# Earnings Management in Financial Reporting: A Systematic Literature Review of Determinants, Measurement Models, and Implications in Indonesia

**Putri Enzelina Nababan, M. Irsan Nasution**

**Abstract**

This study aims to map the development and empirical findings related to earnings management in financial reporting in Indonesia through a Systematic Literature Review (SLR) approach. Research data and academic journals were analyzed using content analysis and thematic synthesis, focusing on the determinants of earnings management, the measurement models employed, and their implications for financial reporting quality. The review results indicate that financial variables such as leverage, profitability, and firm size produce inconsistent findings in explaining earnings management practices, both across sectors and across studies. In contrast, corporate governance mechanisms and audit quality are shown to be more consistently effective in constraining earnings management. In addition, the dominance of accrual-based models particularly the Modified Jones Model in measuring earnings management leads to bias in understanding earnings manipulation practices, as real earnings management tends to be relatively neglected. This study concludes that the Indonesian earnings management literature remains fragmented and is influenced by limitations in measurement models. Therefore, future research is recommended to integrate both accrual-based and real earnings management measures and to incorporate industry context in order to achieve a more comprehensive understanding of financial reporting quality.

**Keywords**: Earnings Management, Financial Reporting, Determinants, Measurement Models, Implications.

Putri Enzelina Nababan[1]
Accounting Study Program, Universitas Pembangunan Panca Budi, Indonesia e-mail: putrienzelina99@gmail.com[1]

M. Irsan Nasution[2]
[2]Departement of Accounting, Universitas Pembangunan Panca Budi, Indonesia e-mail: irsan@dosen.pancabudi.ac.id[2]

2nd International Conference on Islamic Community Studies (ICICS)
Theme: History of Malay Civilisation and Islamic Human Capacity and Halal Hub in the Globalization Era
https://proceeding.pancabudi.ac.id/index.php/ICIE/index

## Introduction

Financial statements are the main product of the financial reporting system that serves as the basis for economic decision-making by investors, creditors, regulators, and other stakeholders. Financial statements contain information about the financial position, financial performance, and cash flow reports of an entity (Ricky et al., 2024). The quality of financial statements determines whether the information presented truly reflects the economic condition of the company or merely serves as a means of manipulating managerial interests. In practice, one of the biggest threats to the quality of financial statements is earnings management, which is the action of managers in modifying accounting figures to achieve certain goals without explicitly violating accounting standards.

The company's short-term goal is not just to gain the maximum profit. An increase in profit impacts the company's value, which means it signals that the shareholders' wealth will also increase (Syabrina, 2021). Profit is the focus of financial statement users because it has predictive value and serves as a key performance indicator (Manalu et al., 2024). Agency Theory serves as the main theoretical foundation for understanding earnings management practices. Agency Theory explains the existence of a contractual bond between owners (principals) and management (agents) as the parties running the company (Sari & Muslimin, 2025). In this context, management holds the power to increase the company's profits. However, this power is often misused to fulfill their personal interests. Such a situation creates a conflict of interest, which can be interpreted through agency theory (Batu Bara, 2021). In order to report better profits, management is motivated to use earnings management, as this directly affects the bonuses they receive. The higher the reported profit, the greater the bonus given by the company to its managers.

In Indonesia, the cases of Garuda Indonesia and Jiwasraya demonstrate how reporting manipulation can lower the quality of financial statements and harm stakeholders (Kumandang & Hendriyeni, 2021).Various empirical studies show that companies face high pressure to meet profit targets, maintain performance image in the eyes of investors, and comply with debt contracts and capital market regulations. This pressure encourages managers to exploit the flexibility of accounting standards and accrual policies to manage the timing and magnitude of reported profits. As a result, financial statements that should be informative may instead become biased and misleading.

Several studies have examined various determinants of earnings management, ranging from leverage, profitability, company size to governance and audit quality. However, findings often contradict each other. For example, in the study (Purnama & Taufiq, 2021), leverage was found to increase earnings management in property companies, but suppress it in manufacturing companies with certain ownership structures (Agustin & Widiatmoko, 2022).

Another more fundamental issue is measurement bias: the majority of studies use Discretionary Accruals (Modified Jones), thus neglecting real earnings management. In fact, when CSR and GCG are tested with two proxies (accrual and real), the results differ in direction (Kumandang & Hendriyeni, 2021). This is the reason for the need for a systematic literature review (SLR) to map patterns, conflicts of findings, and research gaps.

## Research Methodology

This research uses a Systematic Literature Review (SLR) approach. Systematic Literature Review (SLR) is a method that involves a series of systematic processes, starting from identification, analysis, evaluation, to interpretation of various previous research results that have been collected (Sari & Muslimin, 2025). SLR is used to map the development of research on profit management in financial reporting in Indonesia, particularly from the perspective of determinants, measurement models, and their impact on the quality of financial statements.

The search process was conducted with the keyword "profit management" with a publication year range of 2020 – 2025 to ensure relevance to the relatively recent regulatory conditions and financial reporting practices. Synthesis analysis is then applied to identify recurring patterns and trends (Molana & Nasution, 2025).

The collected articles were then analyzed using content analysis and thematic synthesis techniques, with three main focuses:

1. Determinant mapping: Grouping factors that influence profit management (leverage, profitability, corporate governance, company size, etc.).
2. Measurement model mapping: Identifying and classifying profit management measurement models used (Modified Jones, Kothari, Dechow Dichev, REM, etc.).
3. Impact synthesis: Analyzing the direction and strength of the impact of profit management on the quality of financial statements.

**Results**

The findings from various previous studies referenced in the literature review can be seen in the following Table 1:

**Table 1.** Result of Literature review articles

| No | researcher's name | Research Title | Key Results |
|---|---|---|---|
| 1 | (Nainggolan & Karunia, 2022) | Influence of Leverage, Corporate Governance, and Profitability on Profit Management | DAR & managerial ownership → significant positive; Audit committee & ROA → significant negative |
| 2 | (Joe & Ginting, 2022) | Influence of Company Size, Leverage, and Profitability on Profit Management | Firm size → significant; leverage & profitability → not significant |
| 3 | (Purnama & Taufiq, 2021) | Influence of Profitability, Leverage, Firm Size, and Earnings Power on Profit Management | *Leverage → positive; firm size → significant negative* |
| 4 | (Fadhilah & Kartika, 2022) | Influence of Firm Size, Free Cash Flow, Leverage, and Profitability on Profit Management | *Firm size & ROA → positive; FCF → negative; leverage → not significant.* |
| 5 | (Kumandang & Hendriyeni, 2021) | The Influence of CSR Awards and Good Corporate Governance on Earnings Management | CSR & GCG → no effect |
| 6 | (eva trisma Yasa et al., 2020) | The Influence of Firm Size, Leverage, and Profitability on Earnings Management | *Leverage → positive significant; firm size & ROA → not significant* |

| | | | |
|---|---|---|---|
| 7 | (Solikhah, 2022) | The Influence of CSR Disclosure on Profitability and Earnings Management | CSR → affects profitability, not on earnings management |
| 8 | (Pamulang & Selatan, 2021) | Analysis of Earnings Management Influenced by Audit Committee and Firm Size | *Firm size → significant; audit committee → not* |
| 9 | (Kalbuana et al., 2020) | The Influence of CSR Disclosure, Earnings Persistence, and Earnings Growth on Earnings Management | Earnings growth → positive significant; CSR & persistence → not |
| 10 | (Agustin & Widiatmoko, 2022) | The Influence of Ownership Structure and Audit Quality on Earnings Management | Institutional ownership, concentration & audit quality → negative significant |

1. Determinants of Earnings Management in Indonesia

The synthesis results from ten articles show that there is no financial variable that behaves consistently across studies, except for governance mechanisms.

a. Leverage

Leverage is the most frequently tested variable, but also the most empirically unstable. In the research (Purnama & Taufiq, 2021) and (eva trisma Yasa et al., 2020), leverage was proven to increase earnings management in the property and manufacturing sectors. However, in other studies, leverage does not affect or even suppress earnings management (Agustin & Widiatmoko, 2022) and (Fadhilah & Kartika, 2022).

b. Firm Size

According to research by (Purnama & Taufiq, 2021), firm size suppresses earnings management in the property sector. Meanwhile, in the service and tourism sub-sector, firm size actually increases earnings management (Fadhilah & Kartika, 2022). In the manufacturing sector, firm size is often not significant (eva trisma Yasa et al., 2020) and (Joe & Ginting, 2022).

c. Profitability

In the service and hotel sector, profitability encourages earnings management (Fadhilah & Kartika, 2022). However, it is not significant in encouraging earnings management in property and manufacturing companies (Purnama & Taufiq, 2021) and (Joe & Ginting, 2022).

2. Corporate Governance and Audit Quality.

Different from financial variables, the monitoring mechanisms show a much more stable pattern. According to research by (Agustin & Widiatmoko, 2022) and (Nainggolan & Karunia, 2022), institutional ownership, managerial ownership, audit committees, and audit quality significantly suppress earnings management practices.

3. Measurement Model Bias: The Roots of Conflicting Findings

Most of the studies reviewed use Discretionary Accruals (Modified Jones Model), with only the research by (Kumandang & Hendriyeni, 2021) explicitly distinguishing between accrual earnings management and real earnings management. The results contradict the

assumption that CSR and GCG suppress accrual earnings management but encourage real earnings management through operating cash flows.

The review results show that leverage, profitability, and firm size do not consistently explain earnings management. On the contrary, the most stable factors are institutional ownership, managerial ownership, audit committees, and audit quality. This is supported by agency theory, where when monitoring mechanisms are weak, managers will exploit accounting flexibility. Management is the party contracted by the shareholders to work for the interests of the shareholders. Since they are appointed, management must be accountable for all their work to the shareholders as the owners (Anisa, 2021). Therefore, good governance and monitoring are needed. However, The literature reviewed is too focused on financial ratios, while according to the researchers, the issue lies more in information asymmetry and governance failures.

## Conclusion

This Systematic Literature Review aims to map the determinants, measurement models, and implications of earnings management on the quality of financial reporting in Indonesia. Based on the synthesis of ten articles from the period 2020 – 2025, several key conclusions were obtained.

First, financial variables such as leverage, profitability, and firm size do not show a consistent pattern of influence on earnings management practices. Leverage and firm size in some sectors have been shown to increase earnings management, but in other sectors, they do not affect or even decrease it. This indicates that financial pressure alone is not sufficient to explain earnings manipulation behavior without considering the industry context and monitoring mechanisms.

Second, corporate governance mechanisms and audit quality are the most stable determinants in suppressing earnings management practices. Institutional ownership, managerial ownership, audit committees, and auditor quality generally reduce managers' tendencies to manipulate earnings. These findings emphasize that earnings management in Indonesia is more a matter of monitoring failure than a performance issue.

Third, Indonesian literature is heavily dominated by accrual-based earnings management measurement through the Modified Jones Model, while the real earnings management approach is hardly used. The only study that distinguishes between accrual and real earnings management shows that governance mechanisms and CSR can suppress accrual manipulation but are unable to suppress and even tend to encourage it.Manipulation through operational activities. This indicates that supervisory practices can change the form of manipulation, not eliminate it.

Thus, this research concludes that the understanding of earnings management in Indonesia so far is still partial and biased due to the limitations of measurement models. Future research needs to integrate accrual and real earnings management, as well as consider sectoral contexts and non-financial pressures in order to provide a more comprehensive picture of the quality of financial reporting.

## References

[1] Agustin, E. P., & Widiatmoko, J. (2022). Pengaruh Struktur Kepemilikan dan Kualitas Audit terhadap Manajemen Laba. *Owner: Riset & Jurnal Akuntansi*, *6*(1), 990–1002. https://doi.org/10.33395/owner.v6i1.707

[2] Anisa, M. K. (2021). *Pengaruh Corporate Governance dan kualitas audit terhadap ketepatan waktu pelaporan keuangan (studi kasus pada bank yang terdaftar di bursa efek indonesia)*. Universitas Pembangunan Panca Budi.

[3] Batu Bara, N. S. (2021). *Pengaruh kepemilikan manajerial, leverage, dan profitabilitas terhadap manajemen laba (studi kasus pada perusahaan otomotif yang terdaftar di bursa efek indonesia tahun 2015-2019)*. Universitas Pembangunan Panca Budi.

[4] eva trisma Yasa, I. K., made Sunarsih, N., & gusti ayu asri Pramesti, I. (2020). PENGARUH UKURAN PERUSAHAAN, LEVERAGE DAN PROFITABILITAS TERHADAP MANAJEMEN LABA PADA PERUSAHAAN MANUFAKTUR DI BEI TAHUN 2016-2018. *JURNAL KHARISMA*.

[5] Fadhilah, A., & Kartika, A. (2022). The Pengaruh Ukuran Perusahaan, Arus Kas Bebas, Leverage, dan Profitabilitas Terhadap Manajemen Laba. *Kompak :Jurnal Ilmiah Komputerisasi Akuntansi*, *15*(1), 25–37. https://doi.org/10.51903/kompak.v15i1.593

[6] Joe, S., & Ginting, S. (2022). The The Influence of Firm Size, Leverage, and Profitability on Earnings Management. *Jurnal Ilmiah Akuntansi Kesatuan*, *10*(3), 567–574. https://doi.org/10.37641/jiakes.v10i3.1505

[7] Kalbuana, N., Utami, S., & Pratama, A. (2020). Pengaruh Pengungkapan Corporate Social Responsibility, Persistensi Laba dan Pertumbuhan Laba Terhadap Manajemen Laba Pada Perusaaan Yang Terdaftar di Jakarta Islamic Index. *Jurnal Ilmiah Ekonomi Islam*, *6*(2), 350. https://doi.org/10.29040/jiei.v6i2.1107

[8] Kumandang, C., & Hendriyeni, N. S. (2021). Corporate Social Responsibility, Corporate Governance dan Manajemen Laba pada Perusahaan Manufaktur di Indonesia Tahun 2015-2019. *Journal of Management and Business Review*, *18*(2), 94–109. https://doi.org/10.34149/jmbr.v18i2.273

[9] Manalu, L., Asbari, M., & Winanti, W. (2024). Pengaruh Biaya Operasional Pada Laba Bersih Yang Dihasilkan: Systematic Literature Review. *Jurnal Ilmu Sosial, Manajemen, Akuntansi Dan Bisnis*, *1*(02), 74–78. https://doi.org/10.70508/82dyjf96

[10] Molana, D., & Nasution, M. I. (2025). The Influence of Corporate Social Responsibility (CSR) Reporting on Financial Auditing: A Systematic Literature Review. *2nd International Conference on Islamic Community Studies (ICICS) Theme: History of Malay Civilisation and Islamic Human Capacity and Halal Hub in the Globalization Era*.

[11] Nainggolan, Y. T., & Karunia, E. (2022). Leverage corporate governance dan profitabilitas sebagai determinan earnings management. *AKUNTABEL: Jurnal Akuntansi Dan Keuangan*. https://doi.org/10.29264/jakt.v19i2.10752

[12] Pamulang, U., & Selatan, T. (2021). ANALISIS MANAJEMEN LABA YANG DIPENGARUHI OLEH KOMITE AUDIT DAN FIRM SIZE PERUSAHAAN LQ45 TAHUN 2015-2019 RAKHMAWATI OKTAVIANNA*, EKA

[13] RIMA PRASETYA. *Jurnal Ilmiah Akuntansi Universitas Pamulang*, *9*(1). http://openjournal.unpam.ac.id/index.php/JIA

[14] Purnama, Y. M., & Taufiq, E. (2021). PENGARUH PROFITABILITAS, LEVERAGE, FIRM SIZE, DAN EARNINGS POWER TERHADAP MANAJEMEN LABA PADA PERUSAHAAN SEKTOR PROPERTI YANG

[15] TERDAFTAR DI BURSA EFEK INDONESIA PERIODE 2017-2019. *Journal of Accounting, Finance, Taxation, and Auditing (JAFTA)*, *3*(1), 71–94. https://doi.org/10.28932/jafta.v3i1.3280

[16] Ricky, Maisyarah, R., & Br Purba, R. (2024). PENGARUH PENERAPAN SISTEM INFORMASI AKUNTANSI CLOUD ACCOUNTING JURNAL ID DENGAN TINGKAT PEMAHAMAN PEMANFAATAN TEKNOLOGI OLEH PENGGUNA SEBAGAI VARIABEL MODERASI TERHADAP KUALITAS LAPORAN KEUANGAN

[17] PADA CV JAYA PERKASA ABADI. *TRANSEKONOMIKA: Akuntansi, Bisnis Dan Keuangan*, *4*(1). https://transpublika.co.id/ojs/index.php/Transekonomika
[18] Sari, I. N., & Muslimin. (2025). Studi Manajemen Laba: Systematic Literature Review. *Proceedings National Conference Sinesia*, *1*(1), 135–146. https://doi.org/10.69836/ncrcs-sinesia.v1i1.47
[19] Solikhah, I. (2022). PENGARUH PENGUNGKAPAN CORPORATE SOCIAL RESPONSIBILITY (CSR) TERHADAP PROFITABILITAS DAN MANAJEMEN LABA (STUDI EMPIRIS PADA PERUSAHAAN MANUFAKTUR YANG TERDAFTAR DI BURSA EFEK INDONESIA (BEI) TAHUN 2015-2017). *AKUNESA:*
[20] *Jurnal Akuntansi Unesa*. https://journal.unesa.ac.id/index.php/akunesa/index
[21] Syabrina, A. T. (2021). *Pengaruh manajemen laba dan rasio keuangan terhadap nilai perusahaan pada perusahaan perkebunan yang terdaftar di bursa efek indonesia*. Universitas Pembangunan Panca Budi.