

# ANALYSIS DETERMINATS OF EARNINGS MANAGEMENT MANUFACTURING COMPANIES LISTED ON THE IDX

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## ABSTRACT

This study aims to examine the variables that are determinants of earnings management in manufacturing companies both direct effect and indirect effect on the IDX. The type of this study is a quantitative. The population of the study is manufacturing companies listed on the IDX in 2015-2017. The study used data obtained from Purposive sampling method of the company's financial statements accessed through [www.idx.com](http://www.idx.com) (N=81). Data analysed by Structural Equation Modeling (SEM) using AMOS program. The study found that firm size directly had no significant effect on tax avoidance, sales growth directly had a significant effect on tax avoidance, tax avoidance directly had a significant effect on earnings management. Firm size directly had no effect on earnings management, sales growth directly had a significant effect on earnings management. Firm size does not affect earnings management through tax avoidance. While Sales growth has a significant effect on earnings management through tax avoidance. The implications of this study are: provide input for company practitioners to be more careful in conducting earnings management because they should not be considered as an effort to Tax avoidance by the relevant agencies. This study can help investors in analyzing financial statements in order to understand the practice of earnings management conducted by companies with the aim of tax avoidance that will have a long impact on the continuity of the company. This study provides information for agencies involved in determining policies in the capital market.

Keywords: Firm size, Sales growth, Tax Avoidance, Earnings Management

## INTRODUCTION

Developments in the business world today have demanded every company to be able to create a competitive advantage in the field of business. Efficient and effective utilization of company resources in carrying out operational activities can help companies to win competition in the market competition. Therefore, companies tend to always show good performance (Astari and Suryanawa, 2017) . One of the measuring instruments that can be used to find out the company's performance is the amount of profit earned. The company's ability to manage its resources to make the maximum profit will be reported in financial statements (Swingly and Sukartha, 2015) .

The company's financial statements published on the Indonesian Stock Exchange (IDX) are a form of issuer's responsibility to investors as information for interested parties in decision making (Rahman and Hakim, 2018). One of the information contained in financial statements is profit information. Profit is one of the parameters in the company's financial performance (Agnes, 2014). This profit information is very important so it is often used as an object of management opportunistic action . One way of management to manipulate profits is to have certain accounting policies so that profits can be adjusted, in terms of raising or lowering according to his wishes and these actions are known as earnings management (Darmansyah, 2016).

The emergence of earnings management practices can be explained by agency theory caused by the existence of information asymmetry, namely the imbalance of information acquisition between management and shareholders (Christiani and Nugraha Nti, 2014). In the practice of earnings management, manufacturing companies are mostly used as study subjects because manufacturing companies have large and less regulated business risks, so the phenomenon of earnings management is most likely to occur in manufacturing companies as evidenced by the practice of earnings management by Kimia Farma in pharmacy (Astari and Suryanawa, 2017).

Firm size also plays an important role in companies that practice earnings management (Khairunnisa and Aprina, 2015). The small companies are considered doing more earnings management than large companies because small companies want to show a good performance so that investors will be interested to invest in the company. However, unlike small companies, large companies are usually more careful in conducting financial reporting, because large companies are more concerned by the public (Medyawati and Dayanti, 2016). The size of a company can be seen from how much assets it has, the larger the size of the company, the more assets it has (Khairunnisa and Aprina , 2015) .

One of the factors that can also effect earnings management is tax avoidance, which is one of the safest ways for management to reduce tax costs (Putri and Fadhlia, 2017). Taxes are the biggest income of Indonesian state

budget because the increase in state expenditures also has an impact on tax targets which also continue to increase each year (Astuti and Aryani, 2016). But in its implementation, the tax collection carried out by the government does not always get a good reception from the company. Besides, company wants to pay taxes as low as possible because the company considers that tax costs will reduce income or net income, whereas from government effectiveness, tax collection must be done as high as possible to finance state expenditures (Darmawan and Sukartha, 2014 and Rahman et al., 2013).

Tax collection in Indonesia is a Self Assessment. The taxpayer is given a full discretion in calculating, paying and reporting of tax obligations as regulated in Law No. 6 in 1983 concerning the General Taxation Law. The implementation of this Taxation Law seems to provide an opportunity for taxpayers, in this case the company, to reduce the amount of tax that must be paid by reducing the company's costs, including the tax burden (Astuti and Aryani, 2016). In an effort to reduce the amount of tax, companies can either reduce the value of taxes while adhering to the applicable tax regulations (tax avoidance) or reduce the value of taxes by taking actions that are not in accordance with tax laws (fraud ) (Brian and Martani , 2014).

The aggressive tax avoidance practice in Indonesia is actually quite a lot, based on data in 2005, the realization of multinational company investments reached USD 8.68 billion or doubled from the previous year, but this was not proportional to the amount of tax revenues from multinational companies. This shows that PMA companies or multinational companies that mostly have large asset values (firm size) take aggressive tax avoidance in its operations (Rusydi, 2013). The case implies that tax aggressiveness can be detrimental to the State of Indonesia, because government revenues through the taxation sector will decrease.

This increasing profit is an indication of the increase in management performance and vice versa (Rahdal, 2017). Sales growth shows that the greater the sales, the greater the profit obtained by the company so that the profits charged by the company will be bigger (Dewinta and Setiawan, 2016). Sales growth shows how much the increase in sales of the companies every year and it can motivate managers to obtain profit (Sari and Rusli, 2015). Management realizes that users of financial statements tend to pay attention to profit because profit is an indicator of the effectiveness of performance and management responsibility, therefore management is encouraged to do earnings management (Asward and Lina, 2015 ; Prasetya and Gayatri, 2016 ; and Rahdal, 2017).

Some studies related to earnings management, such as Maburrah et al. (2017) found that the firm size does not affect earnings management, while the study conducted by Prasetya and Gayatri (2016) and Wijaya et al. (2017) found that firm size has a significant effect on earnings management. In addition, the study conducted by Nayiroh (2013) showed that sales growth does not affect

earnings management whereas Sari and Rusli's study (2015) showed a significant effect between sales growth and earnings management. Based on these findings, this study aims to examine the effect of Firm size and Sales Growth on tax avoidance and the effect of firm size, sales growth and tax avoidance on Earnings management.

## **THEORETICAL BACKGROUND**

### **A. Signaling Theory**

Signaling theory developed by Ross (1977) states that companies executives who have better information about their companies will be compelled to convey that information to prospective investors so that the company's stock price can be increase (Abdullah and Fitriah, 2016). Signaling theory suggests how companies should provide signals in the form of information for financial statements users (Ferina et al. , 2015). Signaling Theory cannot be separated from the existence of information asymmetry.

### **B. Compliance Theory**

Compliance comes from obedient words. According to KBBI (Indonesian Dictionary), obedient means like according to orders, obey orders or rules and being disciplined. Compliance means being obedient, submissive, obedient to the teachings and rules. Compliance theory has been studied in the social sciences, especially in psychology and sociology, which emphasizes the importance of the socialization process in effecting the behavior of an individual's compliance (Syakura and Baridwan, 2014). There are two available basic perspectives on legal compliance, instrumental and normative. The instrumental perspective assuming that each individual is driven by personal interests and responses on the changes of incentives and penalties related to behavior, while normative perspectives relate to what people perceive to be moral and doesn't relate to their personal interests (Tyler, 2015).

### **C. Agency theory**

Agency theory describes the relationship between shareholders as principals and managers as an agent (Wijaya et al, 2017). According to Jensen and Meckling (1976), agency relations is a contract where one or more people (principals) instruct other people (agents) to do a service on behalf of the principal and authorize the agent to make the best decision for the principal (Wijaya et al, 2017) Agency theory assumes that managers as an agent are motivated for personal gain, by doing earnings management if there is a conflict of interest and information asymmetry between shareholders as the principle with managers as an agent (Wijaya et al., 2017).

#### **D. Earnings Management**

Scott (Siregar, 2017) "earnings management is the choice by a manager of accounting policies so as to achieve some specific objective". It can be explained that earnings management is a choice of accounting policies by managers for various specific aims. Earnings management is one of the factors that can reduce the credibility of the financial statements. Earnings management can give a bias in financial statements and can disrupt financial statement users who believe the engineered profit as the real profit (Gustina and Bulutoding, 2017). There are two way to look the behavior of earnings management. First, management opportunistic behavior to maximize their utility about compensation, debt contract, and political cost, and the second one is from a efficient contracting perspective (Siregar, 2017).

#### **E. Firm size**

The firm size is one of the factors that can affect earnings management in the company. Large companies tend to act cautiously in managing the company and tend to make more efficient earnings management. Large companies politically would be doing more transfer of political costs in a political process framework, compared to the small companies (Siregar, 2017). Wijaya et al. (2017) explain that "what commonly used to represent firm size are total sales, total assets, and market capitalization". When a company develops into a large company, agency costs will occur more and the owners will not be able to implement an effective control over the management of the company by managers so that greater control is needed. Larger companies have more complex activities compared to small companies, so that earnings management is possible (Wijaya et al, 2017).

#### **F. Sales Growth (Sales Growth)**

The high profit and sales growth companies tend to use debts as a source of external funding, and it is greater than the low sales growth companies. Companies with increasing sales will need more funds to increase their operational activities which may not be fulfilled through internal funding sources, so they need funds from external parties. With the growth of sales, it will provide a signal for creditors to provide credit or provide loans to companies. In addition, the high sales growth companies have the motivation to perform earnings management in order to maintain the trend of sales and profit in the company (Yunita and Palupi, 2017).

#### **G. Tax Avoidance**

The Government through the Directorate General of Taxes (DGT) always strives to renew the tax regulations in order to increase tax revenues. However, on the other hand, the company has always tried to save tax payments

that can be done in a legal manner (tax avoidance) or illegally with tax evasion (Siregar and Widyawati, 2016). The tax assumption as a cost will affect profit (profit margin), while the tax assumption as profit distribution will affect the rate of return on investment. Economically, tax is a profit deduction available for sharing or reinvestment by the company (Suandy, 2016:8). Tax avoidance is an effort made by the taxpayer to reduce or remove the tax debt without violate the provisions of the tax legislation. This tax avoidance is intentionally carried out by companies in order to reduce the amount of tax payments that must be paid and increase the company's cash flow ( Balter, 2014).

## **HYPOTHESIS DEVELOPMENT**

### **A. Firm size to Tax Avoidance**

The amount of tax paid will differ according to the amount of income, and income is considered to be directly proportional to the size of the company (Tista and Suryanawa , 2017) . Nurfadilah et al. (2016) explained that the company can manage the company's total assets to reduce taxable income by utilizing depreciation and amortization expenses arising from expenses to obtain these assets because depreciation and amortization expenses can be used as a deduction from company's taxable income. Firm size does not have significant effect to tax evasion (Nurfadilah et al., 2016). This is in line with Santoso's study (2017), which also found that firm size does not affect the tax evasion because large companies tend to comply with the estabering for being the highlight of late. Rinaldy and Cheisviyanny (2015); and Ngadiman and Puspitasari (2015) in their study found that firm size did not significantly affect tax avoidance. Based on the foregoing study, it can be hypothesized as follows :

H1: Firm size has a negative effect on tax avoidance

### **B. Sales Growth to Tax Avoidance**

Sales growth is the level of stability of the sales made by companies for each period of the book year (Yunietha and Palupi, 2017). Sales growth is an increasing of sales from year to year which indicates that if the sales growth then the assets also increased. In an effort to add to its assets, the company will carry out tax avoidance because on the increase in profits due to sales growth causes the tax burden of the company also increase (Triastianto and Oktaviani, 2016). Several studies related to sales growth towards tax avoidance have been carried out such as Melisa and Tandean (2017); Swingly and Sukartha (2015); Mahanani et al. (2017) which showed that sales growth has no significant effect on Tax Avoidance. Sales Growth will make the size of the company bigger. This situation will make the company difficult to do tax saving through company tax planning. Based on the description, the following hypotheses can be formulated:

H2: Sales Growth has a negative effect on Tax Avoidance

### **C. Tax Avoidance to Earnings Management**

One of the motives of management is to manipulate its profits is for taxation purposes, so that companies can report small profits to minimize the tax burden. Some of the previous studies have highlighted the effect of tax avoidance on earnings management practices, including Putri and Fadhlia (2017) and Larastomo et al. (2016) found that tax avoidance affects earnings management. The tax avoidance effect on earnings management and revenue recognition due to differences between the tax and accounting that can be used by management to make profit engineering (Ward, 2014). Rahman et al. (2013) said that the motivation of earnings management is to minimize taxes. Study conducted by Wijaya and Christiawan (2014) also found that taxes have a positive effect on earnings management. Based on the description above, it can be hypothesized as follows:

H3: Tax avoidance has a positive effect on earnings management.

### **D. Firm size to Earnings Management**

Firm size can be seen from how much assets it has, the larger the size of the company, the more assets it has. Firm size also plays an important role in companies that practice earnings management ( Khairunnisa and Aprina , 2015). Some studies include Makaombohe et al. (2014) and Gunawan et al. (2015) showed that the firm size has a negative effect on earnings management, then Nariastiti and Ratnadi (2014) found that the firm size with external management has a negative effect because shareholders and interested parties in large companies were considered more critical than small companies. Based on the description above, the following hypotheses can be formulated:

H4: Firm size has a negative effect on earnings management

### **E. Sales Growth to Earnings Management**

Another variable that affects earnings management is sales growth. Companies with a high level of sales growth also have motivation in making earnings management in their financial statements. Management will always maintain the trend of earnings and sales to obtain if the company profitability is low, usually the manager will take an action to save the earnings management performance in the eyes of the owner (Lauria and Suryanawa, 2017). Several studies have been conducted, including the study of Yunietha and Pal upi (2017) and Astari and Suryanawa (2017) which showed a significant positive effect between sales growth and earnings management. Based on the description above, the following hypotheses can be formulated:

H5: Sales growth has a positive effect on earnings management.

## **F. Firm size to Earnings management through Tax Avoidance**

One of the factors that can affect earnings management is tax avoidance (tax evasion), which is a safe way for the management to reduce taxes (Princess and Fadhlia, 2017). However, study conducted by Aditama and Purwaningsih (2014) ; and Hussain (2017) showed that tax evasion has no effect on earnings management for non-manufacturing companies which became the object of his study, while in purpose doing tax planning to minimize the amount of taxable income of the company. Based on the description above, the following hypotheses can be formulated:

H6: Firm size has a negative effect on earnings management through Tax Avoidance

## **G. Sales Growth to Earnings management through Tax Avoidance**

Sales growth (Sales Growth) shows how much increase in sales that occur in companies every year and this can motivate managers to obtain profits (Sari and Rusli, 2015). In an effort to add to its assets, the company will carry out tax avoidance because on the other hand the increase in profits due to sales growth causes the tax burden of the company also increasing (Triastianto and Oktaviani, 2016). Management realizes that financial statement users tend to pay attention to profits because profit becomes one of the indicators of the assessment of performance and the form of management responsibility, therefore management is encouraged to make earnings management ( Prasetya and Gayatri, 2016) . Several studies related to the effect of sales growth on earnings management and tax avoidance had been carried out, such as Annisa and Hasporo (2017) ; and Astari and Suryanawa (2017) who found that sales growth has a significant positive effect on earnings management. Based on the hypothesis above, the hypothesis can be formulated as follows:

H7: sales growth has a positive effect on earnings management through tax avoidance .

## **METHODOLOGY**

### **A. Variables and Operational Definitions**

- **Dependent Variable**

Dependent variable is a variable that is explained or affected by an independent variable. The dependent variable in this study is Earnings management. In this study, earnings management uses discretionary accruals calculated using the Jones model modified by Dechow, *et al* (1995). The modified Jones model estimates the estimated level of accruals as a function of the difference between changes in revenue and changes in receivables and levels of property, plans, and equipment (Siregar, 2017). The model is written as follows:



- a. Actual total accruals

$$\text{TAC} = \text{NI}_{it} - \text{CF}_{it}$$

Information:

Value = net income ( net income ) of company i in period t

Cf<sub>it</sub> = cash flow of operation of the company i at period t

- b. Total accruals estimated by the OLS (Ordinary Least Square) regression equation

$$\text{TA}_{t-1} = (\beta_1)(1/\text{TA}_{t-1}) + (\beta_2)(\Delta\text{SAL}_t/\text{TA}_{t-1}) + (\beta_3)(\text{PPE}_t/\text{TA}_{t-1}) + e$$

Information:

TAC<sub>t</sub> = total accruals in period t

TA<sub>t-1</sub> = total asset period t-1

(Δ)SAL = change in income or net sales in period t

PPE<sub>t</sub> = property, plan, and equipment of period t

(β<sub>1</sub>), (β<sub>2</sub>), (β<sub>3</sub>) = regression coefficient

- c. Discretionary non accruals

$$\text{NDTAC}_t = (\beta_1)(1/\text{TA}_{t-1}) + (\beta_2)[(\Delta\text{SAL}_t - \Delta\text{REC}_t)/\text{TA}_{t-1}] + (\beta_3)(\text{PPE}_t/\text{TA}_{t-1}) + e$$

Information:

(Δ)REC<sub>t</sub> = changes in trade accounts receivable in period t

(β<sub>1</sub>), (β<sub>2</sub>), (β<sub>3</sub>) = fitted coefficient obtained from the regression results at total accrual calculation

- d. Discretionary total accruals

$$\text{DTAC}_t = \text{TAC}_t/\text{TA}_{t-1} - \text{NDTAC}_t$$

Information:

DTAC<sub>t</sub> = discretionary total accrual year t

TAC<sub>t</sub> = total year accruals t

NDTAC<sub>t</sub> = non- discretionary results in year t

- **Independent Variables**

The independent variable is variable affecting the dependent variable (Siregar, 2017). The independent variables used in this study are Firm size and Sales Growth. One factor that also affects earnings management is the firm size. Santoso (2017) said that firm size can be measured using log total assets of the company. Total assets are used as a proxy to measure the firm size variables with consideration that total assets tend to be more stable than the number of sales and market capitalization values so that these measurements are considered

to have more stability compared to other proxies (Tendean, 2015; and Santoso, 2017).

$$\text{Size} = \text{Log (Total Assets)}$$

Another variable that affects earnings management is sales growth. A company with high sales growth also has motivation in performing earnings management because if the profitability of acquired companies is low, usually the manager will do earnings management (Lauria and Suryanawa, 2017). Sales growth variable in this study was calculated by comparing sales in year  $t$  after being reduced by sales in the previous year divided by sales in the previous year (Sartono, 2008).

$$\text{Sales Growth} = (\text{sales in year } t - \text{sales in year } t-1) / \text{sales year } t-1$$

- **Intervening Variable**

Intervening variable according to Sugiyono (2014: 63) is a variable that theoretically affects the relationship between independent variables and dependent variables into indirect relationships and cannot be observed and measured. This variable is an interrupting variable or so that the independent variable does not directly affect the change in the dependent variable. In this study, Tax Avoidance is an intervening variable.

Tax Avoidance is the company's action to reduce or minimize the tax burden of the company. Tax avoidance in this study is measured by Cash Effective Tax Rates ratio (CETR) because CETR is not affected by changes of estimates (Lestari and Putri, 2017). The higher the CETR value, the lower tax avoidance can be done by the company.

## **B. Population and Samples**

- **Population**

Population is a generalization area consisting of objects and subjects that have certain qualities and characteristics set by studyers to be studied and then drawn to conclusions (Sugiyono, 2014: 80). The population in this study is all manufacturing companies listed on the Stock Exchange in 2015-2017.

- **Sample**

The sample is part of the number and characteristics possessed by the population or a small part of the population members taken according to certain procedures that represent the population (Sugiyono, 2014: 81). The sample collection technique in this study was purposive sampling based on certain criteria (Sugiyono, 2014: 85). In this study, the selected sample is based on the following criteria:

- 1) It has been listed in Stock Exchange in the period of 2015-2017.
- 2) The financial statement is denominated Rupiah.

- 3) Not experiencing losses during the period 2015-2017 (Santoso, 2017)
- 4) Companies in the agriculture, mining, infrastructure, and finance industries are excluded in the sample because they have special tax regulations so that they are not comparable with companies in other industries with general tax regulations (Astuti and Aryani, 2016)
- 5) Includes all data needed in calculating the variables of this study.

### C. Data analysis technique

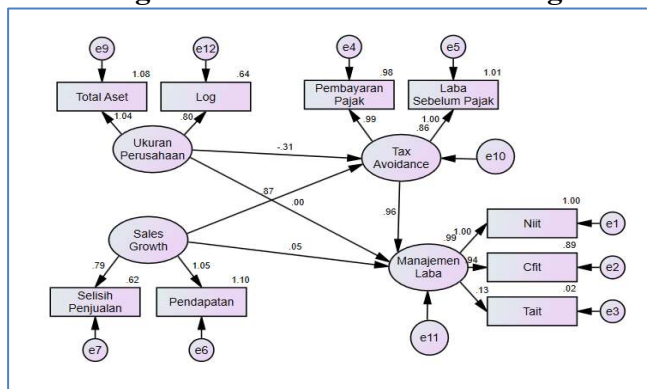
The analytical method used in this study is Structural Equation Modeling (SEM) using AMOS (Analysis of Moment Structure) program. SEM according to Ghozali (2011: 4) is a combination of factor analysis and path analysis (path analysis) into one comprehensive statistical method. Structural Equation Modeling (SEM) is a combination of two statistical methods, namely (1) factor analysis developed and psychological/psychometric analysis or sociology and (2) simultaneous equation models developed in econometrics, Yamin & Kurniawan (2009: 3). There are two main advantage for using SEM. SEM is able to analyze complex study models simultaneously and be able to analyze variables that cannot be measured directly and calculate their errors, Sholihin (2013: 3).

## RESULTS

### A. Structural Equation Modeling (SEM)

Structural Equation Modeling analysis used to determine the structural relationship between the variables. The results of the analysis of structural equation modeling in this study can be seen as follows:

Figure 4.1 Results of SEM testing



### B. Hypothesis testing

Hypothesis testing is a test conducted to see whether there is an effect between variables and to prove hypotheses that have been previously set. Each

path tested shows the direct and indirect drivers of Firm size and Sales Growth to Earnings management through Tax Avoidance. By knowing whether or not each of these pathways will answer whether the proposed hypothesis is accepted or rejected. Each path tested represents the hypothesis in this study.

**Table 4.1** Data Output AMOS

Direct Effect	Estimate	S.E	C.R	P
FS→ TA	-.018	.001	-12.247	***
SG→ TA	.045	.002	23.732	***
TA → EM	2.760	.060	45.984	***
FS → EM	.000	.001	-.622	.534
SG → EM	.007	.002	4.091	***

Source : AMOS Output, 2019

**Table 4.2** Hypothesis Testing Output

Direct Effect	Result	Remarks
FS→ TA	Negative Significant	Supported
SG→ TA	Positive Significant	Not Supported
TA → EM	Positive Significant	Supported
FS → EM	Positive non Significant	Not Supported
SG → EM	Positive Significant	Supported

Source : Data Adapted form AMOS Output, 2019

**Table 4.3** Result of Indirect Effect

Direct Effect	Estimate	Value	P
FS→ TA→EM	(-0.018) x (2.760)	-0.059	***
SG→ TA→EM	(0.045) x (2.760)	0.124	***

Source : Various Source, Processed 2019

**Table 4.4** Hypothesis Test Output of Indirect Effect

Direct Effect	Result	Remarks
FS→ TA	Negative Significant	Supported
SG→ TA	Positive Significant	Supported

Source : Various Source, Processed 2019

- **Analysis of the Effect of Firm size on Tax Avoidance**

Table 4.1 showed a value of -0.018 and significant level which means that firm size has a negative effect on tax avoidance. Thus:

*H1: Firm size has a negative effect on Tax Avoidance, Supported.*

- **Analysis of the Effect of Sales Growth on Tax Avoidance**

According Table 4.1 showed a value of 0.045 and significant level which means that sales growth has a positive effect on tax avoidance. Thus:

*H2: Sales Growth has a negative effect on Tax Avoidance, Not Supported.*

- **Analysis of the effect of Tax Avoidance on Earnings management**

According Table 4.1 showed a value of 2.760 and significant level which means that tax avoidance has a positive effect on tax avoidance. Thus:

*H3: Tax Avoidance has a positive effect on Earnings management, Supported.*

- **Analysis of the Effect of Firm size on Earnings management**

According Table 4.1 showed the value 0.000 and non significant level which means that firm size does not have an effect on earnings management. Thus:

*H4: Firm size has a negative effect on Earnings management, Not Supported.*

- **Analysis of the Effect of Sales Growth on Earnings management**

According Table 4.1 showed the value of 0.007 and significant level which means that sales growth has a positive effect on earnings management. Thus:

*H5: Sales Growth has a positive effect on Earnings Management, Supported.*

- **Analysis of the effect of Firm size (X1) on Earnings management (Y2) through Tax Avoidance (Y1)**

According Table 4.3 showed that the direct effect of firm size on tax avoidance by -0.018 and the direct effect of tax avoidance among variables on earnings management amounted to 2.760 the obtained results (-0.059). This result is significant with the direct effect shown in the results of the standardized indirect effect of the effect of firm size on earnings management by (-0.059). This means that tax avoidance is an intervening variable for the indirect effect between firm size on earnings management with negative effects and significant. Thus:

*H6: Firm size has a negative effect on Earnings management through Tax Avoidance, Supported.*

- **Analysis of the effect of sales growth (X2) on earnings management (Y2) through tax avoidance (Y)**

According Table 4.3 showed that the direct effect of sales growth on tax avoidance by 0.045 and the direct effect between tax avoidance and earnings

management amounted to 2.760 the obtained results 0.124. This result is significant with the direct effect shown in the results of the standardized indirect effect of the effect of firm size on earnings management amounting to 0.124 and significant level. This means that tax avoidance is an intervening variable for indirect effects between sales growth on earnings management with a positive effect. Thus:

*H7: Sales Growth has a significant effect on Earnings management through Tax Avoidance, Supported.*

## **DISCUSSION**

### **A. Effect of Firm Size on Tax Avoidance**

The results of the study indicate that firm size does not affect the tax avoidance, it showed that firm size is not a determinant factor of tax avoidance of manufacturing companies listed on the IDX. It means that firm size is not a factor that triggers the tax avoidance because larger companies have a professional employee to make a taxes report in accordance with the tax regulations. Besides, larger companies on the Stock Exchange will always maintain the company's reputation in order to be good in public eyes and the tax office. Larger companies tend to do tax planning that does not violate or in other words the tax report of large companies will be made in accordance with the provisions of the tax law because they are supervised by various parties.

The results of this study can be explained through Home Visits compliance where compliance can be motivated by the conditions experienced by the company, where the company will always be motivated by the conditions of taxation rules and risk inspection by the piskus (tax office) to maintain the company image by presenting financial statements in accordance with tax regulation. The results of this study are in line with the study of Kurniasih and Sari (2013); and Munandar et al. (2016) explained that the firm size had a significant negative effect on tax avoidance.

### **B. Effect of Sales Growth on Tax Avoidance**

Results of the study showed that sales growth has significant effect on tax avoidance. This shows that the greater sales growth in a manufacturing company on the IDX will increase the amount of tax avoidance. This is because the increasing of the sale will increase the taxable income that will affect the tax debt owed by the company. To avoid paying taxes that are too high, the manufacturing companies listed in IDX will tend to avoid taxation in order to avoid paying taxes that are too high. This condition can be explained by agency theory, the agent will try to manage its tax burden so as not to reduce the agent's performance compensation as a result of an increase in corporate profits that comes from increasing sales growth so that it will cause a greater tax burden.

The results of this study are supported by Prime study (2013); Perdana (2013); and Purwanti and Sugiyarti (2017) which show that sales growth has a significant effect on tax avoidance, the higher sales growth in the company, the greater tax avoidance carried out by the company.

### **C. Effect of Tax Avoidance on Earnings Management**

Results of the study showed that tax avoidance significantly affects on earnings management. This shows that the greater the tax avoidance carried out by a company, the greater the earnings management actions that occur. This indicates manufacturing companies listed in the IDX perform earnings management practices as motivated by tax avoidance that will manage to reduce the burden of tax will be paid. The results of this study are in accordance with agency theory that the government (tax authorities) as the principal and management as each agent has different interests in paying taxes. The company (agent) tried to pay taxes as little as possible because paying taxes means reducing the economic capacity of the company. On the other hand, the government (principal) requires funds from tax revenues to finance government expenditures that have been disclosed in the APBN. Thus, there is a conflict of interest between the company and the government, it will motivate the agent to minimize the tax burden that must be paid.

The results of this study are in line with the study of Rahman et al. (2013); and Putri and Fadhlia (2017) showed that tax avoidance had an effect on earnings management because a company tends to do profit engineering to reduce the tax rate.

### **D. Effect of Firm Size on Earnings Management**

Results of the study showed that firm size does not affect earnings management. This shows that the greater the firm size, the smaller the practice of earnings management carried out by manufacturing companies listed in the IDX. Or in other words earnings management that occurs in manufacturing companies is not due to the firm size. This is because large companies tend to be more critical than small companies. Besides, large companies have a smaller chance to make profit engineering compared to small companies because large companies have broader interests so that they will be more careful in financial reporting. Besides, large manufacturing companies received greater supervision from various parties, for example from the capital market supervisor, from an independent auditor and especially from the tax office compared to small companies.

This study is in line with Compliance Theory, if it is viewed from a normative perspective because it relates to what people perceive as moral and contrary to personal interests. Management of the companies are encouraged to present the financial statements in accordance with reality and more accurate for

company in acting will always be driven by environmental conditions that effect it. This study is in line with Putri's (2014) and Aurora (2018) study, which explained that firm size will not affect earnings management practices.

### **E. Effect of Sales Growth on Earnings Management**

Results of the study indicate that the variable sales growth significantly affect earnings management. This shows that the higher sales growth in a manufacturing company will improve the practice of earnings management. Likewise vice versa, if the sales growth decreases, the practice of earnings management will also decrease. This is due to a sovereign, when the company has a high rate of sales growth, the management would use it to get a larger bonus for that management will conduct an earnings management in an effort to show its performance. This can be explained by the agency theory where the principal gave the task to the agent to manage the company in such a manner for the benefit of the principal or owner, but in this case will arise a conflict of interest where the agent will prove its performance through management profit obtained from the selling. This is causes earnings management. Besides, the agent will make an effort to gain personal benefits such as compensation for their performance by using the opportunities that exist to show good performance in the company. Agents have the opportunity to do so to show stability in sales growth through earnings management. The results of this study are in line with the study conducted by Yunietha and Pal upi (2017); and Lauria and Suryanawa (2017) who found that sales growth had a positive effect significantly on earnings management, because management will always show a good performance for the owner of the company.

### **F. Effect of Firm Size on Earnings Management Through Tax Avoidance**

The results of path analysis showed that firm size through tax avoidance have no significant effect on earnings management. This shows that firm size owned by a manufacturing company on the IDX does not cause tax avoidance through profit engineering. Or in other words, tax avoidance that occurs in manufacturing companies listed on the Stock Exchange is not caused by the firm size through earnings management. Based on this, it can be concluded that when tax avoidance occurs in manufacturing companies on the IDX, it is not caused by the firm size through earnings management. That means that if there is tax avoidance that occurs then it is caused by other causes. This study is in line with Nariastiti and Ratnadi (2014); Maburrah et al (2017) which explains that firm size had a negative effect on earnings management.



## **G. Effect of Sales Growth on Earnings Management Through Tax Avoidance**

The results of path analysis showed that the sales growth through tax avoidance has a significant effect on earnings management. This shows that the sales growth of manufacturing companies on the IDX will affect earnings management through tax avoidance. So it was concluded that the greater the sales growth of manufacturing companies listed on the Stock Exchange will improve the practice of earnings management through tax avoidance. This is because, the bigger the sale then the greater the income or profit earned and the greater the profit, the greater the tax burden borne by the company, so that if there is sales growth, management will tend to engineer profits because it is driven by the intention to avoid taxes to be paid.

The results of this study are in line with the study of Purwanti and Sugiyarti (2017), Yunietha and Palupi (2017), as well as Annisa and Hasporo (2017) who found that sales growth had a significant positive effect on earnings management. Companies will tend to do earnings management because it is motivated by tax avoidance.

## **CONCLUSION**

As The results of this study, we can produce several items as conclusions:

1. Tax avoidance that occurs within manufacturing companies on the IDX is not determined by the firm size. In other words, the firm size is not one of the determinants of tax avoidance. This means that when tax avoidance occurs in manufacturing companies listed on the IDX, it is caused by other variables.
2. Tax avoidance that occurs in manufacturing companies listed on the IDX is due to the presence of Sales growth. This means that one of the triggers for the emergence of tax avoidance in manufacturing companies listed on the IDX is the growth or the increase in sales.
3. Earnings management occurring in companies listed on the IDX is due to the trend of Tax avoidance. This means that when manufacturing companies listed on the IDX doing earnings management, this is motivated by the existence of tax avoidance.
4. If the management profit occurred in the manufacturing companies listed on the IDX, that is not determined by the firm size. Earnings management occurs because there are other variables that motivate it.
5. Earnings management that occurs in a manufacturing company listed on the IDX is triggered by sales growth. When sales increase at manufacturing companies listed on the IDX, it will encourage the company to conduct earnings management.

6. Earnings management that occurs in manufacturing companies listed on the IDX is not determined by the firm size that tends to do tax avoidance.
7. Earnings management that occurs in manufacturing companies listed on the IDX is due to sales growth triggered by tax avoidance. This means that when there is an increase in sales at manufacturing companies on the IDX, the company will do earnings management by being motivated by tax avoidance.

### FURTHER STUDY

1. Further study could develop this study by identifying other variables effecting tax avoidance and earnings management.
2. Further study is expected to replace the object of study on issuers in other sectors of companies listed on the IDX or overseas capital markets.

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