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The Effect of Company Size and Profitability on Earnings Management in Non-Financial Companies in the Agriculture Sector

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Abstract
The purpose of this study was to determine the effect of firm size and profitability on earnings management. The sampling technique used purposive sampling method so as to produce eight companies tested. This study uses panel data regression analysis, classical assumption test and hypothesis testing. After the chow test, a good estimation model was used, namely the Common Effect Model which was tested using E-views 10 and SPSS 25. The results showed partially that company size had a positive and significant effect on earnings management, this indicates that large companies have more operational activities. complicated compared to small companies so the possibility of earnings management. Profitability has a negative and insignificant effect on earnings management, this indicates that companies with high levels of profitability will not carry out earnings management. Simultaneously, the variables of firm size and profitability have an effect on earnings management.
Keywords: Earnings Management, Company Size, Profitability

Introduction

The world economy, which is starting to improve, creates intense competition in the business world, which requires business owners to improve their performance in order to be able to compete with other companies and achieve company goals. The success of the company can be seen from the increase in profits and company performance. Company development can be seen from increased sales, business expansion, increased profits and increased employees (Kueser et al 2014). Profit has an important role in determining a decision for investors, in fact investors prefer companies that have increasing profits every year. Therefore, to find out whether a company is good or not, it can be done by evaluating the amount of profit that the company gets attached to the financial statements.

This makes the company want to present good financial reports for investors by manipulating financial reports or earnings management. Earnings management activities have the freedom to determine the amount of profit that the company wants to earn.

The object of this research is non-financial companies in the agriculture sector which are listed on the Indonesia Stock Exchange. Companies engaged in the utilization of biological resources, especially agriculture. According to BPS data sources, the Indonesian economy at the start of the pandemic experienced a decline of 5.32% in the second quarter of 2020. In the first quarter of 2020 all sectors experienced a decline and several sectors grew to negative, consisting of agricultural and hunting services of -1.39%. food crops by -10.31% and the agricultural sector by -1.17%. The factors that caused the decline were that during a pandemic the virus was prone to attaching itself to plants which caused vegetables and fruits to rot easily and there was a shift in the harvest period. This has an impact on the decline and quality of yields.

Based on previous research conducted by (I Ketut Gunawan & Nyoman Ari Surya Darmawan, 2015) states that company size and profitability have no significant effect on earnings management. The opposite results were obtained in research (Yofi Prima Agustia & Elly Suryani, 2018) stating that company size and profitability have a significant effect on earnings management.

Method

Table 1 Number of Sample Selection

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No	Description	Total
1	Agriculture sector non-financial companies listed on the Indonesia Stock Exchange during the research period, namely 2019-2021.	12
2	Non-financial companies in the agricultural sector listed on the Indonesia Stock Exchange which did not publish complete and consecutive financial reports during the study period, namely 2019-2021.	(2)
Number of companies that meet the criteria		10
The number of research samples with a period of 3 years		30
Outlier		6
Total Sample		24

Source: www.idx.co.id.

The population used in this study are non-financial companies in the agriculture sector which are listed on the Indonesia Stock Exchange for the 2019-2021 period, a total of 12 companies. The sample selection technique uses a purposive sampling method.
Outliers are cases in data that have unique characteristics that clearly differ from other observations, resulting in extreme values (Ghozali, 2012). List of companies that meet the criteria are as follows:

Table 2. List of Samples that Meet the Criteria

No	Kode Perusahaan	Nama Perusahaan	Tanggal Pencatatan
1	AALI	Astra Agro Lestari Tbk	09 Desember 1997
2	BISI	BISI International Tbk	28 Mei 2007
3	CPRO	Central Proteina Prima Tbk	28 November 2006
4	DSFI	Dharma Samudera Fishing Industries Tbk	24 Maret 2000
5	IIKP	IIKP Inti Agri Resources Tbk	20 Oktober 2000
6	SGRO	SGRO Sampoerna Agro Tbk	18 Juni 2007
7	SMAR	SMART Tbk	20 November 1992
8	TBLA	Tunas Baru Lampung Tbk	14 Febuari 2000

Source: www.idx.co.id.

Earnings management is a strategy of the company's management that is deliberately carried out to manipulate the company's income so that it is in line with the targets set. Earnings management activities have an impact on determining the amount of profits a company gets (Iraya et al, 2015).
Earnings management in this study uses a modified cross sectional with discretionary accruals from the Jones 1995 model. According to (Bassiouny, 2016) the steps in calculating discretionary accruals are:

1. $TACit = Nit - CFOit$
2. $\frac{TAC_t}{A_{t-1}} = \beta_{1j}\left(\frac{1}{A_{t-1}}\right) + \beta_{2j}\left(\frac{\Delta REV_t - \Delta AR_t}{A_{t-1}}\right) + \beta_{3j}$
3. $NDA_t = \beta_{1j}\left(\frac{1}{A_{t-1}}\right) + \beta_{2j}\left(\frac{\Delta REV_t - \Delta AR_t}{A_{t-1}}\right) + \beta_{3j}$
4. $DA_{jt} = \frac{TAC_t}{A_{t-1}} - NDA_{jt}$

Comp size of a company which is calculated based on total assets, number of sales and so on. This is because the greater the level of company size, the more parties who play

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a role in overseeing the company's operational activities, making it difficult to carry out earnings management (Putu Ayu and Gerianta, 2018).
In UU No. 20 of 2008 there are four types of company sizes, namely micro, small, medium and large businesses. In general, large companies care more about the conditions obtained by the company (Iraya et al, 2015). company and performance stability. The proposed hypothesis:

H1: Firm size has an effect on earnings management.

Enterprise size measurement: Company size = Ln (total assets).

Profitability is the level of net profit received by the company while carrying out company activities, where the profits obtained by the company come from the results of sales activities, capital and shares. According to (Munawir, 2016: 33) profitability is a company's ability to earn profits within a certain period of time. Profitability can affect earnings management because managers can carry out earnings management actions to save their company's performance. The proposed hypothesis:

H2: Profitability affects earnings management.

Profitability measurement: $\frac{\text{Net profit after tax}}{\text{Total Assets}}\ x\ 100\%$

Results and Discussion

Descriptive analysis is used to describe data in research to make it easier to understand. A descriptive analysis was carried out using a sample of eight non-financial companies in the agriculture sector listed on the Indonesia Stock Exchange for the 2019-2021 period.

Table 3. Descriptive Analysis

Descriptive Statistics

	N	*Min*	*Max*	*Mean*	*Std. Dev*
Y	24	,00	,00	-,0008	,00106
Size (X_1)	24	11,47	13,56	12,6963	,74494
LEV (X_2)	24	-6,66	2,64	,1550	2,02226
Valid N (*listwise*)	24				

Source: Processed by the author with SPSS

Descriptive analysis is used to describe data in research to make it easier to understand. A descriptive analysis was carried out using a sample of eight non-financial companies in the agriculture sector listed on the Indonesia Stock Exchange for the 2019-2021 period.
The normality test aims to determine whether the residual values are normally distributed or not. In this study using the One Simple Kolmogorov-Smirnov test, the sig Asymp.Sig (2-tailed) value was obtained at 0.200. So it can be concluded that the data in this study were normally distributed.
The multicollinearity test obtained a firm size tolerance value (X1) of 0.756 and profitability (X2) of 0.830. It can be concluded that the tolerance value is > 0.10, which means that in this study there is no multicollinearity. For the VIF value of company size (X1) of 1.323 and profitability (X2) of 1.205. It can be concluded that the VIF value <10.00, which means that in this study there was no multicollinearity.
The heteroscedasticity test in this study used a scatter plot graph with the results that the dots were scattered randomly and did not form a pattern above and below zero on the Y axis. This means that in this study there were no symptoms of heteroscedasticity.
The autocorrelation test is used to test whether or not there is a strong association in one observation to another in the linear regression model. The autocorrelation test in this study can be seen in the following table:

Table 4. Autocorrelation Test

Model Summary[b]

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Model	R	R^2	*Adjusted R Square*	*Std. Error of the Estimate*	DW
1	,584[a]	,342	,279	,00090	1,819

a. *Predictors:* Profitability, Firm Size
b. *Dependent Variable*: Y

Source: Processed by the author with SPSS

This research is explained by the DW value of 1.922. Using N (amount of data) = 24 and K (amount of variables) = 3, we get a value of dU = 1.6565 and a value of 4 – dU = 2.3435. The value of dL = 1.1010 is obtained and the value of 4 - dL = 2.899. From the calculation of the DW table, dU < dW < 4 – dU = 1.6565 < 1.922 < 2.3435. It can be concluded that in this study there was no autocorrelation. Based on the results of the Chow test, a good model to use is the Cammon Effect Model. The regression model equation is obtained:

Y = 0.000826 X1 - 0.000037 X2.

Table 5. Test the Common Effect Model

Variabel	**Koefisien**	**t-stat**	**Sig**
C	-0,011250	-3,521186	0,0020
Size (X_1)	0,000826	3,288987	0,0035
LEV (X_2)	-0,000037	-0,407687	0,6876
R-Squared	0,341536		
F-statistik	5,446205		
Sig *(F-stat)*	0,012433		

Source: Processed by the author with Eviews 10

The results of the t test on company size obtained a t-statistic value of 3.288987 with a positive direction and a significance value of 0.0035 <0.05, so Ha was accepted. It can be concluded that company size has a positive and significant effect on earnings management.
The results of the t test on profitability obtained a t-statistic value of -0.407687 with a negative direction and a significance value of 0.6876 > 0.05, so Ho was accepted. It can be concluded that the profitability variable has a negative and insignificant effect on earnings management.
The results of the F test obtained a calculated F value or F-statistic of 5.446205 with a sig value of 0.012433 <0.05, so Ha was accepted. So it can be concluded that company size and profitability simultaneously affect earnings management.
In the test of the coefficient of determination (R^2) the value is 0.341536. This means that the dependent variable (earnings management) can simultaneously be explained by the independent variables (company size and profitability) of 34% and the remaining 66% is influenced by other variables not examined.
Based on the results of the study, partially firm size has a positive and significant effect on earnings management. Evidenced by the t-statistic value of 3.288987 with a positive direction and a significance value of 0.0035 <0.05.
This shows that the greater the level of company size, the more parties who play a role in overseeing the company's operational activities, making it difficult to carry out earnings management. This research is in line with researchers (Dwi Suhartanto, 2015), (Sugiarto Prajitno & Vionita, 2020) and (Yofi Prima Agustia & Elly Suryani, 2018) stating that company size has an influence on earnings management.
Based on the results of the study, partially profitability has a negative and insignificant effect on earnings management. Evidenced by the t-statistic value of -0.407687 with a negative direction and a significance value of 0.6876 > 0.05.
This explains that there is no influence of the profitability variable on earnings management practices. Companies that have a high level of profitability will not perform earnings management. Likewise, what investors do is that in making a decision, investors do not always rely on profitability alone. This research is in line with research (I Ketut Gunawan & Nyoman Ari Surya Darmawan, 2015), (Sugiarto Prajitno &

Vionita, 2020) and (Ellysia Millenia & Tjhai Fung Jin, 2019), which state that profitability has no effect on earnings management.

Conclusion

The results of the study show that partially company size has a positive and significant effect on earnings management. This indicates that the greater the level of firm size, the more parties who play a role in overseeing the company's operations, making it difficult to manage earnings. Profitability has a negative and insignificant effect on earnings management, this indicates that companies with high levels of profitability will not perform earnings management. Simultaneously the variable firm size and profitability have an influence on earnings management.

For further research, it is expected to be able to find more sources and add a research period so that the resulting research is better. Adding research objects so that it is not only the agricultural sector companies, but other industrial sectors such as mining, the consumer goods industry, finance and so on.

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