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Effect of Firm Size, Profitability, Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), and Allowance for Impairment Losses (CKPN) on Earnings Management (Study on Regional Development Banks in Indonesia 2018-2022)

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Abstract

The financial report contains information regarding the company's economic performance—flexibility in applying accounting methods that create opportunities for management to influence earnings. The purpose of this study was to determine the effect of Firm Size (Total Assets), Profitability (ROA), Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Allowance for impairment losses (CKPN) on Earnings Management (Discretionary Accruals Jones modified model) study on Regional Development Banks in Indonesia 2018-2022. The study used a purposive sampling technique, so the sample was 24 conventional BPD from 26 BPD in Indonesia. The data used is pooled data with a total of 120 observations. The analytical method used is the multiple regression analysis methods. The results showed that Total Assets, CAR, NPL and CKPN partially did not affect earnings management, while ROA had a positive and significant impact. Simultaneously these five variables affect earnings management in Regional Development Banks.

Keywords: Firm Size, CAR, NPL, CKPN, Earning Management

Abstrak

Laporan keuangan berisi informasi tentang kinerja ekonomi perusahaan serta fleksibilitas dalam menerapkan metode akuntansi yang menciptakan peluang bagi manajemen untuk memengaruhi laba. Tujuan dari penelitian ini adalah untuk menentukan pengaruh Ukuran Perusahaan (Total Aset), Profitabilitas (ROA), Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), dan Allowance for impairment losses (CKPN) terhadap Manajemen Laba (Akumulasi Diskresioner berdasarkan model Jones yang dimodifikasi) pada Bank Pembangunan Daerah (BPD) di Indonesia periode 2018-2022. Penelitian ini menggunakan teknik pemilihan sampel secara purposive sampling, sehingga sampelnya terdiri dari 24 BPD konvensional dari total 26 BPD di Indonesia. Data yang digunakan adalah data tergabung dengan total 120 observasi. Metode analisis yang digunakan adalah metode analisis regresi berganda. Hasil penelitian menunjukkan bahwa Ukuran Perusahaan, CAR, NPL, dan CKPN secara parsial tidak berpengaruh terhadap manajemen laba, sementara ROA memiliki pengaruh positif dan signifikan. Secara simultan, kelima variabel ini berpengaruh terhadap manajemen laba di Bank Pembangunan Daerah. Kata kunci: Ukuran Perusahaan, ROA, CAR, NPL, CKPN, Manajemen Laba, Bank Pembangunan Daerah.

Kata Kunci: *Ukuran Perusahaan, CAR, NPL, CKPN, Manajemen Laba*

INTRODUCTION

The financial statements contain information regarding the company's financial position and financial performance. One vital piece of information that can be used in decision-making is information related to company profits. In practical terms, accounting standards still have some inherent limitations. According to Surifah (2000), several limitations of financial statements are the flexibility of applying accounting methods which creates opportunities for management to involve subjectivity in preparing the chosen accounting method, as well as the timing of determining discretionary expenditures that can be used by management to influence earnings, namely by accelerating or postpone expenses and shift them to another period.

Management is the most opportunistic party in addressing the limitations of financial statements. These limitations in practice can encourage management to perform earnings management (earnings management) on its financial statements. Earnings management practices can occur in every company, one of which is the banking industry. One example of fraudulent financial statements occurred at PT Bank Lippo in 2002, where financial information was manipulated. The September 30, 2002, published report stated that it posted a profit of Rp98 billion and on December 27, 2002, it suffered a loss of Rp. 1.3 trillion (Prasetyantoko, 2003). Earnings management practice does not rule out the possibility of BPD occurring. Therefore it is considered essential to conduct further research on earnings management at BPD in Indonesia. In this study, several factors are thought to influence earnings management, such as firm size, profitability, Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Allowance for impairment losses (CKPN).

Theory Agency

Earnings management is the selection of accounting policies by a manager to achieve specific goals (Scott, 2015). Management will choose an approach to maximize their utility or the utility interests of the principal (owner of capital). In this case, earnings management can be categorized into opportunistic and efficient behaviour. And it is seen as an opportunistic goal because management tries to give the wrong impression of the company's value to shareholders by using their judgment in making financial statements. In other words, managers who are agents of the principal act in their own interests.

In agency theory, there is the term adverse selection which is a choice of actions that are contrary to the goals to be achieved. Adverse selection in financial accounting is known as a type of information asymmetry, in which one or more people who carry out business transactions or potential transactions have more information than others. Furthermore, there is the term moral hazard; namely there is an unwillingness to try even though there is an opportunity to carry out these efforts. One form of moral hazard is earnings management. Information problems arise when there are motivational problems and conflicts due to imperfect contracts.

Earnings Management

Earnings management is a management action to influence earnings in financial statements that can provide information about economic benefits that the company does

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not actually experience in the long term, and even have the potential to harm the company (Primanita and Setiono, 2006). Scott (2015) defines earnings management as a method used by managers to systematically influence earnings numbers and deliberately choose certain accounting policies and accounting procedures that aim to maximize the manager's utility and the market value of the company.

The Patterns of Earnings Management

As a process of enriching earnings on financial statements, earnings management practices are generally carried out to beautify or modify the financial statements produced as a result of the company's financial performance in a certain period. The process of changing the financial statements, according to Scott (2003), is generally carried out in 4 (four) patterns or forms of earnings management, as follows: 1) Taking A Bath; 2) Income Minimization; 3) Income Maximization; and 4) Income Smoothing.

The Effect of Firm Size on Earning Management

Putra, et al. (2014) found that firm size had a positive and significant effect on earnings management. Furthermore, Desmiyawati, et al. (2009) and Wibisana, et al. (2014) also found that firm size had a positive and significant effect on earnings management. Meanwhile, Gunawan, et al. (2015) and Handayani, et al. (2009) found that firm size was not proven to be more aggressive in carrying out earnings management, and it had no effect on earnings management.

Large companies tend to be more transparent in their financial reporting, but that does not mean there is a possibility of fraudulent financial statements and vice versa. The larger the size of the company, the company has financial statements that are more complete, reliable and qualified auditors than the size of a smaller company, so earnings management actions are getting smaller. Based on the theoretical and empirical studies, it can be hypothesized that:

H_1: Firm size has an effect on earnings management.

The Effect of Profitability on Earning Management

To earnings management, profitability can influence managers to carry out earnings management. Because if the profitability of the company is low, managers will generally take earnings management actions to save their performance. This is closely related to management's efforts to show the best version of their company. Profits that are too high will increase the taxes that must be paid while reporting profits that are too low will impact the appearance of management performance that is not optimal. Therefore, the resulting high and low profitability is related to earnings management actions with the aim of reporting the profitability level at a safe stage.

Amertha, et al. (2013) found that profitability proxied by Return on Assets (ROA) positively affected earnings management. Furthermore, the research of Wibisana, et al. (2014), Puspitosari (2015) and Wijaya, Pirzada, Fanady (2020) also found that profitability had a positive effect on earnings management. In contrast, Gunawan et al. (2015) found that profitability did not affect earnings management. Further supporting these results,

research conducted by Agustia Y. P. and Suryani E. (2018) shows that profitability partially does not affect earnings management. Based on the theoretical and empirical studies, it can be hypothesized that:

H_2: Return on Asset (ROA) has an effect on earnings management.

The Effect of Capital Adequacy Ration on Earning Management

CAR is a capital adequacy ratio that shows the Bank's ability to cover the decline in assets due to bank losses by assets containing risks. Capital has a significant function in financing operations and business expansion, as well as as a tool to anticipate possible risks. CAR also functions as the primary capital banks must meet to maintain public trust in their performance (Nurhafita and Dharma, 2010).

Research conducted by Sari and Astuti (2015) and Suripto and Supriyanto (2021) found that CAR affects earnings management. On the other hand, findings from Amperaningrum and Sari (2013) and Yantiana (2022) and Firdaus (2013) in the research journal Sari and Astuti (2015) state that CAR does not affect earnings management.

Maintaining or maintaining the CAR ratio is an effort to signal from the management as the principal to the agent that the company they are managing is running well. So that to meet the capital adequacy ratio, it can be assumed that the management performs earnings management. A decrease in the value of the CAR ratio indicates that a bank's financial performance is declining. Based on the theoretical and empirical studies, it can be hypothesized that:

H_3: The capital adequacy ratio has an effect on earnings management.

The Effect of Non-Performing Loans on Earning Management

The Bank faces various business risks in its operations. Banks must implement good and measurable risk management so that existing risks can be avoided. The risk in question is the potential loss due to a specific event. To earnings management practices, one of the most significant risks is credit risk, which is caused by the failure of other parties to fulfil their obligations to the Bank, including credit risk due to debtor failure, credit concentration risk, settlement risk and counterparty credit risk. The results of research by Suripto and Supriyanto (2021) state that NPL has no effect on earnings management. Meanwhile, research conducted by Lestari P. et al. (2019) found that NPL has an effect on earnings management. Based on the theoretical and empirical studies, it can be hypothesized that:

H_4: Non-performing loan has an effect on earnings management.

The Effect of Allowance for impairment losses (CPKN) on Earning Management

CKPN is a reserve prepared by banks to face the risk of impairment losses on assets such as loans and securities. Every banking asset, such as credit, carries the risk of impairment losses caused by delays in payment of instalments by the debtor. Ulfa et al. (2018) and Soliman (2018) found that CKPN has an effect on earnings management, where it can be said that CKPN is a management tool for earnings management. Furthermore, the results of research by Sari and Widaninggar (2020) conducted a study of the effect of CKPN on earnings management namely in Indonesia it had an effect while in Malaysia

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it had no effect. Based on the theoretical and empirical studies, it can be hypothesized that:

H_5: allowance for impairment losses has an effect on earnings management.

The Effect of Factors Simultaneously on Earning Management

Based on the explanation of several factors that might influence earnings management, it is necessary to pay attention to the percentage of these factors if tested simultaneously on earnings management practices at Regional Development Banks in Indonesia.

H_6: firm size, profitability, Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), and Allowance for Impairment Losses (CKPN) simultaneously affect earnings management.

Research Model

The framework in this study is presented in the following figure:

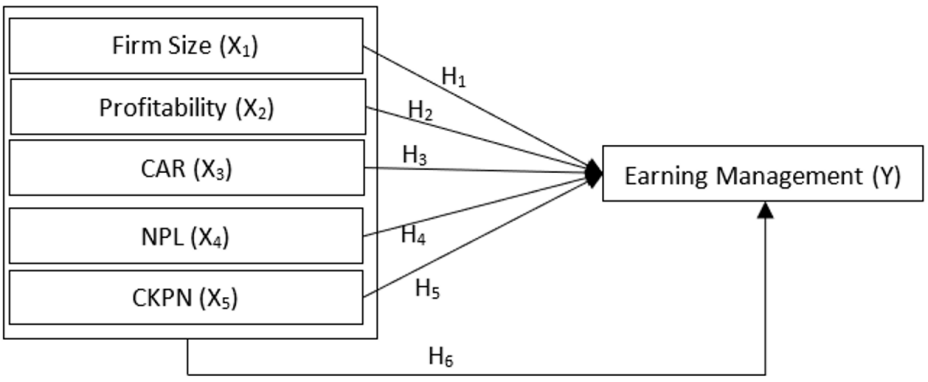

Figure 1. Research Model

METHOD

This research is included in descriptive quantitative analysis and hypothesis testing. According to Sugiyono (2018), the quantitative method can be interpreted as a pacifistic method because it is based on the philosophy of positivism. This research is descriptive because the research will be conducted by describing the object under study. The data used in this research is secondary data. The data is obtained from the financial reports of Regional Development Banks (BPD) throughout Indonesia at the Financial Services Authority (OJK). This study was designed to examine the effect of firm size, profitability, CAR, NPL, and CKPN on earnings management practices in BPD. Based on the dimensions of time and time sequence, this research is a time series, that is, taking samples based on time sequences. The population and sample of this research are the BPD in Indonesia, totaling 26 banks, but there are 2 Sharia Regional Development Banks, namely Aceh Bank and West Nusa Tenggara Bank. BPD Syriah is a Bank that carries out its business activities based on sharia principles. Therefore, this study focused on 24 conventional Regional Development Banks.

The model used for multiple linear regression analysis, with the following formula:

$$Y = \propto + \beta 1SIZE + \beta 2ROA + \beta 3CAR + \beta 4\text{NPL} + \beta 5\text{CKPN} + ei$$

Description:

Y : Earnings Management
SIZE : Firm Size
ROA : Return on Assets
CAR : Capital Adequacy Ratio
NPL : Non-Performing Loan
CPKN : Allowance for Impairment Losses
α : Constanta
ei : error
β1–β5 : Regression Coefficient

Furthermore, a robustness test will be carried out to see the consistency and strengthen the research results. There are many ways that can be used to see consistency and corroborate research results. Robustness in this research is done by replacing the independent variable proxy, namely profitability, which initially used Return on Assets (ROA) to Net Interest Margin (NIM), so that it can be seen whether the effect of the independent variable on the dependent variable remains consistent when calculated using a different approach. The model used for multiple linear regression analysis for robustness test, with the following formula:

$$Y = \propto + \beta 1\text{SIZE} + \beta 2\text{NIM} + \beta 3\text{CAR} + \beta 4\text{NPL} + \beta 5\text{CKPN} + \text{ei}$$

Dependent Variable

According to Perwitasari (2014) in the research journal Octavia E. (2017) that the reason for using the modified Jones model is because this model is the best at detecting earnings management compared to other models and provides the most accurate results. The following formula:

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

The total accrual value (TA) is estimated using the OLS (Ordinary Lease Square) regression equation as follows:

$$\frac{TAC_{it}}{A_{it-1}} = \beta 1 \left(\frac{1}{A_{it-1}}\right) + \beta 2 \left(\frac{\Delta Rev}{A_{it-1}}\right) + \beta 3 \left(\frac{PPE_t}{A_{it-1}}\right) + ei$$

By using the regression coefficient above the value of Non-Discretionary Accruals (NDA) can be calculated by the following formula:

$$NDA_{it} = \beta 1 \left(\frac{1}{A_{it-1}}\right) + \beta 2 \left(\frac{\Delta Rev}{A_{it-1}} - \frac{\Delta Rec}{A_{it-1}}\right) + \beta 3 \left(\frac{PPE_t}{A_{it-1}}\right)$$

Furthermore, Discretionary Accrual (DA) can be calculated by the following formula:

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$$

Description:

DA_{it} : *Discretionary Accruals* bank i in period t
NDA_{it} : Non-*Discretionary Accruals* bank i in period t
TAC_{it} : Total Accruals of bank i in period t
N_{it} : Net profit of bank i in period t

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CFO_{it} : Cashflow from operating activities of company i at bank t

A_{it-1} : Total ssets of Bank i in period t-1

ΔRev : Change in Bank I income in period t

PPE_t : Fixed assets of bank i in period t

ΔRec : Changes receivables of bank i in period t

e : *error*

Independent Variable

Firm size : Size = Ln(total aset)

Profitability : $ROA = \frac{\text{income before tax expense}}{\text{total assets}} \times 100\%$

CAR : $CAR = \frac{\text{the bank' capital}}{\text{risk-weighted assets}} \times 100\%$

NPL : $NPL = \frac{\text{total non-performing loans}}{\text{total credits}} \times 100\%$

CKPN : $CKPN = \frac{\text{formed CKPN}}{\text{totalproductive assets}} \times 100\%$

NIM (robustness test) : $NIM = \frac{\text{net interest income}}{\text{the productive assets}} \times 100\%$

RESULT AND DISCUSSION

Descriptive statistics

Descriptive statistics for Discretionary Accruals (DA), Company Size, Profitability, Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Allowance for Impairment Losses (CKPN) at 24 Regional Development Banks in Indonesia 2018-2022 can be seen in table 1 in the following:

Table 1. The Result of the Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation	*Variance*
DA	120	0,549	0,986	0,742	0,097	0,009
ASSET	120	15,196	18,632	16,612	0,822	0,675
ROA	120	-0,006	0,050	0,026	0,008	0,000
CAR	120	0,138	0,316	0,218	0,037	0,001
NPL	120	0,003	0,150	0,030	0,027	0,001
CKPN	120	0,002	0,082	0,018	0,016	0,000

Source: data processed by SPSS version 26, 2022

Based on Table 2 below, the Pearson correlation value between variables shows that profitability (ROA) and earnings management have a positive and significant correlation (0.306**) which means that companies with high profitability have the potential to increase earnings management. Meanwhile, the Pearson correlation value between the NPL variable and earnings management has a negative correlation (-0.195*), which indicates that the higher the ratio of NPL/bad credit the company tends to decrease earnings management.

Table 2. The Result of the Pearson Correlation Coefficient between Variables

	DA	LN ASET	ROA	CAR	NPL	CKPN
DA	1	0,010	0,306**	0,008	-0,195*	-0,133
TOTAL ASSET		1	-0,365**	-0,304**	0,252**	0,153
ROA			1	0,433**	-0,545**	-0,397**
CAR				1	-0,174	-0,161
NPL					1	0,741**
CKPN						1

**) *Correlation is significant at the 0.01 level (2-tailed).*

*) *Correlation is significant at the 0.05 level (2-tailed).*

Source: data processed by SPSS version 26, 2022

Classic Assumption Test

A classical assumption test was conducted to determine the feasibility of using the model in this study. This test also aims to ensure that in the regression model, there is no multicollinearity, heteroscedasticity, autocorrelation and to ensure that the resulting data is normally distributed (Ghozali, 2012).

Normality test

Data normality test was carried out to ensure that all data in this study were normally distributed. The normality test of the data can be done with the One-Sample Kolmogorov-Smirnov test and visualized in the Probability Plot of Residual Regression. Based on the normality test of the data with the One-Sample Kolmogorov-Smirnov Test shown in Table 3. below the data, the Kolmogorov-Smirnov value is 0.057 and Asymp. Sig of 0.200 is more significant than 0.050. Thus, it can be concluded that the data is normally distributed. According to Imam Ghozali (2011) the regression model is normally distributed if the plotting data (dots) that describe the actual data follow a diagonal line.

Tabel 3. The Result of the Kolmogrov-Smirnov Test

		Unstandardized Residual
N		120
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	0,09112389
Most Extreme Differences	Absolute	0,057
	Positive	0,057
	Negative	-0,055
Test Statistic		0,057
Asymp. Sig. (2-tailed)		0,200[c,d]

Source: data processed by SPSS version 26, 2022

As shown in Figure 2. below, it can be seen that the points have followed a diagonal line, so as the basis for decision-making based on Imam Ghazali, it can be concluded that the normality test of the regression model is normally distributed.

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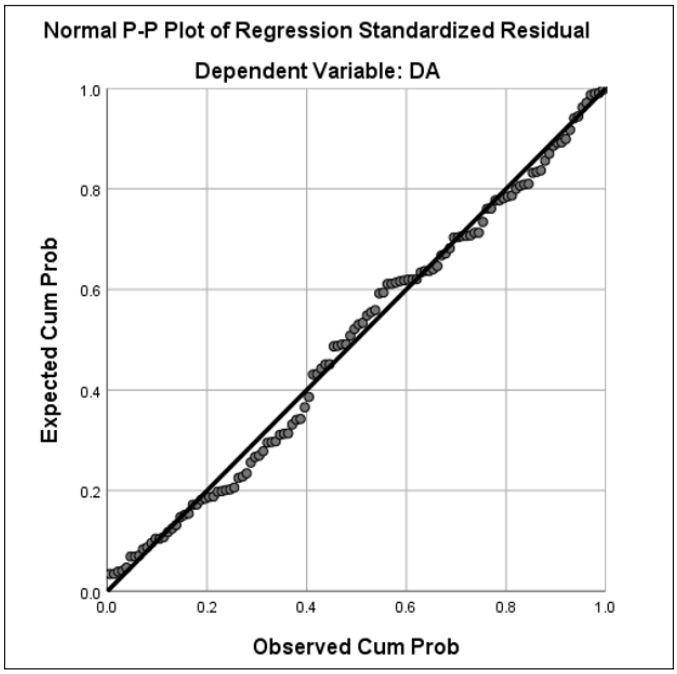

Figure 2. Normal probability Plot
Source: data processed by SPSS version 26, 2022

Multicollinearity Test

The multicollinearity test is used to determine whether or not there is a deviation from the classical assumption of multicollinearity, namely that there is a linearity relationship between independent variables in the regression model. The following are the results of the multicollinearity test:

Table 4. The Result of the Multicollinearity Test–Tolerance and VIF

Model	*Unstandardized Coefficients*		*Standardized Coefficients Beta*	T	*Sig.*	*Collinearity Statistics*	
	B	*Std. Error*				*Tolerance*	VIF
(Constant)	0,461	0,214		2,156	0,033		
ASSET	0,014	0,011	0,122	1,267	0,208	0,831	1,203
ROA	4,549	1,380	0,385	3,296	0,001	0,563	1,776
CAR	-0,338	0,265	-0,127	-1,279	0,203	0,777	1,286
NPL	-0,185	0,519	-0,051	-0,357	0,722	0,369	2,710
CKPN	0,113	0,800	0,019	0,142	0,888	0,448	2,231

Source: data processed by SPSS version 26, 2022

According to Imam Ghazali (2011), there is no symptom of multicollinearity if the Tolerance value is > 0.1000 and the Variance Influence Factor (VIF) value is < 10.00. Table 4. shows the results of the multicollinearity test with the tolerance value for each variable greater than 0.1000, and the VIF table for each variable has a value less than 10. Thus, it can be concluded that there is no multicollinearity among the independent variables in this study.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether there is an inequality of variance in the regression model from the residual value of one observation to another. Figure 3. below shows that the points spread irregularly and do not form a pattern as wavy, widening and then narrowing. Furthermore, it can also be seen that the pattern of the distribution of points is above and below the number 0 on the Y-axis. Thus, the heteroscedasticity test assumes that there are no symptoms of heteroscedasticity. The following are the results of the Scatterplots heteroscedasticity test:

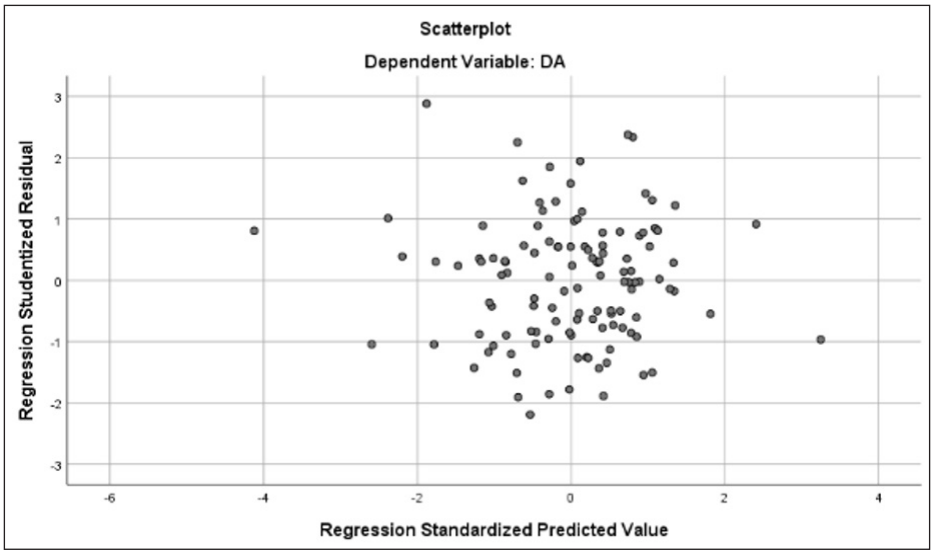

Figure 3. Scatter Plot
Source: data processed by SPSS version 26, 2022

Autocorrelation Test

The following are the results of the autocorrelation test using the Durbin Watson test:

Table 6. The result of the autocorellation test

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	0,354	0,1254	0,0870	0,0931	2,1059

Source: data processed by SPSS version 26, 2022

According to Imam Ghozali (2011), there is no symptom of autocorrelation if the Durbin-Watson value lies between du to (4-du). To find out the value of du can be seen in the distribution of the importance of the Durbin Watson table based on k (5) and N (120) with a significance of 5%. Furthermore, it can be seen that 1.7896 (du) < 2.1059 (Durbin Watson) < 2.2104 (4-du), so it can be concluded that there is no autocorrelation symptom.

Robustness Test

The following are the results of the robustness test which replace Return on Assets (ROA) with Net Interest Margin (NIM).

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Table 7. The Result of the Robustness Test

Model	*ROA*		*NIM*	
	B	***Sig.***	**B**	***Sig.***
(Constant)	0,461	0,033	0.402	0.101
ASSET	0,014	0,208	0.015	0.225
ROA	4,549	0,001	-	-
NIM	-	-	1.552	0.041
CAR	-0,338	0,203	0.033	0.896
NPL	-0,185	0,722	-0.743	0.136
CKPN	0,113	0,888	-0.030	0.971

Source: data processed by SPSS version 26, 2022

The results of the regression model of the research using the Net Interest Margin (NIM) as a profitability proxy show that the coefficient of NIM has a positive effect on Y (earnings management) which indicates that if the NIM increases. The tendency of bank management to carry out earnings management will also increase. From the probability of 0.041 which is smaller than 0.05, it can be concluded that the profitability variable using NIM has a positive and significant effect on earnings management. It is consistent with the previous profitability proxies using ROA.

Table 8. Regression Coefficient of Influence of Assets, Profitability, CAR, NPL and CKPN on Earnings Management at Regional Development Banks 2018-2022

Model	*Unstandardized Coefficients*		*Standardized Coefficients Beta*	*t*	*Sig.*
	B	*Std. Error*			
(Constant)	0,461	0,214		2,156	0,033
ASSET	0,014	0,011	0,122	1,267	0,208
ROA	4,549	1,380	0,385	3,296	0,001
CAR	-0,338	0,265	-0,127	-1,279	0,203
NPL	-0,185	0,519	-0,051	-0,357	0,722
CKPN	0,113	0,800	0,019	0,142	0,888

Source: data processed by SPSS version 26, 2022

Table 8. above can be written in the following regression equation:

$$Y=0{,}4614 + 0{,}014x_1 + 4{,}548x_2 - 0{,}338x_3 - 0{,}185x_4 + 0{,}113x_5 + ei$$

The discussion about the effect of independent variables on the dependent variable is as follows:

Firm Size on Earning Management

Based on the test results with the t statistical test, the coefficient X1 (company size) has a positive effect on Y (earnings management) which indicates that if the size of the company increases, the tendency of bank management to smooth profits will also increase. However, from the probability of 0.208 greater than 0.05, it can be concluded that the firm size variable has no effect on earnings management. The management of

the Regional Development Bank has no desire to manipulate financial statements by presenting profits that are not following their earnings. Larger companies will be careful in reporting financial conditions because the public will monitor the performance of bank management so that they must report accurate financial needs. In the context of creative accounting, BPD management prioritizes selecting accounting techniques and policies that are considered valuable and in accordance with the applicable standard provisions to obtain the maximum profit. As long as the profit generated by management from year to year is growing as expected by shareholders, then management will not do creative accounting that can trigger accounting scandals. In addition, most BPD ownership is local government, which focuses more on having regionally owned banks to encourage economic growth and development in the region. Of course, this is different from banks that have sold shares openly through the stock exchange, where management will be more demanded by shareholders or investors for good performance, especially if the company has large assets it will be expected to generate large profits as well.

Profitability on Earning Management

Based on the test results with the t statistical test that the coefficient of X2 (ROA) has a positive effect on Y (earnings management) which indicates that if ROA increases, the tendency of bank management to smooth profits will also increase. From the probability of 0.001 less than 0.05, it can be concluded that the profitability variable (ROA) has a positive and significant effect on earnings management. This means that the higher the ROA, the higher the probability of a profit management company. Companies with high profits tend to carry out earnings management in order to reduce taxes that must be paid to the state (Puspitosari, 2015). The intended tax reduction can be made by management by doing tax avoidance, where management will try to pay less tax than it should be owed by taking advantage of the reasonable interpretation of tax law.

In the case of creative accounting, one of these earnings management actions is influenced by tax motivation by reducing the value of fiscal profit to increase profits without violating tax rules and policies. With the increase in the company's profit value, it will then affect the ROA ratio which is a signal to shareholders that the company run by management has been running well and has healthy indications and it is possible to increase the distribution of dividends to shareholders. This has the potential to increase shareholders' equity participation because management's good performance will continue if additional capital is carried out.

Capital Adequacy Ratio on Earning Management

Based on the test results with the t statistical test that the coefficient of X3 (CAR) harms Y (earnings management) which indicates that if the CAR increases, the tendency of bank management to smooth profits decreases. However, from the probability of 0.203 greater than 0.05, it can be concluded that the firm size variable has no effect on earnings management. The capital Adequacy Ratio has no impact on earnings management. It is presumably due to the high CAR of banks with an average of more than 8%, meaning that a high CAR ratio can prevent management from intervening in financial statements to manipulate the profits it generates. The high CAR value will contribute to an increase in

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profit, so management will not carry out earnings management. Capital has a significant function in financing operations and business expansion, as well as a tool to anticipate possible risks. The turnover of these assets can improve the company's performance, indirectly increasing profits.

Furthermore, the non-influence of CAR on earnings management at BPD is allegedly also supported by BPD capital, which is majority-owned by the Regional Government. The ownership of the BPD by the regional government also causes information asymmetry between management and agent. The shareholder is the principal because in general the capital investment to be made by the regional government has been previously determined through a Regional Regulation (Perda) approved by the DPRD every year. With the certainty of equity participation by shareholders, it is hoped that banks, especially BPDs, will not carry out earnings management to maintain a high CAR trend.

Non-Performing Loan on Earning Management

Based on the test results with the t statistical test, the X4 coefficient (NPL) has a negative effect on Y (earnings management), indicating that if the NPL increases, the tendency of bank management to smooth profits decreases. However, from the probability of 0.722 which is more significant than 0.05, it can be concluded that the Non-Performing Loan (NPL) variable has no effect on earnings management. It is suspected that management tends not to carry out earnings management because bank management can implement good credit policies, implement bank activities with prudential principles (prudential banking), and better bankability in evaluating prospective potential debtors. If the NPL condition is high, it will increase costs, both the cost of reserves for productive assets and other costs, so it can potentially cause bank losses.

NPL has no effect on Earnings Management at BPD. This is also suspected because the NPL ratio that is still maintained can show a signal to stakeholders that the Bank can maintain credit risk that has been disbursed. The restrictions imposed by the regulator as well as strict supervision of bank financial ratios also influence management to continue to carry out prudential banking in every credit agreement to customers, who are feared that there will be fines or warnings from the regulator will reduce management to carry out management profit but is more focused on maintaining good financial ratios and bank health and still trying to achieve the profit target which has been previously stated in the Bank's Business Plan (RBB).

Allowance for Impairment Losses on Earning Management

Based on the test results with the t statistical test, the coefficient X5 (CKPN) has a positive effect on Y (earnings management), indicating that if the CKPN increases, the tendency of bank management to smooth profits will also increase. However, from the probability of 0.888, which is greater than 0.05, it can be concluded that the Allowance for Impairment Loss (CKPN) variable does not affect earnings management. Allowance for Impairment Losses (CKPN) does not affect earnings management. This is presumably because the formation of allowance for CKPN must use the forward-looking expected loss method as stipulated in PSAK 71 so that management cannot use it as a tool to manipulate earnings. CKPN does not serve as an earnings management tool for BPDs, it

is suspected that this can happen because the majority of BPDs do not need to try to stabilize share prices because BPDs have not publicly sold their shares to the public but have limited ownership by the Regional Government. Every Bank must fulfil the process of determining reserves that have been regulated by the regulator.

The Relationship Between Simultaneous Variables on Earning Management

The t-statistic value of the independent variables jointly affects earnings management where a probability value of 0.009 is smaller than 0.05, as shown in Table 9. So that the accepted hypothesis is Hα, that the independent variables jointly influence earnings management. Analysis of variance (ANOVA) table below.

Table 9. The Result of the Analysis of Varian (ANOVA)

Model		Sum of Squares	df	Mean Square	F	*Sig.*
1	Regression	0,142	5	0,028	3,269	.009[b]
	Residual	0,988	114	0,009		
	Total	1,130	119			

a. Dependent Variable: DA

b. Predictors: (Constant), CKPN, ASSET, CAR, ROA, NPL

Source: data processed by SPSS version 26, 2022

Coefficient of Determination (R2)

The coefficient of determination R2 (R-Square) in the regression equation can be seen in Table 10 below. The greater the value of R2, the independent variables provide almost all the information needed to predict the variation of the dependent variable. The adjusted value (R-Square) in this study is 0.087. From this value, it can be concluded that 8.70% of the dependent variable can be explained by variations of the four independent variables, namely company size, profitability, CAR, NPL, and CKPN. While other factors outside the variables explain 91.30% studied in this study.

Table 10. The Result of the Adjusted R Square

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Change Statistics*	
					R Square Change	*F Change*
1	0,354[a]	0,125	0,087	0,093	0,125	3,269

a. Predictors: (Constant), CKPN, LN ASSET, CAR, ROA, NPL

b. Dependent Variable: DA

Source: data processed by SPSS version 26, 2022

CONCLUSIONS

Based on the results of an analysis of the influence of several factors that influence earnings management practices on 24 Regional developments in Indonesia for the 2018-2022 period, it can be concluded that the results of the study indicate that Total Assets, CAR, NPL and CKPN partially have no effect on earnings management, while ROA has a positive impact and significant. Simultaneously these five variables affect earnings management in

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Regional Development Banks. In this study, there are several limitations, namely in proxiing earnings management the researcher uses the modified Jones Discretionary Accrual (DA) model, in proxying earnings management there are several models used such as the Healy model, De Angelo model, and the Jones model. Therefore, there is a possibility that there are differences that will affect the results of the study if earnings management proxies are carried out with different calculation methods and this research is focused on conventional banking belonging to the Regional Government without paying attention to the grouping of banks based on core capital (Business Commercial Banks). The number of samples varies when viewed from the company's core capital which of course affects the products/features that can be provided by the Bank so that it affects the potential income and expenses of the Bank which have an impact on the profits to be obtained.

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