

## Effect of Capital Structure and Audit Committee on Earnings Management during Covid-19 on Public Companies in the Pulp and Paper Sector

Jennifer Milenia Hawila

STIE Eka Prasetya

Jl. Merapi No.8, Pusat Ps., Kec. Medan Kota, Kota Medan, Sumatera Utara, 20212,  
Indonesia

Email : jennifermilenia@gmail.com

### ABSTRACT

This study aims to determine whether the Capital Structure and Audit Committee have no significant effect on Earnings Management during Covid-19 on public companies in the pulp and paper. The type of data used in this research is quantitative and the data source is secondary. The population in this study are pulp and paper companies listed on the Indonesia Stock Exchange as many as 9 companies for the 2020-2021 period. The sample in this study were 7 companies with purposive sampling technique. The results of partial research shows that the Capital Structure has no effect significant on Earnings Management where the significant value is  $0,557 < 0,05$  and Audit Committee has no effect significant on Earnings Management where the significant value is  $0.594 > 0.05$ . The results of silmutaneous research shows that the Capital Stuctur and Audit Committee have no effect significant effect on on Earnings Management where the significant value is  $0,791 < 0,05$ . The results of the coefficient of determination (R Square) show that 0,9% of the dependent variable in Earnings Management can be explained by the Capital Structure and Audit Committee. While the remaining 99,1% is explained by other variables not examined in this study.

**Keywords:** Capital Structure, Audit Committee, Earning Management, Covid 19, Debt Asset Ratio

### INTRODUCTION

COVID-19 pandemic is an unwanted catastrophe but eventually affected the whole world. This pandemic doesn't only affect human aspects such as health and medicine, but also tourism, service, economy, business and almost all other aspects of life. This real and clear effects are also felt in Indonesia, all business ranging from small to large companies, including those who has been operating for a long time are also affected by this pandemic.

Earning management is defined as the efforts of company managers to intervene or influence the information in financial statements with the aim of tricking shareholders who want to know about the performance and condition of the. Earning management in accounting isn't a prohibited practice since there is no rules stating whether or not earning management is allowed but this practice usually follows the ethics of accounting method as to not cause the loss of others. Earning management causes investors not getting the real numbers since the numbers in financial statement doesn't reflect the real number of the work performance in a particular period. In other words, the larger the profit of a company is, the more it would influence the investors to buy their stock since management won't need to intervene by means of earning management, but on the other hand, if the profit isn't big, managers would usually use accounting method of earning management to attract investors. Generally, the management side would choose a

particular policy whether to use which method on their financial statements. Capital structure is the balancing between static short term debts, long term debts, preferred stocks and common stocks. (Halim, 2007;78)

Audit committee is a committee formed and could be stopped by board of Commissioners according to the needs and laws of the company (Mulyadi, 2017) Company performance will be optimal and supervised because the audit committee is effective in doing their task, which in turn would increase the profitability rate. Therefore, audit committee could affect the profitability of the company. That statement is further supported by the research results by Mahardika (2019). Audit committee is a committee formed and responsible to the Board of Commissioners in assisting the task and function of the Board of Commissioners to make sure the financial statements made actually reflects the real financial conditions. Apart from being a part of Board of Commissioners, Audit Committee also responsible for analyzing financial statements published by the issuers, give an independent opinion if there's a difference between the management and accounting division and also give recommendation to the Board of Commissioners in regards to appointing an accountant based on independency, range of power, and salary as defined in Financial Services Authority (OJK) rule number 55/POJK.04/2015 (2015:clause 10). The bigger the Audit Committee team the better is the quality of the financial reports since there would be many member of Audit Committee to supervise the financial task which in turn could minimize management division possibility of practicing earning management.

This research on pulp and paper subsector manufacturer companies is conducted because of the fast growth of pulp and paper subsector manufacturer companies and the high demand of paper products. This phenomenon could be observed from the increased usage of paper, paper companies not only produce paper but also produce other products, such as tissue paper and pulp paper. This thing is further supported by the fact that PT. Fajar Surya Wisesa Tbk could make a huge profit during the pandemic. Therefore, to avoid paying high amount of taxes, management need to improve their profit management on pulp and paper subsector manufacturer companies.

## LITERATURE REVIEW

### Capital Structure

Capital structure is the balancing between static short-term debts, long term debts, preferred stocks and common stocks. (Halim, 2007:78). Capital structure in this paper is confirmed according to Debt to Asset Ratio (DER). This ratio is meant to evaluate a company's ability in paying their debts. Debt Equity Ratio is calculated as below:

$$DAR = \frac{\text{Amount of Debt}}{\text{Amount of Assets}} \times 100$$

### Audit Committee

According to Financial Services Authority number 55/POJK.04/2015 about Formation and Guidelines of Audit Committee Chapter II Clause 4. Audit Committee should consists of at least 3 (three) members from Independent Commissioner and Non-Issuers or Public Company, therefore the Audit Committee measurement could be structured in a formula below:

$$\text{Audit Committee} = \frac{\text{Amount of External Audit Committee Members}}{\text{Amount of the Audit Committee Members}}$$

### Earning Management

According to Sulistyanto (2020:6), earning management is defined as the efforts of company managers to intervene or influence the information in financial statements with

the aim of tricking shareholders who want to know about the performance and condition of the company.

According to Al Amin (2018:105), earning management is the action of manager in increasing or reducing the amount of profit reported in a particular period of a unit, which the manager hold responsibility of, where this action won't cause the amount of economical long-term profitability of a company to either increase or reduce. According to Fahmi (2014:517), earning management is an action to set the profit in accordance to the company's management. Based on the definitions above, it can be concluded that earning management is an action of a company's management to either increase or reduce the nominal of profit report in accordance to information in financial reports with purpose of giving a good company's condition and performance reports.

### ***Earning Management Indicator***

According to Sulistyanto (2020:221), the method used to detect earning management follows the model of Jones. Jones's Model make efforts to control the influence of a company's situational change towards the nondiscretionary accrual. The formula of earning management is as below:

$$DA = TAC - NDA$$

Keterangan :

DA = Discretionary Accruals;

TAC = Total Accruals;

NDA = Non-discretionary accruals.

The steps in calculating discretionary accruals (DTA) are:

1. Calculate the total accruals which is the difference between net income with operational cash flow for every company and every year of observation.

$$TAC = Net\ Income - Cash\ Flow\ From\ Operations$$

2. Estimate the Total Accrual (TAC) with Ordinary Least Square (OLS) to get the regression coefficient.

$$TAC_{it}/TA_{it-1} = \beta_1(1/TA_{it-1}) + \beta_2(\Delta REV_{it}/TA_{it-1}) + \beta_3(PPE_{it}/TA_{it-1})$$

Keterangan :

TAC<sub>it</sub> = The Total Accruals of i company at period t (now);

TA<sub>it-1</sub> = The Difference Total of asset change i at the end of the previous year t-1 (previous year);

REV<sub>it</sub> = company revenue at the year t (now);

REV<sub>it-1</sub> = company revenue at the previous year t-1 (previous);

PPE<sub>it</sub> = The total of fixed assets in company i at the end of year t (now).

3. Calculating the nondiscretionary accruals (NDA)

$$NDA_{it} = \beta_1(1/TA_{it-1}) + \beta_2((\Delta REV_{it}/TA_{it-1}) - (\Delta REC_{it}/TA_{it-1})) + \beta_3(PPE_{it}/TA_{it-1})$$

Keterangan :

NDA<sub>it</sub> = Non-discretionary accruals of company i in year t (now);

A<sub>it-1</sub> = The total of asset change of company i at the end of previous year t-1 (previous);

REC<sub>it</sub> = The total debt of the company i in year t (now);

REC<sub>it-1</sub> = The total debt of the company i in previous year t-1 (previous);

PPEit = The total of fixed assets in company i at the end of year t (now).

- Calculates the discretionary accruals (DA) as measurements of earning management.

$$DA = TAC - NDA$$

## RESEARCH METHOD

The data used in this paper is quantitative data. According to Noor (2015:13), quantitative data generally is obtained through surveys or structured questionnaire. Data used in this paper is secondary data. According to Hermawan and Yusran (2017:115), secondary data is the structure of historical data about the variables previously collected by other researchers. According to Noor (2015:147), sample is few members chosen from a population. The sample used in this paper is taken by method of purposive sampling and the samples in this paper is taken based on these characteristics:

- Pulp and paper sub sector manufacturer companies listed in Stock Exchange (BE) Indonesia in the period 2020-2021
- Pulp and paper sub sector manufacturer companies who had published the complete financial reports in the period 2020-2021.

Data collecting method used in this paper is documentation. According to Noor (2015:141), a big amount of facts and data collected are in form of documentation. To be specific, the secondary data is pulp and paper sub sector manufacturers in form of financial reports, which is collected in the official Bursa Efek Indonesia (Indonesia Stock Exchange) websites : [www.idx.co.id](http://www.idx.co.id)

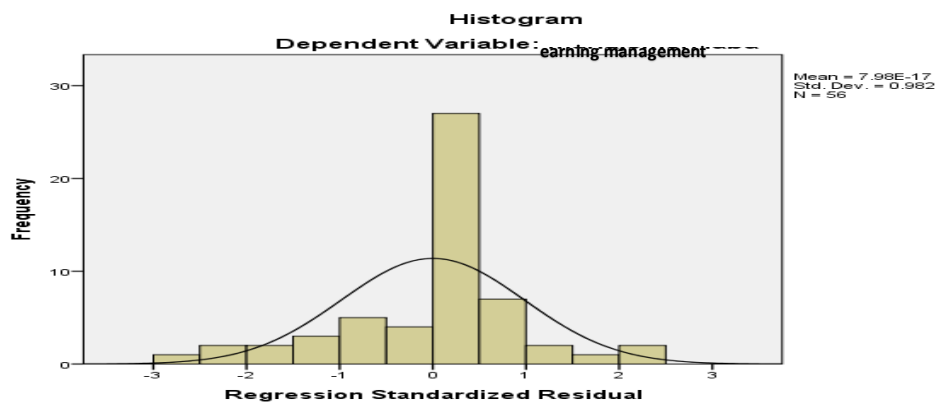
## RESULTS

The results in this paper consists of statistical descriptive analytical results, classical assumption test results, double linear regression analytical results and hypothetical test results. The results of this paper is obtained using statistic application SPSS 24.

**Table 1.** Descriptive Statistics Example (N=56)

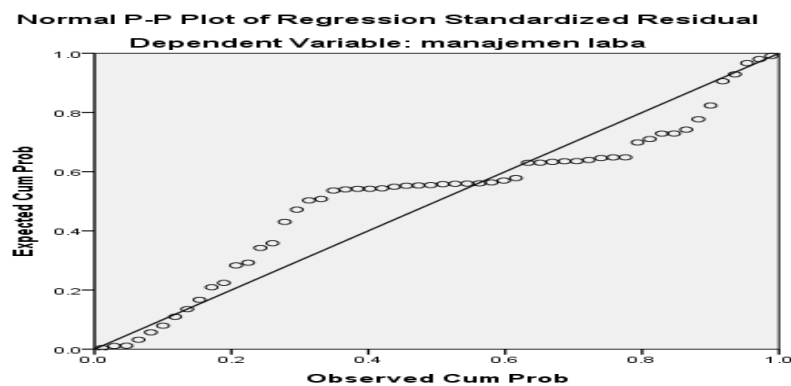
Construct	Min.	Max.	M	SD
capital structure	33.88	168.68	52.63	18.91
audit committee	0.16	0.56	0.39	0.16
earning management	- 7.037.700.86 7.304	507.523.09 1.743	- 583.211.621. 121	2.391.705.49 0.000

Note. M = Mean, SD = Standard Deviation.



**Figure 1.** Normality Test (Histogram)

According to figure 1 above shows that the pattern of data distribution doesn't sway to the left or right which makes the data pattern similar to a curve shapes like a bell. This test also shows that data distribution is normal. According to figure 2 above, it could be explained that data spread along the diagonal line. This test shows that data distribution is normal.



**Figure 2.** Normality Test (Normal Probability Plots)

**Table 2.** Normality Test (Kolmogorov-Smirnov)

One-Sample Kolmogorov-Smirnov Test

Unstandardized Residual

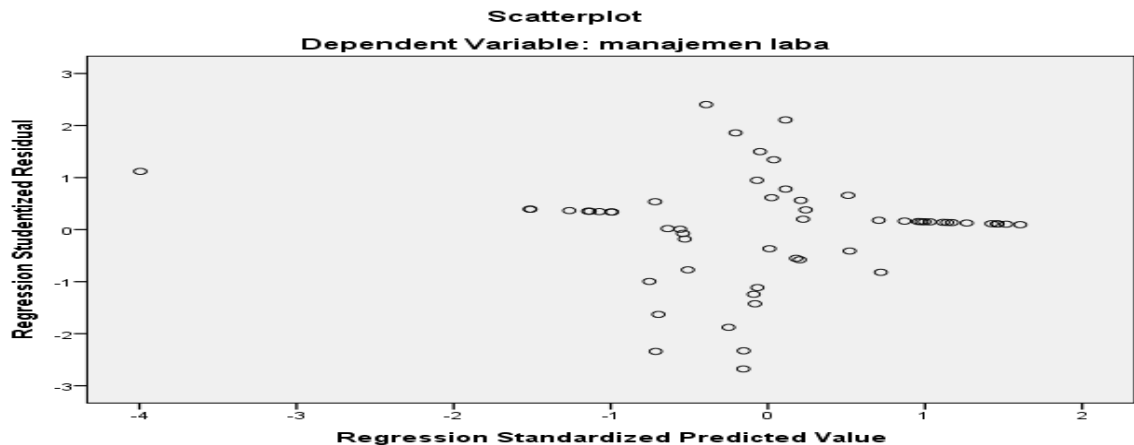
N		56
Normal Parameters <sup>a,b</sup>	Mean	-.0000937
	Std. Deviation	2,381,144,171,054.6050
Most Extreme Differences	Absolute	.199
	Positive	.135
	Negative	-.199
Test Statistic		.199
Asymp. Sig. (2-tailed)		.000 <sup>c</sup>

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

According to the Table 2 above, it could be known that the value of Kolmogorov-smirnov stastical test is 0.199 with Asymp. Sig (2-tailed) value is bigger than 0.05, which is 0.000. This test shows that data distribution is normal.



**Figure 3.** Heteroscedasticity Test (Grafik *Scatterplot*)

According to figure 3 above, the dots spreads randomly either above or below the number 0 on Y axis and doesn't have a regular pattern. This test shows that there's no heteroscedasticity but there's homoscedasticity.

**Table 3.** Uji Multikolinearitas

Model		Coefficients <sup>a</sup>		Collinearity Statistics Tolerance	VIF
		Unstandardized Coefficients			
		B	Std. Error		
1	(Constant)	627,384,190,200.000	1,809,776,651,000.000		
	capital structure	-10,948,787,110.000	18,509,437,660.000	.873	1.145
	audit committee	-1,628,729,107,000.000	3,038,345,206,000.000	.873	1.145

a. Dependent Variable: earning management

According to Table 3 above, it is known that:

1. The tolerance ( $\alpha$ ) value for capital structure or audit committee variables have the value bigger than 0.1, which is 0.873.
2. The Variance Inflation Factor (VIF) for capital structure and audit committee have value lower than 10, which is 1.145.

The test above shows that independent variables (capital structure and audit committee) doesn't affected by multicollinearity.

**Table 4.** Autocorrelation Test

Model		Model Summary <sup>b</sup>	
		Durbin-Watson	
1		1.481	

a. Predictors: (Constant), audit committee, capital structure

b. Dependent Variable: earning management

According to Table 4 above, it could be known that the value of Durbin-Watson (d) is 1.481. The value will be compared in Durbin-Watson table using 5% significancy for (n) sampel which is 56 and amount of independent variables (k) which is 2. According to Durbin-Watson table, it could be known that dL value is 1.4954 and dU value is 1.6430. Therefore, the value of d, dL and dU fulfills the V criteria with the condition that  $0 < d < dL$  ( $0 < 1.481 < 1.4954$ ), which is  $0 < 1.481 < 1.4954$ . This test shows that there's no positive autocorrelation.

**Table 5.** Multiple Linear Regression Analysis  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	627,384,190,200.000	1,809,776,651,000.000	
	struktur modal	-10,948,787,110.000	18,509,437,660.000	-.087
	Komite audit	-1,628,729,107,000.000	3,038,345,206,000.000	-.078

a. Dependent Variable: Y

Earning management = 627.384.190.200,000 - 10.948.787.110,000 Capital Structure – 1.628.729.107.000,000 Audit Committee + e

**Table 6.** Partial Significance Test (t Test)

Coefficients<sup>a</sup>

Model		t	Sig.
1	(Constant)	.347	.730
	capital structure	-.592	.557
	audit committee	-.536	.594

a. Dependent Variable: earning management

According to Table 6 above, it could be known that :

1. Capital Structure Variable has the t value of -0.592 with significant value 0.557. The t value will be compared with value in t distribution table with significancy of 0.05. From t distribution table we calculated that t table value 2.004879. Therefore, t value > table t value with  $-0.592 > 2.004879$  with significant value  $< 0.05$  which is  $0.557 < 0.05$ . This test shows that H1 is declined, which means capital structure variable doesn't influence or significant towards earning management in pulp and paper sub sector manufacturer companies listed in Indonesia's Stock Exchange (BE).
2. Audit committee variable has t value -0.536 with significant value 0.594. T value will be compared in t distribution table with significancy 0.05. From t distribution table we could calculated that t value is 2.004879. Therefore, t value < table t value which is  $-0.536 < 2.004879$  and significant value  $> 0.05$  which is  $0.594 > 0.05$ . The test shows that H2 is declined, which means audit committee doesn't influence or

significant towards earning management in pulp and paper sub sector manufacturer companies listed in Indonesia's Stock Exchange (BE).

Description :

- t table value is obtained with degree of freedom (df) = 54 [sample amount (65) – independent variable (2)]

**Table 7.** Simultaneous Significance Test (F Test)  
ANOVA<sup>a</sup>

Model		F	Sig.
1	Regression	.236	.791 <sup>b</sup>
	Residual		
	Total		

a. Dependent Variable: earning management

b. Predictors: (Constant), audit committee, capital structure

According to table 7 above, it could be known that F value is 0.236 with significant value 0.791. F value is compared with F distribution table with significancy of 5%. From F value distribution table we obtained that F value is 3.29. Therefore, F value > F table which is 0.236 > 3.17 with significancy < 0.05, which is 0.791 < 0.05. This test shows that H3 is declined, which means Capital Structure and Audit Committee doesn't influence or significant towards Earning management in pulp and paper sub sectore manufacturer listed in Indonesia's Stock Exchange (BE).

Description :

Ftable value is obtained using degree of freedom 1 (df1) = 2 (total of independent variable); degree of freedom 2 (df2) = 56 [total samples (56) – total of all variables (3)]

**Table 8.** Uji Koefisien Determinasi

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square
1	.094 <sup>a</sup>	.009	-.029

a. Predictors: (Constant), audit committee, capital structure

b. Dependent Variable: earning management

According to table 8 above, it could be known that R Square is 0.009 or 0.9%. This means that 0.9% of dependent variable in Earning management could be explained by Capital Structure or Audit Committee. While the rest 99.1% could be explained in other variables not researched in this paper such as Company Size and Institutional Ownership.

## DISCUSSION

### Capital Structure Influence on Earning management

According to partial test results about Capital Structure influence on Earning management which results in that Capital Structure does not have any influence nor significancy towards Earning management in pulp and paper subsector manufacturer companies listed in Indonesia's Stock Exchange. This could be observed from hypothetical partial test which shows that t value > t table value which is -0.592 > 2.004879 and with significant value < 0.05 which is 0.557 < 0.05. According to those results, first hypothesis (H1) is denied.



### **Audit Committee Influence Towards Earning management**

According to parital test about Audit Committee influence towards Earning management which results in that Audit Committee does not have any influence nor significancy towards Earning management in pulp and paper subsector manufacturer companies listed in Indonesia's Stock Exchange (BE). This could be observed from hypotethical partial test which shows that  $t$  value  $<$   $t$  table value which is  $-0.536 < 2.004879$  with significant value  $>$   $0.05$  which is  $0.594 > 0.05$ . According to those results, second hypothesis is denied. This results is in accordance to previous research's results conducted by (Lidiawati, n.d), which states that Audit Committee doesn't influence and is not significant towards Earning management.

### **Capital Structure and Audit Committee Influence Towards Earning management.**

According to simultaneous test about Capital Structure and Audit Committee towards Earning management, shows that Capital Structure and Audit Committee doesn't influence and is not significant towards Earning management in pulp and paper subsector manufacturer companies listed in Indonesia's Stock Exchange. This could be observed from simultaneously conducted hypothesis test (Ftest) which shows that  $F$  value  $>$   $F$  table which is  $0.236 > 3.17$  with significant value  $<$   $0.05$  which is  $0.791 < 0.05$ . According to those results, the third hypothesis is denied.

## **CONCLUSION**

According to analytical results and discussion as elaborated in previous chapters, therefore the conclusion of this paper is:

This research results shows that Capital Structure ( $X_1$ ), Audit Committee ( $X_2$ ) towards Earning management is shown from multiple linear regression analysis results. This means that Capital Structure and Audit Committee variables together does have influence towards Earning management. Partially, Capital Structure variable alone doesn't give significant influence towards Earning management in pulp and paper subsector manufacturer companies listed in Indonesia's Stock Exchange. This shows that  $H_1$  is denied. Partially, Audit Committee variable alone doesn't give significant influence towards Earning management in pulp and paper subsector manufacturer companies listed in Indonesia's Stock Exchange. This shows that  $H_2$  is denied. Capital Structure and Audit Committee variables simultaneously doesn't have influence and is not significant towards Earning management in pulp and paper subsector manufacturer companies listed in Indonesia's Stock Exchange. This shows that  $H_3$  is denied.

## **REFERENCES**

- al Amin, M. (2018). *Filsafat Teori Akuntansi*. Unimma Press.
- Amar, A. ben. (2014). The effect of independence audit committee on earnings management: The case in French. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 4(1), 96–102.
- An, Z., Li, D., & Yu, J. (2016). Earnings management, capital structure, and the role of institutional environments. *Journal of Banking & Finance*, 68, 131–152.
- Esomar, M. J. F., & Christianty, R. (2021). Dampak Pandemi Covid-19 terhadap Kinerja Keuangan Perusahaan Sektor Jasa di BEI. *Jkbn (Jurnal Konsep Bisnis Dan Manajemen)*, 7(2) 227–233. <https://doi.org/10.31289/jkbn.v7i2.5266>
- Fahmi, I. (2014). *Manajemen Keuangan Perusahaan dan Pasar Modal*. Bogor: Mitra Wacana Media.
- Halim, A. 2007. *Akuntansi Sektor Publik : Akuntansi Keuangan Daerah*. Jakarta: Salamba Empat.

- Harianto, S., & Yanto, J. (2019). Analisis Pengaruh Struktur Modal Terhadap Praktik Manajemen Laba. *Studi Akuntansi Dan Keuangan Indonesia*, 2(1), 124–148.
- Hermawan, A., & Yusran, H. L. (2017). *Penelitian Bisnis Pendekatan Kuantitatif*. Kencana.
- Irham Fahmi. (2014). *Manajemen keuangan perusahaan dan pasar modal / Irham Fahmi*. Jakarta :: Mitra Wacana Media,.
- Lestari, E., & Murtanto, M. (2018). Pengaruh efektivitas dewan komisaris dan komite audit, struktur kepemilikan, dan kualitas audit terhadap manajemen laba. *Media Riset Akuntansi, Auditing & Informasi*, 17(2), 97–116.
- Lidiawati, N. (n.d.). *PENGARUH KUALITAS AUDIT, KOMITE AUDIT, KEPEMILIKAN INSTITUSIONAL, UKURAN PERUSAHAAN TERHADAP MANAJEMEN LABA Nur Fadrih Asyik Sekolah Tinggi Ilmu Ekonomi Indonesia (STIESIA) Surabaya*.
- Mahardhika, P. A., & Marbun, D. P. (2017). Pengaruh Current Ratio dan Debt To Equity Ratio Terhadap Return On Assets pada Perusahaan Perbankan Yang Terdaftar di Bursa Efek Indonesia Periode 2008-2015. *Widyakala Journal*, 3, 5.
- Mendoza, J. A. M., Yelpo, S. M. S., Ramos, C. L. V., & Fuentealba, C. L. D. (2020). Effects of capital structure and institutional–financial characteristics on earnings management practices: Evidence from Latin American firms. *International Journal of Emerging Markets*, 16(3), 580–603.
- Noor, J. (2015). *Metodologi penelitian, skripsi, tesis, disertasi dan karya ilmiah*.
- Otoritas Jasa Keuangan Republik Indonesia. (2015). Peraturan Otoritas Jasa Keuangan Nomor 55 /POJK.04/2015 Tentang Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit.
- Saona, P., Muro, L., & Alvarado, M. (2020). How do the ownership structure and board of directors' features impact earnings management? The Spanish case. *Journal of International Financial Management & Accounting*, 31(1), 98–133.
- Saragih, A. E. (2017). Pengaruh Struktur Modal Dan Ukuran Perusahaan Terhadap Manajemen Laba Pada Perusahaan Pertambangan Dan Konstruksi Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Riset Akuntansi & Keuangan*, 161–180.
- Shoaib, A., & Siddiqui, M. A. (2020). Earnings management and theoretical adjustment in capital structure performance pattern: Evidence from APTA economies. *Borsa Istanbul Review*.
- Struktur Modal dan Ukuran, P., & Eliana Saragih, A. (2017). *PENGARUH STRUKTUR MODAL DAN UKURAN PERUSAHAAN TERHADAP MANAJEMEN LABA PADA PERUSAHAAN PERTAMBANGAN DAN KONSTRUKSI YANG TERDAFTAR DI BURSA EFEK INDONESIA* (Vol. 3, Issue 2).
- Sulistiyanto, H. S. (2020). *Manajemen Laba: Teori dan Model Empiris*. Jakarta: PT Grasindo.
- Ulina, R., Mulyadi, R., & Tjahjono, M. E. S. (2018). Pengaruh Kualitas Audit Dan Komite Audit Terhadap Manajemen Laba Pada Perusahaan Manufaktur Yang Tercatat Di Bursa Efek Indonesia. *Tirtayasa Ekonomika*, 13(1), 1–26.
- <http://junaidichaniago.wordpress.com>  
[www.idx.co.id](http://www.idx.co.id)