

# The Effect of Liquidity, Leverage and Determined Tax Load on Profitability with Profit Management as Moderating Variables

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**Abstract:-** This research examines the effect of liquidity, leverage and deferred tax expense on profitability with earnings management as a moderating variable - an empirical study of mining companies listed on the Indonesia Stock Exchange in 2016-2020. Data processing in this study used secondary data obtained from the annual report from the official website of PT. Indonesia Stock Exchange, namely [www.idx.co.id](http://www.idx.co.id). There are 18 companies that are the total sampling and processed using the E-Views 9.0 device. The research findings prove that liquidity has an effect on profitability and earnings management moderates the effect of liquidity on profitability. Meanwhile, leverage, deferred tax expense and earnings management variables as moderating factors have no effect on profitability.

**Keywords:-** Liquidity, Leverage, Deferred Tax Expense, Profitability, and Earnings Management

## I. INTRODUCTION

Profit or profit is one of the main goals to be achieved by the company. Companies tend to set targets for profits to be achieved. With the target, management is expected to be motivated to work optimally. The achievement of targets also describes a measure of management's success in running the company - Kasmir, K (2017:302).

Sometimes companies take steps that are contrary to the prevailing policies in controlling profits. As done by the mining company PT Kaltim Prima Coal (KPC). In 2007 the Directorate General of Taxes conducted an examination of the mining company KPC for cases of sales manipulation. To minimize tax payments, a policy is taken that aims to suppress the company's profits on the profits that should be generated - Daniati (2018).

The discrepancy in the 2008 financial statements of PT Ancora Mining Service has also been investigated by the DGT. There was a discrepancy between the reported income and no movement of the company's investment, interest payments occurred without a debt report, as well as irregularities in income from businesses that were smaller than income outside the business.

Global Financial Integrity writes that there was a counterfeiting of the value of Indonesia's trade goods with the outside world in 2016 about 13.7% of Indonesia's total trade in 2016. This counterfeit caused the profits of rogue companies to be smaller than they actually were. Fraud is carried out by falsifying data information (mis invoicing) in trade transactions. This causes the estimated loss of state tax revenues to reach US\$ 6.5 billion - Global Financial Integrity (2019).

Net income contains a pre-deductible tax element - Kasmir, K (2017:303), Therefore, the net profit reported by the company is closely related to the contribution of state tax revenues. Taxes are used to finance the availability of public services and public facilities. Through this infrastructure, it is hoped that it will encourage economic growth and have an impact on increasing state revenues sourced from taxes - Saptono PB (2016:1).

The economy has been severely impacted by the Covid-19 pandemic. Compared to 2019, the economy in ASEAN experienced an average decline of 4.3% for 2020. However, it is estimated that there will be 5.4% economic growth in 2021. - Organisation for Economic Co-operation and Development (2021).

Government takes fiscal policy measures to maintain stability and confidence in financial markets for economic recovery. The fiscal policy taken by the government is in the form of various tax incentives in various PMK and PP starting in 2020 when the pandemic hit until now.

This fiscal policy has an impact on state cash receipts from taxes which are increasingly below the specified target. The non-achievement of the tax revenue target had occurred before the Covid-19 pandemic, not only due to the tax policies taken by the government related to the Covid-19 pandemic.

The Directorate General of Taxes stated that the practice of avoiding tax payments by companies is one of the reasons for not achieving the target of state revenue from tax sources. The tax law has several loopholes that are often exploited by taxpayers, such as: providing loans to banks in large amounts, granting in kind and enjoyment for employees,

grants contained in Law no. 36 of 2008 on Article 4 paragraph (3a) and the use of PP Number 23 of 2018 - Manurung (2020).

On a different occasion, the Directorate General of Taxes also stated that the tax ratio for medium-sized countries is 14-15% and for developed countries is 24-26%, while the ratio for Indonesia is around 11%. The avoidance of tax payments by the industrial world is allegedly the cause of the small state revenue sourced from taxes - Widiiswa (2017).

Not only in the country, savings in tax payments are also found abroad. The tax aggressiveness carried out by the Apple smartphone company by taking advantage of legal loopholes between Ireland and America has saved Apple USD 65.08 billion that should have been paid into taxes - Karunia (2020).

It is not uncommon to find the use of cross-border tax loopholes by multinational companies, such as the United States Multinational Corporation - Google. The use of the tax loophole can be seen in bookings through the Singapore head office for the revenue generated by Google in Indonesia. This order results in the loss of tax receipts by Indonesia. During the 2019 Ministerial Symposium on International Taxation, the Minister of Finance stated that the 'economics present' became a global consensus. This Economics present is expected to provide a solution for tax collection base agreements for digital corporations that Indonesia does not yet have and have a positive impact on state tax revenues - Cahyadi (2019).

## II. LITERATURE REVIEW

### A. Agency Theory

Agency theory is a situation where the interests of the power holder (principal) and the interests of the company owner (agent) are in different and contradictory goals. And each party strives to achieve each of these contradictory goals. As the power holder wants the distribution of bonuses, this is pursued through increasing the company's profitability. Meanwhile, on the other hand, the agent wants easy investment and loans for the company - Jensen and Meckling (1976).

Eisenhardt (1989) grouping Agency Theory into three basic assumptions, namely:

- Assumptions about human nature. Basically, humans have a tendency to be selfish, have limited rationality, and do not like risk.
- Organizational assumptions. In general, conflicts occur between members of the organization, efficiency as a productivity criterion and there is a different understanding of information between agents and principals.
- Assumptions about information. Basically, information can be traded like commodity goods

### B. Signalling Theory

Signalling Theory is knowledge obtained by investors from management about the company's prospects in the

future. In determining investments, investors use reports published by companies - Brigham and Houston (2001) .

### C. Positive Accounting Theory

Jones (1991) argues that the example of Positive Accounting Theory is discretionary accruals. Discretionary accruals are an effective way to reduce/lower earnings through games related to accruals from an accounting policy point of view - Darmayanti dan Dientrimei (2021:63-69) .

Positive accounting theory emphasizes the choice of accounting policies by management and the consequences of that choice. Policies between companies vary depending on the organizational structure of each company.

### D. Liquidity

IAI states that liquidity is the availability of cash funds and balances in bank accounts that can be used at any time and are not bound by certain agreements, and or cash equivalent assets that can be used for timely payment of liabilities. An entity can be said to be liquid if sufficient funds are available, both assets and cash that are easily processed into cash so that they can immediately cover liabilities when they fall due - Kartikahadi *et al.*, (2019:160). Things that are not much different are also stated by Kasmir (2017:128), liquidity is measured using the liquidity ratio, the liquidity ratio serves to provide information about whether short-term debt that has matured can be repaid by the company.

Madushanka dan Jathurika (2018) examines manufacturing companies year 2012-2016 about the effect of liquidity ratios on profitability. They take information from the sri lanka stock exchange in the finance department. There are 15 companies studied using the SPSS application. In this study, correlation and regression analysis showed that the Liquidity Ratio (Quick ratio) had a positive and significant effect on company profitability.

### E. Leverage

According to Kasmir (2017:150) leverage as measured by the leverage ratio serves to provide an overview for companies in comparing the scale of financing using debt and the scale of financing to capital for company activities. Through the leverage ratio, the company can analyze the ability of the company's position against obligations to other parties, analyze the company's ability to fulfill fixed obligations, analyze the condition of fixed assets with capital, and can be used as information in determining the use of fixed assets. future funds.

Kethi (2019) conducted research on liquidity and leverage on the profitability of selected IT companies in India with data years from 2014 to 2018. Leverage research uses debt to equity ratio and debt to asset ratio, while profitability research uses Return on Assets. The results showed a negative and insignificant relationship. The calculation results of the sample companies show that an increase in debt can lead to a decrease in the potential utilization of the company's assets. This means that IT companies don't put much value on debt financing for their company's growth.

**F. Deferred Tax Expense**

IAI stated that the purpose of PSAK No. 46 is to regulate income tax accounting, measure and recognize current and future taxes, which can create both tax assets and liabilities. According to IAI, deferred tax expense is the difference between the amount of deferred tax payable for future periods arising from taxable temporary differences and the amount of recoverable income tax in future periods as a result of deductible temporary differences and the remaining compensation for losses - Kartikahadi *et al.* (2019:167).

Waluyo (2020:279) In the opinion: deferred tax expense arises because the income tax expense payable for future periods is due to taxable temporary differences or it could be because future income tax is recoverable due to deductible temporary differences and the remaining compensated losses.

Merliyana, Saodah dan Saefurahman (2019) conducted research on companies in the financial services sector in 2010-2015. They take data from Indonesia Stock Exchange and make Research on deferred tax expense, profitability, and earnings management in financial services sector companies to 35 sample companies. The results of descriptive statistics and panel data regression were obtained using the Eviews version 8.0. processing program. This study uses a regression model with panel data Chow Test and the Hausman Test. Partial test results show Deferred Tax Expense has an effect on Earnings Management in a negative direction. Another partial test, Profitability has no effect on Earnings Management. But the combined test results state that Deferred Tax Expense and Profitability Simultaneously Affect Earnings Management.

**G. Profit Management**

According to Darmayanti dan Dientrimei (2021:104) Management seeks to determine the best accounting policies in running the company. The policy chosen is based on the interests of the manager, namely maximizing the market value of the company.

Study form Li dan Xia (2021) Li and Xia's (2021) entitled "The effects of stock liquidity on earnings management: Evidence from the SEC tick size pilot test" measures stock liquidity on earnings management, using the SEC tick pilot test. The results of the study show that higher stock liquidity is associated with a significant decline in earnings management. Companies that do not pay dividends cannot show the quality of their earnings through dividend payments. This has a more impactful effect on the effect of stock liquidity on real earnings management.

**H. Profitability**

Waluyo (2020:224) describes income in the Income Tax Law, operating profit is income sourced from business. According Kasmir (2017:196) argues that the profit earned by the company in a period is referred to as profitability. While the profitability ratio is a measure of the company's ability to earn profits in a certain period. A company that has a good profitability ratio if the company's assets or capital are able to meet the specified profit target.

The author tries to develop a research that has previously been researched Minanari (2018) entitled The Effect of Profitability, Earnings Management and Dividend Policy on Firm Value (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange 2015-2016 Period). Minanari measures debt policy using earnings management. Earnings management through debt policy has an impact on tax savings and increasing company profits

**I. Framework of Thinking**

The framework of thought in this study logically influences the influence between Liquidity and Deferred Tax Expense on Profitability with Earnings Management as a moderating variable can be seen in the framework of thought as shown below:

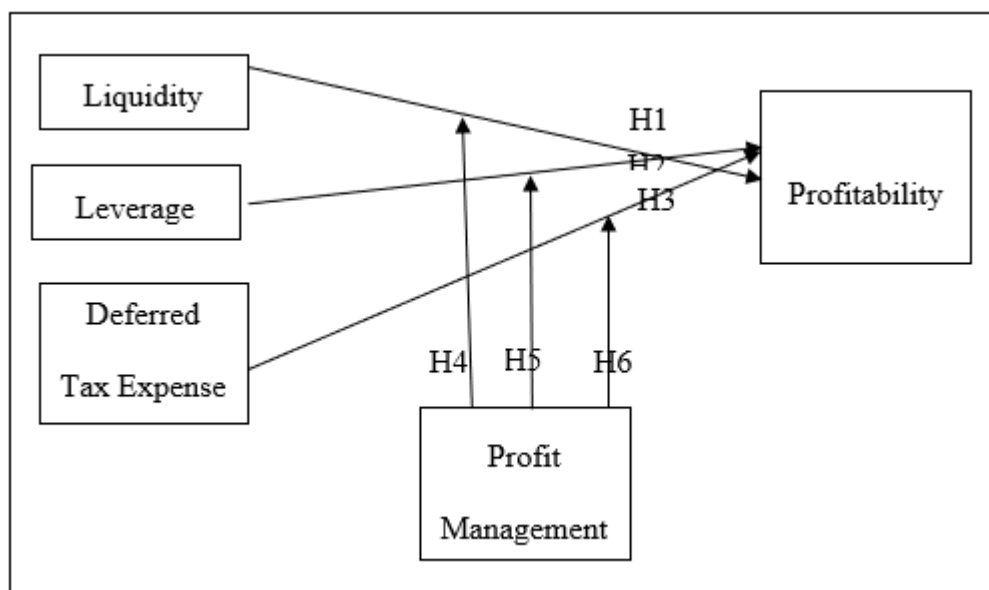


Fig 1:- Research Hypothesis

Based on the framework of thought above, it can be formulated the research hypothesis that will be tested for truth as follows:

- H1 Liquidity affects profitability
- H2 Leverage has an effect on profitability
- H3 Deferred tax expense affects profitability
- H4 Earnings management moderates the effect of liquidity on profitability
- H5 Earnings management moderates the effect of leverage on profitability
- H6 Earnings management moderates the effect of deferred tax expense on

### III. RESEARCH DESIGN

The study used purposive sampling technique and found 18 companies that met the criteria. Data processing is obtained from the financial statements of the Indonesia Stock Exchange and is quantitative in nature.

### IV. RESULTS AND DISCUSSION

#### A. Panel Data Model Regression Estimation Results

##### ➤ Common Effect Model Estimation Results

The table below shows the results of data processing using the Common Effects Model Estimation

Dependent Variable: Y\_ROA  
 Method: Panel Least Squares  
 Date: 01/06/22 Time: 09:33  
 Sample: 2016 2020  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.034218	0.019748	-1.732711	0.0868
X1_CR	0.023801	0.005377	4.426372	0.0000
X2_DAR	-0.005536	0.023020	-0.240486	0.8105
X3_BPT	1.457020	0.355089	4.103257	0.0001
Z_ML	0.074309	0.013247	5.609397	0.0000

Table 1:- Estimate Common Effect Model

##### ➤ Hasil Estimate Fixed Effect Model

The table below shows the results of data processing using Fixed Effect Model Estimation

Dependent Variable: Y\_ROA  
 Method: Panel Least Squares  
 Date: 01/06/22 Time: 09:33  
 Sample: 2016 2020  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.092393	0.021044	-4.390535	0.0000
X1_CR	0.023645	0.005339	4.428718	0.0000
X2_DAR	0.034051	0.029735	1.145125	0.2562
X3_BPT	0.545909	0.500749	1.090184	0.2795
Z_ML	0.249335	0.041011	6.079660	0.0000

Table 2:- Estimate Fixed Effect Model

➤ Hasil Estimate Random Effect Model

The table below shows the results of data processing using the Random Effects Model Estimation

Dependent Variable: Y\_ROA  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 01/06/22 Time: 09:33  
 Sample: 2016 2020  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90  
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.057485	0.018980	-3.028726	0.0033
X1_CR	0.027481	0.004707	5.837851	0.0000
X2_DAR	0.018781	0.023207	0.809289	0.4206
X3_BPT	1.166217	0.378752	3.079108	0.0028
Z_ML	0.098434	0.017004	5.788773	0.0000

Table 3:- Estimate Random Effect Model

B. Panel Data Estimation Model Selection Results

➤ Chow Test

The Chow test is used to determine the best test between the Common Effect Model and the Fixed Effect Model. Based on the results in Table 4, the value of Prob. Cross-section Chi-square < 0.05. This means that the fixed effect model is better than the common effect, so the method we choose is the Fixed Effect Model.

The table below shows the results of data processing using the Chow Test

Redundant Fixed Effects Tests  
 Equation: Untitled  
 Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.662271	(17,68)	0.0000
Cross-section Chi-square	69.541431	17	0.0000

Table 4:- Chow Test

➤ Hausman Test

Hausman test serves to determine the best test between the Random Effect Model and the Fixed Effect Model. Based on the test results in table 5, the test results show the Hausman Test accepts H1 or p value < 0.05. This means that the fixed effect model is better than the common effect, so the method we choose is the Fixed Effect Model.

The table below shows the results of data processing using the Hausman Test

Correlated Random Effects - Hausman Test  
 Equation: Untitled  
 Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	23.006313	4	0.0001

Table 5:- Hausman Test

➤ *Langrange Multiplier Test*

The Langrange Multiplier test is used to decide the best test between the Common Effect Model and the Random Effect Model. In this test, the test results show the p value of the Langrange Multiplier Test <0.05. That is, this research is more appropriate to use the Random Effect Model.

Lagrange Multiplier Tests for Random Effects  
 Null hypotheses: No effects  
 Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-sectio...	Time	Both
Breusch-Pagan	9.190664 (0.0024)	0.044426 (0.8331)	9.235090 (0.0024)

Table 6:- Langrange Multiplier Test

Because the results of the selection of methods in Tables 4 and 5 show that this study is over proper apply the Fixed Effect Model method, while Table 11 states that this study is more correct to use the Random Effect Model. Basically, if Table 4 and Table 5 already show the same results, then there is no need for the test results of Table 6. This study is more correct to use the Fixed Effect Model method.

C. *Classic Assumption Test Results*

➤ *Normalitas Test*

The table below shows the results of data processing using the Normality Test

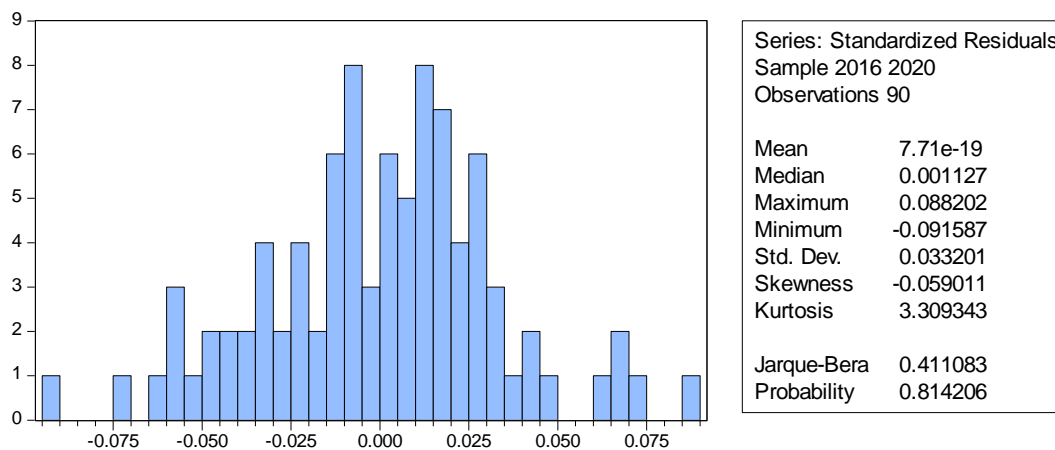


Table 7:- Normality Test

The normality test is said to be normal if the probability result is > 0.05. Table 7 shows the probability value of 0.814204 – the data is said to be normal.

➤ *Multikolonieritas Test*

The table below shows the results of data processing using the Multicollinearity Test

	Y_ROA	X1_CR	X2_DAR	X3_BPT	Z_ML
Y_ROA	1.000000	0.371601	-0.205854	0.372590	0.449492
X1_CR	0.371601	1.000000	-0.244907	0.083433	-0.056346
X2_DAR	-0.205854	-0.244907	1.000000	-0.032114	-0.188454
X3_BPT	0.372590	0.083433	-0.032114	1.000000	0.032826
Z_ML	0.449492	-0.056346	-0.188454	0.032826	1.000000

Table 8:- Multicollinearity Test

To determine whether or not there are connections among one independent variable and another independent variable, the Multicollinearity Test is used. The test results are said to be normal and there is no relationship between variables if the test results are > 0.8. Table 8 shows that there are no test results > 0.8 therefore could resume that the Multicollinearity Test is successful.

➤ *Heteroscedasticity Test*

The table below shows the results of data processing using the Heteroscedasticity Test

Dependent Variable: LNU2T  
 Method: Panel Least Squares  
 Date: 01/06/22 Time: 09:37  
 Sample: 2016 2020  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.115491	1.223456	-5.815897	0.0000
X1_CR	-0.101250	0.310409	-0.326182	0.7453
X2_DAR	-2.516604	1.728778	-1.455713	0.1501
X3_BPT	2.638183	29.11289	0.090619	0.9281
Z_ML	2.376142	2.384346	0.996559	0.3225

Table 9:- Heteroscedasticity Test

To determine whether or not there is a similarity between the variances of one observation residual and another, the Heteroscedasticity Test is used (Ghozali, 2018). The output of the Heteroscedasticity Test in Table 9 show a meaningful rate  $> 0.05$ , so it can be interpreted that there is no heteroscedasticity and the assumption has been fulfilled.

➤ *Autocorrelation Test*

According (Ghozali, 2018), The purpose of the autocorrelation test is to test whether there is a correlation between the confounding errors in the t-1 period (previous) in the linear regression model. This test is only carried out for time series data because the value in the sample used is influenced by the value of previous observations.

The table below offer the output of data processing using the Autocorrelation Test

R-squared	0.753525	Mean dependent var	0.027318
Adjusted R-squared	0.677408	S.D. dependent var	0.066874
S.E. of regression	0.037983	Akaike info criterion	-3.494780
Sum squared resid	0.098103	Schwarz criterion	-2.883716
Log likelihood	179.2651	Hannan-Quinn criter.	-3.248363
F-statistic	9.899532	Durbin-Watson stat	1.613070
Prob(F-statistic)	0.000000		

Table 10:- Autocorrelation Test

Autocorrelation is said to be no problem if the Durbin-Watson (DW) test value is between -2 and +2. In this test, the DW result is 1.613070, so it can be concluded that there is no problem with the autocorrelation test.

D. Hypothesis Test Results

➤ Panel Data Regression Analysis Test

The table below shows the results of data processing using Panel Data Regression Analysis Test

Dependent Variable: Y\_ROA  
 Method: Panel Least Squares  
 Date: 01/06/22 Time: 09:33  
 Sample: 2016 2020  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.092393	0.021044	-4.390535	0.0000
X1_CR	0.023645	0.005339	4.428718	0.0000
X2_DAR	0.034051	0.029735	1.145125	0.2562
X3_BPT	0.545909	0.500749	1.090184	0.2795
Z_ML	0.249335	0.041011	6.079660	0.0000

Table 11:- Panel Data Regression Analysis Test

The interpretation of the regreti equation is as follows:

- Kontanta worth -0.092393 means: if Liquidity, Leverage, Deferred Tax Expense and Earnings Management are constant or zero, then the formation of Profitability is - 0.092393.
- Liquidity has a regression coefficient of 0.023645, meaning that Liquidity and Profitability have a positive direction. If liquidity increases, Profitability will increase by 0.023645 from the increase in Liquidity value - assuming the value of Leverage, Deferred Tax Expense and Earnings Management is constant or zero.
- Leverage has a regression coefficient of 0.034051, meaning that Leverage and Profitability have a positive direction. If Leverage increases, Profitability will increase by 0.034051 from the increase in Leverage - assuming the value of Liquidity, Deferred Tax Expense and Earnings Management is constant or zero.
- Deferred Tax Expense has a regression coefficient of 0.545909, meaning that Deferred Tax Expense and Profitability have a positive direction. If the Deferred Tax Expense increases, Profitability will increase by 0.545909 from the increase in the Deferred Tax Expense - assuming the Liquidity, Leverage and Earnings Management values are constant or zero.
- Regression coefficient of Earnings Management is 0.249335, meaning that Earnings Management and Profitability have a positive direction. If Earnings Management increases, Profitability will increase by 0.249335 from the increase in Earnings Management - assuming the values of Liquidity, Leverage and Deferred Tax Expense are constant or zero.

➤ Model Feasibility Test (F Test)

The table below shows the results of data processing using the Model Feasibility Test (F Test)

R-squared	0.753525	Mean dependent var	0.027318
Adjusted R-squared	0.677408	S.D. dependent var	0.066874
S.E. of regression	0.037983	Akaike info criterion	-3.494780
Sum squared resid	0.098103	Schwarz criterion	-2.883716
Log likelihood	179.2651	Hannan-Quinn criter.	-3.248363
F-statistic	9.899532	Durbin-Watson stat	1.613070
Prob(F-statistic)	0.000000		

Table 12:- Model Feasibility Test (F Test)

Table 12 shows the F-statistic probability value of 0.000000. If the F-statistic probability is  $0.000 < 0.05$ , it can be interpreted that the regression model could interpret the effect of Liquidity, Leverage and Deferred Tax Expense on Profitability with Earnings Management as a moderating variable.



➤ *Coefficient of Determination Test (R<sup>2</sup>)*

The table below shows the results of data processing using the Coefficient of Determination Test (R<sup>2</sup>)

R-squared	0.753525	Mean dependent var	0.027318
Adjusted R-squared	0.677408	S.D. dependent var	0.066874
S.E. of regression	0.037983	Akaike info criterion	-3.494780
Sum squared resid	0.098103	Schwarz criterion	-2.883716
Log likelihood	179.2651	Hannan-Quinn criter.	-3.248363
F-statistic	9.899532	Durbin-Watson stat	1.613070
Prob(F-statistic)	0.000000		

Table 13:- Coefficient of Determination Test (R<sup>2</sup>)

Table 13 shows the Adjusted R-squared for the dependent variable Profitability of 0.677408 meaning that this test is determined by 67.74% Profitability variables can be explained by Liquidity, Leverage, Deferred Tax Expense and Profit Management moderating variables, while the remaining 32.26% is explained by other variables.

➤ *Individual Parameter Significance Test (T Test)*

The T test is said to have no effect if the probability result is > 0.05. In this test, X2 and X3 showed results > 0.05. For variables X2 and X3 have no effect. While X1 and Z influence in a positive direction.

The table below shows the results of data processing using the Individual Parameter Significance Test (t test)

Dependent Variable: Y\_ROA  
 Method: Panel Least Squares  
 Date: 01/06/22 Time: 09:33  
 Sample: 2016 2020  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.092393	0.021044	-4.390535	0.0000
X1_CR	0.023645	0.005339	4.428718	0.0000
X2_DAR	0.034051	0.029735	1.145125	0.2562
X3_BPT	0.545909	0.500749	1.090184	0.2795
Z_ML	0.249335	0.041011	6.079660	0.0000

Table 14:- Individual Parameter Significance Test (T Test)

The results of the first hypothesis test show that the probability value is 0.0000 < 0.05, meaning that liquidity has a positive effect on profitability.

The results of the second hypothesis test show that the probability value is 0.2562 < 0.05, meaning that Leverage has no effect on Profitability.

The results of the third hypothesis test show that the probability value is 0.2795 < 0.05, meaning that the Deferred Tax Burden has no effect on Profitability.

*E. Interaction Test Results (Moderated Regression Analysis/MRA)*➤ *MRA I – Earnings Management moderates the effect of Liquidity on Profitability*

The table below shows the results of the first interaction test - Earnings Management moderates the effect of Liquidity on Profitability

Dependent Variable: Y\_ROA  
Method: Panel Least Squares  
Date: 01/06/22 Time: 09:43  
Sample: 2016 2020  
Periods included: 5  
Cross-sections included: 18  
Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.058613	0.011132	-5.265399	0.0000
X1_CR	0.024992	0.004979	5.019675	0.0000
Z_ML	0.275565	0.038346	7.186368	0.0000
M1	-0.048962	0.014052	-3.484263	0.0009

Table 15:- MRA I – Earnings Management moderates the effect of Liquidity on Profitability

Through the results of the MRA test, the moderating variable is said to moderate (strengthen the relationship) between the X1 and Y variables if the probability value is  $< 0.05$ . Table 15 offer the output of the fourth hypothesis test, the probability of Earnings Management is 0.0009 - so it can be concluded, Earnings Management moderates the relationship between Liquidity and Profitability.

➤ *MRA I – Earnings Management moderates the effect of Leverage on Profitability*

The table below shows the results of the second interaction test - Earnings Management moderates the effect of Leverage on Profitability

Dependent Variable: Y\_ROA  
Method: Panel Least Squares  
Date: 01/06/22 Time: 09:44  
Sample: 2016 2020  
Periods included: 5  
Cross-sections included: 18  
Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.093208	0.029340	-3.176828	0.0022
X2_DAR	0.079189	0.044303	1.787420	0.0783
Z_ML	0.337118	0.060685	5.555211	0.0000
M2	-0.085107	0.078465	-1.084636	0.2819

Table 16:- MRA I – Earnings Management moderates the effect of Leverage on Profitability

Through the results of the MRA test, the moderating variable is said to be not moderating (weakening the relationship) between the X2 and Y variables if the probability value is  $> 0.05$ . Table 16 offer the output of the fifth hypothesis test, the probability of Earnings Management is 0.2819 - so it can be concluded, Earnings Management does not moderate the relationship between Leverage and Profitability.

➤ *MRA I – Earnings Management moderates the effect of Deferred Tax Expense on Profitability*

The table below offer the output of the third interaction test - Earnings Management moderates the impact of Deferred Tax Expense on Profitability

Dependent Variable: Y\_ROA  
Method: Panel Least Squares  
Date: 01/06/22 Time: 09:45  
Sample: 2016 2020  
Periods included: 5  
Cross-sections included: 18  
Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.050114	0.013539	-3.701423	0.0004
X3_BPT	0.590511	0.724456	0.815109	0.4178
Z_ML	0.297785	0.048100	6.190984	0.0000
M3	-0.378712	1.428866	-0.265044	0.7918

Table 17:- Earnings Management moderates the impact of Deferred Tax Expense on Profitability

Through the results of the MRA test, the moderating variable is said to be not moderating (weakening the relationship) between the X3 and Y variables if the probability value is  $> 0.05$ . Table 17 shows the results of the sixth hypothesis test, the probability of Earnings Management is 0.7918 - so it can be concluded, Earnings Management does not moderate the relationship between Deferred Tax Expense and Profitability.

#### F. Discussion

➤ *Liquidity affects profitability*

The probability value from the results of hypothesis testing is 0.0000  $< 0.05$ , meaning that profitability has a positive effect on liquidity. The regression coefficient value of liquidity is 0.023645, meaning that there is a positive direction for liquidity and profitability. If liquidity increases by one unit, Profitability will increase by 0.023645 - with a note that the condition is constant or zero on the variables of Leverage, Deferred Tax Expense and Earnings Management.

➤ *Leverage affects profitability*

The probability value from the results of hypothesis testing is 0.2562  $< 0.05$ , meaning that profitability doesn't give effect on Leverage. The regression coefficient value of liquidity is 0.034051 meaning that there is a positive direction for leverage and profitability. If Leverage increases by one unit, Profitability will increase by 0.034051 - with a note that the condition is constant or zero on the variables of Liquidity, Deferred Tax Expense and Earnings Management

➤ *Deferred tax burden affects profitability*

The probability value from the results of hypothesis testing is 0.2795  $< 0.05$ , meaning that profitability doesn't give effect on deferred tax expense. The regression coefficient value of liquidity is 0.545909 meaning that there is a positive direction for Deferred Tax Expense and profitability. If Deferred Tax Expense increases by one unit, Profitability will increase by 0.034051 - with a note that the

condition is constant or zero on the variables of Liquidity, Leverage and Earnings Management.

➤ *Earnings management moderates the effect of liquidity on profitability*

The probability value from the results of hypothesis testing is of 0.0009  $< 0.05$ , meaning that profitability and liquidity is influenced by earnings management in a positive direction. Moderation process implemented.

➤ *Earnings management moderates the effect of leverage on profitability*

The probability value from the results of hypothesis testing is 0.2819 - meaning that profitability and leverage isn't influenced by earnings management. Moderation process not implemented.

➤ *Earnings management moderates the effect of deferred tax expense on profitability*

The probability value from the results of hypothesis testing is 0.7918 - so it meaning that profitability and Deferred Tax Expense isn't influenced by earnings management. Moderation process not implemented.

## V. CONCLUSION

The study resulted in the following conclusions: profitability has an influence on liquidity, earnings management as a moderating variable also has a moderating effect on liquidity. While in other variables, profitability has no effect on leverage and deferred tax expense, as well as earnings management as a moderating variable which does not have a moderating effect on leverage and deferred tax expense. The reason that leverage has no effect on profitability is the relatively small amount of long-term debt in the sample. Management's limitations in choosing policies for preparing fiscal financial statements are caused by tax regulations on commercial accounting and fiscal accounting. This has an impact on the effect of deferred tax expense on

profitability which cannot be moderated by earnings management. It is hoped that further research can use tax variables from other perspectives and from different industries

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