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The effect of asymmetric information and financial distress ratio on earnings management with corporate governance as moderating variables

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Abstract

This study aims to examine the effect of asymmetric information and financial distress ratio on earnings management with corporate governance as a moderating variable. Previous studies examining this topic still have inconsistent results. Seeing this, the researchers tried to re-examine using a sample of retail companies/trading sector, services and investment in the retail trade sub-sector listed on the Indonesia Stock Exchange (IDX) in 2015-2020. The sample of this research was taken through purposive sampling, totaling 20 companies. Data analysis methods are descriptive statistics, regression analysisi, and Moderated Regression Analysis (MRA) using Econometric Views (EViews) 10 for windows. The results showed that asymmetric information and liquidity had a positive effect on earnings management, while liquidity and leverage had a negative effect on earnings management. Independent commissioners can moderate the effect of asymmetric information and liquidity on earnings management but cannot moderate the effect of profitability and leverage on earnings management. The audit committee can moderate the effect of financial leverage (profitability, liquidity and leverage) on earnings management, but cannot moderate the effect of asymmetric information on earnings management.

Keywords

asymmetric information; profitability; liquidity; leverage; independent board of commissioners; audit committee; earnings management

INTRODUCTION

Based on the statement disclosed by (Kieso et al., 2017),the income statement is a financial report usually used by investors and creditors to evaluate uncertain matters or risks that may occur in the future, provide a reference in estimating performance, and assessing performance. This tendency to focus more on earnings is recognized by executives, especially managers, who believe that earnings can reflect company performance (Garel et al., 2021).

This assumption encourages management to create a positive trend in company profits during each period. When a company is unable to do, management will preparing financial statements, especially its effect on profits through earnings management (Harris et al., 2021).

This earnings management practice indicates the occurrence of asymmetric information, where one part has more information that the other part doesn' have (Sulistyanto, 2008). Management has more information about the company than shareholders, resulting in asymmetric information. Eastman et al. (2021), Ghorbani & Salehi (2020), and Thinh & Thu (2020) indicate that asymmetric information has a significant positive effect on earnings management.

Different opinions are given by Wening & Damayanthi (2021) and Chen et al. (2021) where asymmetric information has no effect on earnings management. If asymmetric information occurs, it is very possible or provide an opportunity for management to carry out profit-oriented accounting practices to a certain effect. However, if that pactice happens in the long term, Scott (2015) says it is not impossible that financial distress will occur and lead to company failure/bankruptcy.

Gandhi (2021) proves that there is no significant result (Increase/Decrease) in discritionary accruals in companies that have financial problems and financial distress. His research shows that managers in companies experiencing financial problems do not participate in the practice of Accrual Earnings

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Management (AEM) even though there is motivation to do. However, the results of this study are in contrast to research conducted by Paul & Rakshit (2020) and Agatha et al. (2021), which states that when a company's are in financial distress, most likely to do earnings management.

Scott (2015) added that the way to reduce earnings management practices is through the implementation of Good Corporate Governance (GCG) which can optimize company performance by monitoring management performance and ensuring management accountability to stakeholders. This research proxied corporate governance with the percentage of the size of the audit committee and the independent board of commissioners.

The percentage of independent commissioners in order to comply with the principles of corporate management (governance) in order to maintain independence and make timely, accurate, and effective policies is at least 30% of the total members of the independent board of commissioners (Gerged et al., 2021). This also applies to the audit committee. The number of audit committees owned by the company does not rule out the possibility that the company's performance will also improve to protect more stakeholders and optimize its financial oversight function (Agatha et al., 2021).

The result of research by Mayndarto & Murwaningsari (2021) and Agatha et al. (2021) shows that independent commissioners are failed to moderate the relationship between financial distress and earnings management. However, these results are in contrast to research of Gerged et al. (2021) and Syahyidati & Venusita (2019) which shows that independent commissioners can moderate the effect of asymmetric information on earnings management.

From various studies that have been done previously, the researcher is motivated to develop the possibility of earnings management as a result of asymmetric information and financial distress by adding corporate governance as a variable that is thought to be able to minimize the occurrence of earnings management.

This research is a development the research of Gandhi (2021), Eastman et al. (2021), Gerged et al. (2021) serta Bravo-Urquiza & Moreno-Ureba (2021). The difference between this study and previous research is the variables studied, the sample, the population, and the analysis technique used to measure financial distress.

The urgency of this study is the prevalence of information irregularities (asymmetric information) and corporate bankruptcies due to the pandemic so that the prediction of financial distress ratios can be used as an early warning system or bankruptcy prevention so that management thinks about of doing earnings management for personal or corporate gain.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Effect of asymmetric information on earnings management

Asymmetric information occurs if there is a difference in the information received by the principal and that of the management (agent) (Jensen & Meckling, 1976). Managers are given the freedom to carry out their activities in the company. One of the freedoms that managers receive to carry out their activities in the company is the freedom to choose the accrual accounting method that is likely to carry out earnings management (Scott, 2015).

The behavior of managers who carry out earnings management is the result of the abuse of freedom for certain interests. The positive signal given by the agent to stakeholders because of the earnings management carried out causes information gaps for both parties (Bhattacharya, 1979).

Ghorbani & Salehi (2020), Thinh & Thu (2020), Monika et al. (2021), Syahyidati & Venusita (2019) serta Ridwan & Suryani (2021) in their research show that asymmetric information has a positive and significant effect on earnings management. The company's management is also expected to increase transparency in the disclosure of financial statements. More transparent disclosure can minimize the manipulation of financial statements so as to minimize information imbalances (asymmetric information).

Eastman et al. (2021) stated that increasing information in financial statement disclosures can reduce the occurrence of asymmetric information practices. The greater the difference in the level of disclosure between executives and shareholders, the greater the opportunity for executives to engage in earnings management activities.

The hypothesis of this research can be formulated as follows:

H1: Asymmetric information has a positive effect on earnings management.

Effect of financial distress ratio on earnings management

Financial distress occurs when a company cannot fulfill its payment plan or cash flow projections indicate that the company will not be able to fulfill its obligations (Hanafi & Halim, 2004). This causes disruption of the company's operational activities. Seeing the company's situation, the agent chose to carry out earnings management policies with the aim that the company was not liquidated and survived the threat of bankruptcy.

The agent performs earnings management so that financial distress that occurs in the company becomes invisible to interested parties (principals). Earnings management is carried out by beautifying financial statements, especially regarding profits to make it look more attractive and show good company performance. Financial statements with a positive profit trend are a good signal for principals.

Paul & Rakshit (Paul & Rakshit, 2020) in their research showed companies which experienced financial distress carrying out earnings management accounting policies by reducing income (income minimization). Profitability, liquidity, and company growth were found to have a significant positive effect on earnings management. So when the company faces financial difficulties, management can flexibly change the information in the financial statements to maintain good financial performance in the eyes of the company's stakeholders (Agatha et al., 2021).

Therefore, this research hypothesis can be formulated as follows:

H2: Financial Distress Ratio has a positive effect on earnings management.

Corporate governance

Corporate governance is defined as a set of rules governing the relationship between the rights and responsibilities of employees, government, creditors, company officials (managers), shareholders, and other internal and external stakeholders. In short, the definition of corporate governance is a system that controls and manages a particular company (Cadbury, 1992).

A company that implements corporate governance can certainly have a supervisory board or commonly known as a board of commissioners (Sulistyanto, 2008). The board of commissioners consists of internal company members as well as independent members from external companies. The role of the independent commissioner is expected to ensure that the company's performance is in accordance with the planned objectives by minimizing agency problems between agents and principals (Scott, 2015). As for the determination of the number of independent commissioners at least 30% of the total members of the board of commissioners of a company.

As a form of strict supervision, the company has an audit committee chaired by an independent commissioner An audit committee may be formed to help the board of commissioners oversee the company's operations. The audit committee is a key element through which auditors communicate with those charged with corporate governance (Arens, 2014). Most audit committees consist of three to five members who are not part of the company's management. an audit committee was formed to strengthen the supervisory role and accountability of the company's board of directors (Sulistyanto, 2008).

The influence of the independent board of commissioners in moderating the effect of asymmetric information on earnings management

Asymmetric information must be minimized by independent commissioners so that agency conflicts will affect earnings management by agents. Independent commissioners are present to oversee management performance as well as bridge between agents and principals (Mayndarto & Murwaningsari, 2021).

Syahyidati & Venusita (2019), Monika et al. (2021), Gerged et al. (2021) dan Utomo (2020) on their research showed that independent board of commissioners can moderate the effect of asymmetric information on earnings management. A higher proportion of independent commissioners is expected to encourage a more effective supervisory function so that financial reports are more reliable. The higher the reliability of a company's financial statements, the less asymmetric information that arises between agents and principals, thus avoiding earnings management practices (Gerged et al., 2021). Looking at the problems above, the hypotheses obtained is:

H3: Independent board of commissioners moderates the relationship between asymmetric information and earnings management.

The influence independent board of commissioners in moderating effect of financial distress ratio on earnings management

The independent board of commissioners is one of the parties that oversees the company's finances and has a role in making policy decisions when the company experiences financial distress. As a liaison between the agent and the principal, the independent board of commissioners must be able to intervene or provide good advice to managers regarding the financial condition so that the company does not enter the next stage, namely bankruptcy (Handriani et al., 2021).

Handriani et al. (2021), Monika et al. (2021), Yuliani & Rahmatiasari (2021), serta Tiong & Irwan (2021) in their research shows that independent commissioners can moderate the relationship between financial distress and corporate governance where the results are significantly negative on earnings management. An independent board of commissioners ensures that the owners or shareholders obtain returns from the activities carried out by agents or managers. Therefore, when a company experiences financial distress, an independent board of commissioners helps the company overcome it by not practicing earnings management (Tiong & Irwan, 2021).

The higher the number of independent commissioners owned by the company, the weaker the earnings management practice is because it will narrow the movement or opportunity for agents to change or beautify financial statements (Handriani et al., 2021). Then the hypothesis of this research can be formulated as follows:

H4: Independent board of commissioners moderates the relationship between Financial Distress Ratio and earnings management.

The influence independent board of commissioners in moderating effect of financial distress ratio on earnings management

The audit committee is a crucial part of the public news provider and is used by investors to assess the company (Gerged et al., 2021). Gerged et al. (2021), Anggreningsih & Wirasedana (2017), Karin et al. (2020) and Agatha et al (Agatha Rusci et al., 2021) in their research swosh that shows that the effectiveness of the audit committee can reduce the interaction of asymmetric information on earnings management by agents.

The existence of supervision from the audit committee is expected to provide more informative, transparent and quality financial reports. The financial statements are carried out in order to reduce the level of asymmetric information and minimize the occurrence of earnings management practices (Gerged et al., 2021). The audit committee can influence management when they want to take accounting policies (in this case earnings management) by ensuring the transparency of financial reporting so that there is no information imbalance (asymmetric information) between agents and principals (Karin et al., 2020). Therefore, this research hypothesis can be formulated as follows:

H5: The audit committee moderates the relationship between asymmetric information and earnings management.

The influence of the audit committee in moderating the effect of financial distress ratio on earnings management

When the company's finances are experiencing financial distress, the manager has the authority to choose accounting techniques, in this case doing earnings management (Sulistyanto, 2008). Earnings management is carried out so that stakeholders capture financial statements as a good signal so that they remain in the company. The presence of corporate governance is expected to minimize the effect of financial distress on earnings management (Scott, 2015). As one of the indicators of corporate governance, the audit committee plays a role in assisting managers in overcoming the company's financial problems.

Research conducted by Handriani et al. (2021) shows that efforts to reduce the level of earnings management practices by improving the quality of financial reporting can be done through the implementation of good corporate governance. The higher the proportion of the audit committee in a company, the opportunity to manipulate financial statements, especially earnings, will be lower with strict and independent supervision. Therefore, this research hypothesis can be formulated as follows:

H6: The audit committee moderates the relationship between Financial Distress Ratio and earnings management.

METHODS

Procedure and sample

The population in this study are retail companies/trade sector, services and investment (9th sector on BEI) retail trade sub-sector (93rd sub-sector on BEI). Retail companies were chosen because bankruptcies of these companies are currently rampant in Indonesia. This relatively high level of bankruptcy is in line with the increase in online sales/e-commerce, low levels of liquidation plus capital turnover which must be consistent in order to ensure company continuity (going concern).

The price difference between one retail company and another is also an important point that can affect company profits (Sugiono & Christiawan, 2013). Retail companies also have a more market orientation towards consumers or customers, so that the level of openness or transparency of information that occurs between agents and the parties concerned (consumers and principals) must be high.

This consumer orientation must be an important focus for retail companies which can be monitored by good corporate governance (Gerged et al., 2021).The total number of retail companies listed on the IDX as of November 2021 is 27 companies. The sampling technique used by the researcher is using purposive sampling. Data analysis methods are descriptive statistics, panel data regression and Moderated Regression Analysis (MRA) using Econometric Views (EViews) 10 for windows.

Measurements

Asymmetric information

The asymmetric information variable can be calculated using the bid-ask spread proxy on an annual basis. Through the bid-ask spread, it states that there is a spread component that contributes to the losses experienced by dealers (companies) when making transactions with information traders. The bid-ask spread is the highest price difference at which a trade (stock trader) is willing to buy a share at the lowest selling price and a trader is willing to sell the share. The relative bid-ask spread on asymmetric information can be measured from the difference between the ask price and the bid price of the company's shares. according to Healy & Wahlen (1999), ask is the selling price of shares while bid is the buying price of company shares for one year. The bid-ask spread proxy is often used by other researchers to examine asymmetric information as done by Eastman et al. (2021), Wening & Damayanthi (2021), Septiadi & Mimba (2015), and Utomo (2020). The bid-ask spread formula is:

$$Spread = \frac{(Askit - Bidit)}{(Askit + Bidit)/2}\ x\ 100$$

Askit : The selling price of shares in period t

Bidit : The purchase price of shares in period t

Financial distress ratio

Financial distress analysis using financial ratios is the most commonly used method to predict financial distress (Kasmir, 2019). Several types of financial ratios that researchers will use include profitability, liquidity and leverage ratios with the following explanation:

a. Profitability

   This ratio researchers use to determine the level of profit that can be generated by a company. If the profit level is higher, of course, the better the management of the business will be (Kasmir, 2019). The profitability formula that the researcher uses is using ROA (Return On Assets) with the formula:

$$ROA = \frac{EBIT}{Total\ Assets}$$

   EBIT : Earnings Before Interest Taxes

Table 1.
Sample selection criteria

No	Criteria	Total
1	Retail companies/trading, services and investment sector [9] retail trading sub-sector (93) listed on the Indonesia Stock Exchange (IDX)	27
2	Retail companies/trade, services and investment sector [9] retail trade sub-sector (93) listed on the IDX in 2015-2020	-6
3	Retail companies/trade, services and investment sector [9] retail trade sub-sector (93) which provides complete financial reports and annual reports from 2015-2020	-1
Number of Sample Companies		20
Number of Observations		120

b. Liquidity
The use of the liquidity ratio aims to identify whether or not the company's operations are disrupted if its short-term obligations are billed and fulfilled immediately, and can analyze the level of security of short-term creditors (Kasmir, 2019). The calculation of liquidity in this study uses the current ratio with the formula:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

c. Leverage
The leverage ratio shows how much of the business needs to be financed with debt. The higher the level of company leverage, the more debt used and can increase business risk, especially when the economy is deteriorating (Kasmir, 2019). Leverage in this study was measured using a debt ratio in the form of debt to total assets with the formula:

$$Debt\ to\ Total\ Assets = \frac{Total\ Liabilities}{Total\ Assets}$$

Earnings management

This research uses discretionary accruals (DAC) because it is an aspect that can be manipulated by the manager. Discretionary accrual does not require physical evidence of cash so that when playing with the component in question, it is not accompanied by cash received/issued (Sulistyanto, 2008). Before measuring DAC, the total accrual was measured using the modified Jones Model (modified Jones model). Where the total accruals are categorized into two components, namely discretionary and non-discretionary through the following stages:

a. Calculating total accruals using the modified Jones Model

$$\text{TAit} = \text{NIit} - \text{CFOit}$$

CFOit : cash flow from operating
NIit : net income
TAit : total accrual in year t for company i

b. Calculate the estimated accruals value with the Ordinary Least Square (OLS) regression equation

$$\text{TAit}/Ait - 1 = \alpha 1(1/Ait - 1) + \beta 2(\Delta REVit\ /\ (Ait - 1)\ ) + \beta 3(PPEit\ /\ (Ait - 1) + e)$$

Ait-1 : total assets
TAit : total accruals
PPEit : fixed assets (gross property plant and equipment)
REVit : revenue in year t - revenue in year t-1 for company i
1, 2, 3 : regression coefficient
e : error term in year t for company i

c. Calculate the nondiscretionary accruals model (NDA) with the formula:

d. Calculating discretionary accruals

$$\text{DAit} = (\text{TAit}/\text{Ait} - 1) - (\text{NDAt}/\text{Ait} - 1)$$

DAit : discretionary accruals

Corporate governance

Corporate governance is a moderating variable in the study which is expected to minimize the effect of asymmetric information and financial distress on earnings management practices. Corporate governance is proxied by an independent board of commissioners and an audit committee which is detailed as follows:

a. Independent board of commissioners
   The researcher uses an indicator in measuring the proxy of independent commissioners, namely the proportion of independent commissioners whose measurement is based on the percentage of the total board of commissioners as a whole (Utomo, 2020).

$$KI = \frac{\sum \text{Independent board of commissioners}}{\sum Total\ board\ of\ directors}\ x\ 100\%$$

b. Audit committee
   The indicator that the author uses to measure the audit committee proxy is the number of audit committees in a company. The number of members of a good audit committee is from 3 to 5 members who are not part of the company's management (FCGI (Forum for Corporate Governance in Indonesia), 2001).

RESULTS AND DISCUSSION

Based on the results of the sampling selection using purposive sampling technique, it was found that 20 company units had met the criteria. Observational data obtained for 6 years of observation are as many as 120.

Descriptive statistics

According to Ghozali (2013) descriptive statistics provide an overview of the data being studied. While in this study using the variables DA, SPREAD, PROFIT, LIQUID, FLEV, KI and KA, with the validation of the descriptive statistics above, the data can be obtained in Table 2.

The results of the processed descriptive statistical test show that the earnings management variable (DA) as an independent variable performs earnings management actions by increasing the company's profit value (income maximization). The independent variable, namely asymmetric information using a bid-ask spread (SPREAD) proxy, shows that most companies take asymmetric information actions as indicated by a mean value greater than 50%. The independent variable financial distress measured using a profitability proxy (PROFIT) shows that during the research process the average company suffers a loss of 28%, the liquidity proxy (LIQUID) indicates that the majority of companies have a good ability to pay off their obligations and the company will not be disturbed if short-term obligations can be fulfilled which can be seen from the mean value >1.00 x <3.00 and the leverage proxy (FLEV) indicates that during the research the majority of companies have a fairly high level of leverage, which is 2.880477, meaning high business risks, especially when the company's economy deteriorates. In addition, the standard deviation values of DA and SPREAD indicate that the data is more varied, but the three financial distress proxies show that the data is less varied.

The moderating variable that the researcher uses is corporate governance which is analyzed using the proportion of independent commissioners (KI) showing that on average companies have a proportion of independent commissioners as per the OJK (Financial Services Authority) regulations with a minimum number of independent commissioners of 30%. Another proxy for corporate governance is measured using the proportion of the audit committee (KA) which indicates that during the research process, the average company can be said to have an audit committee proportion of at least 3 members with a mean percentage of 31%. In addition, the value of the standard deviation of the independent commissioners (KI) is less varied, while the data on the proportion of audit committees (KA) is more varied.

Model estimation test and panel data regression model selection

This research is a panel data which includes a combination of time series time series with a cross section. There are three panel data regression models that can be used, namely the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). Based on the three panel data regression models above, the researcher will choose the most appropriate model. There are three methods that can be used, namely the Langrage Multiplier (LM) test, the Hausman test, and the Chow test. (Vulandari et al., 2021). From the calculations that have been made, Fixed Effect Model (FEM) is the best model to be used in this research.

In testing the data, there are concerns related to heteroscedasticity and

Table 2.
Descriptive statistic

	DA	SPREAD	PROFIT	LIQUID	FLEV	KI	KA
Mean	0.004740	65.54410	-0.28451	2.773019	2.880477	0.410489	3.091667
Median	0.000975	57.81691	0.024214	1.298354	0.607448	0.400000	3.000000
Maximum	0.127894	168.7805	0.577180	17.21012	90.98972	0.600000	5.000000
Minimum	1.55E-05	1.980198	-10.9653	0.021327	0.007623	0.166667	3.000000
Std. Dev.	0.014239	34.48295	1.469106	3.456995	11.19257	0.076713	0.342895
Skewness	6.525188	0.905911	-5.52252	2.311121	6.554040	0.078152	3.989387
Kurtosis	51.76646	3.379110	35.59740	8.427535	48.05770	2.630710	19.18457

Table 3.
Correlation coefficients

	SPRD	ROA	LKD	FLEV	KI	KA	DA
SPRD	1.00						
ROA	-0,141	1.00					
LKD	-0,218*	0,177	1.00				
FLEV	0,193*	-0,472**	-0,179	1.00			
KI	-0,065	0,052	0,096	0,170	1.00		
KA	0,055	-0,055	0,276**	0,250**	0,046	1.00	
DA	0,241**	0,281**	0,037	-0,093	0,039	-0,038	1.00

SPRD = Asymmetric Information; ROA = Profitability; LKD = Liquidity; FLEV = Leverage; KI = Independent Board of Commissioners; KA = Audit Committee; DA = Earnings Management

autocorrelation which have the potential to cause inefficiency of model coefficients. Therefore, the Wald test was carried out to observe heteroscedasticity and the Wooldridge test to observe autocorrelation. However, the results of the Wooldridge test are considered unreliable if the observation period is short, which in this study was six years (Le & Phan, 2017). Therefore, autocorrelation can be ignored in testing short panel data. The Wald test results show that there is no heteroscedasticity problem in the model.

Correlation analysis

The correlation coefficients between variables used in the regression models are presented in Table 3. The results showed that all the independent variables do not have a high correlation (almost 1). Thus, the recent model has not had perfect collinearity. Further value is described in the table 3.

Regression analysis

Based on the results of the chow test carried out, the probability value for the Chi-Square Cross Section is 0.0211 which is smaller than 0.05 ($p<0.05$). So the most appropriate model for estimating the regression equation is using the Fixed Effect Model (FEM). Apart from that, based on the Hausman test results, the probability value for Random Cross Section is 0.0057<0.05 ($p<0.05$). So the most appropriate model for estimating the regression equation is to use the Fixed Effect Model (FEM). Therefore, there is no need to calculate the Langrage Multiplier (LM) test to ensure the most appropriate model.

The regression test aims to see the level of significance regarding the affect between independent variables in influencing the dependent variable. In this study using a significance level of 0.05 or 5%, this indicates that if the significance value is below 0.05, the independent variable has a significant effect on the dependent variable. Table 4 shows the correlation between DA, SPREAD, PROFIT, LIQUID, FLEV, KI and KA. Table 4 shows the results of the F statistical test.

The asymmetric information variable (SPREAD) has a T count of 4.181188 with a probability value of 0.0001, so the asymmetric information variable with the bid-ask spread indicator has a positive effect on earnings management. The financial distress variable

Table 4.
Regression testing

	(1) RE	(2) FE	(3) CE
SPREAD	0.000156**	0.000165**	0.000151**
PROFIT	0.017392**	-0.00109**	-0.00264**
LIQUID	0.000112	0.000399**	0.000203
FLEV	-0.000223	-0.00041**	-0.00029*
KI	0.004760	0.01043*	0.010102
KA	-0.003839	-0.00317*	-0.00461*
Constant	0.004664	-0.00093	0.004313
Observation	120	120	120
R-squared	0.132139	0.384187	0.186000
F-statistic	3.380135	2.345748	4.303435
Prob(F-statistic)	0.007017	0.001694	0.000604

SPRD = Asymmetric Information; ROA = Profitability; LKD = Liquidity; FLEV = Leverage; KI = Independent Board of Commissioners; KA = Audit Committee; DA = Earnings Management

*. Correlation is significant at the 0.05 level.

**. Correlation is significant at the 0.01 level.

that uses the profitability indicator (PROFIT) has a T count of -1.030214 with a probability value of 0.0056, so profitability has a negative effect on earnings management. Liquidity (LIQUID) has a T count of 0.622613 with a probability value of 0.0350, so liquidity has a positive effect on earnings management. Leverage (FLEV) has a T count of -2.625889 with a probability value of 0.0101 so leverage has a negative effect on earnings management.

Hypothesis 1 (H1) that in this study asymmetric information has a positive effect on earnings management. Sourced from the acquisition of the regression test indicates that asymmetric information has a positive effect on earnings management. Based on these gains, it can be said that if the asymmetric information action is higher, of course, the opportunity for managers to manage earnings will also be greater. So Hypothesis 1 (H1) in this study was accepted.

A manager (agent) as the manager of the company has an obligation to give a signal regarding the actual state of the company to stakeholders. However, sometimes the information given and received is not in line with the real situation in the company. Through the more information they have, managers have the opportunity to act opportunistically such as manipulating information or taking asymmetric information actions for personal/company interests (Eastman et al., 2021).

The effect of asymmetric information carried out by company managers on earnings management actions is due to the lack of transparency of information/signals provided by agents in the form of financial reports, management information and other reports provided (Utomo, 2020). The results of this study indicate that the higher the agent's actions in carrying out asymmetric information, the higher the probability of earnings management being carried out.

Hypothesis 2 (H_2) in this study states that the financial distress ratio has a positive effect on earnings management. The results of panel data regression testing show that profitability and leverage have a negative effect on earnings management. This shows that the higher the level of profitability and leverage of the company, it has the effect of reducing earnings management. On the other hand, liquidity has a positive effect on earnings management, indicating that the higher the liquidity of a company, the higher the opportunity for managers to manage earnings. H_2 in this study is said to be unacceptable.

Increasing profitability indicates good company performance and brings many benefits to all parties (stakeholders). The agent as the manager of the company also benefits both personally and in the future of the company so that he does not take earnings management actions. This is to attract investors' interest as well as make the company's performance look good, so managers will be encouraged to maximize the

Table 5.
Moderrated regression analysis (MRA) testing

	Coefficient	Std. Error	t-Statistic	Prob.
SPREAD*KI	0.000818	0.000491	1.667031	0.0487
SPREAD*KA	6.46E-06	8.02E-05	0.080487	0.9360
PROFIT*KI	0.004411	0.015952	0.276530	0.7827
PROFIT*KA	-0.00144	0.002764	-0.521654	0.0031
LIQUID*KI	0.017555	0.008727	-2.011677	0.0470
LIQUID*KA	-0.00039	0.001094	-0.354590	0.0237
FLEV*KI	0.008386	0.004488	-1.868614	0.0647
FLEV*KA	-0.0023	0.000537	-4.280240	0.0000
Constant	0.014923			
Observation	120			
R-squared	0.416170			
F-statistic	2.212225			
Prob (F-stat.)	0.002353			

company's level of profitability (Din et al., 2021).

Financial distress using liquidity indicators has a significant positive effect on earnings management. This shows that the higher the current ratio level of a company, of course, the company's opportunity to carry out earnings management will be higher as well. High liquidity indicates that the company is less able to manage the company's current assets and liabilities, thus reflecting poor financial performance. Covering this, management takes earnings management actions to beautify financial reports to stakeholders (Paul & Rakshit, 2020).

High leverage in a company is indicated by the high level of debt owned by the company. The high level of debt makes it difficult for companies to predict the future. Therefore, when the company has a high level of debt, the creditors will be more active and strict in overseeing the operations of a company and reduce the risk of default. This will certainly reduce the level of flexibility of the management in acting fraud, especially in conducting earnings management (Amake & Akogo, 2021).

Goodness of fit

Goodness of fit test is used to determine the suitability of the model to the data/cases that occur (Vulandari et al., 2021). R^2 (coefficient of determination) the researcher uses to see the fit of the model from a regression model (Ghozali, 2013). This test can also be seen in the Table 3.

Based on the data obtained, it can be seen that the amount of Adjusted R^2 is 0.220407 which indicates that earnings management is influenced by several variables including asymmetric information, profitability, liquidity and leverage with independent commissioners and audit committees at 22%, the remaining 78% is influenced by other factors. outside of research. Other variables that may influence are managerial ownership structure, company size, operating cash flow, board of directors and audit quality.

Moderrated regression analysis (MRA)

The moderation test in this study applies Moderated Regression Analysis (MRA) where earnings management (dependent variable), while asymmetric information and financial distress (dependent variable) and corporate governance (moderating variable) are measured by the audit committee and the independent board of commissioners. Table 5 shows the results of the Moderrated Regression Analysis (MRA) test.

The results of the regression test show that the independent board of commissioners in moderating the effect of asymmetric information on earnings management has a T value of 0.667031 where the significance level is 0.0487. Hypothesis 3 (H_3) of this study explains that the independent board of commissioners is influential in moderating the effect of asymmetric information on earnings management. This statement indicates that the higher the proportion of independent commissioners can affect asymmetric information actions in earnings management. H_3 in this research was accepted.

The existence of an independent board of commissioners in the composition of the board of commissioners should be able to mediate or balance decision making in order to protect stakeholders from fraudulent earnings management. However, the function of the composition of the independent board of commissioners in this publicly listed company in the retail sector is not working as it should. The results of this interaction test make a presumption that the existence of an independent board of commissioners cannot reduce or even improve earnings management practices.

Hypothesis 4 (H_4) of this study states that an independent board of commissioners can moderate the effect of financial distress ratios on earnings management. The financial distress ratio uses three proxies, namely profitability, liquidity, and leverage. Through these three proxies, it can be seen whether the company's operations are disrupted, seen from various aspects of financial condition. This is in accordance with previous research conducted by Gandhi (2021), Eastman et al. (2021), and Thinh & Thu (2020). The financial distress ratio with profitability indicators has a T value of 0.276530 where the significance level is 0.7827. Financial distress with liquidity indicator has a calculated T value of -2.011677 where the significance level is 0.0470. Financial distress with leverage indicator has a calculated T value of 1.868614 with a significance level of 0.0647. Sourced from these results indicate that the independent board of commissioners cannot moderate the effect of asymmetric information on earnings management. Hypothesis 4 (H_4) in this study was not accepted.

The results of the Descriptive Statistics Test show that the average percentage of independent commissioners is 0.410489, which means that the number of independent commissioners appointed by the company is more than the company's own board of commissioners. This is ambiguous because the enforcement of corporate governance is considered less effective in decision making and its independence is doubted. In addition, the minimum value for the independent board of commissioners is 0.166667. This amount is deemed insufficient for the independent board of commissioners to dominate the board of commissioners' decisions in making decisions.

Hypothesis 5 (H_5) in this study states that the audit committee can moderate the effect of asymmetric information on earnings management. Sourced from the results of regression calculations indicate that the audit committee in moderating the effect of asymmetric information on earnings management has a T value of 0.080487 at the sig level. 0.9360. This statement indicates that the audit committee has no effect in moderating the effect of asymmetric information on earnings management. H5 in this study is not accepted.

Mayndarto & Murwaningsari (2021) in their research explain that the existence of the audit committee is only to carry out corporate governance regulations, but in reality the audit committee does not carry out its duties properly so that the presence or absence of an audit committee does not affect the presence or absence of asymmetric information on earnings management practices in the company. In addition, the audit committee is an agency that has a position under the board of commissioners, if the existence of the audit committee is not in line with management decisions, the company can replace members of the audit committee as well (Karin et al., 2020).

Hypothesis 6 (H_6) in this study states that the audit committee is able to moderate the effect of financial distress ratios on earnings management. The financial distress ratio with profitability indicators has a calculated T value of -0.521654 with a significance level of 0.0031. Liquidity has a calculated T value of -3.54590 with a significance level of 0.0237. Leverage has a calculated T value of -4.2880240 with a significance level of 0.0000. This shows that the audit committee is able to moderate by weakening the effect of financial distress ratios on earnings management. Hypothesis 6 (H_6) in this study was accepted.

The higher the proportion of the audit committee, the lower the possibility of the company to carry out earnings management due to strict and independent supervision by the audit committee (Handriani et al., 2021).

Looking at the results of this study, there are new findings that are not in accordance with the theory put forward by Brédart (Brédart, 2014) which explains that most bankruptcy cases occur due to lack of corporate governance or lack of good corporate governance so that it has an impact on corporate financial distress. This happens because of several things, including differences in samples, corporate governance indicators and financial ratio indicators used in this study. The audit committee data in this study has a mean of 3.1, which means that almost all samples have an audit committee proportion of 3 members so that they get maximum control over the company's finances.

CONCLUSION

The purpose of this study is to identify how the influence of asymmetric information and financial distress on earnings management with corporate governance as a moderating variable. The data used is secondary data on retail companies/trade, services and investment sectors [9th sector on the IDX] retail trade sub-sector (93rd sub-sector on the IDX) for the 2015-2020 period.

The results of this study tend to have different results. However, asymmetric information and liquidity have a significant positive effect on earnings management. The results of this study support the results of Eastman et al. (2021), Ghorbani & Salehi (2020), Thinh & Thu (2020), Monika et al. (2021), Syahyidati & Venusita (2019), and Ridwan & Suryani (2021).

Meanwhile, leverage and profitability have a negative effect on earnings management. The results of this study also show that independent commissioners can moderate asymmetric information on earnings management by strengthening the relationship and can weaken liquidity on earnings management. Independent commissioners can also moderate the effect of financial distress on the possibility of a decrease in the level of earnings management. The results obtained from this study are relevant to the research of (Handriani et al., 2021).

This research also strengthens agent theory, signal theory and corporate governance where managers with certain interests tend to try to prepare financial statements for certain purposes, not for the interests of the principal. Earnings management actions themselves can be minimized using corporate governance, especially independent commissioners and audit committees in moderating asymmetric information and financial distress on earnings management.

However, this study also shows that corporate governance with independent commissioners as a proxy does not affect profitability and leverage on earnings management. These results are in line with the research of Mayndarto & Murwaningsari (2021). Corporate governance with audit committee proxies also does not moderate asymmetric information on earnings management. These results are in line with the research of Handriani et al. (2021) and Karin et al. (2020). The results of this study assume the existence of inefficiency in the work of the independent board of commissioners and the audit committee.

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