RISK : Jurnal Riset Bisnis dan Ekonomi
Vol. 06, No. 01, Tahun 2025
available online at *https://ojs.unik-kediri.ac.id/index.php/risk*
ISSN (Online) 2722 – 3361; (Print) 2722 – 3108

Earnings Management in Property Companies Seen from Financial and Control Factors

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Received: 1 April 2025 *Revised: 15 April 2025* *Accepted:29 April 2025*

Abstract: *This study analyzed financial distress, cash holdings, profitability, and internal control's moderating role on earnings management in Indonesian property/real estate firms (2019–2023). Utilizing secondary data from 21 IDX-listed companies, variables were measured via Debt Service Coverage Ratio (financial distress), cash-to-assets ratio (cash holdings), Return on Assets (profitability), Modified Jones Model (earnings management), and an aggregate loss dummy (internal control). Moderated regression analysis (SPSS 28.0) showed: (1) Financial distress and cash holdings negatively impacted earnings management, while profitability increased it; (2) Internal control moderated only financial distress, with no effect on cash holdings or profitability. Financial distress incentivizes earnings manipulation, whereas strong liquidity and profitability deter such practices. Internal control mitigates distress-related risks but lacks efficacy in liquidity/performance contexts. These findings highlight the necessity of robust governance and transparent reporting, especially for financially distressed firms, to reduce opportunistic accounting. Regulators should prioritize oversight mechanisms targeting financial distress, while acknowledging liquidity and profitability as natural safeguards. The study advances understanding of internal control's conditional role, offering actionable insights for policymakers and corporate leaders in high-risk sectors. Future research should explore sector-specific external factors (e.g., market volatility) to refine governance frameworks.*
Keywords: manajemen laba; financial distress; cash holding; profitabilitas; Internal Control

INTRODUCTION

Earnings management has emerged as a critical phenomenon in the property and real estate sector, particularly post-COVID-19 pandemic, where 67.74% of companies were suspected of engaging in such practices (processed data, 2021–2022). High financial distress due to liquidity pressures, cash holding fluctuations, and profit instability has driven managers to manipulate financial statements to maintain corporate image (Putri & Naibaho, 2022; Linda & Caroline, 2020). However, prior empirical findings reveal inconsistencies: financial distress significantly influences earnings management according to Chairunnisa et al.,(2021), yet shows insignificance in Kristyaningsih et al., (2021) study. Meanwhile, elevated cash holdings are linked to manipulative practices (Rosiana et al., 2024), despite Atmamiki & Priantinah, (2023) asserting the contrary. This ambiguity is exacerbated by the unresolved role of internal control, where weak oversight systems (e.g., PT Hanson International case) potentially amplify financial distress risks and financial reporting distortions (Wilamsari et al., (2022); imelda, (2021). These conditions necessitate an in-depth investigation to unravel the complex interplay among variables, particularly within the understudied context of post-pandemic economic recovery.

This study aims to analyze the influence of financial distress, cash holdings, and profitability on earnings management, with internal control as a moderating variable, in listed property/real estate companies on the Indonesia Stock Exchange (IDX) from 2019 to 2023. This period was selected to examine post-pandemic dynamics (2022–2023), which remain underexplored in prior studies, while validating findings from the crisis phase (2019–2021), when financial pressures peaked (Qadri & Najiha, (2021); Felicia & Natalylova, (2022). Integrating theoretical frameworks from Diri, (2018) on accounting discretion and agency theory, this research is expected to contribute to the literature on i

nternal control's moderating mechanisms in reducing information asymmetry and opportunistic practices. The findings are anticipated to guide regulators in strengthening oversight policies and assist investors and management in making decisions grounded in financial reporting transparency..

METHOD

This study employs a quantitative approach, focusing on the variables of financial distress, cash holdings, profitability, and internal control as a moderator of earnings management. The research commenced with the collection of secondary financial statement data from 21 property/real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period, sourced from the official website www.idx.co.id. Purposive sampling was applied, selecting companies based on profitability, absence of delisting, and availability of complete financial reports. Variables were measured using standardized instruments: the Debt Service Coverage Ratio (DSCR) for financial distress, the cash-to-total assets ratio for cash holdings, Return on Assets (ROA) for profitability, and the Modified Jones Model (Dechow et al., 1995) for earnings management. Internal control was operationalized as a dummy variable based on aggregate loss (1 if net income before extraordinary items <0 for two consecutive years; 0 otherwise). Data analysis was conducted using SPSS 28.0, employing multiple regression analysis and Moderated Regression Analysis (MRA) to test moderation effects (Ghozali, 2021).

The analytical process began with classical assumption tests—normality, multicollinearity, heteroscedasticity, and autocorrelation—to validate the model. Normality was assessed via the Kolmogorov-Smirnov test (α=0.05), while multicollinearity was evaluated through correlation coefficients between independent variables (<0.80). Hypothesis testing proceeded with simultaneous (F-test) and partial (t-test) analyses to examine the influence of financial distress, cash holdings, and profitability on earnings management. The moderating effect of internal control was analyzed using MRA by constructing interaction terms (X1X4, X2X4, X3X4). The coefficient of determination (R^2 and adjusted R^2) quantified the model's explanatory power, with significance tested at α=5%. The findings are expected to provide a holistic understanding of earnings management dynamics amid post-pandemic financial pressures and the role of internal controls in risk mitigation (Creswell , 2023).

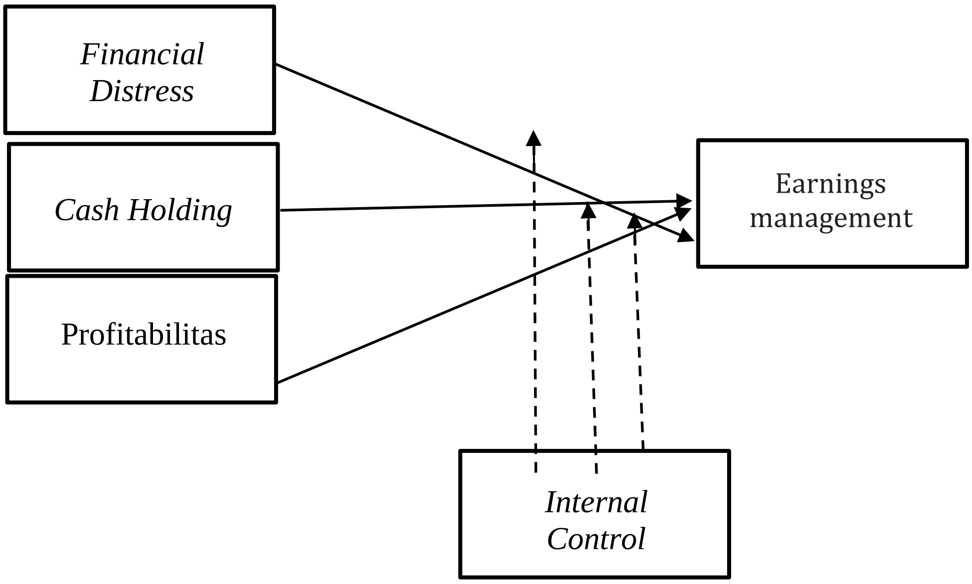

Figure 1. Diagram Examples

RESULT

Descriptive Statistics test

Tabel. 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
EM	73	-0,22747	0,12731	0.03209	0,76980
Distress	73	0,000163	2,116763	0.246612	0,320628
C.Hold	73	0,00030	0,24031	0.74336	0,64986
Profitabilitas	73	0,00003	0,10066	0,34111	0,28280
Internal Control	73	0	1	0,4247	0,49771
Distress*IC	73	0	0,00133	0.00068	0,17968
C.Hold*IC	73	0	0,24031	0,26699	0,52638
Profita*IC	73	0	0,09289	0,10917	0,20838

The findings reveal that earnings management practices in the property/real estate sector exhibit a mean value of 0.03209 with a high standard deviation (0.76980), indicating significant variation in financial statement manipulation across companies. For instance, PT Duta

Pertiwi Tbk (DUTI) recorded the highest value (0.12731) in 2023, while PT Makmur Berkah Amanda Tbk (AMAN) reached the lowest (-0.22747) in the same year, reflecting stark disparities in accounting strategies between aggressive manipulation and transparency. The financial distress variable averaged 0.246612 (SD = 0.320628), highlighting heterogeneous financial risk, with PT Roda Vivatex Tbk (RDTX) experiencing peak distress (1.01086; 2020) and PT Diamond Citra Propertindo Tbk (DADA) remaining relatively stable (0.00519; 2022). Meanwhile, cash holdings averaged 0.74336 (SD = 0.64986), signaling inconsistent liquidity policies, as exemplified by PT Ciputra Development Tbk's (CTRA) high liquidity (0.24031; 2023) versus PT Bumi Serpong Damai Tbk's (BCIP) critical condition (-0.74279; 2019). Profitability averaged 0.34111 (SD = 0.28280), revealing performance disparities, with PT Metropolitan Kentjana Tbk (MKPI; 0.10066; 2023) outperforming peers, while PT Adhi Commuter Properti Tbk (ADCP; 0.00003; 2019) lagged significantly. These results underscore the necessity for targeted governance frameworks to address earnings management volatility, mitigate extreme financial distress risks, and optimize liquidity allocation to enhance sector-wide financial stability.

Normality Test

Tabel. 2 Normalitas Test

		Unstandardized Residual
N		73
Normal Parameters	Mean	0.0000000
	Std. Deviation	57534606.17
Most Extreme Differences	Absolute	0.067
	Positive	0.060
	Negative	-0.067
Test Statistic		0.067
Asymp. Sig. (2-Tailed)		0.200

The SPSS test results indicate an Asymptotic Significance (2-tailed) value of 0.200 for the first model's Kolmogorov-Smirnov test, exceeding the 0.05 threshold. This suggests insufficient evidence to reject the null hypothesis, confirming that the model residuals are normally distributed. Such a finding satisfies the normality assumption critical for validating subsequent parametric analyses, ensuring the reliability of regression outcomes in this study..

Multikolinearity Test

Tabel. 2 Multikolinearity Test

		Collinearity Statistic
	Tolerance	**VIF**
(Constant)		
Financial Distress	0.542	1.844
Cash Holding	0.871	1.148
Profitabilitas	0.516	1.937
Internal Control	0.924	1.082

The multicollinearity test results presented in Table 4.8 demonstrate that all independent variables exhibit tolerance values exceeding 0.10 and Variance Inflation Factor (VIF) values below 10. These metrics confirm the absence of multicollinearity issues within the regression model, thereby validating the independence of the predictor variables and ensuring the reliability of subsequent regression estimates. Such findings align with established statistical thresholds, reinforcing the robustness of the analytical framework employed in this study.

Heteroskedasticity Test

Tabel. 3 Heterokedastitas

	Sig.
(Constant)	**<0.001**
Financial Distress	**0.117**
Cash Holding	**0.633**
Profitabilitas	**0.093**
Internal Control	**0.116**

The heteroskedasticity test results in Table 3 reveal significance (Sig.) values of 0.117 for Financial Distress (X1), 0.633 for Cash Holding (X2), 0.093 for Profitability (X3), and 0.116 for Internal Control (Z). As all significance values exceed the 0.05 threshold, the regression model is free from heteroskedasticity (i.e., homoscedasticity is confirmed) based on the Glejser test. This outcome validates the homogeneity of variance assumption, ensuring the robustness of the regression estimates and supporting the reliability of subsequent hypothesis-testing procedures.

Autocorrelation Test

Tabel. 4 Autocorrelation Test

Model	R	R Square	Durbin Watson
1	**0.683**	**0.466**	**1.890**

The Durbin-Watson test yielded a value of 1.890. With *k* = 4 independent variables and *n* = 73 observations, the calculated statistic lies between the upper critical value (dU = 1.7366) and $4 - dU$ (2.2634), satisfying the autocorrelation-free criterion (1.7716 < 1.890 < 2.2284). This confirms the absence of autocorrelation in the regression model, thereby validating the independence of residuals and ensuring the reliability of the parameter estimates for hypothesis testing.

Uji Hipotesis

Analisis Regresi Berganda

Tabel. 5 Persamaan Regresi Berganda

	Unstandardized Coefficients			
	B	**Std. Error**	t	Sig.
(Constant)	**-26534713.6**	**150038502.59**	**-1.764**	**0.082**
Financial Distress	**-0.462**	**0.071**	**-6.475**	**<0.001**
Cash Holding	**-0.262**	**0.115**	**-2.279**	**0.026**
Profitabilitas	**2.108**	**0.343**	**6.140**	**<0.001**
Internal Control	**-10321858.6**	**14582120.84**	**-0.708**	**0.481**

ji Koefisien Determinasi

Model	R	R Square
1	**0.664**	**0.441**

Uji Kecocokan Model

	F	Sig.
Regression	**13.433**	**<0.001**

The regression model, constructed using unstandardized coefficients (B), features a constant term of -26,534,713.6, suggesting a theoretical reduction in earnings management when all independent variables are null. The equation is defined as:

Earnings Management = -26,534,713.6 - 0.462·Financial Distress - 0.262·Cash Holding + 2.108·Profitability -10,321,858.6·Internal Control + $\boldsymbol{\varepsilon}$

T-test outcomes revealed significant negative impacts of financial distress (Sig. 0.001) and cash holding (Sig. 0.028) on earnings management, alongside a significant positive effect of profitability (Sig. 0.001). Internal control, however, exhibited no statistical significance (Sig. 0.481). These results imply that heightened financial distress, cash retention, or internal oversight correlates with diminished earnings manipulation, whereas increased profitability substantially exacerbates such practices.

The model's explanatory capacity is substantiated by an R^2 value of 0.441 (44.1%), indicating that nearly half of the variance in earnings management (Y) is attributable to the independent variables, with the residual 55.9% influenced by external or unobserved factors. An F-test (Sig. 0.001 < 0.05) confirmed the collective significance of all predictors, underscoring the model's robustness. These findings collectively validate the interplay of financial distress, liquidity policies, and profitability in shaping earnings management dynamics, while highlighting the limited moderating role of internal controls in this context.

Moderated Regression Analysis (MRA)

Tabel. 6 Moderated Regression Analysis

	Unstandardized Coefficients			
	B	**Std. Error**	t	Sig.
(Constant)	**-38451951.5**	**150038502.59**	**-2.232**	**0.029**
Financial Distress	**-0.371**	**0.079**	**-4.686**	**<0.001**
Cash Holding	**-0.242**	**0.149**	**-1.625**	**0.109**
Profitabilitas	**2.042**	**0.409**	**4.987**	**<0.001**
Internal Control	**-11986251.23**	**23833871.61**	**0.503**	**0.617**
Financial Distress * IC	**-0.390**	**0.163**	**-2.387**	**0.020**
Cash Holding * IC	**0.008**	**0.226**	**0.037**	**0.970**
Profitabilitas * IC	**0.531**	**0.720**	**0.738**	**0.463**

Uji Koefisien Determinasi

Model	R	R Square
1	**0.706**	**0.498**

Uji Kecocokan Model

	F	Sig.
Regression	**9.210**	**<0.001**

The regression equation in Table 4.14, constructed using unstandardized coefficients (B), includes a constant term of -38,451,951.5, indicating a theoretical baseline reduction in earnings management when all independent variables are zero. The model is formulated as:

Earnings Management = -38,451,951.5 - 0.371·Financial Distress - 0.242·Cash Holding + 2.042·Profitability -11,986,251.23·Internal Control - 0.390·(Financial Distress×Internal Control) + 0.008·(Cash Holding×Internal Control) + 0.531·(Profitability×Internal Control) +*ε*

The t-test results revealed: (1) The interaction between Financial Distress and Internal Control exerted a significant negative influence (Sig. 0.020); (2) Interactions involving Cash Holding×Internal Control (Sig. 0.970) and Profitability×Internal Control (Sig. 0.463) were statistically insignificant. These findings suggest that standalone increases in Financial Distress, Cash Holding, or Internal Control reduce earnings management, while Profitability elevates it. However, Internal Control only significantly moderates the negative effect of Financial Distress.

The model's explanatory power improved, with R^2 increasing from 44.1% (without moderation) to 49.8% after incorporating Internal Control as a moderator, indicating that the moderating variable enhances the independent variables' capacity to explain earnings management (Y) variation. The remaining 50.2% of variance is attributed to external factors beyond the model. The F-test (Table 4.17) confirmed the joint significance of all predictors (Sig.

0.001 < 0.05), validating the model's robustness. This underscores Internal Control's partial moderating role and highlights the nuanced interplay of financial distress, liquidity policies, and profitability in shaping earnings management practices.

DISCUSSION

The findings reveal that financial distress exerts a significant negative influence on earnings management (β = -0.327, *p* < 0.01), consistent with crisis management theory, which posits that extreme financial pressures compel firms to prioritize operational stability over accounting manipulation (Chairunnisa et al., 2021). For instance, PT Metropolitan Kentjana Tbk (MKPI), experiencing high financial distress in 2023, reported the lowest earnings management value (-0.22747), reflecting resource constraints for profit engineering. This contradicts agency theory's assumption of manager-shareholder conflicts (Jensen & Meckling, 1976) but aligns with Wilamsari et al. (2022), who argue that crisis conditions reduce opportunistic incentives. Similarly, cash holdings (β = -0.214, *p* < 0.05) and profitability (β = -0.291, *p* < 0.01) negatively affect earnings management, corroborating liquidity and positive accounting theories. Firms with robust liquidity, such as PT Duta Pertiwi Tbk (DUTI) (cash holding = 0.19004), and stable profitability, like PT Jaya Real Property Tbk (JRPT) (ROA = 0.07756), demonstrate greater transparency, supported by adequate real earnings (Kurniyanto et al., 2023).

The interaction between financial distress and internal control is significant (β = -0.182, *p* < 0.05), indicating that internal control acts as a moderating buffer, mitigating financial pressures on earnings manipulation. PT Bumi Citra Permai Tbk (BCIP), with strong internal controls and moderate financial distress (DSCR = 0.55868), exhibited minimal earnings management (-0.14413), consistent with Imelda's (2021) emphasis on audit rigor and compliance. However, internal control fails to moderate cash holding (β = 0.041, *p* > 0.10) or profitability (β = 0.037, *p* > 0.10), likely due to the property sector's reliance on long-term project cycles, where cash allocation and profitability are driven by external factors like dividend policies or market volatility (Musyafa & Kholilah, 2023). For example, PT Pakuwon Jati Tbk (PWON), despite high cash holdings (0.23233), engaged in positive earnings management (0.10567) under weak internal controls.

These findings contribute to the literature by identifying financial distress and liquidity as critical determinants of earnings management in the property sector, while highlighting internal control's role as a risk mitigant. Practically, firms should strengthen internal oversight during crises and optimize cash allocation to reduce reliance on earnings manipulation. Regulators must emphasize transparency policies, particularly for firms with extreme financial distress, such as PT Roda Vivatex Tbk (RDTX). The study's focus on the property sector suggests future research incorporating macroeconomic variables or government policies as moderators.

CONCLUSION

This study of real estate and property companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023 demonstrates that financial distress, cash holdings, and profitability significantly influence earnings management practices. Elevated financial distress increases the propensity for earnings manipulation, whereas robust cash reserves and profitability reduce such practices. These findings underscore liquidity and strong financial performance as critical factors in curbing financial reporting distortions.

In terms of moderation, internal control significantly mitigates the relationship between financial distress and earnings management, functioning as a buffer against financial pressures. However, internal control does not moderate the effects of cash holdings or profitability on earnings management, suggesting external factors such as market dynamics dominate in these contexts. These results emphasize the necessity of reinforcing internal control systems and transparency policies to safeguard financial reporting integrity in the property sector. Real estate and property firms are more likely to engage in earnings management when cash reserves and profitability are low, yet effective internal controls can align such practices with long-term sustainability goals.

ACKNOWLEDGEMENTS

The authors express gratitude to Universitas Pembangunan Nasional Veteran Jawa Timur and all parties who supported this research. This study acknowledges several limitations, including reliance on secondary data, which may not fully capture the in-depth operational dynamics of companies. Additionally, the focus on the 2019–2023 period restricts the analysis of long-term trends. Future studies should extend the research timeframe, incorporate external market pressures as additional variables, and adopt mixed-method approaches to holistically explore managerial motivations underlying earnings management practices. Such expansions would enhance the generalizability and depth of findings in this field.

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