management is also carried out to manage external perceptions. Profitability that is too high or fluctuating can trigger suspicions related to monopolies and increase investor expectations and demands that are difficult to meet in the future. Therefore, managers tend to do income *smoothing* to maintain the stability of the company's image every year. As stated by Setiowati et al. (2023), the stability of profits displayed through earnings management practices aims to convince investors that the company is in a safe and prospective condition for investment.

One of the factors considered by shareholders in investing in a company is its ability to manage profitability, which determines the company's ability to provide dividends or an increase in stock value to shareholders. The level of profitability that tends to be high can also attract various external parties to invest in the company, so that it can reduce the risk of earnings management (Damayanti et al., 2022). The application of the profitability ratio to earnings management is a representation of the level of effectiveness of company management by showing the profit generated from the company's main activities, such as selling or investment (Carolin et al., 2022).

In addition to reducing the risk of earnings management and attracting external parties to invest in the company, a high level of profitability also provides benefits for

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employees and management. A high level of profitability is not spared from the cooperation between management and employees, which is ideal as a form of responsibility to external parties. Management playing the role of the person in charge can give rise to managerial incentives in the form of providing performance bonuses to management and employees. Managerial incentives in the form of bonuses are a form of optimal performance appreciation from management and employees (Adyastuti & Khafid, 2022). Based on the above description, Hypothesis 3 is proposed as follows:
H_3: Profitability has a positive impact on earnings management.

RESEARCH METHODS

The population in this study is all banking sector companies listed on the Indonesia Stock Exchange (IDX) during the 2017–2024 period. The selection of this population is based on the consideration that banking companies are one of the sectors that have an important role in national financial stability and have complete and regularly published financial statements. The samples in this study were taken using the purposive sampling method, which is a sampling technique with certain criteria so that the data obtained is relevant to the research objectives. The sample selection criteria are as follows:

1. Banking sector companies that are consistently listed on the IDX during the 2017–2024 period.
2. Companies that publish complete annual financial statements during the period.
3. Companies that present data related to research variables, namely liquidity, leverage, profitability, and earnings management.

The number of banking sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2024 is 48 companies. Companies that did not meet the criteria for the research sample amounted to 10 companies, so the number of company samples used in the study was 38 companies. This research uses secondary data obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id), the company's official website, and the publication of the Financial Services Authority (OJK).

Research Variables

The dependent variable in this research is earnings management. Meanwhile, the dependent variables are liquidity, leverage, and profitability. COVID-19 is employed as the controlling variable.

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Earnings Management

The dependent variable in this study is earnings management. Earnings management is management's effort to influence reported profits through certain accounting policies, with the aim of achieving certain targets or interests. In this study, earnings management was measured using a discretionary accruals model based on the Jones Modified Model (1995). The calculation steps are as explained below:

- Step 1: Calculate the total accrual, using the following formula:

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

- Step 2: After obtaining *the accruals value*, calculate the accruals using a simple linear regression equation or *Ordinary Least Square (OLS).* Based on the following formula:

$$\frac{TAC_t}{AT_{it-1}} = \beta\left(\frac{1}{AT_{it-1}}\right) + \beta_2\left(\frac{\Delta REV_{it}}{AT_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{AT_{it-1}}\right) + \boldsymbol{e}$$

- Step 3: After calculating using the OLS method, calculate *the non-discretionary accrual* (NDA) value/estimate in the event period during the *estimated earnings management*. Using the following formula:

$$NDA_{it} = \beta_1\left(\frac{1}{AT_{it-1}}\right) + \beta_2\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{AT_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{AT_{it-1}}\right) + e$$

- Step 4: Calculate *the accrual discretionary* (DAC) value. Using the following formula:

$$DAC = \frac{TA_t}{AT_{it-1}} - NDA_t$$

TAC	:	Total *accruals* in period (t)
NI	:	The company's Net Profit (i) in period (t)
CFO$_{it}$	:	Cash flow of the company's operating activities (i) in the period of year (t)
AT$_{it-1}$	:	Total assets of the company (i) in the previous year (t-1)
ΔREV$_{it}$	:	The company's revenue (i) in year (t) minus the revenue of year (t-1)
ΔREC$_{it}$	:	Changes in corporate receivables (i) period (t)
PPE$_{it}$	:	Fixed assets (*property, plant and equipment*) of the company (i) in year (t)

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NDA_{it}	:	*Non-Discretionary Accrual* of the company (i) in year (t)
e	:	*Error*
β	:	Regression Coefficients

Liquidity

Liquidity describes a company's ability to meet its short-term obligations with its current assets. The data used to measure liquidity is obtained from the balance sheet and calculated using the current ratio. Data is needed to see the extent to which the company has the ability to meet its short-term obligations without experiencing financial difficulties such as the value of current assets every year, and the value of current liabilities every year. The current rasio is computed as follow:

$$\textbf{Current ratio (CR)} = \frac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$$

Leverage

Leverage indicates the extent to which a company uses borrowed funds to finance its assets. In this study, leverage is measured using the debt to equity ratio. This ratio shows the level of financial risk that the company faces due to the use of debt in its capital structure. The debt to equity rasio formula is:

$$\textbf{DER} = \frac{\textbf{Total of Liabilities}}{\textbf{Total of Equities}}$$

Profitability

Profitability reflects a company's ability to generate profits from the total assets it owns. In this study, profitability was measured using return on assets (RoA). This data is taken from the income statement and balance sheet for the 2017–2024 period. The RoA ratio describes a company's efficiency in utilising assets to generate profits. The RoA is formulated as follows:

$$\textbf{ROA} = \frac{\textbf{After Tax Net Income}}{\textbf{Total Assets}} \times \textbf{100\%}$$

COVID-19

In this study, COVID-19 is used as the controlling variable. The control variables used in this study were the period when COVID-19 occurred and the period after COVID-19. The measurement of the control variables used uses dummy variables. Score 1 is for data in the period of COVID-19, and 0 is for data out of this period.

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Data Analysis

The data analysis methods used in this study consisted of descriptive statistical analysis, classical assumption testing, multiple regression analysis, and hypothesis testing. Descriptive statistics provide an overview of the data that can be seen from the mean value, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (Ghozali, 2021). The classical assumption test is used with the aim of ensuring that certain conditions have been met by the regression model used so that the results can be considered valid and trusted. The tests that need to be done are normality, autocorrelation, multicollinearity, and heteroscedasticity.

This study used multiple regression analysis to test the hypothesis. Multiple regression is a regression model with more than one independent variable, so there will be one dependent variable and two or more independent variables (Hadi, 2022). The regression equations in this study are as follows:

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 1X2 + \beta 3X3 + \beta 4}\boldsymbol{COV}\mathbf{ + e}$$

Y	:	Earnings management
A	:	Constanta
β1β2β3	:	Regression Coefficient
X1	:	Liquidity
X2	:	Leverage
X3	:	Profitability
COV	:	COVID-19
E	:	Error

RESULT AND DISCUSSION

Descriptive Statistical Analysis

The results of descriptive statistical analysis are presented in Table 1:

Table 1. Descriptive Statistical Analysis

	N	Min.	Max.	Mean	Std. Dev.
Earnings Management	304	-0.94	0.34	-0.0261	0.13353
Liquidity	304	0.02	2.29	0.3809	0.31085
Leverage	304	0.19	36.79	5,3251	3.26557
Profitability	304	-0.18	0.19	0.0049	0.02497

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Valid N (listwise)	304				

Source: Author's processed data 2025

The earnings management variable (Y) has a minimum value of -0.94 found in PT Bank Jago Tbk. (ARTO) in 2019, the maximum value of 0.34 was found in PT Bank Maspion Tbk. (BMAS) in 2023. The average value of the earnings management variable is -0.0261 with a standard deviation of 0.13353. A larger standard deviation compared to the average value indicates that the data of the earnings management variable has a high spread rate, so it can be said that the data is inhomogeneous.

The liquidity variable (X1) has a minimum value of 0.02, which is attached to PT Bank Jago Tbk. (ARTO) in 2017, while the maximum value of 2.29 is found in PT Bank Pembangunan Daerah Jawa Timur Tbk. (BJTM) in 2019. The average value of the liquidity variable is 0.3809 with a standard deviation of 0.31085. The smaller standard value of the deviation compared to the average value indicates that the spread rate is relatively low, so the liquidity variable can be categorized as homogeneous.

The leverage variable (X2) has a minimum value of 0.19 obtained in PT Bank Jago Tbk. (ARTO) in 2021, while the maximum value of 36.79 is found in PT Bank Mandiri (Persero) Tbk. (BMRI) in 2020. The average value of variable leverage is 5.3251 with a standard deviation of 3.26557. A smaller standard deviation value compared to the average value indicates that the rate of data spread is relatively lower, so that the leverage variable has a fairly controlled or homogeneous data variation.

The profitability variable (X3) has a minimum value of -0.18 obtained in PT Bank KB Indonesia Tbk. in 2020, while the maximum value of 0.19 is found in PT Bank Mandiri (Persero) Tbk. (BMRI) in 2024. The mean value of the variable positivity was 0.0049 with a standard deviation of 0.02497. The value of the standard deviation is greater than the average value, indicating that the rate of data dissemination is relatively high, so that the probability variable can be categorized as having inhomogeneous data variations.

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Classical Assumption Test

The classical assumption test results are presented in Table 2:

Table 2. Classical Assumption Test Results

Test Type	Test Criteria	Test Results	
Normality	Kolmogorov-Smirnov	Asymp. Sig. (2-tailed)	0.200
Multicolinearity	VIF	Liquidity	1.022
		Leverage	1.004
		Profitability	1.026
Heteroscedasticity	Significant	Liquidity	0.153
		Leverage	0.163
		Profitability	0.503
Autocorrelation	Durbin Watson		1.920

Source: Author's processed data 2025.

Based on the results of the normality test presented in the Table 2, the results were obtained that the significance value is 0.200, which is more than 0.05. Thus, it can be concluded that the research data are distributed normally in the regression model and have met the normal assumptions, so that they can be continued for the next analysis.

The VIF value presented in Table 2 shows that the tolerance value of all independent variables is > 0.10 and the entire VIF value is < 10, so it can be concluded that there is no multicollinearity between independent variables.

The heteroscedasticity test presented in Table 2 shows that the significance of all independent variables is more than 0.05, so it can be concluded that there are no symptoms of heteroscedasticity in this regression model.

The test results showed that the Durbin–Watson value is 1.920. The value is around 2, which indicates that the regression model does not experience autocorrelation, either positive or negative autocorrelation. Thus, it can be concluded that the residuals in the model are independent and have fulfilled one of the classic assumptions of linear regression. Thus, the regression model in this study is considered feasible to be used in hypothesis testing and further analysis.

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Multiple Regression Analysis

The multiple regression analysis results are presented in Table 3:

Table 3. Multiple Regression Analysis

Variables	Coefficients	Stand. Error	t Stat	P-value
Intercept	-0.042	0.017	-2.454	0.015
Liquidity (X_1)	-0.025	0.024	-1.032	0.303
Leverage (X_2)	0.004	0.002	1.621	0.106
Profitability (X_3)	1.162	0.304	3.816	0.001
COVID-19 (X_4)	-0.042	0.016	-2.653	0.008
Analysis of Variance (Significant of F Test)				0.00
Adjusted R Squared				0.062

Source: Author's processed data 2025

The results of multiple regression analysis are shown in Table 3, the regression analysis equation in this study is as follows:

$$\mathbf{Y} = \mathbf{-0.042 - 0.025X1 + 0.004X2 + 1.162X3 - 0.042}X4 + e$$

Liquidity has a significant positive impact on the dependent variable (Y). The value of the regression coefficient of the liquidity variable is −0.025 with a significance value of 0.303. At the significance level α = 5%, the significance value is greater than 0.05 (0.303 > 0.05), so that the regression coefficient of the liquidity variable is not significant. Thus, it can be concluded that liquidity does not have a significant impact on the dependent variable. Therefore, the first hypothesis (H1) in this study is not supported.

The value of the regression coefficient of the leverage variable is 0.004 with a significance value of 0.106. At the significance level α = 5%, the significance value is greater than 0.05 (0.106 > 0.05), so the regression coefficient of the leverage variable is not significant. Thus, it can be concluded that leverage has no significant impact on dependent variables. Therefore, the second hypothesis (H2) in this study is not supported.

The value of the regression coefficient of the profitability variable is 1.162 with a significance value of 0.001, which is less than 0.05. Thus, it can be concluded that profitability has a positive and significant impact on dependent variables. Therefore, the third hypothesis (H3) in this study is supported.

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Based on the results of the F-test using the ANOVA (*Analysis of Variance*) test, a significance value (p-value) is 0.00, which is less than 0.05. Therefore, the regression model proposed in this research is fit to test the impact of liquidity, leverage, and profitability on earnings management.

The adjusted R-squared is 0.062. This value shows that the independent variables of profitability, leverage, liquidity, and COVID-19 as the control variables in the study can explain the variation of the dependent variables of 6.2%, while the remaining 93.8% are explained by other variables outside this study model.

DISCUSSION

The Impact of Liquidity on Earnings Management

Based on the research regression model, the results showed that the beta coefficient value of liquidity is -0.025, and the p-value is 0.303, which is greater than 0.05. These results show that the liquidity variable does not have a significant impact on earnings management. It can be interpreted that the intensity of conducting the earnings management is not driven by liquidity. These results are in line with studies conducted by Abi and Wulandari (2024), Felicia & Natalylova (2022), and Rosalita (2021).

Liquidity is a ratio that reflects how a company is able to meet its short-term obligations. This research indicates that it does not have a dominant influence on management's tendency to carry out earnings management practices. According to Rosalita (2021), if liquidity is too large, it can have an impact on the company because it reflects the company's inability to manage assets smoothly and optimally, thus making the company's financial performance less good and potentially encouraging managers to carry out earnings management practices as an effort to beautify financial information. Thus, companies with a high level of liquidity tend to show that the company's management does not carry out earnings management practices, because the financial information it has reflects good conditions so that it does not need to be moved to attract investors through the application of earnings management practices.

The Impact of Leverage on Earnings Management

Based on the research regression model, the results showed that the beta coefficient value of the leverage is 0.004, and the p-value is 0.106, which is greater than 0.05. These results show that the leverage variable does not have a significant impact on earnings management, meaning that high levels of leverage do not encourage company management to carry out earnings management practices. These results are in line with

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the research conducted by Dewiningsih et. al. (2021), Fionita & Fitra (2021), and Felicia & Natalylova (2022).

Companies with higher levels of leverage tend to face a higher risk of default, where the company is at risk of being deemed incapable of meeting its obligations. According to Fionita & Fitra (2021), the amount of leverage in the company affects the management's space to carry out earnings management actions to be smaller, as this happens due to supervision from creditors. In addition, high leverage also does not provide high motivation for managers to practice earnings management, because it is a deterrent to debt-related agreement violations in the future. According to Dewiningsih et al. (2021), if a company has high debts, creditors will tend to often monitor management indirectly, so that management does not easily manage profits.

The Impact of Profitability on Earnings Management

Based on the research regression model, the results showed that the coefficient of the profitability is 1.162 and the p-value is 0.001, which is less than 0.05. These results show that the profitability variable has a significant impact on earnings management. This means that a high level of profitability can encourage company management to carry out earnings management practices as an effort to beautify financial information to attract investors, because the company is perceived to have good profit performance. These results are in line with research conducted by Paramitha & Idayati (2020), Dewi $ Nurhayati (2022), and Cinthya et al (2022).

Profitability is one of the factors that makes company managers practice earnings management. Based on research conducted by Cinthya et al. (2022), if the company's profitability is low, managers in general will carry out earnings management practices as an effort to save their performance and reputation in the eyes of owners. This is also indicated by the existence of a contract made between the manager and the capital owner that the manager can generate optimal profits and can maximise the benefits of ownership and management to get rewards for the results of the company's management. This condition can trigger managers to stabilise profits by practising earnings management to convince investors or capital owners to continue to invest their funds in the company. Thus, the company's managers will continue to strive to stabilise their profits, and if the company's profits decrease, the management will increase revenue by performing earnings management (Dewi and Nurhayati 2022).

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CONCLUSION

This study aims to test whether liquidity, leverage and profitability have an impact on earnings management. In this study, the population of the companies used is banking sector companies listed on the Indonesia Stock Exchange for the period 2017-2024. Based on the results of the study, it can be concluded that liquidity does not have a positive impact on earnings management. This shows that the higher the level of liquidity does not affect the company's managers to carry out earnings management practices to make up the company's financial information. The results of the study show that leverage does not have a positive impact on earnings management. This shows that if the leverage value of the company is high, it is not a driving factor for the company's management to carry out earnings management practices. The results of the study show that profitability has a significant positive impact on earnings management. This shows that the higher the level of profitability, the greater the manager's desire to practice earnings management.

There are several implications of the research conducted by the author, such as the need to emphasise financial reporting transparency, regulatory compliance, and the role of audit and risk management committees in maintaining the quality of reported profits. The results of this study provide an understanding that financial indicators such as liquidity, leverage, and profitability cannot be used as the main standard to assess the existence of earnings management practices in banking companies. Thus, investors who want to invest in a company are advised to conduct a more comprehensive analysis by considering aspects of corporate governance, profit quality, and non-financial information before making investment decisions. Also, the results of this study can be used as an empirical reference in examining the factors that affect earnings management in the banking sector. Thus, further research is recommended to add other variables outside the study by using different earnings management proxies to obtain more comprehensive results.

The researcher realized that there were several limitations in this study that could affect the generalization of the results, including Low Explanatory Power of Variables: The value of the determination coefficient of only 0.0062 showed that the variables tested were only able to explain 6.2% of the variation in earnings management. Most of the rest, 93.8%, was influenced by other factors outside of this research model. Another limitation is that this study only uses three independent variables (liquidity, *leverage*, and profitability). This minimal number of variables has not been able to provide a comprehensive picture of the complex factors that affect earnings management practices in the banking sector. And there are data accessibility obstacles that are obstacles in

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obtaining complete data through the official website of the Indonesia Stock Exchange (IDX) and the company's official website. This resulted in a reduction in the number of research samples due to data that were not available or did not meet the completeness criteria.

Some suggestions can be submitted for future research such as adding other independent variables that have the potential to affect earnings management comprehensively, so that it can add to the results of the determination coefficient value and provide a more comprehensive picture of the factors that affect earnings management. In the next study, it is suggested to be able to enlarge the scope of the research model by using more independent variables in addition to the variables used in this study in order to be able to represent the condition of the company more thoroughly in explaining earnings management. The next research is recommended to use company samples in other sectors, which are more accessible and complete the data so that the entire sample can be used in the research because of the complete data.

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