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THE EFFECT OF CAPITAL ADEQUACY, LIQUIDITY AND FIRM SIZE ON EARNINGS MANAGEMENT WITH CORPORATE GOVERNANCE AS MODERATING VARIABLES IN CONVENTIONAL BANKING LISTED ON IDX 2015 – 2019

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Abstract

With corporate governance as a moderating variable, this study intends to examine the impact of capital adequacy, liquidity, and firm size on earnings management. This study's population consists of 45 conventional banks that were listed on the Indonesia Stock Exchange between 2015 - 2019. Purposive sampling was used to choose the sample, which resulted in a total sample of 33 firms. Multiple regression analysis using Eviews 9 software is the analytical technique used to test the hypothesis. The results of this study indicate that the capital adequacy variable has a significant effect and liquidity has an insignificant effect, both of which have a negative coefficient value, while firm size has a significant effect on earnings management with a significant coefficient value. positive. Meanwhile, corporate governance is able to moderate the effect of capital adequacy on earnings management and is unable to moderate the effect of liquidity on earnings management with a decreasing t-statistic value, while corporate governance is able to moderate the effect of t-statistics value. Simultaneously, capital adequacy, liquidity, firm size and being moderated by corporate governance have a significant effect on earnings management

Keywords: ***Adequacy, Liquidity, Firm Size, Corporate Governance, Earnings Management.***

1. INTRODUCTION

Banking is a financial sector that listed in IDX and that become the pillars of Indonesia's economic growth that shows that banking is an asset-based financial entity (Faisal et al., 2021). Both for the lower middle class and the upper middle class. The banking sector is an intermediary institution through saving or investment that requires funds through credit. All profit-making institutions, including banks, also should achieve profitable expansion and maximize shareholder wealth. This is accomplished through expanding bank profitability, boosting firm value, raising executive compensation, and increasing tenure.

An important role is held by management in relation to the company's financial statements, but not infrequently the management actually manipulates the numbers contained in the financial statements, so that it shows the condition of the company that seems to have good performance when in fact the company is in a state of disrepair. which is not good.(Panjaitan & Muslih, 2019) explained that this was done with the aim that users of financial statements still gave their trust to the company and attracted investors to invest

in the company. One form of deviation in the financial statements by the management is by influencing the level of profit or known as the practice of earnings management.

Indications of earnings management practices such as findings (Zainuldin & Lui, 2018) and (Nasution & Setiawan, 2020) there are earnings management practices in banking. The earnings management philosophy is to take advantage of the flexibility of standard methods and accepted accounting principles. Of course the various interpretations that can be taken from the executive procedures of an accounting standard can be another reason for earnings management (Abbaspour, 2017). Earnings management is one of the most essential areas of financial reporting quality, and it is a major source of concern for all parties involved in a company's operations. As according to (Jones & Sharma, 2001) "Earnings management occurs when managers use judgment in financial reporting and transaction structuring to alter financial statements to mislead a number of stakeholders about the economic performance of the firm, or to influence contractual outcomes that depend on reported accounting numbers". To detect fraud, it is necessary to have audit expertise listed in the corporate governance indicators (Faisal & Sari, 2018).

Since the company's ownership and management have been separated, the issue of corporate governance has arisen (Rebecca & Siregar, 2012) (Faisal, 2018). Because this can lead to information asymmetry between the two parties. The management (agent) benefits more than the shareholders because they know more about the company (principal). Effective corporate governance reduces information asymmetry by boosting management accountability and lowering shareholder information risk. Like maqashid sharia, corporate governance also aims to educate individuals to be good sources for society and not harm other parties (Faisal & Sudibyo, 2020).

Cases that occurred in Indonesian banking, in 2018 Bank Bukopin indicated that there was a modification or manipulation of financial statements using management on credit card business income, this modification caused Bukopin's credit position and commission income to increase unnaturally. The 2016 revised financial report appeared on April 25, 2018, the previous 2016 profit was recorded at Rp.1,08 trillion to Rp.183,56 billion (https://ekonomi.kompas.com , 2018). Then in 2000, the Bank Indonesia Liquidity Assistance (BLBI) bailout fund was issued in the amount of Rp. 144.5 trillion, but 95% of the funds were diverted (https://www.bbc.com/indonesia , 2019). Like Century Bank, which misappropriated customer funds of up to Rp. 2.8 trillion and the sale of fictitious mutual funds that do not have permits from Bank Indonesia and Bappepam LK (https://news.detik.com, 2010).

One of the factors that affect banking profits is the amount of capital. Maintaining sufficient capital and the ability of banks' management to identify, measure, supervise, and control the risks that can affect the quantity of bank capital is referred to as Capital Adequacy in banking (Nugrahanti et al., 2018). BI Circular Letter Number 9/29/DPbs on December 7, 2007 stated that the Capital Adequacy Ratio (CAR) is used to measure capital adequacy in Indonesian banks. The company's own capital divided by its Risk Weighted Assets (RWA) serves as a proxy for its CAR amount. Thus, the CAR reflects how much of a drop in bank assets may be covered by bank equity; the greater CAR indicates that a bank is in decent condition (Indriani, 2010).

The quality of information provided by the company is quality financial information, so it tends to invest (Faisal & Sari, 2020). Then another factor that affects investment is

liquidity. Liquidity is the ability to meet short-term obligations. A company's capacity to pay short-term obligations on schedule is favorable if it has large current assets (Kurniawan & Suwarti, 2017). Meanwhile, Riahi et al. (2013) there is a positive and significant correlation between earnings management performed by Tunisian enterprises and market liquidity.

Company size is also one of the drivers of earnings management practices in banking, companies that have larger assets allow more earnings management practices because big enterprises are under more pressure from investors and financial analysts to report positive earnings or profit rises (Ali et al., 2015). Due to this pressure, the greater the information asymmetry that aims to meet financial expectations (Nalarreason et al., 2019). Big enterprises are also more likely than smaller organisations to engage in earnings management, owing to the fact that big enterprises have more complicated operational operations than smaller companies, which provides more opportunity for earnings management (Medyawati & Dayanti, 2016).

2. LITERATURE REVIEW AND HYPOTHESIS

2.1. Earnings Management

Scott (2003), (Barutu, 2020) Earnings Management is the process through which managers choose accounting procedures in order to achieve specific objectives. In the process of presenting the firm's financial accounts for external parties, earnings management is management involvement in order to reach a given amount of profit with the goal of benefiting itself or the company itself (Supatminingsih & Wicaksono, 2020).

Healy & Wahlen (1999) in (Sunarto, 2016) states that the term earnings management refers to executives of a company manipulating financial accounts to manipulate earnings reported to shareholders and affect the outcome of an agreement based on reported accounting numbers. Earnings management is the conduct of managers to play with the discretionary accrual component in deciding the amount of corporate profits.

Discretionary accruals are components of accruals that are in the manager's policy, meaning that managers give their intervention in the accounting reporting process (Amperaningrum & Sari, 2013). Management of earnings differs from income smoothing as a technique used to limit variations in reported earnings in order to achieve a target level of earnings that is consistent with the desired level of earnings. This is because income smoothing is a pattern of earnings management.

The motivation for the occurrence of Earnings Management according to Scott (1997) in (Vidianto, 2009) are: a) Bonus program motivation: Managers who have access to the company's net income will act opportunistically to maximize existing profits. b) Political motivation: Management earnings are utilized to reduce publicly traded businesses' stated earnings. Companies frequently understate earnings in response to public pressure, which results in the government enacting more restrictive laws. c) Taxation Motive: The most obvious motivation for earnings management is tax savings. Numerous accounting techniques are employed with the goal of minimizing income tax. d) CEO Motivations Change: CEOs (Chief Executive Officers) facing retirement will tend to enhance their income in order to increase their bonuses, and if the firm performs poorly, they will maximize earnings in order to avoid being dismissed e) Initial Public Offering (IPO): Because firms that will go public do not yet have a market value, they require managers to engage in earnings management in their prospectus in order to increase the company's share

price. f) Debt Covenants Motivations: Debt agreements arise because of long-term contracts executed by earnings management. Violation of this will result in high costs to the company, therefore managers try to avoid violations of covenants.

2.2. Capital Adequacy on Earnings Management

Asymmetry of information produces a distance between shareholders and bank management, which has a significant impact on financial statements due to the existence of information asymmetry. As is the case with bank capital adequacy, when banks report good capital, people will be interested in raising their funds and potential investors will be interested in investing in shares. On the other hand, when banks report capital that tends to be bad, people do not believe in collecting their funds in the bank, so that the capital owned by the bank is getting worse, then a low CAR will motivate banks to carry out earnings management (Nalarreason et al., 2019) in accordance with the findings (Nurshofyani et al., 2016) (Religiosa & Surjandari, 2021) (Tanlicha, 2016) (Tahayyunihayah, 2017) (Indriani, 2010) that “the capital adequacy ratio has a negative effect on earnings management”.
H_1: Capital adequacy affects earnings management

2.3. Liquidity on Earnings Management

The low liquidity value indicates that the bank's ability to repay loans extended to the public is low due to insufficient assets. This risks being very vulnerable to banks if bank credit is not able to return the total credit extended to the public. The low liquidity of the bank, the low income of the bank, this motivates the bank to carry out earnings management which aims to gain public attention and encourage the public to collect their funds in the bank, this is in accordance with the Agency Theory. The findings (Paramitha, 2020) (Religiosa & Surjandari, 2021) (Nurshofyani et al., 2016) (Tanlicha, 2016) found that “liquidity had a negative effect on earnings management”.
H_2: Liquidity affects earnings management

2.4. Firm Size on Earnings Management

Larger organizations are more likely to utilize earnings management techniques because investors and financial analysts want them to exhibit positive earnings growth (Ali et al., 2015). Due to this pressure, the greater the information asymmetry that aims to meet financial expectations (Nalarreason et al., 2019). Large organizations are also more likely to adopt earnings management since their operations are more complicated, allowing for more opportunity for earnings management (Medyawati & Dayanti, 2016). The same thing was also found by (Prasavita Amertha et al., 2014) and (Behrghani et al., 2013) the greater the income of a company, the more interest in earnings management practices in the company.
H_3: Firm size affects earnings management

2.5. Capital Adequacy on Earnings Management with Corporate Governance as moderating

Corporate Governance inhibits earnings management. This is due to reduced information asymmetry, which prevents principals or stakeholders from knowing the true state of the company, and corporate governance's goal of promoting efficient, transparent,

and consistent markets. Because a firm's existence is determined by stakeholder support, the more support a corporation receives, the more earnings it will obtain.

As explained above, low capital adequacy will trigger bank management to carry out earnings management but corporate governance will weaken this influence, the better the bank in implementing corporate governance will further weaken the practice of earnings management.

H_4: Corporate governance moderates the effect of capital adequacy on earnings management

2.6. Liquidity on Earnings Management with Corporate Governance as moderating

The lower the LDR (Loan Deposit Ratio), the more driven the bank is to control earnings through boosting profits, but the application of the concept of Corporate Governance in the company in order to create alignment of the goals of all parties which will harm the stakeholders (Septianto et al., 2021). Tanjung (2015) and Syafa'ah (2017) found almost similar results, namely the application of corporate governance mechanisms will be able to reduce the opportunistic attitude carried by company managers so that it will improve performance as reflected in stock prices.

H_5: Corporate governance moderates the effect of liquidity on earnings management

2.7. Firm Size on Earnings Management with Corporate Governance as moderating

Information imbalances that arise due to differences in interests can be overcome by implementing Corporate Governance with the application of this concept, corporate reports will be more protected from earnings management practices if implementing Corporate Governance due to restrictions on manager's opportunistic behavior, and reducing information risk borne by stakeholders. The institutional ownership could improve the link of the firm size as well as its profits management approaches (Umami, 2015). Institutional ownership has an impact on the relationship between business size and earnings management because it acts as a proxy for institutional ownership. The greater the link between institutional ownership and firm size, the more likely it is that earnings management practices will increase as a result of these two variables being intertwined.

H_6: Corporate governance moderates the effect of firm size on earnings management

3. RESEARCH METHOD

This study uses panel data, which is a combination of time series and cross section data from 2015 to 2019. The research population is 45 conventional banks listed on the Indonesian stock exchange and a sample of 33 banks selected using purposive sampling technique. The data analysis model used is multiple linear regression analysis using Eviews 9. This research approach is carried out using a quantitative descriptive approach, the data used are figures obtained from the Annual Financial Report (Annual Report) of conventional banking published on the Indonesia Stock Exchange in 2015-2019.

Model 1

$$EM = a + \beta_1 CA + \beta_2 LQ + \beta_3 FS + \varepsilon \quad (1)$$

Model 2

$$EM = a + \beta_4 CA*CG + \beta_5 LQ*CG + \beta_6 FS*CG + \varepsilon \quad (2)$$

Note:

EM	=	Earnings Management
A	=	Regression Equation Constant
$\beta_1, \beta_2, \beta_3, \beta_4$	=	Regression Coefficient
CA	=	Capital Adequacy
LQ	=	Liquidity
FS	=	Firm Size
CG	=	*Corporate Governance*
ε	=	Residual / error

3.1. Earnings Management

The steps taken in the calculation of discretionary accruals which are then called the discretionary accruals model are as follows (Beaver & Engel, 1996) which have been tested by Rahmawati (2006) as the most suitable model for detecting earnings management practices that can be applied in banking companies.

$$NDA_{it} = \beta_0 + \beta_1 CO_{it} + \beta_2 LOAN_{it} + \beta_3 NPA_{it} + \beta_4 \Delta NPA_{it+1} + \varepsilon_{it} \quad (3)$$

Note:
NDA_{it} = non discretionary accruals
CO_{it} = *loan charge offs*
$LOAN_{it}$ = *loans outstanding*
NPA_{it} = *non performing assets*
ΔNPA_{it+1} = non performing *assets* t+1 with *non performing assets* t

According to the definition that:

$$TA_{it} = NDA_{it} + DA_{it} \quad (4)$$

*DA_{it} is discretionary accruals, TA_{it} is total accruals and NDA_{it} is non discretionary accruals, so:

$$TA_{it} = \beta_0 + \beta_1 CO_{it} + \beta_2 LOAN_{it} + \beta_3 NPL_{it} + \beta_4 \Delta NPL_{it+1} + z_{it} \quad (5)$$

*$z_{it} = DA_{it} + \varepsilon_{it}$

3.2. Capital Adequacy

Capital adequacy in this study was measured by the Capital Adequacy Ratio (CAR). The CAR value is based on the regulations stipulated by Bank Indonesia in the Circular Letter of Bank Indonesia Number 9/29/DPbs dated December 7, 2007, CAR is calculated using the formula:

$$CAR = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk Weighted Assets}} \quad (6)$$

3.3. Liquidity

Liquidity in this study was measured by the Loan Deposit Ratio (LDR). The LDR value is obtained through a formula determined by Bank Indonesia through Bank Indonesia circular letter No. 3/30/DPNP dated December 14, 2001:

$$LDR = \frac{\text{Total Loan}}{\text{Total Deposit}} \quad (7)$$

3.4. Firm Size

Firm size value is measured by calculating the logarithmic value of the formula based on (Klapper & Love, 2004).

$$\text{Firm Size} = \text{Ln (Total Asset)} \quad (8)$$

3.5. Corporate Governance

Measurement of GCG indicators uses measurements according to (Wahidahwati, 2010), (Pujiati, 2019) Scoring criteria and respective weights. Presence of board of commissioners: weight 45%, Audit Committee: Weight 20%, Management: Weight 20%, Shareholder: Weight 15%.

The calculation of the Corporate Governance score for each sample is as follows:

(Score obtained: highest score) x % Weight (9)

Total Score = The sum of the scores for each point

Table 1 Corporate Governance

No	Indicator	Measurement	Scale	
			Range	Score
	Board of commissioners (45%)			
1	a. Board of commissioners size	All commissioners	0 s/d 3	2
			4 s/d 6	4
			6 s/d 8	6
			9 s/d 11	8
			>11	10
	b. Independent commissioners	Independent commissioners/All commissioners	0% - 20%	2
			21% - 40%	4
			41% - 60%	6
			61% - 80%	8
			81% *and above*	10

	c. Commissioners Ownership	Commissioners share ownership/ Outstanding shares	0% - 20%	2
			21% - 40%	4
			41% - 60%	6
			61% - 80%	8
			81% *and above*	10
	d. Audit Quality	Audited by big KAP (big four)	Yes	10
			No	0
2	Audit Commitee (20%)			
	a. Audit Committee size	Total audit members	0 s/d 3	2
			4 s/d 6	4
			6 s/d 8	6
			9 s/d 11	8
			>11	10
	b. Independent Audit Committee	Independent Audit Committee / Audit Committee	0% - 20%	2
			21% - 40%	4
			41% - 60%	6
			61% - 80%	8
			81% *and above*	10
	c. Financial Expert	Having a consultant in the financial sector	Yes	10
			No	0
3	Management (20%)			
	a. Board of Directors Size	All Board of Directors	0 s/d 3	2
			4 s/d 6	4
			6 s/d 8	6
			9 s/d 11	8

			>11	10
	b. Managerial ownership	Share Ownership of Directors and Commissioners / Total Shares Outstanding	0% - 20%	2
			21% - 40%	4
			41% - 60%	6
			61% - 80%	8
			81% *and above*	10
	c. Family relationship	Having a Family Relationship	Yes	0
			No	10
4	Ownership (15%)	Share ownership by banks, insurance companies, pension funds, mutual funds and other institutions / total shares outstanding.	0% - 20%	2
			21% - 40%	4
			41% - 60%	6
			61% - 80%	8
			81% *and above*	10

Sources of Pujiati (2019)

4. RESULT AND DISCUSSION

4.1. Result Research

4.1.1. Model 1 Regression Model Selection Results

Tabel 2 Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	22.689223	(32,129)	0.0000

Sources of processed data

Based on the results of the Chow test using Eviews9 states that the probability value is 0.00 which is less than the value of the significance level ($\alpha = 0.05$), so H_a is accepted. This means that the best model used is the Fixed Effect Model (FEM). So, it is necessary to have a Hausman test in order to decide the best model between the Fixed Effect Model and the Random Effect Model.

Table 3 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	3	0.0000

Sources of processed data

Based on the results of the Hausman test, the probability value is 0.00, which is smaller than the significance level ($\alpha = 0.05$), so H_0 is rejected. This means that the best model used is the Fixed Effect Model (FEM) and there is no need to continue the langrange multiplier test.

4.1.2. Model 1 Result Multiple Linear Regression

Table 4 t-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2345902.	760564.1	-3.084423	0.0025
CA?	-356360.0	148031.0	-2.407333	0.0175
LQ?	-149647.4	110822.5	-1.350334	0.1793
FS?	81465.89	25435.94	3.202787	0.0017

Sources of processed data

Table 5 F-test and Determination test

R-squared	0.864327	Mean dependent var	967063.3
Adjusted R-squared	0.827516	S.D. dependent var	2205904,
S.E. of regression	574829.4	Sum squared resid	4.26E+13
F-statistic	23.48043	Durbin-Watson stat	1.568195
Prob(F-statistic)	0.000000		

Sources of processed data

The test results using the Fixed Effect Model (FEM) can be concluded as follows: Capital Adequacy with a coefficient value of -356360.0 and a probability value of 0.0175 is significant at the level of = 5% (0.05), it can be interpreted that the Capital Adequacy variable has a negative and significant effect on Management Profit. The independent variable Liquidity with a coefficient value of -149647.4 and a probability value of 0.1793 is not significant at the level of = 5% (0.05), it can be interpreted that the Liquidity variable has no significant negative effect on Earnings Management. Firm Size with a coefficient value of 81465.89 and a probability value of 0.0017 is significant at the level of = 5% (0.05), indicating that the Firm Size variable has a significant positive effect on Earnings Management.

Based on table 5 the value of Prob (F-statistics) of 0.0000 indicates that the variables of Capital Adequacy, Liquidity and Company Size simultaneously have a significant effect on Earnings Management. R-Squared shows a value of 0.864327 which means that 86.43% of

the variables of Capital Adequacy, Liquidity and Firm Size can explain the Earnings Management variable.

4.1.3. Model 2 Regression Model Selection Results

Table 6 Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	26.020570	(32,129)	0.0000

Sources of processed data

Based on the results of the Chow test using Eviews9 states that the probability value is 0.00 which is less than the value of the significance level ($\alpha = 0.05$), so H_a is accepted. This means that the best model used is the Fixed Effect Model (FEM). So it is necessary to have a Hausman test in order to decide the best model between the Fixed Effect Model and the Random Effect Model.

Table 7 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	3	0.0000

Sources of processed data

Based on the results of the Hausman test, the probability value is 0.00, which is smaller than the significance level ($\alpha = 0.05$), so H_0 is rejected. This means that the best model used is the Fixed Effect Model (FEM) and there is no need to continue the langrange multiplier test.

4.1.4. Model 2 Result Multiple Linear Regression

Table 8 t-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-589883.1	277466.6	-2.125960	0.0354
CACG?	-615521.1	293895.1	-2.094356	0.0382
LQCG?	-210062.3	208644.2	-1.006797	0.3159
FSCG?	42104.39	20402.96	2.063641	0.0411

Sources of processed data

Table 9 F-test and Determination test

R-squared	0.868947	Mean dependent var	710086.6
Adjusted R-squared	0.833390	S.D. dependent var	1937604.

S.E. of regression	564743.8	Sum squared resid	4.11E+13
F-statistic	24.43818	Durbin-Watson stat	1.642350
Prob(F-statistic)	0.000000		

Sources of processed data

The test results using the Fixed Effect Model (FEM) can be concluded as follows: The variable of Capital Adequacy which is moderated by Corporate Governance with a coefficient value of -615521.1 and a probability value of 0.0382 is smaller than the significant level at the level of = 5% (0.05), which can be interpreted that Corporate Governance is able to moderate the effect of Capital Adequacy on Earnings Management. The Liquidity variable moderated by Corporate Governance with a coefficient value of -210062.3 and a probability value of 0.3159 is greater than the significant level at the level of = 5% (0.05), which means that Corporate Governance is not able to moderate the influence of Liquidity on Earnings Management. Firm Size variable which is moderated by Corporate Governance shows a coefficient value of 42104.39 and a probability of 0.0411 which is smaller than the significant level at the level of = 5% (0.05), which means that Corporate Governance is able to moderate the effect of Firm Size on Earnings Management. Based on table 9 the Prob (F-statistic) value of 0.0000 shows that the variables of Capital Adequacy, Liquidity, Firm Size moderated by the corporate governance variable simultaneously have a significant effect on Earnings Management. R-Squared shows a value of 0.8689 which means that 86.89% of the variables of Capital Adequacy, Liquidity, Firm Size moderated by Corporate Governance can explain the Earnings Management variable.

4.2. Discussion

4.2.1. Capital Adequacy on Earnings Management

A high or sufficient CAR will reduce earnings management because the bank is considered capable of providing funds for bank operational activities and the bank has met the criteria set by the bank. The negative effect on earnings management is also based on if a bank has a CAR below 8%, the bank will carry out earnings management before the financial statements are published to increase the CAR figure. Because if the CAR value does not show a good number, it will be subject to strict supervision by Bank Indonesia and reduce public confidence in banks and reduce the use of depository funds and other operational activities. This finding contradicts the findings Kartika Sari & Dwi Astuti (2015) which state that CAR has a significant positive effect on earnings management and is similar to the findings of Indriani (2010), Religiosa & Surjandari (2021) which states that CAR has a significant negative effect on earnings management. Also supports the findings of Nurshofyani et al. (2016), Tanlicha (2016), Amperaningrum & Sari (2013), and Tahayyunihayah (2017) which states that CAR has an insignificant negative effect on earnings management.

4.2.2. Liquidity on Earnings Management

From the coefficient and probability values above, it can be concluded that the lower the banking liquidity, which in this study uses the Loan Deposit Ratio (LDR), it will further improve earnings management. This is because LDR is one of the criteria for assessing the soundness of a bank, if the bank shows a low LDR ratio, the bank will be declared unhealthy,

with the bank being declared unhealthy it will signal investors and other parties to withdraw their funds from the bank as well as debts that are outstanding. must be paid immediately. As a result, it will further aggravate the bank's financial condition so that operational activities will not run optimally. The significance found in this study is not significant, this is because a high LDR ratio will have a different impact on profits, namely if credit is channeled effectively it will increase bank profits but if credit expansion is channeled carelessly so that credit expansion becomes less controlled, the risk will be greater. If the total credit disbursed by a large bank but credit payments are not smooth, this will reduce the bank's profitability. These results are in accordance with the findings Winingsih (2017) Tahayyunihayah (2017) and Tanlicha (2016) stating that the Loan Deposit Ratio (LDR) has an insignificant negative effect on earnings management. found is positively significant and (Abbaspour, 2017) states similar results, namely the Loan Deposit Ratio has a significant positive effect on earnings management.

4.2.3. Firm Size on Earnings Management

The larger the size of the bank will improve earnings management, this is because large banks have large assets and operational activities that require large capital as well. As a result, more investors are involved than the size of a small bank. When the bank has a lot of investors and other stakeholders, the stakeholder's expectations will be higher, because of this high demand, the bank also wants to always show good performance in order to maintain the trust and value of the company. In addition, the large size of the bank means that there are many operational activities that are not well controlled, this provides a larger gap for earnings management practices. These results are similar to the findings of Ali et al. (2015), Nalarreason et al. (2019), Prasavita Amertha et al. (2014), and Medyawati & Dayanti (2016) but contradict the findings of Astuti et al. (2017), Supatminingsih & Wicaksono (2020), Veronica (2015), and Linasmi (2017) which states that company size has an insignificant negative effect on earnings management while the findings of Linasmi (2017) and Prasetya & Gayatri (2016) state a significant negative result.

4.2.4. Capital Adequacy on Earnings Management with Corporate Governance as moderating

Corporate governance minimizes the practice of earnings management in banking. This is because the better the implementation of corporate governance, the lower the earnings management, as evidenced by the t-test values in model 1 and model 2 (moderating) showing a decreasing number. The existence of corporate governance aims to improve monitoring of bank actions to reduce information asymmetry. with the implementation of good CG limits the bank's earnings management. The higher the capital owned by the bank coupled with the presence of CG, the earnings management will decrease. We can conclude that corporate governance strengthens the effect of capital adequacy on earnings management.

4.2.5. Liquidity on Earnings Management with Corporate Governance as moderating

With the existence of CG, this will reduce earnings management because corporate governance limits out-of-bounds behavior and demands transparency on all bank performance. The implementation of good governance will minimize the occurrence of

earnings management. This means that banks that have a high Loan Deposit Ratio, coupled with good CG implementation, tend not to do earnings management.

4.2.6. Firm Size on Earnings Management with Corporate Governance as moderating

The larger the size of the company, the earnings management will increase. However, corporate governance weakens this relationship because CG binds companies to meet the standards desired by investors that demand accountability and transparency. Due to this attachment, the motivation of bank earnings management will decrease.

5. CONCLUSION

Based on the results of research conducted on the test of the effect of capital adequacy, liquidity and firm size on earnings management with corporate governance as a moderating variable, the conclusions of this study are: Capital adequacy has a significant effect on earnings management. Liquidity has no significant effect on earnings management. Firm size has a significant effect on earnings management. Corporate governance is able to moderate the effect of capital adequacy on earnings management significantly. Corporate governance is not able to moderate liquidity on earnings management. Corporate governance is able to moderate the effect of firm size on earnings management.

Limitations

The author after doing research knows that there are still limitations to the study, including: Limited number of samples, this study uses purposive sampling technique in selecting samples. The research period is still limited, namely from 2015 – 2019. The measurement of Corporate Governance which includes all indicators and does not yet know which indicators affect earnings management. Limited knowledge in the field of conventional banking, so they cannot dig deeper into information about theories, financial ratios, and other factors that can influence earnings management.

Recommendation

Researchers who will examine the title of this research are then expected to add new variables with a longer research year and add all financial performance assessment ratios set by the Financial Services Authority as well as factors that affect earnings such as profitability ratios, earnings per share, operating expenses to operating income ratio and others. The next researcher can further examine the indicators of corporate governance that are able to moderate earnings management considering that in this study corporate governance was tested using all indicators.

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