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Determinants of Earnings Management in Primary Consumer Goods Companies in the LQ45 Index: The Role of Profitability, Liquidity, and Capital Structure

Muhammad Taufiqurrohman¹, Ayu Nurafni Octavia^{2*}, Emaya Kurniawati³

^{1,2,3} Department of Management, Faculty of Economic, Universitas Semarang, Semarang, Indonesia

Abstract

This study aims to analyze the influence of profitability, liquidity, and capital structure on earnings management in primary consumer goods companies listed in the LQ45 Index for the 2020–2024 period. The background to this research is based on fluctuations in financial performance and indications of earnings management practices undertaken to maintain earnings stability and investor perceptions.

The research method used is quantitative with a multiple linear regression approach using secondary data from annual financial reports from nine sample companies selected using a purposive sampling method.

The results of the study indicate that profitability has a positive and significant effect on earnings management, liquidity has a positive and significant effect on earnings management, and capital structure has a negative and significant effect on earnings management. Simultaneously, these three variables significantly influence earnings management practices. The adjusted R^2 value of 0.713 indicates that profitability, liquidity, and capital structure explain 71.3 percent of the variation in earnings management practices in the sample companies.

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Corresponding email*: ayunurafni@usm.ac.id

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INTRODUCTION

The capital market plays a crucial role in supporting corporate financing activities while providing investors with information to aid in investment decisions. In the context of the Indonesian capital market, companies included in the LQ45 Index are of particular interest because they comprise large market capitalizations, high trading liquidity, and relatively strong performance. These conditions place LQ45 companies under

high market expectations regarding their financial performance, particularly their ability to generate and maintain profits. These high expectations can put pressure on management to deliver performance that meets investor expectations (Dewi & Hermanto, 2021).

Profit is a crucial piece of information in financial reports because it is frequently used by investors and stakeholders to evaluate a company's performance and prospects. However, reported profits do not always fully reflect a company's economic condition. Management has flexibility in determining accounting policies and estimates, which can influence reported profit figures. This condition is related to earnings management practices, namely management's actions to influence reported profits through the choice of accounting methods and specific transaction decisions to achieve desired goals (Yahaya et al., 2020). This practice is a concern because it can reduce the quality of financial report information and potentially influence investor decisions.

This phenomenon becomes increasingly relevant in the 2020–2024 period, encompassing the COVID-19 pandemic and the economic recovery process. In 2020, the Indonesian economy contracted by 2.07%, putting pressure on the performance of public companies. Economic uncertainty can lead to changes in a company's revenue, profitability, cash flow, and funding structure. In such a situation, management faces pressure to maintain performance stability and maintain investor confidence, potentially increasing the incentive to engage in earnings management.

One interesting sector to study is the primary consumer goods sector. This sector produces and distributes products related to daily needs, such as food, beverages, household goods, pharmaceuticals, and other consumer goods. The relatively stable demand characteristics make this sector strategically positioned in the economy. However, stable demand does not mean companies are free from performance pressures. Companies are still required to maintain profitability, liquidity, and a healthy funding structure, especially when included in an index with high market expectations like the LQ45.

Indications of changes in financial conditions can be seen from the development of financial ratios of primary consumer goods companies in the LQ45 during the study period. The average Return on Assets (ROA) decreased from 10.32% in 2020 to 9.09% in 2024. Meanwhile, the average Current Ratio (CR) increased from 242.25% to 276.24%, while the Debt-to-Equity Ratio (DER) increased from 106.24% in 2023 to 129.68% in 2024. These changes indicate dynamics in the companies' profitability, liquidity, and capital structure during the observation period.

Changes in profitability can be a factor related to management decisions regarding earnings reporting. Low profitability can create pressure to increase reported earnings to maintain the company's perceived performance. Conversely, high profitability can also create certain incentives for management to smooth earnings. From a positive accounting theory perspective, managers tend to choose accounting

policies that maximize their own interests, including when compensation and performance appraisals are linked to company profits (Adyastuti & Khafid, 2022).

Besides profitability, liquidity can also be related to earnings management practices. Liquidity indicates a company's ability to meet short-term obligations. Poor liquidity can increase pressure from investors and creditors because it indicates a risk in meeting obligations. In such circumstances, management may be motivated to present a better financial position through earnings management (Syaputra & Yurniwati, 2022). However, high liquidity does not necessarily indicate efficient company management and may be related to managerial decisions to maintain a positive perception of the company's financial condition.

Another factor is capital structure. Capital structure describes the composition of a company's funding, whether derived from debt or equity. High debt levels can increase a company's pressure to meet obligations and maintain certain financial ratios. Based on the debt covenant hypothesis in positive accounting theory, companies facing high debt levels may be motivated to take certain accounting actions to avoid violating debt covenants. Therefore, capital structure is an important factor to analyze in relation to earnings management (Undrian & Yanti, 2023; Pricillia et al., 2025). Although profitability, liquidity, and capital structure can theoretically influence earnings management, previous research has shown inconsistent empirical findings. Regarding profitability, Adyastuti and Khafid (2022) found that profitability positively influences earnings management. This finding is supported by Rindani and Zulfikar (2025), who also found an effect of profitability on earnings management. However, Christella and Santo (2024) and Pricillia et al. (2025) found different results, indicating that profitability had no effect on earnings management.

Inconsistencies are also evident in the liquidity variable. Rachmalia and Nursiam (2024) found that liquidity significantly influences earnings management, while Syaputra and Yurniwati (2022) found that liquidity had no significant effect on earnings management. These differing results indicate that the relationship between liquidity conditions and management decisions regarding earnings management does not yield consistent conclusions. Regarding the capital structure variable, research results also show different directions. Undrian and Yanti (2023) found that capital structure had a significant positive effect on earnings management, while Dewi and Hidayati (2023) found a significant negative effect. Meanwhile, Nuruddin and Rohmatunnisa (2023) found that capital structure had no significant effect on earnings management. These differences in direction and significance indicate a research gap that needs further examination in different company contexts and research periods.

Thus, the research gap in this study lies not only in the differences in previous research results but also in the need to re-examine these three factors simultaneously in primary consumer goods companies included in the LQ45 Index during the 2020–2024 period. This period has unique characteristics because it

encompasses the pandemic and economic recovery, while the research subjects are companies with relatively high market capitalization and liquidity. This study is expected to provide empirical evidence regarding whether profitability, liquidity, and capital structure influence earnings management in this context.

Based on the background description and the inconsistencies in previous research results, this study aims to analyze the influence of profitability, liquidity, and capital structure on earnings management in primary consumer goods companies included in the LQ45 Index for the 2020–2024 period, both partially and simultaneously. Specifically, this study analyzes the influence of profitability on earnings management, the influence of liquidity on earnings management, the influence of capital structure on earnings management, and the influence of these three variables simultaneously on earnings management. This objective aligns with the research objectives in this thesis, and the final results examine nine sample companies during the 2020–2024 period.

LITERATURE REVIEW

Positive Accounting Theory

This study uses Positive Accounting Theory as the primary foundation for explaining management behavior in determining accounting policies. Positive accounting theory explains and predicts managers' accounting policy choices based on economic interests and the contractual conditions facing the company. According to Sialangan (2020), managers are rational and tend to choose accounting policies that maximize their utility. Therefore, the choice of accounting methods is not always neutral but can be influenced by managerial interests.

Positive accounting theory explains management behavior through several hypotheses, namely the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis. The bonus plan hypothesis explains that managers who receive compensation based on profit performance have a tendency to choose accounting policies that can increase profits. The debt covenant hypothesis explains that companies facing pressure due to debt covenants may have an incentive to use accounting policies that increase profits to avoid violating those covenants. Meanwhile, the political cost hypothesis explains that companies may choose certain accounting policies to reduce political attention or pressure from external parties.

In the context of this research, positive accounting theory is relevant to explaining the relationship between profitability, liquidity, and capital structure and earnings management. These three financial conditions can create different incentives and economic pressures for management in determining financial reporting policies.

Earnings Management

Earnings management is a critical issue in financial reporting because it relates to the quality of earnings information presented by a company. Yahaya et al. (2020) explain that earnings management is a management effort to influence or manipulate reported earnings through the use of specific accounting methods and decisions regarding the timing of revenue and expense recognition to achieve specific objectives. This practice exploits the flexibility available in accounting standards, allowing reported earnings figures to differ from the company's actual economic conditions.

From a positive accounting theory perspective, earnings management can be viewed as a consequence of the economic incentives facing management. Managers can use accounting policy flexibility to achieve profit targets, fulfill debt covenants, obtain compensation, or maintain a positive perception from external parties. Adyastuti and Khafid (2022) explain that management can use accounting policy choices to maximize its own interests when facing contractual and economic pressures.

Earnings management can be implemented in several ways, including taking a bath, income minimization, income maximization, and income smoothing. Taking a bath involves charging losses or significantly reducing profits during specific periods when the company's performance is poor. Income minimization involves reducing profits when the company is earning relatively high profits. Conversely, income maximization aims to increase profits when the company's performance is deemed to be below target. Meanwhile, income smoothing aims to reduce profit fluctuations, thus making the company's performance appear more stable over time.

In this study, earnings management is measured using Discretionary Accruals (DA) with the Modified Jones Model. Discretionary accruals describe accrual components that can be influenced by management decisions. A positive DA value indicates a trend towards increasing earnings, while a negative DA value indicates a trend towards decreasing earnings.

Profitability

Profitability indicates a company's ability to generate profits through its operational activities and resources. Kasmir (2021) explains that profitability is a ratio used to assess a company's ability to generate profits while also measuring management effectiveness in managing assets, capital, and sales. Therefore, profitability not only reflects the amount of profit earned but also reflects the company's efficiency in utilizing available resources.

In the primary consumer goods sector, profitability is one of the indicators investors pay attention to because it reflects a company's ability to generate profits from its business activities. High profitability can be a positive signal about a company's performance, while declining profitability can increase pressure on management to maintain a positive investor perception.

Based on positive accounting theory, profitability levels can influence management's accounting policy choices. When a company's profitability declines, management may be encouraged to engage in income-increasing earnings management to meet profit targets and maintain market perceptions. Conversely, when profitability is very high, management may also engage in income-decreasing earnings management to maintain profit stability or mitigate certain external pressures. Therefore, changes in profitability levels can create incentives for management to engage in earnings management.

This relationship is supported by Adyastuti and Khafid (2022), who found that profitability has a positive effect on earnings management. Rindani and Zulfikar (2025) also found that profitability influences earnings management. However, Christella and Santo (2024) and Pricillia et al. (2025) found different results, stating that profitability has no effect on earnings management. Based on the theoretical arguments and empirical findings, the first hypothesis is formulated as follows:

H1: Profitability has an effect on earnings management.

Liquidity

Liquidity describes a company's ability to meet short-term obligations using its current assets. Kasmir (2021) explains that liquidity indicates a company's ability to pay maturing obligations. The level of liquidity is one indicator used by investors and creditors to assess a company's financial health.

From a positive accounting theory perspective, liquidity conditions can create pressure on management in determining financial reporting policies. Low liquidity can increase the risk that a company will have difficulty meeting short-term obligations or meeting certain requirements in debt agreements. This situation can encourage management to engage in earnings management to improve the company's financial appearance before creditors and investors.

From an agency theory perspective, liquidity can be an indicator used by owners to assess management performance. When liquidity is low, managers face pressure to demonstrate the company's ability to meet its obligations. Conversely, high liquidity can indicate a healthier financial condition, but management still has the potential to engage in income smoothing to maintain the perception of stable company performance. Meanwhile, based on signaling theory, liquidity provides information that can signal the market regarding a company's ability to meet its short-term obligations.

Previous research has shown an inconsistent relationship between liquidity and earnings management. Rachmalia and Nursiam (2024) found that liquidity has a positive and significant effect on earnings management. Conversely, Syaputra and Yurniwati (2022) found that liquidity has no significant effect on earnings management. These differences in results indicate that the effect of liquidity on earnings management still needs to be tested across different company contexts and time periods. Based on this description, the second hypothesis is formulated as follows:

H2: Liquidity has an effect on earnings management.

Capital Structure

Capital structure describes the composition of a company's funding sources, including debt and equity. Capital structure shows how a company finances its operational and investment activities through this combination of funding sources. An optimal capital structure is expected to achieve an efficient cost of capital while increasing company value.

From a positive accounting theory perspective, capital structure is closely related to the debt covenant hypothesis. Companies with high debt levels face obligations to pay interest and principal, as well as the possibility of certain covenants in credit agreements. These conditions can put pressure on management to maintain financial ratios and earnings at certain levels. Therefore, the greater the pressure from the financing structure, the greater the likelihood that management will use certain accounting policies to influence reported earnings.

Furthermore, capital structure is also related to agency theory because the use of debt can increase creditor oversight of management. This oversight can limit opportunistic management actions. Under certain conditions, debt can actually act as a disciplinary mechanism that reduces management's scope for earnings management. Therefore, empirically, the relationship between capital structure and earnings management can vary depending on company characteristics, the level of creditor oversight, and the pressures faced by management.

Previous research has shown discrepancies. Undrian and Yanti (2023) found that capital structure has a significant positive effect on earnings management. Conversely, Dewi and Hidayati (2023) found that capital structure has a significant negative effect on earnings management. Meanwhile, Nuruddin and Rohmatunnisa (2023) showed that capital structure has no significant effect on earnings management. This difference reinforces the existing research gap regarding the relationship between capital structure and earnings management. Based on the theoretical description and results of previous research, the third hypothesis is formulated as follows:

H3: Capital structure has an effect on earnings management.

The Influence of Profitability, Liquidity, and Capital Structure on Earnings Management

Profitability, liquidity, and capital structure are indicators that describe a company's financial condition from different perspectives. Profitability reflects the ability to generate profits, liquidity indicates the ability to meet short-term obligations, and capital structure reflects the composition of a company's funding.

These three conditions can collectively influence the pressures and incentives faced by management in preparing financial statements. Based on positive accounting theory, managers can choose specific

accounting policies in response to the company's economic and contractual conditions. Declining profitability can create pressure to maintain earnings, poor liquidity can increase creditor concerns, and a high capital structure can increase pressure from obligations and debt covenants. Conversely, companies in good financial condition may also have incentives to maintain stable earnings and positive market perceptions.

Thus, management decisions regarding earnings management are not always influenced by a single financial indicator but can be a response to a combination of profitability, liquidity, and capital structure. Empirical evidence of this simultaneous influence is demonstrated by Syaputra and Yurniawati (2022), who found that profitability, liquidity, and leverage simultaneously had a significant effect on earnings management. Similar results were also found by Pricillia et al. (2025), who showed that profitability, liquidity, and capital structure simultaneously influenced earnings management. Based on this description, the fourth hypothesis is formulated as follows:

H4: Profitability, liquidity, and capital structure simultaneously influence earnings management.

METHODS

Research Design

This study uses a quantitative approach to analyze the influence of profitability, liquidity, and capital structure on earnings management. The data used is secondary data sourced from the annual financial reports of primary consumer goods companies listed in the LQ45 Index on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. This quantitative data is used to measure each research variable and is then analyzed statistically.

The research subjects were primary consumer goods companies included in the LQ45 Index for the 2020–2024 period. The primary consumer goods sector was selected based on the characteristics of companies engaged in providing consumer goods, thus playing a significant role in economic activity and facing the demands of maintaining financial performance.

Population and Sample

The study population consisted of 45 companies listed in the LQ45 Index during the 2020–2024 period. Sampling was conducted using a purposive sampling technique, which selects samples based on specific considerations and criteria aligned with the research objectives.

The sample selection criteria in this study are:

1. Companies in the primary consumer goods sector included in the LQ45 Index during the 2020–2024 period.
2. Companies that publish annual reports *during* the 2020–2024 period.

3. Companies that have complete required data during the observation period.
4. The company uses Rupiah currency in presenting its financial reports.

Based on these criteria, nine companies were selected as research samples. With a five-year observation period, 45 company data were used.

The nine companies are PT Unilever Indonesia Tbk (UNVR), PT Ace Hardware Indonesia Tbk (ACES), PT Sumber Alfaria Trijaya Tbk (AMRT), PT Gudang Garam Tbk (GGRM), PT Indofood CBP Sukses Makmur Tbk (ICBP), PT Indofood Sukses Makmur Tbk (INDF), PT Charoen Pokphand Indonesia Tbk (CPIN), PT Mitra Adiperkasa Tbk (MAPI), and PT Kalbe Farma Tbk (KLBF).

Types and Sources of Data

The type of data used is quantitative, that is, data in numerical form that can be measured and analyzed statistically. The research data source is secondary data, namely the annual financial reports of primary consumer goods companies included in the LQ45 Index for the 2020–2024 period.

Data was obtained from financial reports and company *annual reports* published on the official website of the Indonesia Stock Exchange and other supporting sources. The collected data included information on net profit, total assets, current assets, current liabilities, total debt, total equity, and other financial information necessary to calculate the research variables.

Operationalization of Variables

This study uses three independent variables, namely profitability (X1), liquidity (X2), and capital structure (X3), as well as one dependent variable, namely earnings management (Y).

Table 1. Operationalization of Variables

Variables	Operational Definition	Measurement
Profitability (X1)	The company's ability to generate profits by utilizing its assets.	$ROA = (\text{Net Profit After Tax} / \text{Total Assets}) \times 100\%$
Liquidity (X2)	The company's ability to meet short-term obligations using current assets.	$CR = (\text{Current Assets} / \text{Current Liabilities}) \times 100\%$
Capital Structure (X3)	Comparison of company funding from debt and equity.	$DER = (\text{Total Debt} / \text{Total Equity}) \times 100\%$
Earnings Management (Y)	Management actions in influencing reported earnings through accounting policy choices and accrual decisions.	Discretionary Accrual (DA) using the Modified Jones Model

Profitability is measured using Return on Assets (ROA), liquidity using the Current Ratio (CR), and capital structure using the Debt-to-Equity Ratio (DER). These measurements align with the operationalization of the variables in this thesis.

Earnings management is measured using Discretionary Accruals (DA) using the Modified Jones Model. Total accruals are calculated from the difference between net income and operating cash flow, then used to estimate *non-discretionary accruals*. Furthermore, *discretionary accruals* are obtained from the difference between total accruals and *non-discretionary accruals*. The DA value is used as an indicator of management's tendency to engage in earnings management.

Data Analysis Techniques

Data analysis was performed using multiple linear regression to examine the effect of profitability, liquidity, and capital structure on earnings management. The analysis was conducted on 45 company observations during the 2020–2024 period.

The stages of data analysis include descriptive statistical analysis, classical assumption tests, multiple linear regression analysis, coefficient of determination tests, partial tests (t tests), and simultaneous tests (F tests).

Descriptive Statistical Analysis

Descriptive statistical analysis was used to provide an overview of the characteristics of the research data through the minimum, maximum, average (*mean*), and standard deviation values of each variable used in the study. The variables analyzed included profitability, liquidity, capital structure, and earnings management.

Classical Assumption Test

Classical assumption tests were conducted to ensure that the regression model met statistical requirements. The tests used in the study included:

1. Normality test, to determine whether the data or residuals in the regression model are normally distributed.
2. Multicollinearity test, to determine whether or not there is a high correlation between independent variables.
3. Heteroscedasticity test, to determine whether there is inequality in residual variance in the regression model.
4. Autocorrelation test, to determine whether or not there is a residual correlation between observation periods.

The autocorrelation test was carried out using Durbin-Watson, and if necessary, handling was carried out using the Cochrane-Orcutt method.

Multiple Linear Regression Analysis

Multiple linear regression analysis was used to determine the effect of profitability, liquidity, and capital structure on earnings management. The regression model used is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Information:

Y = Earnings Management

α = Constant

$\beta_1, \beta_2, \beta_3$ = Regression coefficients

X_1 = Profitability

X_2 = Liquidity

X_3 = Capital Structure

e = Error

Test of the Coefficient of Determination (R^2)

The coefficient of determination test is used to determine the ability of independent variables to explain variations in the dependent variable. The R^2 value indicates how much variation in earnings management can be explained by profitability, liquidity, and capital structure, with the remainder explained by factors outside the research model.

Partial Test (t-Test)

The t-test was used to determine the partial effect of each independent variable on earnings management. The test was conducted at a 5% significance level ($\alpha = 0.05$). An independent variable is considered significant if its significance value is less than 0.05.

3.5.6 Simultaneous Test (F Test)

The F-test is used to determine whether profitability, liquidity, and capital structure simultaneously influence earnings management. The test is conducted at a 5% significance level. If the F-value is less than 0.05, then the independent variables simultaneously have a significant effect on the dependent variable.

RESULTS

Descriptive Statistics

Descriptive statistical analysis was used to provide an overview of the characteristics of the research data, including profitability, liquidity, capital structure, and earnings management. The study used 45 observations from nine primary consumer goods companies included in the LQ45 Index during the 2020–2024 period. The descriptive statistical results are presented in Table 2.

Table 2. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Standard Deviation
Profitability	45	-3.32	34.89	10,0553	7,57092
Liquidity	45	32.83	860.15	254,5167	204,28042
Capital Structure	45	17.03	646.59	116,0798	124.04182
Earnings Management	45	-0.29	0.05	-0.1034	0.07241

Source: Secondary data processed with SPSS 26.

Based on Table 2, profitability has a minimum value of -3.32 and a maximum of 34.89, with an average value of 10.0553 and a standard deviation of 7.57092. The minimum value indicates that some companies experienced losses during the observation period, while the average value indicates that overall the sample companies were still able to generate positive profits.

Liquidity has a minimum value of 32.83 and a maximum of 860.15, with an average of 254.5167. The high average value indicates that the sample companies generally have relatively large current assets compared to their current liabilities. However, the standard deviation of 204.28042 indicates significant variation in liquidity between companies.

The capital structure has a minimum value of 17.03, a maximum of 646.59, and an average of 116.0798 with a standard deviation of 124.04182. This indicates a significant difference in the level of debt usage between the sample companies.

Meanwhile, earnings management has a minimum value of -0.29, a maximum of 0.05, an average of -0.1034, and a standard deviation of 0.07241. The negative average value indicates that the sample companies' overall *discretionary accruals* tend to trend toward income *decline*.

Classical Assumption Test

The results of multiple linear regression analysis are presented in Table 3.

Table 3. Results of the Classical Assumption Test

Testing	Indicator	Results	Conclusion
Normality	Asymp. Sig. (2-tailed)	0.200	Normal
Multicollinearity – Profitability	Tolerance / VIF	0.571 / 1.752	There is no multicollinearity
Multicollinearity – Liquidity	Tolerance / VIF	0.646 / 1.548	There is no multicollinearity
Multicollinearity – Capital Structure	Tolerance / VIF	0.412 / 2.427	There is no multicollinearity
Autocorrelation	Durbin-Watson after Cochrane-Orcutt	1,909	No autocorrelation occurs

Heteroscedasticity – Profitability	Sig. Glejser	0.873	There is no heteroscedasticity
Heteroscedasticity – Liquidity	Sig. Glejser	0.504	There is no heteroscedasticity
Heteroscedasticity – Capital Structure	Sig. Glejser	0.288	There is no heteroscedasticity

Source: Secondary data processed with SPSS 26.

The normality test results showed an Asymp. Sig. value of 0.200, greater than 0.05, indicating that the residuals were normally distributed. Furthermore, all independent variables had a *Tolerance value* greater than 0.10 and a VIF less than 10. Thus, no symptoms of multicollinearity were found in the research model.

The initial autocorrelation test yielded a Durbin-Watson value of 1.409, indicating autocorrelation. Therefore, a transformation using the Cochrane-Orcutt method was performed. After the transformation, the Durbin-Watson value was 1.909, falling between the dU limits of 1.6662 and the 4-dU limit of 2.3338, thus confirming that the model did not exhibit autocorrelation.

The results of the heteroscedasticity test using the Glejser test showed a significance value of 0.873 for profitability, 0.504 for liquidity, and 0.288 for capital structure. All values were greater than 0.05, indicating no evidence of heteroscedasticity. Thus, based on classical assumption testing, the regression model has met the requirements for use in hypothesis testing.

Multiple Linear Regression Analysis

The results of multiple linear regression analysis are presented in Table 4.

Table 4. Multiple Linear Regression Results

Variables	B	Std. Error	Beta	t	Sig.
Constant	-0.199	0.036	–	-5,489	0,000
Profitability	0.025	0.007	0.355	3,648	0.001
Liquidity	0.014	0.006	0.263	2,198	0.034
Capital Structure	0,000	0,000	-0.744	-5,510	0,000

Source: Secondary data processed with SPSS 26.

Based on Table 4, the regression equation obtained is:

$$Y = -0,199 + 0,025X_1 + 0,014X_2 + 0,000X_3 + e$$

The profitability coefficient of 0.025 indicates a positive relationship between profitability and earnings management. The liquidity coefficient of 0.014 also indicates a positive relationship, while the capital

structure coefficient is 0.000, with a negative influence based on the *standardized* Beta coefficient of -0.744.

Test of Coefficient of Determination

The results of determination coefficient are presented in Table 5.

Table 5. Results of the Determination Coefficient Test

R	R Square	Adjusted R Square	Standard Error of Estimate
0.856	0.733	0.713	0.02315

Source: Secondary data processed with SPSS 26.

The Adjusted R Square value of 0.713 indicates that profitability, liquidity, and capital structure together are able to explain approximately 71.3% of the variation in earnings management, while approximately 28.7% is explained by other factors outside the research model.

Partial Hypothesis Testing

The results of partial hypothesis are presented in Table 6.

Table 6. t-Test Results

Hypothesis	Variables	t-count	Sig.	Decision
H1	Profitability → Profit Management	3,648	0.001	Accepted
H2	Liquidity → Earnings Management	2,198	0.034	Accepted
H3	Capital Structure → Earnings Management	-5,510	0,000	Accepted

Source: Secondary data processed with SPSS 26.

The test results show that profitability has a positive and significant effect on earnings management. Liquidity also has a positive and significant effect on earnings management. Meanwhile, capital structure has a negative and significant effect on earnings management. All partial hypotheses of the study are accepted.

Simultaneous Test

The results of simultaneous are presented in Table 7.

Table 7. F Test Results

Model	F-count	Sig.	Decision
Regression	36,655	0,000	H4 Accepted

Source: Secondary data processed with SPSS 26.

The F-test results show a calculated F-value of 36.655 with a significance value of 0.000. This value indicates that profitability, liquidity, and capital structure simultaneously have a significant effect on earnings management. Thus, H4 is accepted.

DISCUSSION

The Influence of Profitability on Earnings Management

The results of the study indicate that profitability has a positive and significant effect on earnings management, with a coefficient value of 0.025, a *t*-test of 3.648, and a significance level of 0.001. Thus, H1 is accepted. These results indicate that the higher a company's profitability, the greater the tendency for earnings management in primary consumer goods companies included in the LQ45 Index.

These findings can be explained through the perspective of Positive Accounting Theory, specifically *the bonus plan hypothesis*. Profitability is one indicator that investors pay attention to and can be used to assess management performance. When profit is the basis for performance evaluation, management has an incentive to maintain or increase reported earnings. Flexibility in accounting policies allows management to manage accrual components so that reported earnings can reach the expected level.

Thus, increased profitability does not necessarily mean a reduced likelihood of a company engaging in earnings management. In companies under pressure to maintain performance and high market expectations, profitability can actually provide an incentive for management to maintain a high performance image through earnings management. This research finding aligns with Adyastuty and Khafid (2022) and Rindani and Zulfikar (2025), who found a positive effect of profitability on earnings management.

These results also provide empirical evidence that differs from the research of Christella and Santo (2024) and Pricillia et al. (2025), which found no effect of profitability on earnings management. This difference suggests that profitability can be influenced by company characteristics, the observation period, and the performance pressures faced by the company.

The Effect of Liquidity on Earnings Management

The results of the study indicate that liquidity has a positive and significant effect on earnings management, with a coefficient value of 0.014, a *t*-test of 2.198, and a significance level of 0.034. Thus, H2 is accepted.

These findings indicate that changes in a company's ability to meet short-term obligations are related to management's tendency to engage in earnings management. Liquidity is one indicator investors and creditors consider when assessing a company's financial health. Liquidity conditions, which are a concern for the market, can create pressure on management to maintain the perception that the company is in good financial health.

From a positive accounting theory perspective, this pressure can encourage management to utilize accounting flexibility to manage earnings. Management can attempt to maintain the company's image by presenting more stable performance, thereby minimizing investor and creditor concerns. Thus, the positive relationship in this study indicates that increased liquidity is followed by an increased tendency for earnings management.

The results of this study are consistent with those of Rachmalia and Nursiam (2024), who found that liquidity had a positive and significant effect on earnings management. However, this finding differs from that of Syaputra and Yurniwati (2022), who found that liquidity had no significant effect on earnings management.

The difference in results shows that liquidity can not only be viewed as a measure of the ability to pay short-term obligations, but also as information that can influence market perceptions and management decisions in financial reporting.

The Influence of Capital Structure on Profit Management

The results of the study indicate that capital structure has a negative and significant effect on earnings management, with a *t-value* of -5.510 and a significance level of 0.000. Thus, H3 is accepted. These results indicate that the higher the capital structure, as reflected in the level of debt-to-equity ratio, the lower the tendency for earnings management in the sample companies. This finding is interesting because, theoretically, high debt levels can create pressure on management to meet obligations and *debt covenants*.

However, this negative relationship can be explained by debt's function as a monitoring and disciplinary mechanism for management. Increased debt usage places a company under greater scrutiny from creditors. Creditors have a vested interest in a company's financial condition and can monitor management policies. This increased oversight can limit management's ability to engage in opportunistic behavior in financial reporting.

Thus, although a high capital structure increases a company's liabilities, the presence of creditors and stricter oversight mechanisms can reduce management's opportunities to engage in earnings management. This study's findings are consistent with Dewi and Hidayati (2023), who found that capital structure has a negative and significant effect on earnings management.

These results differ from research by Undrian and Yanti (2023), which found a positive effect of capital structure on earnings management, and by Nuruddin and Rohmatunnisa (2023), which found no significant effect. This difference reinforces *the research gap* underlying this study and suggests that the relationship between capital structure and earnings management may depend on creditor oversight mechanisms and company characteristics.

The Influence of Profitability, Liquidity, and Capital Structure on Earnings Management

The simultaneous test results indicate that profitability, liquidity, and capital structure simultaneously have a significant effect on earnings management. This is demonstrated by the calculated F-value of 36.655 with a significance level of 0.000. Thus, H4 is accepted.

The Adjusted R Square value of 0.713 indicates that these three variables can explain 71.3% of the variation in earnings management. This result suggests that management's decision to engage in earnings management is not solely related to a single financial aspect but can be a response to a combination of the company's profitability, liquidity, and capital structure.

Profitability reflects a company's ability to generate profits and can create pressure to maintain performance. Liquidity reflects the ability to meet short-term obligations and can influence investor and creditor perceptions of a company's financial condition. Meanwhile, capital structure relates to the level of debt used and the oversight exercised by creditors. The combination of these three conditions creates an economic environment that influences management's latitude and decisions in financial reporting.

Thus, the research findings support the Positive Accounting Theory view that management accounting policy choices are influenced by the economic conditions and incentives facing the company. Earnings management can be viewed as a response to various pressures arising from company performance, liquidity conditions, and funding structure.

These results align with research by Pricillia et al. (2025) and Undrian and Yanti (2023), which showed that factors related to a company's financial condition simultaneously influence earnings management.

Table 8. Summary of hypothesis results

Hypothesis	Statement	Results	Decision
H1	Profitability affects earnings management	Positive and significant	Accepted
H2	Liquidity affects earnings management	Positive and significant	Accepted
H3	Capital structure influences earnings management	Negative and significant	Accepted
H4	Profitability, liquidity, and capital structure simultaneously influence earnings management.	Significant	Accepted

CONCLUSION

This study aims to analyze the influence of profitability, liquidity, and capital structure on earnings management in primary consumer goods companies included in the LQ45 Index for the 2020–2024 period. Based on the results of multiple linear regression analysis of 45 observations, it can be concluded that Profitability has a positive and significant effect on earnings management. These results indicate that the higher a company's profitability, the greater the tendency for management to engage in earnings management. This indicates a managerial incentive to maintain positive company performance and perceptions through financial reporting policies. Liquidity has a positive and significant effect on earnings management. These results indicate that a company's liquidity is related to management's tendency to engage in earnings management. Liquidity is an indicator closely monitored by investors and creditors, and this can create pressure on management to maintain a positive perception of the company's financial condition. Capital structure has a negative and significant effect on earnings management. These results indicate that an increase in capital structure is accompanied by a decrease in the tendency to engage in earnings management. This situation may indicate that increased debt usage is accompanied by greater creditor oversight, which can limit management's ability to engage in opportunistic behavior regarding earnings reporting. Profitability, liquidity, and capital structure simultaneously significantly influence earnings management. The adjusted R^2 value of 0.713 indicates that these three variables explain 71.3% of the variation in earnings management, while the remaining 28.7% is explained by factors outside the research model. These results indicate that earnings management practices are not influenced by a single financial condition but rather respond to a combination of profitability, liquidity, and a company's funding structure.

Based on the research results, several suggestions that can be given are as follows, For companies, the research findings demonstrate the importance of strengthening oversight mechanisms for accounting policies and financial management. Companies need to improve the implementation of good corporate governance, particularly in overseeing earnings reporting policies and funding structures, to reduce the potential for earnings management practices and improve the quality of financial reporting information. For investors and auditors, information on profitability, liquidity, and capital structure can be used as additional indicators in conducting fundamental analysis and assessing potential earnings management. Investors should not only focus on reported earnings but also pay attention to the company's financial condition and changes in financial ratios. Auditors should also pay attention to patterns of changes in profitability, liquidity, capital structure, and discretionary accruals as part of the process of identifying the risk of financial statement misstatement. Future researchers can expand the study by adding other variables that could potentially influence earnings management, such as company size, corporate governance, ownership structure, tax pressure, auditor quality, and audit tenure. Future research could also expand the object and

observation period to provide broader generalizability. It is also recommended that future research utilize more than one approach to measuring earnings management, including not only accrual earnings management using the Modified Jones Model but also real earnings management, to provide a more comprehensive picture of a company's earnings management practices. This suggestion aligns with the limitations of this thesis' research..

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