The Influences of Financial Distres and Internal Control on Earnings Management with Good Corporate Governance as a Moderating Variable

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A B S T R A C T

This study highlights the moderating effect of corporate governance by examining the relationship between internal control and financial crises and earnings management. Utilizing data from major consumer goods firms listed between 2020 and 2023 on the Indonesia Stock Exchange (IDX), quantitative methods and path analysis were applied to assess how internal control and financial distress influence accrual-based earnings management. The results indicate that while financial distress does not impact real earnings management, it does increase accrual earnings management. Real earnings management is unaffected by internal control, whereas accrual earnings management is adversely affected. Both internal control and financial distress function as moderators for accrual earnings management; however, this effect does not extend to real earnings management, highlighting the safeguarding role of robust corporate governance. This study improves the understanding of how corporate governance influences earnings management behaviors.

I N F O   A R T I K E L

1. INTRODUCTION

The significance of financial statements lies in their essential role as a vital source of information for investors aiming to understand a company. Managers are entrusted with the task of furnishing transparent and dependable financial reports to both internal and external stakeholders over a specified period. However, some managers resort to financial statement manipulation, thereby compromising transparency. This practice, commonly known as earnings management, entails making adjustments to profits to meet predetermined targets set by management (Afni & Setiany, 2023).

Earnings management involves altering various financial aspects to create ambiguity, potentially compromising the accounting integrity of the organization. As a result, the income statement may not accurately reflect the company's true financial status but rather mirror management's objectives (Tran & Dang, 2021). One method of earnings management involves manipulating financial data or transactions, while another method includes influencing the company's cash flow by offering substantial discounts and adjusting non-essential expenses to boost short-term sales (Mughal et al., 2021). The primary objective of earnings management is to improve the reliability of a company's financial statements, as investors often scrutinize these documents when evaluating a company. Generally, investors focus on the company's financial strength, utilizing reported earnings for forecasting future performance (Reschiwati & Hasudungan, 2020).

Real and accrual earnings management are the two categories under which earnings management falls. Adjusting internal operations to increase current revenue is a key component of real profits management. Conversely, accrual earnings management includes utilizing accounting practices governed by GAAP, such as discretionary accruals, to portray a more precise view of the company's financial status. While operations remain unchanged, the selection of accounting methods and estimates can significantly impact the income statement (Simamora, 2019).

Companies in financial distress often need capital to maintain daily operations, meet obligations, and make investments. This can put managers under pressure, affecting their decision-making and behavior. Financial distress also increases the likelihood of earnings manipulation (Wilamsari et al., 2022). Such manipulation can occur at any point during a company's lifecycle and may have lasting effects on future performance. Financial distress occurs when a company's total assets are sold off for an amount that is lower than the total liabilities owed to creditors.

Companies in financial distress frequently manipulate their financial statements to create the illusion of increased revenue or profits for investors. Studies show that companies facing a financial crisis tend to practice earnings management more frequently than those that are financially stable (Jacoby et al., 2019). However, according to Christina & Alexander (2020) financial distress did not have a significant impact on earnings management. Furthermore, companies facing financial challenges tend to offer information of lower quality, which may indicate weak internal controls. Improving internal controls can help reduce earnings management behaviors (Cahyaningrum et al., 2022). In situations where internal controls are weak, companies may adjust their operations to unrealistically boost profits or cash flows by increasing production or discretionary expenditures. Liu & Huang (2020) showed that effective internal controls have the capacity to mitigate earnings management practices, thereby exerting a negative influence on the outcomes of earnings management activities.

Corporate governance is a crucial internal control mechanism organizations utilize to effectively manage risks essential for accomplishing their goals. Its principal objective is to protect the company's assets and augment the long-term value of investors' capital (Aprilian

et al., 2020). Financial report manipulation can be reduced in companies with good governance. An effective corporate governance (GCG) framework must incorporate key elements such as the audit committee, an independent board of commissioners, and a balance of institutional and managerial ownership. These components are essential for ensuring accountability, transparency, and the alignment of stakeholder interests within the corporate structure. The primary goal of GCG implementation is to ensure transparent business management for all users of financial reports (Puri & Gayatri, 2018). Inadequate use of sound corporate governance procedures may have an impact on earnings management. However, the establishment of sound corporate governance alone does not serve as the primary determinant of profit management strategies, as various other internal and external factors also play a significant role in shaping these practices.

According to the research findings of Fitri et al. (2022), the presence of corporate governance can enhance company performance through oversight and performance through oversight and performance monitoring, ensuring management accountability to stakeholders and thereby mitigating the impact of financial distress on earnings management practices. This study challenges the findings of Mellennia & Khomsiyah (2023), who argue that financial distress cannot be mitigated by corporate governance if a company's management remains inadequate. Furthermore, the findings of this study imply that the influence of financial crisis on profits management techniques cannot be lessened by corporate governance procedures.

The implementation of good corporate governance (GCG) is expected to establish a robust framework that strengthens internal controls, thereby enhancing the efficiency of supervisory mechanisms within corporate activities. The probability of management acting opportunistically is anticipated to be significantly decreased by the proactive participation of audit committees, independent commissioners, institutional shareholders, and management in the decision-making process. This, in turn, is likely to reduce the prevalence of earnings management. As a result, the potential for conflicts of interest will diminish, fostering a more equitable relationship between management and shareholders.

The insufficient comprehension of how a company's financial condition relates to its capital structure and earnings management techniques highlights the need for more research within Indonesia's capital market. This study intends to greatly improve our insight into corporate accounting practices related to earnings management in Indonesia by exploring the connections between financial distress, internal controls, and earnings management in the manufacturing sector. Furthermore, this research intends to provide valuable insights for stakeholders, including investors, regulators, and company management.

Theoretical Basis

The conceptual framework for comprehending the intricacies of corporate governance is established through agency theory, originally developed by Jensen & Meckling (1976). This theory elucidates the relationship between a company's owners, typically the shareholders, and the managers they appoint to supervise the business. The fundamental concept is that the owners, or principals, delegate the task of running the company to agents, or managers, which can lead to what is known as an agency conflict or agency dispute. This conflict arises from the fact that the interests of the owners and managers may not always perfectly align. Shareholders typically rely on the company's profits as a key indicator of the managers' performance, using it to assess how effectively the company is being managed.

Hypothesis Development

A corporation facing temporary liquidity issues is considered to be in financial distress. If the problem is not resolved, management will take action to avoid bankruptcy. One typical

strategy management uses to handle financial difficulties is accrual earnings management. This involves leveraging the flexibility permitted by accounting standards in revenue recognition or implementing policy changes decided by management.

H₁ : financial distress exerts a significant positive impact on accrual earnings management

In periods of financial distress, management may implement earnings management techniques to prevent a decline in stock prices and safeguard the overall valuation of the company. The goal is to reassure investors that the company is profitable and meeting their expectations. However, if management is unwilling to transparently explain how the company's operations impacted its financial results, to control the business's operations for dishonest ends, they can turn to actual earnings management.

H₂ : financial distress exerts a significant positive impact on real earnings management

Internal control, a process influenced by both employees and management, encompasses design elements intended to furnish management with sufficient assurance regarding the attainment of the business's objectives. Internal control encompasses activities within the corporation, extending beyond financial accounting. While the fundamental business activities of the organization remain consistent, accrual earnings management, a technique for manipulating profits, has the potential to impact the income statement.

H₃ : internal control exerts a significant negative impact on accrual earnings management

Internal control involves the actions taken by management and employees to guarantee the precision and dependability of financial statements. Real earnings management (REM) is the practice of manipulating profits through business operations to meet short-term financial goals. Strong internal controls can reduce the likelihood of such manipulative activities to artificially inflate profits.

H₄ : internal control exerts a significant negative impact on real earnings management

The application of accrual earnings management is a prevalent strategy employed by financially distressed firms to evade bankruptcy. Nevertheless, robust corporate governance practices can enhance oversight and mitigate the manipulation of financial statements. Key elements such as managerial ownership, the presence of an audit committee, independent board commissioners, institutional ownership, and mechanisms for managerial ownership contribute to the strengthening of financial statement oversight, thereby diminishing the motivation for fraudulent financial reporting.

H₅ : good corporate governance enhances the positive relationship of financial distress and accrual earnings management

The company's current financial challenges may lead management to consider implementing real earnings management techniques in order to mitigate potential negative impacts on the business's performance and reputation. Conversely, robust corporate governance practices may mitigate the likelihood of managerial manipulation and enhance the oversight of actual profit management strategies.

H₆ : good corporate governance enhances the positive relationship of financial distress and real earnings management

To mitigate accrual earnings management, a company can establish robust internal controls to prevent manipulation of financial statements. This involves adhering to sound corporate governance principles, forming an independent audit committee, and appointing a strong board of commissioners. Improved oversight can reduce the potential for financial statement manipulation.

H₇ : good corporate governance enhances the negative relationship of internal control and accrual earnings management

Establishing strong internal control measures is essential for reducing the likelihood of real earnings management by management. Nevertheless, it is worth noting that capable management can still discover methods to manipulate earnings by taking advantage of deficiencies in internal controls.. By fostering good corporate governance, organizations can improve supervision and bolster the ability of internal controls to deter real earnings management practices.

H8 : good corporate governance enhances the negative relationship of internal control and real earnings management

2. METHODOLOGY

Data Types and Sources

The information utilized in this study came from the annual financial statements of significant consumer products companies that are listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023. These financial reports were directly sourced from the official IDX website (www.idx.co.id). The research sample comprises all 128 primary consumer goods firms recorded on the IDX during this specified period.

Research Methods

Purposive sampling was used to choose the study's sample, which is helpful in identifying people who meet the precise requirements set out by the objectives of the investigation. The primary consumer goods businesses listed on the Indonesia Stock Exchange (IDX) and reporting earnings between 2020 and 2023 were the study's focus. Out of the initial 128 companies considered, 49 met the required criteria and were selected as the research sample based on a 4-year analysis.

Operational Definition and Variable Measurement
a. Earnings Management

In the financial reporting process, earnings management refers to the intentional steps management takes to achieve certain organizational or individual objectives. The two main categories of earnings management that are differentiated in this study are accrual-based earnings management and real earnings management. The modified Jones (1991) model is used in the study by Li et al. (2020) to measure discretionary accruals as a metric for accrual earnings management.

$$DA_{i,t} = \frac{TA_{i,t}}{A_{I,t-1}} - NDA_{i,t}$$

Information:

$DA_{i,t}$ = Disrectionary accruals
$TA_{i,t}$ = Total accruals of firm *i* in period *t*
$A_{i,t-1}$ = Total assets of firm *i* in period *t-1*
$NDA_{i,t}$ = Non-discretionary accruals of firm *i* in period *t*

The measure used to evaluate real earnings management, as employed by Cohen et al. (2008) and Roychowdhury (2006), is in line with the measure utilized by Li et al. (2020).

$$REM_{i,t} = AbPROD_{i,t} + AbDISX_{i,t} + AbCFO_{i,t}$$

Information:

$REM_{i,t}$ = Management of real earnings
$PROD_{i,t}$ = Total Cost of Goods Sold (COGS) and the alteration in inventory for firm i during period t
$DISX_{i,t}$ = Discretionary spending of firm i in period t

CFO$_{i,t}$ = Cash flow from operations of firm i in period t

Ab = Deviations from normal conditions

b. Financial Distress

Financial distress is a term used to describe a situation in which a company encounters short-term liquidity challenges. In academic research, financial distress is commonly evaluated using the Z-Score method, as detailed by Li et al. (2020).

$$Z - Score_{i,t} = 0,3X_1 + 1,0X_2 + 1,4X_3 + 1,2X_4 + 0,6X_5$$

Information:

X_1 = Proportion of net income relative to total assets

X_2 = Proportion of sales in relation to total assets

X_3 = Proportion of retained earnings compared to total assets

X_4 = Proportion of working capital to total assets

X_5 = Proportion of market value of equity against total liabilities

c. Internal Control

Internal control is a methodical and organized procedure that includes directors, managers, and employees, aimed at offering reasonable confidence in achieving an organization's goals. The efficacy of this process is evaluated through the components of the COSO framework, which include data and interactions, oversight, regulatory actions, risk evaluation, and the governance framework. These elements collectively contribute to ensuring that internal control functions effectively to support organizational goals.

d. Good Corporate Governance

The evaluation of effective corporate governance by Aprilian et al. (2020) includes assessing elements such as the presence of Independent commissioners, management stakes, institutional stakes, and the audit committee are essential components in corporate governance and the decision-making process. The total number of people tasked with overseeing the audit's operations and financial reports determines how many members the audit committee has. Their presence is evaluated by dividing the number of independent commissioners by the total number of board members. The percentage of outstanding shares held by institutional investors is known as institutional ownership, whereas the percentage of shares held by the company's management is known as managerial ownership.

3. RESULT AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis, encompassing measures such as the mean, minimum, maximum, and standard deviation, is employed to provide a comprehensive summary of the dataset. The results of this analysis, as computed using SmartPLS software, are presented below:

Table 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
FD	196	0.250	10.020	2.908	1.586
IC	196	0.200	1.000	0.708	0.254
GCG	196	0.160	0.910	0.925	0.283
AEM	196	-0.610	2.000	0.007	0.179
REM	196	0.040	75.070	1.112	5.318

Sources: SmartPLS output results (processed)

Fourty nine (49) primary consumer goods businesses that are publicly listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023 provided a sample of 196 observations, according to the descriptive statistical analysis. A mean value of 2.908 and a standard deviation of 1.586 were found for the financial hardship variable, which ranged from a minimum of 0.250 to a maximum of 10.020. The internal control variable, on the other hand, displayed values between 0.200 and 1.000, with a standard deviation of 0.254 and an average of 0.708. A variable having a mean of 0.925, a standard deviation of 0.283, and a range of 0.160 to 0.109 was used to quantify excellent corporate governance. Accrual earnings management values varied from -0.610 to 2.000, with a mean of 0.007 and a standard deviation of 0.179. Last but not least, the real profits management variable showed a range of 0.040 to 75.070, with a mean of 1.112 and a noticeably high standard deviation of 5.318.

Outer Model Evaluation Model

The validity and dependability of the data may be estimated with the help of outer model analysis. The following stages serve as the basis for the reflective indicators used in the analysis:

a. Convergent Validity

In order to determine the loading factor's value, latent variables and their indicators must be taken into account during the convergent validity step. The correlation between the predicted values is more than 0.7. The following illustration illustrates the connection between latent variable and their indicators.
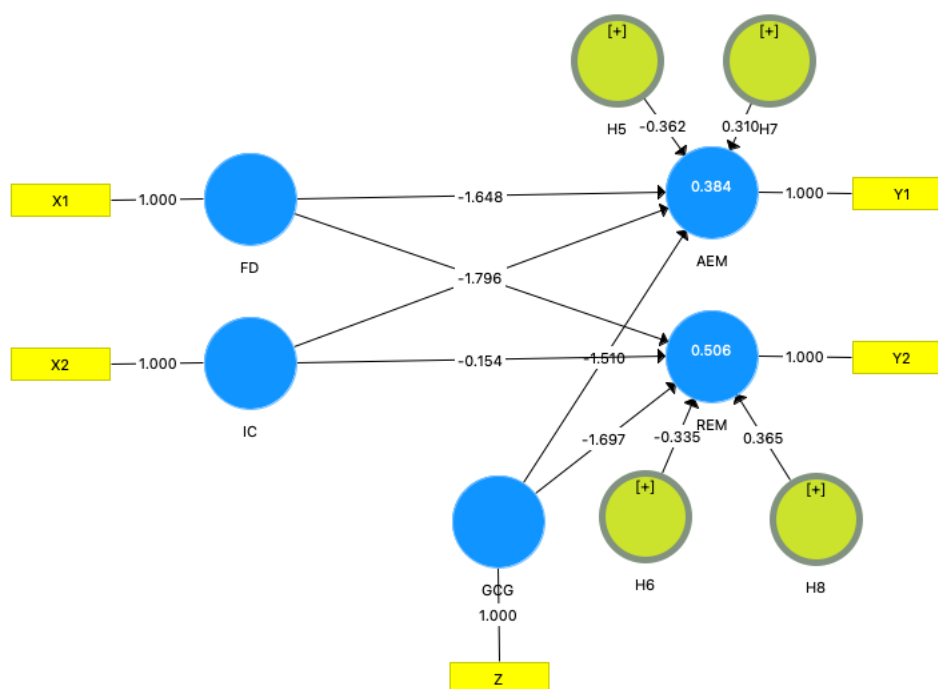

Figure 1. SmartPLS Moderation Outer Model Output

According to the Figure 1, each latent variable in the image above exhibits a loading factor exceeding the established cutoff point of 0.7. This indicates that the indicators employed to assess the corresponding constructs demonstrate a high level of reliability. Furthermore, this finding suggests a robust degree of validity within the measurement system.

b. Discriminant Validity and Average Variance Extracted (AVE)

Analyzing the cross-loading values is a method employed in discriminant validity assessment, which helps determine whether the configuration exhibits an adequate level of

discriminant validity. The correlation index of one configuration may be integrated with that of another. A construct is considered to exhibit good discriminant validity when its correlation value exceeds that of its correlation with other constructs. The findings of the study reveal the following discriminant validity values:

Table 2. Cross Loading Results

	AEM	FD	GCG	H5	H6	H7	H8	IC	REM
FD * GCG	0.229	-0.458	-0.021	1.000	1.000	-0.284	-0.284	0.146	0.328
FD * GCG	0.229	-0.458	-0.021	1.000	1.000	-0.284	-0.284	0.146	0.328
IC * GCG	0.175	0.165	0.002	-0.284	-0.284	1.000	1.000	-0.003	0.199
IC * GCG	0.175	0.165	0.002	-0.284	-0.284	1.000	1.000	-0.003	0.199
X2	-0.166	-0.301	0.246	0.146	0.146	-0.003	-0.003	1.000	-0.091
Y1	1.000	-0.069	-0.182	0.229	0.229	0.175	0.175	-0.166	0.775
Y2	0.775	-0.088	-0.229	0.328	0.328	0.199	0.199	-0.091	1.000
Z	-0.182	-0.834	1.000	-0.021	-0.021	0.002	0.002	0.246	-0.229
X1	-0.069	1.000	-0.834	-0.458	-0.458	0.165	0.165	-0.301	-0.088

Sources: SmartPLS output results (processed)

The results of the discriminant validity assessment indicate that the correlation of each indicator with its corresponding latent variable exceeds its correlation with other latent variables. Consequently, the researcher concludes that the variables explored in this study demonstrate a strong level of discriminant.

Discriminant validity can also be assessed using the Average Variance Extracted (AVE) value in addition to cross-loading. An AVE value is considered satisfactory when the value between the indicator and its corresponding construct exceeds 0.5. The AVE value serves to illustrate the degree of variance or the various manifestations of variables that may emerge from the latent variable.

Table 3. Average Variance Extracted (AVE) Results

	Average Variance Extracted (AVE)
AEM	1.000
FD	1.000
GCG	1.000
H5	1.000
H6	1.000
H7	1.000
H8	1.000
IC	1.000
REM	1.000

Sources: SmartPLS output results (processed)

Based on a comprehensive statistical analysis, the Average Variance Extracted (AVE) for each variable was found to surpass the established threshold of 0.5. These results led the researcher to conclude that the interrelationships among the indicators are robust and significant. Additionally, the study provided empirical support for the validity of discriminant validity, affirming its applicability within this research context.

c. Construct Reliability

Reliability testing is performed to assess the accuracy, precision, and stability of research facilities. The two primary methods for these assessments are Cronbach's alpha and composite reliability. Cronbach's alpha serves as an effective measure of reliability, with

scores that range from zero to one. On the other hand, composite reliability evaluates whether the reliability score of the construct indicator is sufficient. A construct is deemed reliable when either the composite reliability or Cronbach's alpha coefficient surpasses a threshold of 0.7.

Table 4. Construct Reliability Results

	Cronbach's Alpha	Construct Reliability
AEM	1.000	1.000
FD	1.000	1.000
GCG	1.000	1.000
H5	1.000	1.000
H6	1.000	1.000
H7	1.000	1.000
H8	1.000	1.000
IC	1.000	1.000
REM	1.000	1.000

Sources: SmartPLS output results (processed)

According to the statistical analysis, every variable in this study exhibits construct reliability and a Cronbach's alpha value over the 0.7 cutoff. The researcher concluded that all reflective indicators and the latent variable show a high degree of dependability based on the findings.

Inner Model Evaluation Model

Inner models are typically utilized to evaluate the strength of the relationships or influences between exogenous and endogenous variables. Therefore, when analyzing the inner model, various assessments can be employed, one of which is R-square.

The R-squared value is a commonly used approach for evaluating the connection between independent and dependent variables. The statistical calculations conducted in this study yield R-square values as shown in the table below.

Table 5. R-square Results

	R Square
AEM	0.384
REM	0.506

Sources: SmartPLS output results (processed)

According to the statistical analysis, Accrual Earnings Management's (AEM) and Real Earnings Management's (REM) respective R-squared values are 0.384 and 0.506. Based on these findings, the researcher concludes that whereas the independent factors account for 50.6% of the variance in REM, they only account for 38.4% of the variation in AEM.
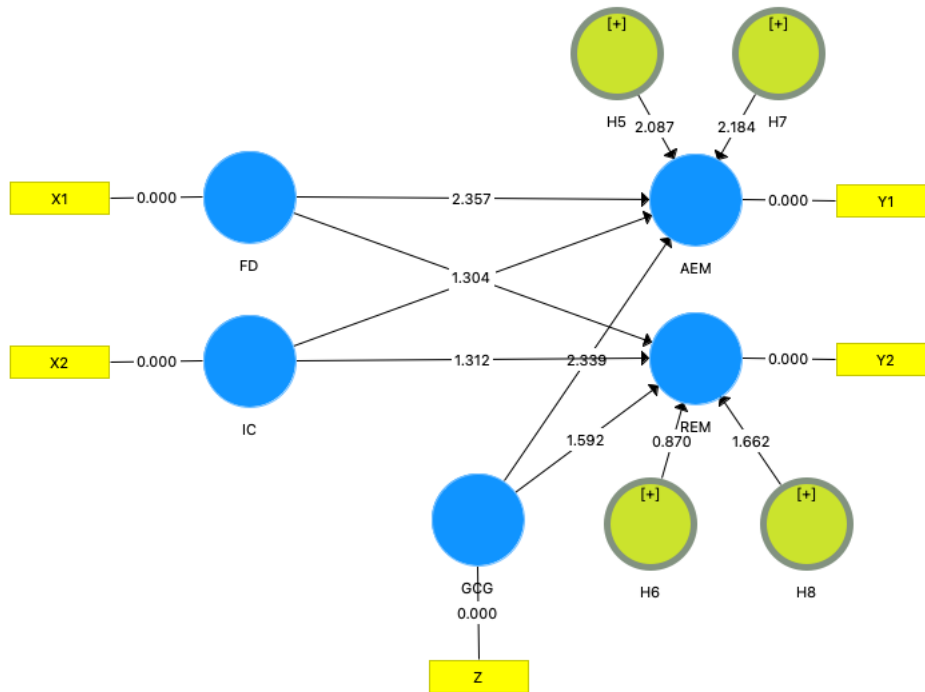
Figure 2. SmartPLS Moderation Inner Model Output

A schematic of the study's structural model following bootstrapping may be seen in the figure above. The SmartPLS program uses bootstrapping to generate probability values from the variables that may be processed in this study. These values can then be utilized to create hypothesis tests.

Hypothesis Testing

The path coefficient shows the direction and size of the independent variable's effect on the dependent variable, and its examination is necessary to understand the relationship between the two variables. The moderating variable's function within this connection is also clarified, giving a better grasp of how it affects the association's direction or intensity. This analysis is integral to testing the proposed hypothesis. Statistical significance is assessed using P-values and the T-statistic. A relationship between constructs is considered statistically significant when the T-statistic exceeds the critical T-table value, and the P-value is below 0.05. In this research, the T-table value has been established at 1.972, which was obtained through an analysis that included 49 leading companies in the primary consumer goods industry listed on the Indonesia Stock Exchange from 2020 to 2023, using a significance level of 5% ($\alpha = 0.05$).

Table 6. Path Coefficient Results

	Sample Original (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
FD -> AEM	1.648	1.240	0.699	2.357	**0.019**
FD -> REM	1.796	0.844	1.377	1.304	**0.193**
GCG -> AEM	-1.510	-1.140	0.646	2.339	**0.020**
GCG -> REM	-1.697	-0.982	1.066	1.592	**0.112**
FD*GCG -> AEM	-0.362	-0.294	0.174	2.087	**0.037**
FD*GCG -> REM	-0.335	-0.090	0.385	0.870	**0.385**
IC*GCG -> AEM	0.310	0.216	0.142	2.184	**0.029**
IC*GCG -> REM	0.365	0.192	0.220	1.662	**0.097**
IC -> AEM	-0.226	-0.196	0.061	3.680	**0.000**

| IC -> REM | -0.154 | -0.063 | 0.117 | 1.312 | **0.190** |

Sources: SmartPLS output results (processed)

The findings presented in the table suggest a significant positive effect of the FD variable on AEM, as indicated by t-statistics that surpass the critical t-table (2.357 > 1.972) with a significance level of 0.019, which is below the 0.05 threshold. Conversely, the IC variable exhibits a significant negative effect on AEM, evidenced by t-statistics exceeding the critical t-table (3.680 > 1.972) and a significance level of 0.000, also below 0.05. in contrast, the FD variable does not significantly influence Rem, with t-statistics falling below the critical threshold (1.304 < 1.972) and a significance level of 0.193, which exceeds 0.05. Similarly, the IC variable lacks a significant effect on REM, demonstrated by t-statistics that fall short of the critical value (1.312 < 1.972) and a significance level of 0.190, also above 0.05. It has been observed that Good Corporate Governance (GCG) plays a moderating role in the relationship between the moderating factors, effectively mitigating the influence of Financial Disclosure (FD) and Internal Controls (IC) on Earnings Management (AEM). However, GCG does not exhibit a moderating influence on the relationship between FD and IC on REM.

Discussion

a. The Influences of Financial Distress on Accrual Earnings Management

The results of the analysis show that, with a significance level of 0.019, which is less than the 0.05 cutoff, the financial distress (FD) variable demonstrates a positive regression coefficient of 1.648 in relation to accrual earnings management (AEM). This result suggests that accrual earnings management is positively impacted by financial distress in a statistically meaningful way. Therefore, hypothesis 1 (H$_1$) can be accepted. This study's results are consistent with the research by Silviana & Sambuaga (2022), which shows that financial challenges positively affect accrual earnings management. Organizations facing financial distress frequently turn to earnings management practices to alter their financial statements. This strategic maneuver aims to maintain a positive image among investors and meet certain financial commitments.

b. The Influences of Financial Distress on Real Earnings Management

The financial distress (FD) variable is compared to real earnings management (REM) and the results show a positive regression coefficient of 1.796 with a significance level of 0.193, above the conventional cutoff threshold of 0.05. This suggests that financial strain and real earnings management do not have a statistically significant relationship, which is why hypothesis 2 (H$_2$) should be rejected. Cahyaningrum et al. (2022) and Li et al. (2020) also found no discernible effect of financial difficulty on real earnings management, which is consistent with our findings. Firms that are experiencing financial difficulties typically show little interest in profits management techniques. It appears from this assessment that their primary goal is recuperation and stabilization, not financial statement manipulation for dishonest ends.

c. The Influences of Internal Control on Accrual Earnings Management

At a significance level of 0.000, the study finds a regression coefficient of -0.226 for the accrual earnings management (AEM) internal control (IC) variable, which is below the traditional limit of 0.05. According to this finding, accrual earnings management is statistically significantly harmed by internal control procedures. Based on these results, hypothesis 3 (H$_3$) may be accepted empirically. According to Silviana & Sambuaga (2022) research, accrual profits management is negatively impacted by internal control. The results of this investigation corroborate this conclusion. A robust internal control system may reduce the inclination of firms to manipulate accrual-based profits, which supports the idea that good internal control mechanisms are essential in lowering earnings management activities.

d. The Influences of Internal Control on Real Earnings Management

The findings of the analysis reveal a negative regression on coefficient of -0.154 for the internal control (IC) variable concerning real earnings management (REM), accompanied by a significance level of 0.190, which exceeds the conventional threshold of 0.05. This outcome suggests that internal control does not exert a statistically significant influence on real earnings management. Consequently, this evidence lends empirical support to the rejection of hypothesis 4 (H_4). This discovery corresponds with the studies carried out by Boulhaga et al. (2022), which similarily concluded that interna control does not exert a significant influence on real earnings management. Companies with insufficient internal controls generally do not exhibit a substantial impact on real earnings management practices. This observation suggests that their primary emphasis lies more on adherence to compliance and accounting protocols rather than engaging in the manipulation of financial statements.

e. The Influences of Financial Distress on Accrual Earnings Management with Good Corporate Governance as a Moderating Variable

The association between accrual earnings management (AEM) and financial distress (FD) is significantly influenced by the effectiveness of corporate governance (GCG). This is supported by a p-value of 0.037 and a coefficient of -0.362, both of which are below the conventional significance level of 0.05. According to these results, accrual earnings management and financial hardship are less correlated when GCG serves as a moderating variable. Consequently, hypothesis 5 (H_5) is rejected. The adoption of Good Corporate Governance (GCG) is crucial for reducing the occurrence of accrual earnings management tactics in companies facing financial difficulties. This highlights the important function of GCG in improving the accountability and clarity of financial reporting. By adhering to these principles, companies can minimize deviations that could harm stakeholders, fostering a more balanced and credible financial environment.

f. The Influences of Financial Distress on Real Earnings Management with Good Corporate Governance as a Moderating Variable

The correlation between financial distress (FD) and real earnings management (REM) is moderated by excellent corporate governance (GCG), as evidenced by a coefficient of -0.335 and a probability value of 0.385, both of which are below the conventional significance threshold of 0.05. These results imply that robust corporate governance does not serve as a moderating factor in this situation, meaning that it does not exacerbate the relationship between financial instability and actual profit manipulation. Consequently, hypothesis 6 (H_6) is not supported. Even with the adoption of effective governance practices, such actions may not be enough to alleviate the adverse effect of financial difficulties on earnings management practices. This suggests that companies might still resort to manipulating financial reports to depict better performance, regardless of a strong governance framework.

g. The Influences of Internal Control on Accrual Earnings Management with Good Corporate Governance as a Moderating Variable

The association between accrual earnings management (AEM) and good corporate governance (GCG) is demonstrated by the correlation coefficient of 0.310 and the p-value of 0.029, both of which are below the typical significance level of 0.05. This finding implies that the moderating effect of GCG weakens the relationship between accrual earnings management and internal control. Hypothesis 7 (H_7) is thus rejected. This indicates that the effective execution of Good Corporate Governance (GCG) mitigates the impact of internal control systems in fostering earnings management activities, thereby diminishing the risk of

financial statement manipulation. Furthermore, GCG serves as a preventive mechanism, minimizing the chances of unethical earnings management behaviors.

h. The Influences of Internal Control on Real Earnings Management with Good Corporate Governance as a Moderating Variable

The study found that the association between internal control (IC) and real earnings management (REM) is moderated by good corporate governance (GCG), with a coefficient of 0.365 and a probability value of 0.097, both of which are higher than the typical significance threshold of 0.05. This result indicates that GCG is not a very good moderating variable since it has little power to either improve or worsen the relationship between internal control and actual earnings management. Consequently, hypothesis 8 (H_8) is rejected. The potential lack of GCG's moderating effect may stem from challenges or inconsistencies in implementing GCG policies. Furthermore, external pressures and instances of manipulative corporate behavior may heavily influence managerial decisions, thereby diminishing the intended effectiveness of internal control mechanisms.

4. CONCLUSION

This study intends to investigate the connection between internal control, financial difficulties, and earnings management, using sound corporate governance as a moderating factor. The study provides three main conclusions on the top consumer goods businesses that were listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023. First, it demonstrates that while real earnings management is not much influenced by financial difficulties, accrual-based earnings management is. Additionally, the study demonstrates that internal control systems have a significant influence on accrual-based earnings management, but real earnings management is mostly unaffected. Finally, the research shows that good corporate governance has a moderating influence on accrual-based profits management by lessening the adverse consequences of financial crises. However, corporate governance has no effect on the connection between internal control and real earnings management, nor does it affect how financial crises affect real earnings management.

Resrach Limitation

This research recognizes various limitations. Initially, concentrating solely on primary consumer goods firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023 limits the applicability of the results to different industries or periods. Secondly, the study's variables are limited to financial distress, internal control, and good corporate governance, thereby excluding other potentially influential factors on earnings management. Thirdly, the quantitative approach employed restricts an in-depth exploration of the moderating role of good corporate governance. Future research incorporating a more holistic approach is recommended to provide a more comprehensive understanding.

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