

The Effect of Profitability, Leverage, and Company Size on Profit Management in Non-Cyclical Consumer Companies on the Indonesia Stock Exchange for the 2020–2024 Period

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Abstract

The purpose of this study is to test and prove empirically the influence of profitability, leverage, and company size on profit management. Based on agency theory, positive accounting theory, and signal theory, this study hypothesizes that profitability and leverage have a positive effect, while company size has a negative effect on profit management. The design of this study is causal-comparative using secondary data from the audited annual financial statements. Through purposive sampling techniques, a sample of 38 consumer non-cyclicals listed on the Indonesia Stock Exchange (IDX) was selected, resulting in 185 panel data observations over a five-year period from 2020 to 2024. Profit management as a dependent variable is projected through discretionary accrual using the Modified Jones Model on a cross-sectional basis. Data analysis was processed using multiple linear regression with robustness testing using Heteroskedasticity-Consistent Standard Errors (HC3) to correct for variance bias. The results of the study show that the entire hypothesis is rejected; Profitability, leverage, and company size have no significant effect on profit management either partially or simultaneously. The model yields a negative Adjusted R-square value of -0.010, confirming that the variation in profit management is driven by external factors outside the model. The implications of these findings suggest that conventional financial ratios lose their predictive power during periods of macroeconomic transition. In practical terms, investors are advised not to rely solely on linear financial ratios to assess the quality of profits, while regulators can evaluate the effectiveness of credit restructuring stimulus in mitigating the default pressures that trigger accounting cosmetics.

INTRODUCTION

Financial statements function as the main transparency instrument to minimize information asymmetry between management as agents and shareholders as principals in the secondary market (P. Dechow et al., 2010). In the structure of accounting reporting, net profit information plays the most crucial role because market participants make it a single reference for evaluating managerial performance, estimating the intrinsic value of equity, and determining compensation schemes (Healy & Wahlen, 1999). The market's high dependence on net profit figures creates a moral disincentive for the manager. Flexibility in Financial Accounting Standards (SAKs) that allows the use of accrual-based methods is often exploited by management to make opportunistic interventions on reporting earnings without changing the substance of actual cash flows, a phenomenon known as earnings management. The issue of accounting manipulation remains relevant for companies in the consumer non-cyclicals sector (primary consumer goods) on the Indonesia Stock Exchange (IDX). This sector is theoretically positioned as a defensive industry that is immune to business cycle shocks, but in practice it is prone to performing accounting cosmetics in order to maintain market expectations amid operational margin pressures.

Throughout the 2020–2024 period, non-cyclical consumer sector issuers on the IDX experienced significant operational cost structure distortions. Based on data from the Central Statistics Agency (BPS), the economic contraction due to the Covid-19 pandemic in 2020 was followed by a surge in producer price inflation (Wholesale Price Index / WPI) which peaked above 5% in the third quarter of 2022 due to global supply chain disruptions. The company's inability to fully pass on the increase in raw material prices to consumers (pass-through effect) caused the real profitability of most issuers to decline drastically. This depressed macroeconomic condition has changed investor behavior to be more sensitive to earnings announcements, where the decline in financial performance is responded to with aggressive depreciation of stock prices on the stock exchange. This dilemmatic situation is strongly suspected to have driven a dynamic shift in profit management strategy: implementing income decreasing or big bath engineering at the beginning of the pandemic in 2020 to create a low profit base in the future, then switching to an income increasing or income smoothing strategy) throughout the economic recovery phase in 2023–2024 to display pseudo-performance stability.

Theoretically, the act of manipulating financial statements is rooted in agency conflict of interest (agency theory) due to the separation of ownership functions by the principal and control functions by managers as agents (Jensen & Meckling, 1976). Agents have the advantage of access to internal corporate information that is not owned by outsiders, thus giving birth to information asymmetry that opens up gaps for opportunistic actions. Positive accounting theory explains the opportunistic motive through three main hypotheses (Watts & Zimmerman, 1986). First, the bonus plan hypothesis links profit management to the profitability of the proxied entity through Return on Assets (ROA). Second, the debt covenant hypothesis relates it to the level of leverage of the capital structure proxied through the Debt to Equity Ratio (DER). Third, the political cost hypothesis explains the effect of firm size based on total assets on political cost pressures. This conceptual framework is complemented by signaling theory which predicts managers to utilize accrual post engineering as a tool to transmit solvency signals and artificial financial performance to capital market participants (Spence, 1973)

Although the theoretical foundation is well established, empirical evidence regarding the influence of ROA, DER, and company size on profit management still points to the disintegration of contradictory findings. Regarding the profitability variable (ROA), Hardiyanti et al. (2022) and Dessyana (2023) found a significant positive influence. On the other hand, Pratama and Setyawan (2022) found a negative influence, while Saputra et al. (2024) and Arindita & Widati (2022) proved that ROA has no partial contribution to profit management. A similar pattern of inconsistencies occurs in the leverage variable (DER); debt ratios have been proven to have a positive effect according to Kalbuana et al. (2021) and Saputra et al. (2024), not according to Swastika (2017), but have a negative effect according to Suwaldiman and Lubis (2023). In terms of entity scale, Arindita & Widati (2022) found that the size of the company had a significant positive impact on report engineering, but these results were refuted by Sholichah & Kartika (2024), Dessyana (2023), and Saputra et al. (2024) who concluded that the scale of total assets is irrelevant to profit management.

The polarization of the results of the empirical test opens up a deep research gap. This gap is largely due to the tendency of previous researchers to generalize samples across macro sectors without considering specific sectoral characteristics (Agustia & Suryani, 2018). The majority of financial accounting studies focus on the financial sector with tied capital regulations (Dessyana, 2023) or heavy manufacturing industries with slow inventory turnover. The consumer non-cyclicals sector has very high operational flexibility on inventory accounts, accounts receivable,

and marketing expenses, which theoretically makes it an effective instrument for managers to conceal discretionary accruals without triggering the suspicion of external auditors. In addition to these conceptual gaps, there are temporal gaps; Previous research was dominated by data before the pandemic or only captured short-term shocks in 2020. There has been no empirical investigation that comprehensively evaluates the profit structuring behavior of primary consumer goods issuers in the full time span of the 2020–2024 period, which contains the spectrum of economic transition from the emergency contraction phase to the post-pandemic normalization phase.

The scientific novelty of this research is built on the basis of resolution of the conceptual and contextual gaps. This study focuses exclusively on non-cyclical consumer sector companies on the IDX throughout the 2020–2024 time horizon, making it the first study to capture the modern accrual profit management landscape in the context of macroeconomic recovery after the global crisis in Indonesia. Methodological novelty is also applied through profit management measurement using the Modified Jones Model which is adjusted cross-sectionally per sub-industry to reduce the bias of non-discretionary accrual estimates due to extreme sectoral sales fluctuations during the economic recovery period. Company size is measured precisely using the natural logarithm of total assets to validate the sensitivity of political cost theory in the context of the latest tax regulations in Indonesia after the full implementation of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law).

The contribution of this research is designed to cover both theoretical and practical dimensions. Theoretically, this study enriches the financial accounting literature and agency theory through new empirical evidence on the extent of the usefulness of conventional financial ratios in predicting opportunistic managers' behavior in defensive industries in emerging markets. Practically, the results of this study are directed to four main parties. For investors, the results of the study function as an early warning system instrument for profit quality before making investment decisions. For management, this study is an evaluation and reflection material to improve compliance with financial reporting governance. For regulators such as OJK and IDX, this study presents evaluative data on the effectiveness of the supervision of accrual accounting standards on the stock exchange. Finally, for academics, this research provides a methodological blueprint on handling panel data bias in macroeconomic anomaly periods.

Based on the formulation of the background and inconsistencies of the literature findings, this study aims to test, analyze, and empirically prove the influence of profitability (ROA), leverage (DER), and company size partially or simultaneously on profit management in non-cyclical consumer companies listed on the Indonesia Stock Exchange for the 2020–2024 period. Through the achievement of these goals, this study is expected to be able to confirm whether the predictive power of conventional financial ratios is still reliable in detecting agency information asymmetry, as well as to clarify the limits of the application of positive accounting theory hypotheses in the midst of Indonesia's contemporary regulatory and economic dynamic landscape.

LITERATURE REVIEW

Agency Theory

Agency theory describes the structure of the contractual relationship between the owner of capital as the principal and the manager of the company as the agent (Jensen & Meckling, 1976). In the modern corporate environment, principals delegate operational authority and strategic decision-making to agents on the basis of the assumption that agents have professional

competence in managing the entity's assets. This relationship inherently triggers the emergence of agency conflicts caused by differences in interests and maximizing the utility of each party (Mahesa, 2018). Agents, as parties who fully control daily operational activities, have the advantage of access to internal corporate information compared to principals, thus giving birth to information asymmetry conditions (Pratomo & Alma, 2020). When the external oversight function is weakened, managers who act opportunistically can take advantage of the asymmetry of such information to arrange reported profit figures for personal gain, such as securing performance bonuses or professional reputation (Scott, 2015).

Positive Accounting Theory

Positive accounting theory focuses on scientific predictions and explanations of the reasons behind the selection of certain accounting policies by company managers (Watts & Zimmerman, 1986). This theory assumes that the entire actions of individuals are based on personal interests to optimize their wealth. In public corporations, these opportunistic behavior of agents manifests through three main hypotheses. The bonus plan hypothesis states that managers tend to opt for accounting procedures that shift the recognition of profits from future periods to current periods in order to maximize financial compensation incentives. The debt covenant hypothesis predicts that companies with debt ratios close to the technical limits of credit contracts tend to engineer upward profits to avoid penalties or default status. The political cost hypothesis explains that large companies with high public visibility face great political cost pressures, so managers are vulnerable to choosing accounting methods that lower reporting profits to minimize tax and government regulatory spotlights.

Signaling Theory

Signal theory explains how a corporate entity provides signals in the form of financial statement information to external parties in the capital market (Spence, 1973). Information asymmetry puts investors at a disadvantage, so they tend to judge the performance of entities based on formal signals released by management. Information on profitability and net profit growth is seen as a positive signal that indicates a healthy company's operating conditions, thus triggering a market response in the form of an increase in stock prices. In the context of reporting engineering, managers who are aware of the market's sensitivity to such accounting signals often use discretionary accruals as an artificial signal delivery tool (Dechow et al., 2010). This is done to maintain the stability of the issuer's share price and reduce the concerns of secondary investors.

The Influence of Profitability on Profit Management

Based on the premise of the bonus plan hypothesis, the net profit generated by the entity is used as the main instrument to assess the efficiency and success of managerial performance (Watts & Zimmerman, 1986). When the ROA shows an upward trend, the manager has a strong bargaining position to obtain optimal bonus compensation (Adyastuti & Khafid, 2022). Conversely, if real profitability is below the owner's expected target, managers who are motivated by agency motivation are prone to profit management by shifting accrued income to secure personal incentives. Empirical support from Dessyana (2023) and Sholichah and Kartika (2022) confirms that profitability has a significant positive effect on issuers' profit management policies. Nevertheless, the direction of this relationship is expected to shift in certain economic conditions, such as the post-global crisis recovery phase, when the accrual tolerance limit is no longer adequate

to cover the actual decline in performance (Pricillia et al., 2025). Based on this frame of thought, the first hypothesis is formulated as follows:

H1: Profitability has a positive effect on profit management.

The Effect of Leverage on Profit Management

Leverage describes the extent to which a company's operational activities and business expansion are funded through third-party debt instruments (Scott & Mary Ann, 2015). According to the debt covenant hypothesis, the increase in DER exposes corporations to greater financial risks, including the risk of technical credit commitment violations (Watts & Zimmerman, 1986). To avoid interest penalties, tightening liquidity, or downgrading debt ratings, managers are encouraged to use accounting discretion to increase reporting net profit (Yusuf & Soraya, 2004). Empirical research by Kalbuana et al. (2021), Saputra et al. (2024), and Sholichah and Kartika (2022) proves that leverage has a significant positive effect on profit management. However, institutional creditor supervision in macroeconomic anomalous situations can change the pattern of this relationship, as creditors tend to tighten the monitoring function of high-leverage issuers, thereby narrowing management's room to manipulate accruals (Suwaldiman & Lubis, 2023). Based on this study, the second hypothesis is formulated as follows:

H2: Leverage has a positive effect on profit management.

The Effect of Company Size on Profit Management

The size of a company represents the scale of an entity's economic capacity that is conventionally projected through the accumulation of total assets (Dechow et al., 2010). Based on the political cost hypothesis, large-scale companies have high exposure to public visibility and are under the close scrutiny of regulatory authorities, labor unions, and tax authorities (Watts & Zimmerman, 1990). This huge political burden motivates managers of large asset entities to opt for conservative accounting policies or lower profits, in order to minimize the potential for progressive tax rate hikes and public regulatory sanctions. The study of Sholichah and Kartika (2022) confirms this assumption by proving that company size has a significant negative effect on profit management. However, in the basic necessities industrial sector, the total amount of assets can also reflect the maturity of the internal control system, so that it has the potential to reduce financial statement irregularities regardless of fluctuations in operating profits (Saputra et al., 2024). Based on this theoretical synthesis, the third hypothesis is formulated as follows:

H3: The size of the company has a negative effect on profit management.

RESEARCH METHODS

This study uses a causal-comparative quantitative design with a secondary data approach in the form of panel data. This design was chosen because the research aims to test the cause-and-effect relationship between profitability, leverage, and company size on profit management over a time span and across corporate entities at once. The data used is sourced from the audited annual financial statements that are officially published through the information disclosure of the Indonesia Stock Exchange (IDX), with an observation horizon from 2020 to 2024. All data is documentary and obtained from the official website of the IDX and the official website of each issuer, so that the data collection process can be replicated by other researchers on the same source.

The subject of the study is a non-cyclicals consumer sector company listed on the IDX. The sample was determined using a purposive sampling method with four explicitly defined inclusion criteria, namely issuers that are consistently listed on the IDX throughout the 2020–2024

period, have carried out an initial public offering (IPO) no later than 2019, present complete and consecutive annual financial statements during the observation period, and use Rupiah currency denomination in their reporting. The application of these four criteria resulted in a final sample of 38 companies. With an observation period of five years, the number of units of panel data analysis used in the estimate is 185 observations.

The data collected is quantitative in the form of numbers in the financial statement headings, namely net profit after tax, total assets, total liabilities, total equity, operating cash flow, revenue, accounts receivable, and gross fixed assets. The dependent variable, namely profit management, is proxied through discretionary accrual values estimated using the Modified Jones Model (P. M. Dechow et al., 1995) on a cross-sectional basis per sub-industry. This approach is used to isolate the non-discretionary accrual component of the total accrual based on changes in revenue, accounts receivable, and gross value of fixed assets, so that discretionary accrual estimates are more precise and unbiased by sectoral sales fluctuations. Independent variables are measured through three conventional financial indicators, namely profitability through the Return on Assets ratio or ROA (Sholichah & Kartika, 2022), leverage through the Debt to Equity Ratio or DER (Suwaldiman & Lubis, 2023), and company size through the natural logarithm of total assets (Pricillia et al., 2025).

The data were analyzed using multiple linear regression assisted by SPSS version 26. Prior to hypothesis testing, descriptive statistical analysis and classical assumption tests were conducted, including tests of normality, multicollinearity, and heteroscedasticity, to verify that the regression model satisfied the required assumptions for estimation. In cases where the model indicated a violation of the classical assumptions, robustness testing was performed using Heteroskedasticity-Consistent Standard Errors (HC3) as recommended by Hair & Alamer (2022), thereby producing robust standard error estimates and ensuring the reliability of statistical inference. Furthermore, hypothesis testing was undertaken using the partial significance test (t-test) and simultaneous significance test (F-test) at a significance level of 5%, while the explanatory power of the regression model was assessed based on the Adjusted R Square coefficient.

RESEARCH RESULTS

Descriptive Statistics

A summary of descriptive statistics for all research variables is presented in Table 1. This table includes the number of observations, minimum values, maximum values, averages, and standard deviations of each variable.

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Profitability (ROA)	185	-0,25	0,60	0,0815	0,08633
Leverage (DER)	185	0,00	6,47	1,1895	1,14569
Company Size	185	13,42	19,12	16,1377	1,31608
Profit Management (Y)	185	-1,11	0,80	-0,0850	0,40003

Source: SPSS Statistics 26 output, data processed (2026).

The profitability variable showed an average ROA of 0.0815 with a standard deviation of 0.08633, indicating that the sample issuers generally had a positive rate of return on assets with relatively homogeneous data distribution. The leverage variable shows an average DER of 1.1895 with a standard deviation of 1.14569, reflecting a fairly wide variation in capital structure between issuers. The company size variable shows an average of 16.1377 with a standard deviation of

1.31608, which means that most of the sample companies are in a relatively equivalent asset scale group. The profit management variable showed a negative average of -0.0850, which indicates the general tendency of sample issuers to implement an accrual policy that lowers reporting profit or income decreasing during the observation period.

Model Feasibility Testing

Model feasibility testing is carried out through a series of classical assumption tests to ensure that regression models are feasible for use in hypothesis testing. The test results are summarized in Table 2.

Testing	Indicator	Criteria	Results	Conclusion
Normality	Kolmogorov-Smirnov	Sig. > 0.05	Sig. 0.002	Residual is not formally normal
Normality	Shapiro-Wilk	Sig. > 0.05	Sig. 0.010	Residual is not formally normal
Multikolinearitas	LONG	Tolerance > 0,10; VIVID < 10	Tolerance 0,952; LIFE 1,051	Multicollinearity does not occur
Multikolinearitas	THE ER	Tolerance > 0,10; VIVID < 10	Tolerance 0,974; LIVELY 1,027	Multicollinearity does not occur
Multikolinearitas	Company Size	Tolerance > 0,10; LIVE < 10	Tolerance 0,961; LIVE 1,041	Multicollinearity does not occur
Heteroskedastisitas (Glejser)	LENGTH	Sig. > 0.05	Sig. 0.659	Heteroscedasticity does not occur
Heteroskedastisitas (Glejser)	THE	Sig. > 0.05	Sig. 0.463	Heteroscedasticity does not occur
Heteroskedastisitas (Glejser)	Company Size	Sig. > 0.05	Sig. 0.022	Heteroscedasticity occurs
Outlier	Studentized Deleted Residual	$-3 \leq \text{Residual} \leq 3$	-2,558 n.d. 2,242	No outliers
Outlier	Cook's Distance	< 1	Maximum 0.214	No influential observations
Outlier	Leverage Value	Maximum limit	Maximum 0.141	No observations eliminated

Source: SPSS Statistics 26 output, data processed (2026).

The formal normality test showed that the significance values of Kolmogorov-Smirnov and Shapiro-Wilk were below 0.05, so the residual was not completely normally distributed. Graphical evaluation through histograms and normal Q-Q residual plots shows a pattern that is close to the normal curve, with most of the residual points scattered close together along a diagonal line. According to Hair et al. (2022), the assessment of normality at a relatively large sample size is not only based on formal statistical tests alone, but it is also necessary to consider graphical evaluations. Therefore, the residual in this study can still be considered close to the normal distribution, so the multiple linear regression analysis is still feasible to continue. The multicollinearity test showed that all independent variables had a Tolerance value above 0.10 and VIF below 10, so that no symptoms of high linear correlation between independent variables were found.

The heteroscedasticity test through the Glejser method showed that the ROA and DER variables did not experience symptoms of heteroscedasticity, while the company size variable recorded a significance value of 0.022 indicating the presence of heteroscedasticity. These findings prompted the study to implement corrective actions in the form of robustness tests using Heteroskedasticity-Consistent Standard Errors (HC3), with complete results presented along with the main regression estimates in Table 3. Testing the outlier data showed that the Studentized Deleted Residual value was in the range of -2.558 to 2.242, the maximum Cook's Distance value was 0.214, and the maximum leverage value was 0.141. The three indicators were within the limits of the criteria set, so it was concluded that there were no outlier data or influential observations, and all 185 observations were still intact in the regression model.

Hypothesis Testing Results

Multiple linear regression estimation using the Ordinary Least Squares (OLS) method, which was then confirmed through the robustness test HC3 as a correction for heteroscedasticity in the firm size variable, is presented in an integrated manner in Table 3.

Variabel	Coeficin (B)	Std. Error (OLS)	t (OLS)	Sig. (OLS)	Std. Error (HC3)	t (HC3)	Sig. (HC3)
Konstanta	0,058	0,377	0,153	0,878	0,322	0,179	0,858
Return on Assets (ROA)	0,321	0,352	0,912	0,363	0,324	0,989	0,324
Debt to Equity Ratio (DER)	0,003	0,026	0,112	0,911	0,036	0,081	0,936
Company Size	-0,011	0,023	-0,465	0,642	0,020	-0,521	0,603

Observations = 185; F-statistic = 0,410; Prob(F) = 0,746; R^2 = 0,007; Adjusted R^2 = -0,010
Source: SPSS Statistics 26 output, data processed (2026).

The regression equation formed is $Y = 0.058 + 0.321X_1 + 0.003X_2 - 0.011X_3 + e$. This equation shows that ROA and DER have a positive influence direction on profit management, while the company size has a negative influence direction. However, the t-test on the OLS estimate showed that all variables had significance values above 0.05, namely ROA of 0.363, DER of 0.911, and company size of 0.642, so that H1, H2, and H3 were rejected. The results of the robustness test of HC3 show a coefficient direction that remains consistent with the OLS estimate, with a significance value of ROA of 0.324, DER of 0.936, and a company size of 0.603. This consistency confirms that the results of the study are resistant to violations of heteroscedasticity, so that the conclusion of the rejection of all hypotheses does not change.

Simultaneous testing yielded an F-statistical value of 0.410 with a Prob(F) of 0.746, which is above 0.05, so the model was simultaneously declared insignificant. An Adjusted R^2 value of -0.010 confirms the absence of the model's predictive capacity, which means that the variation in profit management is entirely influenced by factors beyond the three variables tested in this study.

DISCUSSION

Empirical testing of non-cyclical consumer sector issuers on the IDX throughout the 2020–2024 period shows that conventional financial indicators are not the main determinants in the manipulation of financial statements. All hypotheses put forward in this study were rejected,

either partially or simultaneously. These findings prove that managerial behavior in the basic necessities industry during the macroeconomic transition phase does not follow the conventional opportunistic patterns that are generally predicted in the basic accounting literature. This blanket rejection indicates that management's impulse to intervene accrued is more influenced by the convergence of external factors and corporate governance, rather than mere fluctuations in internal financial ratios.

The Influence of Profitability on Profit Management

The first hypothesis (H1) that states profitability has a positive effect on profit management is statistically rejected. These findings mean that the high or low ability of issuers to generate profits from asset utilization does not constitute a stimulus for managers to engineer discretionary accruals. In the framework of the bonus plan hypothesis, managers are assumed to act opportunistically to increase or decrease profits in order to secure personal incentives, but this premise has not been proven to apply to issuers of basic necessities during the observation period. Judging from the agency theory, this absence of influence indicates that the principal-agent conflict of interest related to the achievement of the operating profit target is not resolved through distortion of financial statements, but through real performance that has been assessed to be in a safe corridor by external shareholders.

These findings are in line with the research results of Arindita & Widati (2022), Saputra et al. (2024), and Pricillia et al. (2025) which also confirm the absence of profitability effects on profit management. On the contrary, these results contradict the findings of Dessyana (2023) and Sholichah and Kartika (2022) who stated that profitability is a strong driver of financial engineering actions. This difference is most likely due to the defensive characteristics of the consumer non-cyclicals sector, with rapid operating cash flow turnover and relatively stable market demand. These characteristics give managers a bargaining position and a high sense of security towards the achievement of annual bonuses organically, without the need for accounting manipulation.

The Effect of Leverage on Profit Management

The second hypothesis (H2) that leverages has a positive effect on profit management is also statistically rejected. These results show that fluctuations in the proportion of debt burden do not affect management's decision to intervene in reporting net profit. Based on the debt covenant hypothesis, companies with high leverage ratios are predicted to engineer an increase in reporting profit to avoid sanctions for credit contract violations, but this assumption loses its explanatory power in the object of this study. From the perspective of agency theory, the absence of leverage influence indicates that the relationship between managers and external creditors does not trigger deviant behavior, since the risk of default is not hidden through accrual accounting cosmetics.

These findings reinforce the results of Febria (2020) which validated that the debt ratio does not affect profit management in the economic anomaly period, but contradicts the results of Kalbuana et al. (2021) and Sholichah and Kartika (2022) who found a significant positive influence. The main cause of the insignificance of the DER variable may lie in the relaxation and restructuring policies of banking credit set massively by the Financial Services Authority throughout the crisis period and post-pandemic recovery. The policy loosens the technical limits of debt agreement clauses, so that managers of non-cyclical consumer issuers are not under pressure to manipulate financial statements in order to maintain solvency ratios in banks' eyes. Thus, the risk of leverage

in the basic necessities industry in this period was also mitigated by the policy intervention of external regulators.

The Effect of Company Size on Profit Management

The third hypothesis (H3) that tested the negative influence of company size on profit management was also rejected, both in the OLS estimate and the robustness test HC3. These findings prove that the scale of the total assets controlled by corporations has no relevance to the intensity of financial statement engineering. In the political cost hypothesis, large companies are assumed to have a strong incentive to minimize reporting profits to avoid public scrutiny and progressive tax rates, but H3's rejection refutes the notion that corporate size mechanically suppresses profit management actions. Judging from agency theory, the absence of this influence shows that increased public visibility in large entities does not necessarily affect information asymmetry, because public oversight in the era of digital transparency is now evenly distributed regardless of the scale of the entity's assets.

These findings reinforce the consistency of the results of Dessyana (2023) and Saputra et al. (2024) who concluded that the scale of assets does not affect managers' accounting policies, but is not in line with the results of Sholichah and Kartika (2022) which prove a significant negative influence. The main reason for the non-implementation of the political cost theory in this sector may be related to the compliance characteristics of public issuers in Indonesia, where most large-scale basic necessities issuers have used high-quality external audit services and have established internal control systems. This strict governance mechanism is alleged to have reduced managers' discretionary space from the beginning of the recording process, so that the opportunity to manipulate discretionary accruals is very limited.

Simultaneous Influence of Profitability, Leverage, and Company Size

The results of simultaneous testing through insignificant F-statistical values and negative Adjusted R² confirmed that the combination of the three independent variables did not have the predictive capacity of profit management. The inability of this model to explain the variation of dependent variables indicates a gap between conventional positive accounting theory and the empirical reality of the Indonesian capital market during the crisis-to-recovery transition period. Conventional quantitative models are losing their predictive power as managers no longer seem to respond to internal financial ratio signals in a linear manner, but instead are more responsive to external shocks that suppress the industry's real operating margins.

Macro factors such as volatility in raw material prices, fluctuations in the rupiah exchange rate that affect logistics import costs, and changes in the central bank's benchmark interest rate are suspected to be more dominant determinants in influencing issuers' financial reporting policies. The implication is that the rejection of this simultaneous model requires an update of the approach in the next study. Future researchers will need to integrate external governance variables or turn to real earnings management proxies to capture the phenomenon of report manipulation more precisely in a volatile economic context.

CONCLUSION

This study concludes that profitability, leverage, and company size partially or simultaneously do not have a significant effect on profit management in non-cyclical consumer sector companies listed on the IDX for the 2020–2024 period. All of the research hypotheses,

namely H1, H2, and H3, were statistically completely rejected, and these results remained consistent after being confirmed through the robustness test HC3. This finding answers the purpose of the study that variations in conventional financial ratios and the scale of internal assets of issuers lose their predictive capacity in detecting the intensity of accounting accrual interventions throughout the observation horizon.

The main contribution of this research lies in the empirical resolution of the scientific debate on the determinants of profit management in the defensive industry in the midst of an anomalous economic situation. The rejection of the three main hypotheses of positive accounting theory, namely bonus plan, debt covenant, and political cost, confirms that managers' opportunistic motivations in agency relationships are dynamic and contextual. The structure of conventional financial ratios can no longer be read linearly when the business ecosystem is affected by external regulator policy interventions as well as post-global pandemic production cost shocks.

Research Implications

The theoretical implications of this study confirm that the explanatory power of agency theory related to reporting information asymmetry is not always realized in the form of discretionary accrual cosmetics, but can be mitigated through the effectiveness of the company's internal governance. This study updates the treasure trove of financial accounting literature by proving that during the crisis-to-recovery transition period, the motivation for meeting financial targets can be biased due to the relaxation of market regulations. The practical implications of this study are aimed at four key stakeholders. For investors, this finding serves as a warning not to rely solely on standard linear financial ratios in detecting discretionary accruals, but rather to evaluate the quality of reporting information more comprehensively.

For management and auditors, the results of this study validate that strengthening the internal control system and the use of high-quality audit services are able to limit the space for report manipulation from the beginning of the recording process. For regulators, especially the OJK and IDX, this study provides empirical confirmation that the national bank credit restructuring stimulus policy issued during the economic recovery period has proven effective in reducing the pressure of issuers' debt clauses in the capital market.

CONCLUSION

This study concludes that profitability, leverage, and company size partially or simultaneously do not have a significant effect on profit management in non-cyclical consumer sector companies listed on the IDX for the 2020–2024 period. All of the research hypotheses, namely H1, H2, and H3, were statistically completely rejected, and these results remained consistent after being confirmed through the robustness test HC3. This finding answers the purpose of the study that variations in conventional financial ratios and the scale of internal assets of issuers lose their predictive capacity in detecting the intensity of accounting accrual interventions throughout the observation horizon.

The main contribution of this research lies in the empirical resolution of the scientific debate on the determinants of profit management in the defensive industry in the midst of an anomalous economic situation. The rejection of the three main hypotheses of positive accounting theory, namely bonus plan, debt covenant, and political cost, confirms that managers' opportunistic motivations in agency relationships are dynamic and contextual. The structure of conventional financial ratios can no longer be read linearly when the business ecosystem is affected by external regulator policy interventions as well as post-global pandemic production cost shocks.

Research Implications

The theoretical implications of this study confirm that the explanatory power of agency theory related to reporting information asymmetry is not always realized in the form of discretionary accrual cosmetics, but can be mitigated through the effectiveness of the company's internal governance. This study updates the treasure trove of financial accounting literature by proving that during the crisis-to-recovery transition period, the motivation for meeting financial targets can be biased due to the relaxation of market regulations. The practical implications of this study are aimed at four key stakeholders. For investors, this finding serves as a warning not to rely solely on standard linear financial ratios in detecting discretionary accruals, but rather to evaluate the quality of reporting information more comprehensively.

For management and auditors, the results of this study validate that strengthening the internal control system and the use of high-quality audit services are able to limit the space for report manipulation from the beginning of the recording process. For regulators, especially the OJK and IDX, this study provides empirical confirmation that the national bank credit restructuring stimulus policy issued during the economic recovery period has proven effective in reducing the pressure of issuers' debt clauses in the capital market.

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