

The Role Of Corporate Governance On Earnings Quality From Positive Accounting Theory Framework

Dian Saksessia Amrie Firmansyah*

Abstract: This study aims to examine the effect of bonuses, debt financing, tax avoidance and corporate governance on earnings quality as well as the role of corporate governance on the effect of bonuses, debt financing, tax avoidance on earnings quality. This research is quantitative research with multiple linear regression models. The sample used in this research is all nonfinancial companies listed on the Indonesia Stock Exchange (IDX). The type of data used in this study is secondary data in the form of financial statements and annual reports from 2012 to 2016. The sample selection using a purposive sampling method with the number of samples amounted to 344 observations. This study uses data with the same number of five years, so that this study employs panel data. This study suggests bonuses are negatively associated with earnings quality. This manager's opportunistic behavior is in line with the hypothesis plan bonus. Debt financing is positively associated with earnings quality. Tax avoidance is negatively associated with earnings quality. Corporate governance is not associated with earnings quality. Corporate governance is expected to be the company's control mechanism to reduce earnings management behavior, which can reduce earnings quality. Corporate governance does not weaken the influence of bonuses on earnings quality. The previous discussion has confirmed that corporate governance does not affect the quality of earnings, and after research, corporate governance is also unable to limit the opportunistic behavior of managers driven by bonus motivation. Corporate governance does not weaken the influence of debt financing on earnings quality. Corporate governance does not weaken the effect of tax avoidance on the quality of earnings. In line with the previous discussion, this result may suggest in Indonesia; corporate governance has not been considered as a need and corporate culture.

Keywords: Bonuses, Debt Covenant, Tax Avoidance, Corporate Governance

INTRODUCTION

The accounting scandal that befell big companies such as Enron, Worldcom, and British Telecom is a scandal that is quite shocking in the business world. Enron and Worldcom were companies that have in recent years always been an example that fraud in accounting is indiscriminate, even large companies such as Enron, which at the time carried the seventh title of the 500 largest companies in the United States, as well as the largest energy company in Uncle Sam's country can avoid this scandal (liputan6.com, 2014). Worldcom was the second largest telecommunications company in the United States, and at the same time, ranked 42nd of the 500 largest companies in the United States affected by accounting scandals (everycrsreport.com, 2002). Enron and Worldcom manipulated accounting figures in their financial statements by exceeding earnings. Specifically for Enron, the company also hid the debt held by the company by establishing a Special Purpose Entity (liputan6.com, 2014). After Enron and Worldcom, the British Telecom company in 2017 was hit by the same scandal, which exceeds the performance of profits through fake invoices with the motive to get a bonus. This accounting scandal attracted more attention because

KAP PricewaterhouseCoopers (PWC), who had worked as a British Telecom public accountant for 33 years and a member of Big four KAP, was unable to detect fraud (wartaekonomi.com, 2017). Accounting scandals that afflict public companies do not only occur overseas, in Indonesia, public companies such as PT Kimia Farma Tbk, PT Bank Lippo Tbk, and PT Inovisi Infracom Tbk are also exposed to the same scandal. Of the three companies listed on the Indonesia Stock Exchange (IDX), only PT Kimia Farma Tbk is still listed on the stock exchange, while the other two companies, PT Bank Lippo Tbk and PT Inovisi Infracom Tbk, have been delisted from the stock exchange. PT Kimia Farma Tbk is known to have exceeded the company's profit in 2001 of 32.6 billion, of which 99.6 billion should have been reported at 132.2 billion. Meanwhile, PT Bank Lippo Tbk was exposed to a financial report manipulation scandal, namely the company's financial statements in the third quarter of 2002, showing the difference between the reports published in the Investor Daily Newspaper and those reported to the Jakarta Stock Exchange (BEJ). The difference between the two financial statements is quite material. Namely, the report published in the newspaper stated that the profit was 98.77 billion, while those reported to the JSX stated a loss of 1.27 trillion. This case was also linked to the KAP auditing the BT Bank Lippo Tbk report, which is a Big Ten, namely KAP Prasetyo, Sarwoko, and Sanjaya (Bapepam 2002 Press Release in Adhikara, 2011). If the accounting scandal of PT Kimia Farma Tbk and PT Bank Lippo Tbk is a scandal that has been long enough, recently the IDX also delisted the shares of PT Inovisi Infracom Tbk precisely in October 2017 because there were several financial statement misstatements reported for the quarter III of 2014, one of which is information about earnings per share (CNN Indonesia, 2017). Some of the scandals that have occurred indicate that the quality of financial reporting, which includes the quality of earnings of public companies in Indonesia, still cannot be considered to

- Department of Accounting
- Polytechnic of State Finance STAN
- Bintaro Main Street 5th Sector, Bintaro Jaya
- South Tangerang, Banten, Indonesia, 15222
- Email: diansaksessia91@gmail.com
- Department of Accounting
- Polytechnic of State Finance STAN
- Bintaro Main Street 5th Sector, Bintaro Jaya
- South Tangerang, Banten, Indonesia, 15222
- Email: amrie.firmansyah@gmail.com
- *Corresponding Author

be of high quality even though they are late audited by public accountants. In fact, in the Indonesia Statement of Financial Accounting Standards (PSAK) 1 concerning the presentation of financial statements, it is stated that the purpose of financial statements is to provide information about the financial position, financial performance, and cash flow of an entity that benefits most report users in making economic decisions. That is why investors still use accounting information, which includes profits to determine investment decisions (Aprianto et al., 2014). Earnings quality is something that must be considered because low earnings quality could cause misleading decision making (Boediono, 2005). Research on earnings quality for companies in several countries is stated by Boulton et al. (2011). In the study, Indonesia is one of the research sample countries. As a result, the quality of earnings in Indonesia with a proxy for aggregate earnings management is still deficient compared to other countries that are sample countries such as Malaysia, Thailand, South Korea, and developed countries such as Australia and the United States. Even in the study, Indonesia became the top three countries with high-profit management practices along with China and Taiwan. Several previous studies have tried to examine how the hypotheses in accounting theory can positively influence the quality of earnings. Healy (1985) examined how bonuses can influence accounting decisions (bonus plan hypothesis). The study found evidence that managers with bonuses based on profit targets will do earnings management to maximize bonuses that can be obtained. In Indonesia, research on bonuses was carried out by Suryatiningsih & Siregar (2008). The study employed several bonus proxies, which ultimately provide a conclusion that, in general, the proxies for calculating bonuses have a positive effect on earnings management. The existence of earnings management indicates that the reported earnings of low-quality companies (Hapsari et al., 2015). Then, among several studies that have confirmed the influence of bonuses on earnings quality, different results are shown by research conducted by Ferdiansyah (2014). The study concluded that the bonus that management can get is not a factor that triggers earnings management. The following study is related to the debt covenant hypothesis. Watts & Zimmerman (1990) stated that when company debt is relatively high, managers have strong incentives to make accounting choices and reporting decisions that can reduce the likelihood of violating debt agreements. Ghosh & Moon (2010) conducted research related to this hypothesis. The results of the study are that debt has a positive influence on earnings quality when the amount is relatively low. It is because lenders rely on high-quality information to assess creditworthiness, thus encouraging managers to present good quality earnings. Conversely, when the company's debt is relatively high, the effect is the lower quality of earnings. The manager will do earnings management so that the company does not violate the debt contract. In Indonesia, research between debt and earnings quality is carried out by Sutopo (2012). The results of the study are in line with the results of Ghosh & Moon (2010). The next hypothesis in the framework of positive accounting theory is related to the political cost hypothesis. Godfrey et al. (2010) explained that companies have an incentive to reduce reported earnings if high earnings are politically considered as an indicator of the maturity of a

business so that subsidies or tax incentives received will be revoked from the company. Based on this hypothesis, the company will attempt to minimize political costs, one of which is the tax that must be paid by the company. The effect of tax aggressiveness on earnings quality was investigated by Blouin et al. (2017). The study provided a result that the tax aggressiveness of the company affects the low accrual earnings quality. In Indonesia, research on the effect of tax avoidance on earnings quality is carried out by Anggreni et al. (2016). In this study, tax avoidance proxied by book-tax differences is stated to have a negative influence on the quality of corporate earnings. Also, there are several studies on the effect of corporate governance on earnings quality. Jiang et al. (2008) conducted a study that proved that the level of corporate governance has a better effect on higher earnings quality. In Indonesia, research on corporate governance is carried out by Arizona et al. (2017). In this study, corporate governance is positioned as a moderating variable on the effect of tax avoidance on earnings quality. The results of the study show that corporate governance that is proxied by managerial ownership does not have a significant effect on the effect of tax avoidance on earnings quality, while corporate governance that is proxied by institutional ownership reinforces the negative influence between tax avoidance and earnings quality. Based on the studies described earlier, there are several different results related to the effect of bonuses, debt financing, tax avoidance, and corporate governance on earnings quality. The difference in these results is one reason why there is a need to reconfirm how the variables affect the quality of earnings. Also, bonuses, debt financing, and tax avoidance are chosen in this study to test existing hypotheses in the framework of positive accounting theory. Meanwhile, corporate governance, aside from being an independent variable, is also positioned as a moderating variable that can strengthen or weaken the influence of these variables. It is because several previous studies have confirmed that some elements of corporate governance can limit earnings management, (Xie et al., 2001; Chtourou et al., 2001; Ching et al., 2002; Midiastuty & Machfoed, 2003). Although several studies in Indonesia have examined the effect of bonuses, debt financing, tax avoidance and corporate governance on earnings quality, empirical research to discuss the issue in one model has never been done in Indonesia. Previous research in Indonesia has only examined how the effect of bonus compensation, leverage, and tax on earnings management (Wijaya & Christiawan, 2014), in other words, the research is still limited to testing hypotheses in a positive accounting framework. Meanwhile, Marfuah & Yogatama (2014) examined the effect of corporate governance mechanisms, bonus plans, debt covenants, and firm size on earnings management. In addition to testing hypotheses in positive accounting theory, the study also included corporate governance as measured by several proxies as independent variables. Whereas in this study, besides testing hypotheses that exist in the framework of positive accounting theory, an element of corporate governance is added because this element is considered to be able to carry out the functions of controlling and monitoring that can improve the quality of earnings. Besides that, good corporate governance is also considered to minimize agency problems that occur in the

company, so in addition to testing corporate governance as an independent variable, this study also positions corporate governance as a moderating variable. The proxy employed by this study is also different from previous studies. In the previous studies bonuses used dummy variables (Marfuah & Yogatama, 2014; Ferdiansyah, 2014), this study used one of the proxy component bonuses offered by Suryatiningsih and Siregar (2008) which had also been used by Utomo (2011) namely net income trends. This proxy is used because of the bonus scale approach used by (Marfuah & Yogatama, 2014; Ferdiansyah, 2014), based on bonus data in annual reports that can cause bias. This bonus scale approach will give a value of 1 to the company, which lists the bonus to the executive and the value of 0 (zero) to the company that does not include, even though the company may give a bonus but not disclosed in the annual report. Based on these considerations, this study uses one of the bonus component approaches, namely the trend of net income. This proxy has considered the existence of bogey and stamp commonly used in company bonus provisions.

The second proxy is related to debt financing. Some previous studies used a ratio of debt to assets (Ghosh & Moon, 2010; Sutopo, 2012) or debt to equity (Marfuah & Yogatama, 2014). In this study, the author will use debt to assets because even though both of these ratios can be used as a condition in the debt agreement, the creditor will be more concerned with the number of company assets that can be used as collateral for the debt. The difference between this research and previous research is also on tax avoidance proxies using the discretionary permanent differences model developed by Frank et al. (2009) and adapted by Rachmawati & Martani (2017). In contrast to previous studies that used effective tax rate (ETR), cash ETR, and book-tax differences (Larastomo, 2016; Anggreni et al., 2016), Frank et al. (2009) stated that the proxy developed was better than avoidance proxy other taxes. For example, the discretionary permanent differences proxy is more comparable with discretionary accrual proxies because both are measured in units of currency, compared to if using ETR, Generally Accepted Accounting Principles (GAAP) ETR or cash ETR are measured using a percentage. Also, the discretionary permanent differences proxies have issued elements of temporary differences, which only cause recognition time differences between taxation and accounting rules. Meanwhile, the proxy for corporate governance in this study employs the principles of corporate governance issued by the Organization of Economic Co-operation and Development (OECD). The selection of this proxy is expected to produce a more comprehensive measure of corporate governance compared to previous studies using proxy institutional ownership and managerial ownership (Arizona et al., 2017) or board of commissioners, independent commissioners, managerial ownership and audit committees (Larastomo et al., 2016). The use of a governance index based on the OECD guidelines brings together the components in governance so that it is expected to capture the influence of overall corporate governance. Furthermore, for-profit quality proxies, previous research used the Richardson model (2003) (Aboughniem et al., 2017), or earnings persistence, predictability, value relevance, accrual quality, (Latif et al., 2017), while this

study used discretionary accruals based on Kasznik (1999). The Kasznik model was chosen because in this study the model had a higher adjusted R^2 than some other discretionary accrual models such as the Jaggi et al. (2009) model, Kothari (2005) and the Modified Jones Model (1995). This study examines hypotheses in the framework of positive accounting theory and its effect on earnings quality, plus how corporate governance plays the functions of controlling and monitoring related agency problems in the company — the testing in this study positions corporate governance as both an independent variable and a moderating variable. Based on the positive accounting theory framework, there are 3 (three) hypotheses that can encourage management to do earnings management that can affect the quality of corporate earnings. One of the hypotheses is known as the bonus plan hypothesis, which states that management is motivated to perform earnings management behavior in the hope that it can achieve the company's profit targets. It is because the bonus plan made by the company is based on profits reported in the financial statements. Earnings management behavior that is driven by bonuses designed by this company can reduce the quality of earnings. In line with the theory, previous research (Suryatiningsih & Siregar, 2008; Utomo, 2011) found that companies that base bonuses given to management based on trends in net income, net profit targets, and operating profit targets will tend to do earnings management. Meanwhile, the results of Gao & Shrieves (2002) also confirmed that bonuses and stock options have a positive effect on earnings management, salaries are negatively associated with earnings management, while long-term incentives do not affect earnings management. Based on the positive accounting theory framework and several previous studies, the existence of bonuses based on company profits can encourage earnings management behavior that can reduce the quality of corporate earnings. Thus, the first hypothesis of this study is as follows.

H_1 : Bonuses are negatively associated with earnings quality
Based on the positive accounting theory framework, the second hypothesis after the bonus plan hypothesis is a debt covenant hypothesis, which states that managers will tend to do earnings management so as not to violate the debt contract. The earnings management carried out can then influence the low quality of reported earnings. In this hypothesis, it is stated that the closer the company is to the breach of contract, in this case, the greater the financing portion of the company that comes from debt, the manager will attempt to avoid costs due to a breach of contract by manipulating reported earnings. In line with the theory, Aboughniem et al. (2017) conducted research whose results state that the debt ratio is negatively associated with earnings quality, while other studies divide high levels of debt and low-level debt. The results showed that when at a high level, debt will negatively affect earnings quality while at a low level, debt will have a positive effect on earnings quality (Ghosh & Moon, 2010; Valipour & Moradbyegi, 2011; Sutopo, 2012). Based on the positive accounting theory framework and several previous studies, the existence of corporate financing originating from debt can encourage earnings management behavior that can reduce the quality of corporate earnings. Thus, the second hypothesis of this study is as follows:

H₂: Debt financing is negatively associated with earnings quality

Based on the positive accounting theory framework, the third hypothesis is known as the political cost hypothesis, which states that the larger the company, the manager will try to minimize the political costs (including taxes) that must be paid by the company, one of them by presenting low earnings.

Regarding the hypothesis, tax is a component that can be manipulated to produce a low quality of earnings. In line with the theory, previous research has provided consistent results; namely, tax avoidance will motivate earnings management to affect or reduce the quality of corporate profits. The similarity of this study was obtained even though there were proxy differences in tax avoidance variables, including GAAP ETR (Balakrishnan et al., 2019), permanent discretionary differences (Fernandes et al., 2017) and book-tax differences (Arizona et al., 2017). Based on the positive accounting theory framework and several previous studies, the existence of tax avoidance can encourage earnings management behavior that can reduce the quality of corporate earnings. Thus, the third hypothesis of this study is as follows.

H₃: Tax avoidance is negatively associated with earnings quality

Based on agency theory, Godfrey et al. (2010, 56) stated that the existence of financial statements is motivated by the existence of a need for accountability (stewardship) between managers who are given responsibility (agents) to the principal. Related to this, the issue of corporate governance arises because there is a possibility of a conflict of interest between the principal and the agent. This conflict can occur due to the imbalance of information possessed by the principal and agent (manager) caused by the manager having more information from the principal. Conflict can occur because the owner wants to maximize the welfare of the company while the manager wants to maximize personal benefits that can be done by manipulating profits. In these circumstances, corporate governance is considered to be a control function for managers to reduce possible conflicts. Related to the theory, Jiang, Lee, and Anandarajan (2008) found that the level of corporate governance that had a better effect on higher earnings quality. Some studies have also examined how corporate governance mechanisms can limit earnings management behavior (Xie et al., 2001; Chtourou et al., 2001; Ching et al., 2002; Midiastuty & Machfoed, 2003). Based on agency theory and several previous studies, the existence of corporate governance can suppress the existence of earnings management behavior that can reduce the quality of corporate earnings. Thus, the fourth hypothesis of this study is as follows.

H₄: Corporate governance has a positive effect on earnings quality. Based on agency theory, there is a separation between the principal and agent (manager) that can lead to conflict, namely often information about profits presented in a company's financial statements is the object of manager's opportunistic actions to make earnings management that can disrupt the quality of company profits. It is because profit is widely used by stakeholders in terms of measuring management performance, the basis for determining executive compensation, and evaluating the company's prospects (Randall et al., 2007). The existence of executive

compensation or bonuses based on profit can encourage manager's opportunist behavior. Related to this, corporate governance is considered to be a control mechanism to minimize this behavior. In good corporate governance, companies need to have a remuneration committee and have rules that form the basis of remuneration. The existence of corporate governance can suppress the existence of the manager's opportunistic behavior related to the motivation of bonuses that can reduce the quality of company profits. Thus, the fifth hypothesis of this study is as follows.

H₅: Corporate governance moderates the effect of bonuses on earnings quality.

Agency theory is a perspective that is often used in understanding governance relationships within the company (Lestari & Wirawati, 2016). This theory is a theory behind the existence of differences in conflicts of interest within the company. Related to this, the existence of corporate governance is needed to minimize this conflict. One of the conflicts that might occur related to debt contracts is that the manager will try to avoid violating the debt contract even though by manipulating profits, which causes the low quality of the company's profit. The manager chooses an accounting policy that allows the avoidance of companies from breach of contract can be based on the interests of the company so that it is not subject to penalty fees, or for the sake of personal interest in order not to be dismissed from the company. Corporate governance is considered to minimize this conflict because good corporate governance is regulated regarding the role of stakeholders in companies, including creditors. Research on the moderation of corporate governance towards the influence of leverage with earnings management was carried out by Naftalia & Marsono (2013). In his research, it was proven that corporate governance, proxied by institutional ownership, was able to moderate the influence of leverage proxied by debt to asset ratio to earnings management. While other corporate governance proxies such as managerial ownership, independent commissioners, and audit quality are not able to moderate the influence of leverage on earnings management. Subsequent research was conducted by Sari & Astika (2015). The results of these studies are managerial ownership and institutional ownership, which are proxies for corporate governance proven to moderate the influence of leverage on earnings management. Thus, the existence of corporate governance can suppress the presence of the opportunistic behavior of managers related to debt contracts that can reduce the quality of corporate profits. Therefore, the sixth hypothesis of this study is as follows.

H₆: Corporate governance moderates the effect of debt financing on earnings quality.

In the context of a company, poor quality earnings can be caused by a separation between the party who runs the company (manager) and the owner. One of the conflicts that may occur between owners and managers is the presence of tax avoidance behavior by managers. This behavior can hinder the owner from maximizing profits after tax. Also, this behavior can cause the quality of reported earnings to be low so that it can bias decisions based on profit. The existence of this phenomenon, as stated in agency theory, requires a control mechanism in the form of corporate governance. Anggreni et al. (2016) posited

corporate governance as a moderating variable on the effect of tax avoidance and earnings quality. The results showed that managerial ownership does not affect the influence of tax avoidance with earnings quality, while institutional ownership moderated the effect of tax avoidance and earnings quality. The existence of corporate governance can suppress the existence of the manager's opportunistic behavior related to tax avoidance, which can reduce the quality of earnings. Thus, the seventh hypothesis of this study is as follows.

H₇: Corporate governance moderates the effect of tax avoidance on earnings quality.

RESEARCH METHOD

This type of research is quantitative research. In this study, the population includes all listed companies listed on the Indonesia Stock Exchange from 2012 to 2016. From the population, sampling is then carried out. In this study, sampling was conducted by purposive sampling, which is part of a non-probability sampling method. The companies that must be removed from the sample are the financial sector and property sector, real estate, building construction, aviation, and shipping. Companies that enter the financial sector have different characteristics from other sectors, whereas companies in the property, real estate, and building and shipping and aviation sectors have different tax regulations that are either subject to final tax or subject to tax based on Net Income Calculation Norms under the Income Tax Law. The dependent variable in this study is the quality of earnings. There are several proxies for measuring earnings quality, one of which is residuals from accrual models (Dechow et al., 2010). The variable earnings quality in this study employs the discretionary accrual proxy Jones Model (1991), which has been modified again by Kasznik (1999). In his model, Kasznik added a variable change in cash flow from operations as an explanatory variable. Dechow et al. (1995) found that these variables negatively affected total accruals. This proxy was chosen because based on the results of tests that have been carried out, the Kasznik model in this study has a higher adjusted R² than some other discretionary accrual models such as the Jaggi et al. (2009) model, Kothari (2005) and Modified Jones Model (1995). Discretionary accrual Kasznik models are calculated using the following formula:

$$TA_{it} = \alpha_0 + \beta_1(\Delta REV_{it} - \Delta REC_{it}) + \beta_2 PPE_{it} + \beta_3 \Delta CFO_{it} + \varepsilon_{it}$$

Where:

TA_{it} = total company accrual i in year t

ΔREV_{it} = difference in income value of company i in year t_{-1}

ΔREC_{it} = difference in the value of net receivables of the company i in year t and t_{-1}

PPE_{it} = value of ppe company i in year t

ΔCFO_{it} = change in operating cash flow of company i in year t and t_{-1}

ε_{it} = discretionary accrual

Total accrual is obtained from subtracting net income with cash flow from operations for all variables to be scaled to total assets in year t-1. The quality of earnings with discretionary accrual (DFIN) proxy in the company is

shown by the residual value displayed by ε_{it} where the residue is obtained from the regression results of the cross-section. The cross-section regression was chosen to see the quality of earnings from year to year where there could be differences in results in different years due to changes in industrial conditions and policies in that year.

Furthermore, here are three independent variables in this study, namely bonuses, debt financing, and tax avoidance. Suryatiningsih & Siregar (2008) stated that two approaches could be used to measure bonuses to management, namely the bonus scale approach and bonus components. Because financial reports published in Indonesian companies do not present data related to the management bonus amount in detail, the approach using bonus components is more likely to be done. If Suryatiningsih & Siregar (2008) conducted a study on a State-Owned Enterprise (BUMN) company listed on the IDX, Utomo (2011) then conducted a study of the proxy significance offered in the research of Suryatiningsih and Siregar (2008) in registered manufacturing companies on the IDX. As a result, the proxy for the trend in net income is significant. Based on these reasons, this study will use the trend of net income as a bonus proxy with the following formula:

$$\text{Net Income Trend (NITREND}_{it}) = \frac{\text{Net Income}_{(t)}}{\text{Net Income}_{(t-1)}} \times x$$

Furthermore, NITREND_{it} is converted into an index that ranges from 0 (zero) to 1. This index conversion needs to be done considering that in the bonus contract, there are two terms, namely bogey, and stamp. If profit is below the bogey, there is no bonus obtained by management, as well as if profit is above the stamp of management will not get an additional bonus (Utomo, 2011). Due to the absence of general standards and bogey related data and labels for companies in Indonesia, the conversion of indexes in this study still refers to the research of Suryatiningsih and Siregar (2008) provided that index values ranged from 0 (percentage of net profit growth ≤ 20%) to 1 (percentage of net profit growth ≥ 105%). Meanwhile, the index value of 0 - 1 for the conversion of the net income trend of 20% < NITREND < 105% using the interpolation method as follows:

$$\frac{x - x_1}{x_2 - x_1} = \frac{y - y_1}{y_2 - y_1}$$

Where:

x: net income trend index value

y: net income trend

x₁: minimum index value (0)

y₁: net income trend for minimum index value (20%)

x₂: maximum index value (1)

y₂: net income trend for maximum index value (105%)

Because of the values of x_1 , y_1 , x_2 , and y_2 have been determined, if the value of net income trend (y) is known, then the index value of the net profit trend (x) can be known. Therefore, the interpolation formula above can be simplified as follows.

$$\text{Net Income Trend Indeks (NIITREND}_{it}) = \frac{\text{NITREND}_{it} - 20}{85\%}$$

Debt financing

The proxy used to measure debt financing variables is based on the research of Ghosh & Moon (2010) and

Sutopo (2012), namely the ratio of debt to assets. The use of this ratio is because creditors are concerned about the number of company assets that can be used as collateral for the debt. The following formula calculates the debt to asset ratio:

$$DEBT_{it} = \frac{TD_{it}}{TA_{it}}$$

Where:

TD_{it} = total debt company i in year t

TA_{it} = total assets of the company i in year t

Tax Avoidance

Some commonly used alternative tax avoidance measures include total book-tax differences (Wilson, 2009), cash ETR (Dyreng, Hanlon, and Maydew, 2008), and total discretionary book-tax differences (Desai & Dharmapala, 2006). However, in this study, the tax avoidance variable was measured using permanent discretionary differences (DTAX), as formulated by Frank et al. (2009). The study stated that this proxy is better than previous proxies such as ETR, cash ETR, and book-tax differences. The tax avoidance proxy used in the thesis has been adjusted to the conditions in Indonesia, according to Rachmawati and Martani (2017) research with the following formula.

$$PERMDIFF_{it} = \alpha_0 + \alpha_1 INTANG_{it} + \alpha_2 \Delta NOL_{it} + \alpha_3 LAGPERM_{it} + \varepsilon_{it}$$

Where:

$PERMDIFF_{it}$: total book-tax difference [(income before tax-expense book) tax) / tax rate] - temporary book-tax differences [tax expenses deferred / tax rate] divided by total assets of the previous year

$INTANG_{it}$: total goodwill and other intangible assets divided by total assets of the previous year

ΔNOL_{it} : change in net operating loss carryforwards divided by total assets the previous year

$LAGPERM_{it}$: PERMDIFF the previous year

ε_{it} : discretionary permanent differences

The residual value used as a tax avoidance proxy is obtained from the regression results of the cross-section. The cross-section regression was chosen to see tax avoidance from year to year where there could be different results in different years due to changes in industry conditions and policies in that year.

Besides, in this study, corporate governance (CG_{it}) is positioned as an independent variable (model 1) and the moderating variable (model 2). This variable is measured by developing an index consisting of 5 (five) main

measurement dimensions, namely rights of shareholders, the equitable treatment of shareholders, roles of stakeholders, disclosure, and transparency, and the role of the board of directors by the guidelines for corporate governance developed by the OECD. The five main dimensions are then reduced to several checklist points, which will then be used to form a corporate governance index on a scale of 0-1. The variable formula of corporate governance is as follows:

$$CG_{it} = \frac{\text{The total value of corporate governance}}{\text{Number of criteria in corporate governance}}$$

The indexing process is conducted by matching the criteria in the list of corporate governance checklists with the information presented in the company's annual report. The checklist consists of 49 criteria, which are derived from 5 (five) key measurement dimensions to meet good corporate governance, according to the OECD. In the indexing process, if the criteria listed in the checklist are disclosed in the company's annual report, a value of 1 is given, while a value of 0 is given when information on the criteria for corporate governance is not included in the annual report. This provision applies to all the criteria in the checklist, which are then combined into a complete corporate governance index.

Research model

There are two models in this study. To analyze the influence of research variables in hypothesis 1 (one) to 4 (four), model 1 is used as follows:

$$DFIN_{it} = \alpha_0 + \beta_1 ITRENLB_{it} + \beta_2 DEBT_{it} + \beta_3 DTAX_{it} + \beta_4$$

Whereas to analyze the moderating influence of corporate governance as reflected in the interaction variables in hypotheses 5 (five) to 7 (seven), model 2 is used as follows:

$$DFIN_{it} = \alpha_0 + \beta_1 ITRENLB_{it} + \beta_2 DEBT_{it} + \beta_3 DTAX_{it} + \beta_4 + \beta_5 DEBT_{it} * CG_{it} + \beta_6 DEBT_{it} * CG_{it} + \beta_7 DTAX_{it} * CG_{it} + \varepsilon_{it}$$

Where:

$DFIN_{it}$: earnings quality of company i year t

$ITRENLB_{it}$: bonuses company i year t

$DEBT_{it}$: debt financing for companies y i year t

$DTAX_{it}$: tax avoidance of company i year t

CG_{it} = index of corporate governance of company i year t ε_{it}

RESULTS AND DISCUSSIONS

Results

The results of purposive sampling through all the selection criteria available obtained a sample of 344 observations (firm-year) from 86 companies. The sampling criteria are presented in Table1 below.

Table 1 The result of the research sample:

Criteria	Number
Companies listed on the IDX as of April 10, 2018	577
Companies listed on the IDX after January 1, 2012	-156
Financial, property, shipping, aviation sector companies	-124
Companies with negative pre-tax income (pretax income)	-170
Companies with annual reports in Indonesian and irregular formats	-20
Elements and / or information in LK are incomplete	-21
The number of companies used for the research sample	86
Year	4
Total Sample	344

Furthermore, the results of descriptive statistical analysis are presented in Table 2

Table 2 Descriptive Statistics

Variable	N	Mean	Median	Std. Dev.	Min	Max
DFIN	344	-1,78E-18	0,000630	0,060650	-0,193262	0,333058
ITRENNI	344	0,794816	0,999536	0,303442	0,000000	1,000000
DEBT	344	0,433258	0,422905	0,187139	0,073468	1,266055
DTAX	344	-1,63E-18	-0,003049	0,036295	-0,260336	0,233450
CG	344	0,544732	0,551567	0,097351	0,285884	0,793537

This study consists of 2 (two) models, namely model 1 to test the effect of independent variables on the dependent variable of this study, and model 2 to examine the moderating influence of corporate governance on the effect of independent variables on the dependent variable of this study. The co-efficient value of determination, the results of the F test, and the t-test of this study are presented in Table 3.

Table 3 Equation Model Regression Test Results

Variabel	Sign	Model 1		Model 2	
		Coeff	Prob	Coeff	Prob
ITRENLB	+	0.0242	0,006 ***	-0.0015	0.489
DEBT	+	-0,0511	0,001 ***	-0.1001	0.177
DTAX	+	0,3464	0,000 ***	-0.2937	0.257
CG	-	-0.0353	0,169	-0.1071	0.181
CG*ITRENLB	-			0.0481	0.333
CG*DEBT	-			0.0939	0.318
CG* DTAX	-			1.2199	0.072 *
R-Squared		0,108		0,116	
Adj. R-Squared		0,097		0,098	
F- Stat		10,270		6,356	
Prob (F Stat)		0,000		0,000	

DISCUSSIONS

1. The association between bonuses and earnings quality

By the results of hypothesis testing, this study confirms that bonuses are negatively associated with earnings quality. This result can be explained by the bonus plan hypotheses that exist in the positive accounting theory framework. The hypothesis indicates an agency problem between owners and managers. To minimize this agency problem, the owner gives a bonus based on earnings in the hope that the manager will attempt to maximize shareholder wealth because then the manager will also achieve incentives in the form of bonuses. However, in practice, this bonus does not always make managers act according to the owner's wishes; on the contrary, management can focus on their interests to get bonuses. In the end, this bonus encourages the opportunistic behavior of managers to manipulate profits to achieve targeted profits. The result of this study is in line with Suryatiningsih & Siregar (2008) and Utomo

(2011). In this study, it is proven that the existence of bonuses based on earnings has a positive effect on corporate discretionary accruals, or in other words, had a negative effect on earnings quality. The difference in the research with this study is that the research of Suryatiningsih & Siregar (2008) employed a sample in the form of State-Owned Enterprises, Utomo (2011) employed bonus proxies as Suryatiningsih & Siregar (2008) in manufacturing companies, while this study uses a sample of nonfinancial companies. Although the object of this study is different from previous research, it produces the same conclusion. Based on Utomo (2011), the manufacturing sector, which becomes the most dominant sector on the IDX so that when conducted research with non-financial sector objects, the results showed conclusions that were identical to previous research. Also, the result of this study is in line with the research of Gao & Shrieves (2002). The study suggested that bonuses have a positive effect on

earnings management or in other words, have a negative effect on earnings quality by using samples of companies in the United States. The result of this study is in line with existing research in Indonesia because the manager's opportunistic behavior related to bonus motivation does not depend on where the bonus is applied but rather on the motives for achieving personal interests that exist within a manager. Gao & Shrieves (2002) also examined long-term incentives in the United States. As a result, this type of incentive does not affect earnings management activities. The data in this study suggests the level of achievement of high earnings based on the proxy of the net income trend used for bonus variables. The results show that the higher the net profit trend index variable (INITREND), which represents a bonus, the lower the quality of corporate earnings. The negative influence that occurs between bonus and earnings quality suggests that in the study sample companies, most managers do not consider the existence of bonuses as a trigger to improve the welfare of shareholders. This bonus based on earnings encourages opportunistic behavior, i.e., the manager focuses on his interests. The result confirms that the hypothesis bonus plan stated in the positive accounting theory framework applies in Indonesia so that to improve the performance of managers, company owners can choose other options besides bonuses that are based on achieving company earnings.

2. The association between debt financing and earnings quality

The effect of debt financing on the quality of corporate earnings is predicted in the framework of positive accounting theory, namely in the debt covenant hypothesis. This hypothesis states that the closer the company is to the breach of the debt contract, the more it encourages management to manipulate profits so as not to violate the contract, and in the end, this behavior will affect the quality of the company's earnings. However, different from the hypothesis proposed, this study confirms that debt financing has a positive effect on earnings quality. This result can be due to the average debt financing of the sample companies, which tend to be low at around 43%. This low debt financing condition can improve the quality of earnings. The positive influence of debt on earnings quality can be understood by the way that creditors have an interest in overseeing companies that have loans for the continuity of loans given by creditors. It may be by the characteristics of companies in Indonesia who prefer to be supervised so that when creditors conduct supervision, companies will be increasingly disciplined in reporting quality earnings. Also, creditors will calculate credit risk based on the quality of earnings reported by the company. Companies will have lower credit risk when reporting more informative earnings about future economic performance. This lower credit risk makes managers have an incentive to report higher quality earnings because it can reduce the company's borrowing costs (Ghosh & Moon, 2010). The results of this study are in line with the results of Ghosh & Moon (2010). In his research, the condition of the company's debt was divided into high and low. Ghosh & Moon (2010) stated that debt has a positive effect on the earnings quality in low debt levels, and negatively affects the earnings quality in high debt levels, with a low or high debt limit at the debt to asset ratio of 40%. Research by distinguishing high and low debt

conditions was also carried out by Valipour & Moradbeygi (2011) except that the low or high debt limit was at the limit of the debt to asset ratio of 50%. From the results of this study, it is known that the average value of the variable DEBT ranges from 43%. This condition, according to Valipour & Moradbeygi (2011), falls into the category of low debt. In the low debt category, debt financing will have a positive effect on earnings quality. Research that uses high and low debt categories in Indonesia has been carried out by Sutopo (2012), and the results are consistent with Ghosh & Moon (2010) and Valipour & Moradbeygi (2011). However, the result of this study is different from the results of Defond & Jiambalvo (1994), which stated that in both contract violations and years before debt contract violations, companies that violate contracts have positive discretionary accruals or in other words do earnings manipulation using income increasing. The difference in results obtained in this study with Defond & Jiambalvo (1994) is the object of research Defond & Jiambalvo (1994) using companies that have been proven to violate contracts while in this study sample companies are not differentiated between companies that violate debt contracts and those that do not so the final results of the study could show different conclusions.

3. The association between tax avoidance and earnings quality

By the results of hypothesis testing, this study confirms that tax avoidance is negatively associated with earnings quality. It means that the results of this study are in line with the proposed hypothesis, which is by the political cost hypothesis in the framework of positive accounting theory that the company will tend to minimize the political costs borne by the company, including tax costs. This tendency of behavior encourages earnings management behavior, which ultimately decreases the quality of corporate earnings. The low quality of earnings due to tax avoidance behavior will then have implications for company decisions that become biased, especially decisions based on company profits. The result of this study is in line with the results of several previous studies, which stated that there is a positive influence between tax avoidance of discretionary accruals or in other words, a negative influence on earnings quality (Kamila & Martani, 2014; Larastomo et al., 2016). The result of the study suggests that one of them by tax avoidance influences earnings quality because the tax is one component in the number of financial statements that can be arranged so that tax avoidance causes poor quality company profits. The negative influence shown by tax avoidance on earnings quality indicates that there are gaps in taxation and accounting regulations that are used for earnings management behavior and corporate tax avoidance. The similarity of the result between this study and previous research may be the object of previous research used the manufacturing sector, which becomes the dominant sector in Indonesia, while this study used a non-financial sector, which is mostly in the manufacturing sector as well. Also, the tax avoidance proxy used is the same as the research (Kamila & Martani, 2014), namely permanent discretionary difference, while Larastomo et al., (2016) employed the proxy of the effective tax rate (ETR). Based on the data of this study, the positive influence between tax avoidance on discretionary accruals depicts that the sample companies

carry out tax avoidance, which influences the quality of earnings because this tax avoidance is conducted by manipulating company profits. The tax is one of the expenses that compose the number of corporate profits so that if there is engineering on the tax burden, it will ultimately affect earnings. The existence of tax avoidance behavior, although not too aggressive in the sample companies, illustrates that in Indonesia, there is a gap between tax rules and accounting rules, which are then used to practice tax avoidance.

4. The association between corporate governance and earnings quality

The role of corporate governance in relation to the quality of earnings is based on the theory that the relationship in the company is a nexus of contract, or in other words a collection of linkages between the principal as the owner of the resource and the agent as the use and control of these resources (Jensen & Meckling, 1976) known as agency theory. The difference in information between the owner (principal) and management (agent) can trigger opportunistic actions of management that can affect the quality of earnings. Related to this, good corporate governance is expected to have a positive effect on earnings quality. Corporate governance has an important role because earnings quality is related to the quality of the accounting process (Francis et al., 2006). The accounting process involves various elements of the company, including the board of directors, the board of commissioners, the audit committee, and shareholders. So that it can be said that the existence of rules related to the elements in this company plays an important role in the quality or absence of company profits, then, the relation to agency theory is that corporate governance will involve elements in the company that will also oversee the manager's behavior in the process of preparing financial reports to minimize opportunistic management behavior. However, according to the results of hypothesis testing, this study confirms that corporate governance does not affect the quality of earnings. The results of this study can be understood from the standpoint of corporate governance proxies. Namely, some previous studies generally used the composition of independent commissioners and the presence or absence of audit committees (Widowati, 2013), while Khafid (2012) added elements of managerial ownership and institutional ownership. The results of these studies show mixed conclusions. These results, among others, the audit committee has a negative effect on earnings management while independent commissioners do not affect earnings management (Widowati, 2013), while the Khafid (2012) stated that managerial ownership, independent commissioners, audit committees have a positive effect on earnings quality while institutional ownership has no effect on earnings quality. The variety of research results on the role of corporate governance on earnings quality also influences the results of this study. This study suggests that as a whole or after an index is made into a single entity; corporate governance research samples do not affect the quality of company profits. In other words, the difference in the results of this study with previous research is due to the different proxies used. The result of this study is also not in line with Chtourou et al. (2001), which suggested that in companies in the United States, audit committees and the composition of the board

of directors are proven to limit earnings management. The difference in the result due to the difference in proxy used can also be led by the characteristics of the country where the study is conducted. The United States adheres to the understanding of the one-tier system where executive functions are combined with a supervisory function, while Indonesia adheres to two-tier systems where there is a separation between the two functions. Although the two-tier system countries should be more effective in corporate governance, the results of this study state otherwise. It is probably because the United States is a developed country where the mindset of doing business and law enforcement in that country is far more advanced than Indonesia. These conditions then make corporate governance considered a culture that must be owned by companies in the United States. This study is similar to Yanuar & Restuti (2015). The research concluded that corporate governance does not affect earnings quality. Yanuar & Restuti (2015) used the index released by the Institute for Corporate Governance (IICG). The lack of influence of corporate governance on earnings quality is due to the research sample companies having a corporate governance index that rises from year to year, but companies that have to fluctuate during the study year. It is still to meet the guidelines for corporate governance. Thus, supervision and monitoring of management performance implemented in this mechanism are not management earnings practices. In this study, the elements that make up corporate governance are included in one index. The index has included corporate governance proxies in previous studies. This corporate governance index was developed independently using the OECD guidelines in 2004, which covers the five main measurement dimensions, namely the rights of shareholders, the equitable treatment of shareholders, roles of stakeholders, disclosure, and transparency, and the role of the board of directors. The selection of the OECD guidelines as the basis for indexing is supported by research by Cheung et al. (2015). In this research, there are five countries which are the sample countries of the study, namely China, Hong Kong, Indonesia, the Philippines, and Thailand. Although the nature of the OECD guideline is voluntary, the presence of corporate governance in the annual report can be used as a proxy for the measure.

5. The role of corporate governance in the association between bonuses and earnings quality.

In this study, besides corporate governance positioned as an independent variable, this variable is also positioned as a moderating variable. The position of corporate governance as a moderating variable closely related to agency theory, namely the application of corporate governance, is expected to minimize opportunistic management behavior or in other words, can help align the principal's wishes with management behavior. Corporate governance is considered to have a monitoring and control role in maintaining the quality of reported earnings of the company (Siallagan & Machfoedz, 2006). The function of corporate governance in this study is to supervise earnings management behavior that can affect the quality of company profits. Based on the corporate governance guidelines released by the OECD, there are five components of corporate governance. The first component is the rights of shareholders, whose substance states that

the company's monitoring function is carried out by shareholders with the rights they have. If seen in more detail, the points in this component, among others, regulate the rights of shareholders, for example, in approving salaries and remuneration of directors and commissioners to appoint and dismiss directors. Related to this, the study of Gao & Shrieves (2002) stated that the provision of remuneration for the board of commissioners and directors in the form of bonuses and stock options has a negative influence on the quality of earnings. The negative influence is expected to be minimized because, in corporate governance, companies are asked to include a clear basis for remuneration, have a remuneration committee, and the amount of remuneration given to the executive must be through shareholder approval. But the results of this study indicate that governance variables are not able to weaken the influence of the manager's opportunistic behavior motivated by a bonus. It illustrates that in Indonesia, companies with corporate governance cannot effectively minimize the manager's opportunistic behavior. The incompatibility of the results of this study with the proposed hypothesis can be caused because in Indonesia corporate governance is still limited to meeting the guidelines of corporate governance rather than being driven by awareness of the need for the importance of corporate governance about achieving corporate objectives. This was supported by the results of research conducted by the Indonesian Institute for Corporate Governance (IICG) in 2001 which showed that although almost all respondents stated the importance of corporate governance, 65% of respondents stated that implementing good corporate governance is because regulation encourages this, and only 30% state that corporate governance is part of the corporate culture (Miqdad, 2011).

6. The role of corporate governance in the association between debt financing and earnings quality.

Referring to agency theory, the existence of differences between principals and managers can cause agency problems. Related to this, corporate governance can take the role of controlling and monitoring with one component in corporate governance, according to the OECD, which is the role of stakeholders. In this element, the roles of stakeholders such as employees, consumers, the environment, and including creditors are explained. In good corporate governance, creditors can play a role in supervising the company because the creditor has an interest in the debt that the company has. This supervision is expected to minimize the opportunistic behavior of managers regarding the debt covenant hypothesis that is in the framework of positive accounting theory. However, the results of this study indicate that the governance variable is not able to moderate the influence of the company's debt contract on earnings quality. After the fourth hypothesis is proven that corporate governance as an independent variable does not affect the quality of earnings, it turns out that the existence of good corporate governance can not also strengthen the positive influence of debt financing on earnings quality. The result of this study contradicts Sari and Astika (2015). The research proved that corporate governance that is proxied by managerial ownership and constitutional ownership could moderate the influence of leverage proxied by debt to asset ratio to earnings management. The difference in the results of this study with

previous research can be caused because the object of research is not the same. This study uses non-financial sector companies while Sari and Astika's (2015) research only employed mining sector companies. The difference in the result of this study can be due to mining sector companies being supervised by the Indonesia Ministry of Energy and Mineral Resources \ and vulnerable to revocation of licenses so that the sector is more effective in implementing corporate governance. It can be attributed to the characteristics of companies in Indonesia, which tend to be more obedient if they are supervised. Based on the data in this study, the increase in corporate governance index from year to year that has not been able to give a significant influence. It can once again be a signal of the lack of effective corporate governance of the sample so that a fairly good increase in the index from year to year cannot act as a function of control and monitoring for managers.

7. The role of corporate governance in the association between tax avoidance and earnings quality

One of the agency problems that arise between the principal and the agent can be based on the political process hypothesis in the framework of positive accounting theory; namely, managers will try to minimize political costs, including taxes that can cause the low quality of company profits. Related to this condition, a mechanism is needed that can limit management behavior because both tax avoidance and earnings management are both bad things. In the guidelines for corporate governance released by the OECD, there are components of disclosure and transparency, with one element being whether a reputable auditor audits the company. Meanwhile, in the component of the role of the board of directors, it is regulated regarding the provisions relating to independent commissioners and company audit committees. The existence of elements in corporate governance is expected to be able to limit the opportunistic behavior of managers who can disrupt the quality of company profits, one of which is by doing tax avoidance. However, the results of this study indicate that the governance variable is not able to weaken the influence of tax avoidance behavior by managers with the quality of corporate earnings. The results of this study have differences with previous studies. In a previous study, corporate governance that was proxied by managerial ownership moderated the effect of tax management on earnings quality, while institutional ownership did not moderate the influence (Anggreni, Putra and Yasa, 2016). The lack of proxying of corporate governance in one index makes the results of research related to the moderation of corporate governance have mixed results and differ from this research.

CONCLUSION

In this study, bonuses are negatively associated with earnings quality. It suggests that managers tend to behave opportunistically to achieve bonus targets by manipulating earnings to reduce earnings quality. The bonuses, especially based on the achievement of corporate earnings, which is originally expected to improve manager's performance, is responded differently by managers who conduct earnings management activities. This manager's opportunistic behavior is in line with the hypothesis plan bonus. Debt financing is positively associated with earnings quality. This behavior may be understood from the

perspective that when a company has a debt, the creditor automatically has an interest in overseeing the company that has the loan for the continuity of the loan provided. This oversight makes the company more disciplined in reporting earnings in the hope that the company will face lower credit risk. Tax avoidance is negatively associated with earnings quality. Taxes are one component in the number of financial statements that can be arranged so that tax avoidance causes fewer earnings quality. The company conducts tax avoidance because taxes are considered as transfers of wealth from the company to the Government, which can reduce the resources owned by the company. This behavior is in line with the political cost hypothesis. Corporate governance is not associated with earnings quality. Corporate governance is expected to be the company's control mechanism to reduce earnings management behavior, which can reduce earnings quality. The result of this study may suggest that many Indonesia companies consider corporate governance to be a mere formality so that the implementation of corporate governance becomes less effective. Corporate governance does not weaken the influence of bonuses on earnings quality. The previous discussion has confirmed that corporate governance does not affect the quality of earnings, and after research, corporate governance is also unable to limit the opportunistic behavior of managers driven by bonus motivation. Corporate governance does not weaken the influence of debt financing on earnings quality. The results of this study indicate that sample corporate governance has not been effective in giving effect to debt financing on earnings quality. Judging from the increase in the corporate governance index that rose from year to year, especially there was a significant increase in 2015 and 2016, but the effect was not there, illustrating that the corporate governance of the research sample had not been effective. Corporate governance does not weaken the effect of tax avoidance on the quality of earnings. In line with the previous discussion, this result may suggest in Indonesia; corporate governance has not been seen as a need and corporate culture. Also, the lack of competence in the elements of governance can cause the implementation of corporate governance in Indonesia to be ineffective. In the study, the bonuses proxy used in this study use the bonus component approach, which in the previous study was applied to State-Owned Enterprises (SOEs) so that the bogey boundary and stamp in this study could be less suitable with the research sample companies. Also, the process of preparing a corporate governance proxy in this study is carried out on it is own based on the checklist points contained in the OECD guidelines. Regarding the proxy used, no party has confirmed the reliability of the index. Further research can extend the time interval of the study so that it can capture phenomena related to the effect of bonuses, debt financing, tax avoidance, and corporate governance on earnings quality more comprehensively. The extension of the interval is not only intended to increase the number of observations but is also expected to capture the phenomenon of the influence of the application of IFRS, which came into full force in 2012. Future studies can use financial sector companies or sectors that receive special treatment in the field of taxation, such as the property and real estate sector, to capture the nature of the variables of this study on the quality of earnings in other sectors listed

on the IDX. The measurement of earnings quality in this study uses a discretionary accrual proxy based on the Jones Model developed by Kasznik (1999). Future studies can use other discretionary accrual models, such as those developed by Dechow and Dichev (2002), Kothari (2005), or Stubben (2010). d. Regarding debt financing variables, further research can use other proxies such as debt to equity ratio or can divide the company's debt financing into two parts, namely the condition of high debt financing and low debt financing conditions. This division is because, based on previous research, there are differences in the effect of debt financing on earnings quality when conditions of high debt financing and debt financing are low. Regarding the corporate governance variable, further research can use other guidelines governing corporate governance to compare the result with this study. Based on the results of this study, the results of this study can be used as a reference for capital market regulators so that in the future guidelines for open corporate governance can be designed to be more effective in limiting the behavior of corporate earnings management. Related to this study, investors need to pay attention to the policies owned by the company regarding how the company has bonuses or how the company responds to taxes so that investors can anticipate the possibility or predict the quality of profits the company presents. Related to this study, creditors can improve supervision because the characteristics of Indonesian companies are more compliant if they are monitored so that they produce higher quality profits. Quality earnings can ultimately be used by creditors to make the right decisions regarding loans given to companies. The results of research related to the quality of earnings can provide benefits to the company. Among others, the owner of the company can provide bonuses that are not only based on profit achievement but can also be based on stock prices or other measures that will not encourage earnings management. Meanwhile, the company also needs to consciously implement good corporate governance, in this case, not only to meet the guidelines of corporate governance, but it should be realized that good corporate governance is indeed needed by the company to help achieve the company.

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