

How Does Comprehensive Income Affect Earnings Management In The Financial Sector?

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Abstract

This study seeks to evaluate the impact of disclosing comprehensive income, including net income and other comprehensive income, on financial sector companies listed on the Indonesia Stock Exchange from 2019 to 2023. This research uses a quantitative descriptive approach with panel data regression analysis through SmartPLS on 62 samples selected using purposive sampling technique. The analytical results indicate that net income does not influence earnings management within the banking sector listed on the Indonesian Stock Exchange; in this context, net income as a predictor of earnings management appears to be constrained to certain circumstances. Conversely, other comprehensive income substantially influences earnings management within the financial industry listed on the Indonesian Stock Exchange. Enhancing the openness of Other Comprehensive Income reporting can mitigate excessive profit management tactics, thereby increasing the reliability of financial information for stakeholders and strengthening corporate governance.

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1. Introduction

Every business entity is fundamentally oriented towards achieving profits, but earning management practices are often a crucial issue that can reduce the quality of information presented in financial statements. Financial statements play a crucial role in the business sector as they provide a comprehensive overview of a company's financial condition and serve as a key reference for decision-making by various stakeholders (Fahira et al., 2021). Earnings management, which involves the manipulation of financial reports to meet performance targets, enhance a company's image, or secure management bonuses, can mislead investors by presenting a distorted view of the company's true financial health and performance (Alrayyes & Al Khaldy, 2019; Marheni, 2021; Reskiawan & Abdullah, 2022). This practice emerged in response to business pressures, especially after the bankruptcy of large companies due to financial statement manipulation (Elzahaby, 2021). Therefore, transparency and accuracy of financial statements, especially in the disclosure of comprehensive income, are essential to maintain the relevance and faithful representation of the company's financial information (Karmawan et al., 2022; Lestari et al., 2024; Nassir Zadeh et al., 2023).

Currently, Indonesia uses PSAK adapted from IFRS as a reference in preparing financial statements (Christian et al., 2023). This adoption aims to produce financial statements that have an important level of credibility and comparability. Since its establishment, the public Income statement has changed which previously only contained income and expenses realized as net income or net income and then added the required information about Other Comprehensive Income (Saraswati et al., 2020). There are two ways to break down the final amount of Comprehensive Income: first, by adding Net Income to retained earnings; second, by adding Other Comprehensive Income to the Other Comprehensive Income category (Nugraha, 2024). Realized gains and losses are mostly reported through net income, which is potentially important for the value and performance of the company. However, other potentially equally important items other than net income for company performance are included in Other Comprehensive Income (Lee et al., 2020).

Net Income is a key indicator of a company's financial performance that reflects profit after all expenses have been paid, although it does not fully represent cash flow (Lewis, 2022). As an important element in the income statement, Net Income is used to calculate the net profit margin and evaluate the company's capacity to generate return on investment (Aminah et al., 2023; Nugraha, 2024). However, manipulation of net income can reduce the quality of financial reporting, harm investors, and result in inappropriate investment decisions (Aqilah et al., 2021; Khaddafi, 2024). Therefore, it is important to understand the role of Net Income in earnings management and its impact on corporate financial transparency.

Other Comprehensive Income (OCI) is an important financial matrix for evaluating inclusive income and total corporate profits, especially for entities with large investment portfolios such as banks and insurance companies (Firmansyah et al., 2023). OCI includes unrealized gains or losses from investments, providing valuable information to predict future earnings or cash (Aqel, 2021; Nugraha, 2024). This information increases the transparency of

financial reporting, although its quality can be affected by earnings management practices and corporate accounting policies (Kusuma et al., 2021; Safitri & Afriyenti, 2020).

Mixed results have been observed in numerous prior studies regarding the impact of comprehensive income on earnings management. For instance, Kusuma et al. (2022) found that the reclassification of comprehensive income negatively impacts earnings management, though it does not function as a mediating variable. Similarly, Galih Bima et al. (2017) reported that the disclosure of comprehensive income limits the opportunities for income manipulation. In contrast, Hidayat et al. (2021) showed that, under conditions of high leverage, comprehensive income does not significantly affect real earnings management. Furthermore, Nugraha (2024) argued that the information provided under the IFRS comprehensive income standard offers limited usefulness for investment decision-making. Complementing these findings, Anggita et al. (2024) emphasized that revenue attribution and transparency remain critical in maintaining the quality of financial reporting. These studies collectively illustrate that the role of comprehensive income in influencing earnings management varies depending on contextual factors such as financial structure, transparency, and disclosure practices.

This study focuses on the financial industry as it is represented on the Indonesia Stock Exchange. A big investment portfolio provides insurance and banking firms with significant potential, according to Lee et al. (2020). Banking, insurance, and investment management are all parts of the financial industry that frequently handle extremely intricate transactions. Companies may find greater opportunity to engage in earnings management in this complicated sector compared to others (Azizah & Evitasari, 2024). All changes in equity, such as unrealised gains or losses on financial instruments, are included in comprehensive income, even though they do not originate from transactions with shareholders (Li & Li, 2021). Earnings management in the financial sector can affect stakeholders' and investors' perceptions of a company's financial condition.

In the context of agency theory (Jensen & Meckling, 1976), the practice of earning management (accrual) reflects the manager's efforts to manage the owner's or investor's perception of the company's financial performance, especially when there are conflicts of interest and information asymmetry. Net income, as the main indicator that is often used as a reference in economic decision-making by stakeholders, has its own pressure for managers to show stable or improved performance (Valianti et al., 2021). This pressure can encourage managers to manage accrued profits to adjust the profit figure according to market expectations. On the other hand, other comprehensive income (OCI) that reflects a more volatile component of profit, such as changes in the fair value of financial assets, can also be used as a manipulative tool because of its complex nature and lack of direct attention from investors. Thus, both net income and OCI have the potential to be used in accrual profit management practices.

The author is motivated to conduct research on the effect of comprehensive income on earnings management based on various previous studies, the information gap that financial companies tend to manipulate comprehensive income for the sake of image, thereby reducing the quality and transparency of financial statements and its relation to grand theory (agency theory). Given the importance of the financial industry to economic stability and market trust, this topic holds substantial significance. Other comprehensive income represents broader financial factors, such as changes in the fair value of financial assets and their influence on equity, whereas net income is typically the primary focus of stakeholders and investors when evaluating a company's performance. Understanding the connection between these components and earnings management can provide valuable insights into the potential manipulation of financial statements, thereby enhancing accountability and transparency within corporations. This issue becomes even more critical during and after a pandemic, when global economic conditions are unstable and influence how companies report their financial data to investors and regulators. The overarching objective of this study is to analyze the relationship between earnings management and comprehensive income, encompassing both net income and other comprehensive income.

2. Literature Review

Agency Theory

Agency theory is one of the theories that describes management science which has a link to the causes of management in carrying out earnings management malpractice, which is essentially a conflict of interest between the agent and the principal (Jensen & Meckling, 1976a). Managers as internal parties certainly have more comprehensive company information than shareholders, thus creating information asymmetry. This information asymmetry forces managers to consider how these accounting numbers can be used as a means to maximize their profits. One form of action taken by managers is earnings management. This theory explains the problems that arise between principals and agents when separating ownership and control of a company. Company managers try to give investors a positive impression of the company they manage. Agency problems occur due to the separation of ownership and management of the company (Crutchley & Hansen, 1989). With the authority to manage the owner's funds and make other company decisions, it allows a conflict of interest between the owner and the manager as the controller of the company. In addition, it can also be affected by ineffective oversight at every level of the organization, which increases the likelihood of manipulation of financial statements that reflect the interests of the various parties involved. This condition can be triggered by a more complex dimension, especially when examining multi-level relationships within organizations, where agency conflicts can occur between agents at different layers, such as the board of commissioners and managers (Modigliani & Miller, 1963; Sihombing et al., 2022).

Earnings Management

In this study, accrual-based profit management was measured using the Modified Jones Model approach (Dechow et al., 1995), which separates the accruals components into normal (non-discretionary) and abnormal (discretionary) parts. The residual of this model i.e. abnormal accruals are used as a proxy for profit management practices, and do not represent

net profit directly. The Modified Jones Model approach ensures that the AEM variables used are the result of residual estimates (abnormal accruals), which represent managerial interventions in accruals, not net profit itself (Dechow et al., 1995). When top-level executives make choices that alter financial statements with actions such as preparing transactions or revising reporting, this is known as profit management (Healy & Wahlen, 1999).

Comprehensive income

A comprehensive income report is a part of the financial statements that presents the financial performance of an entity over a certain period, including profit or loss for the current period as well as other comprehensive income (OCI), which consists of income and expense items that have not been recognized in income in accordance with the relevant accounting standards (IAI, 2015). According to Galih Bima et al., (2017), the income statement is required to directly list every other comprehensive income item, which includes net profit. Net profit or loss, adjustments for foreign currency transactions, cash flow hedging and a profitable post-retirement plan are all part of the Comprehensive income statement. Another way to see how your wealth has changed over time is to look at your comprehensive income. When you add Net Profit to retained earnings and Other Comprehensive Earnings to the Other Comprehensive Earnings list, you get the total amount of Comprehensive Earnings. Then, you can divide it into two parts (Nugraha, 2024).

Net Income

Net profit reflects the company's key financial performance in a period. Net Profit according to PSAK 1 (IAI, 2015) is the total income minus expenses in accordance with the accrual principle, excluding other comprehensive profit components. Net Profit is one of the tools to measure a company's income and costs. Net Profit is profit that has been deducted from expenses, namely the company's expenses in a certain period including taxes (Valianti et al., 2021). Net Profit reflects profit after all expenses are paid, but does not represent cash flow. In the income statement, net profit is presented on the last line and is used to calculate the net profit margin (Lewis, 2022). Although net income is used in the process of calculating total accruals, this study does not make net income part of the profit management construct.

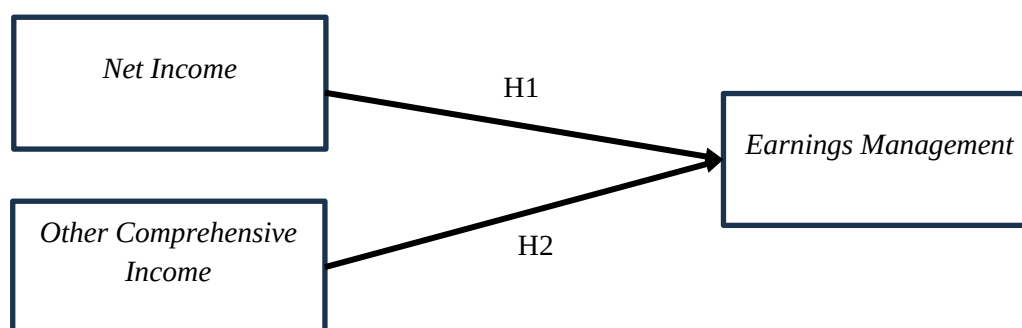
Other Comprehensive Income

Other Comprehensive Income (OCI) includes other components of comprehensive income that have not yet been realized, such as gains or losses from the revaluation of financial assets, cash flow hedging, and foreign exchange rate differentials (Black, 2016). Income not included in profit or loss as per other SAKs is known as other comprehensive income. This includes all expenses, including reclassification adjustments, which are subtracted from total income. Profits and losses from translating the company's financial statements, changes in the surplus, actuarial gains and losses on recognized defined benefit plans, remeasurement of financial assets classified as available-for-sale, and the effective portion of gains and losses on cash flow hedging instruments are all parts of other comprehensive income (Hidayat et al., 2021).

Financial Sector

Companies listed on the Indonesia Stock Exchange (IDX) operating in the financial sector are essential to the country's economy because of the capital they mobilize, the credit they provide, and the risks they mitigate. To ensure stability and public trust, the Financial Services Authority (OJK) imposes strict regulations on this sector, which includes non-bank financial institutions, securities, insurance companies, and banks. Financial technology (fintech) innovation supports the industry by improving operational efficiency and financial inclusion (Financial Services Authority, 2020). emphasizing the importance of financial indicators in assessing the performance of the financial sector, where operational efficiency and financial health are the main cornerstones.

Theoretical Framework



Source: by researchers, 2025

Figure 1. Theoretical Framework

Hypothesis

Based on agency theory, which explains the contractual relationship between principals and agents and the potential conflicts of interest due to information asymmetry (Jensen & Meckling, 1976), net income is often considered the main performance indicator in financial statements used by stakeholders for decision-making. In the financial sector, the complexity and volatility of market conditions create significant pressure on management to present stable and favorable financial results. This environment intensifies the incentive for managers to engage in earnings management practices, both when profits are high and low, to meet shareholder expectations and maintain the company's performance reputation (Yolanda & Kholmi, 2024). Previous research by Bima et al. (2017) supports this assumption by showing that the higher the disclosed information, the lower the earnings management practices, and vice versa. Furthermore, Other Comprehensive Income (OCI), which represents the components of comprehensive income outside of net income, is also a focus in earnings management practices. Agency theory explains that the flexibility and accounting estimates involved in OCI provide opportunities for management to manipulate financial reports to achieve certain targets or maintain performance stability (Hidayat et al., 2021; Jensen & Meckling, 1976). Earlier studies by Bima et al. (2017) confirm the significant influence of OCI disclosure on earnings management practices, especially in the financial sector with complex reporting dynamics during the 2019-2023 period. Based on the above explanation, the research hypotheses are formulated as follows:

- H₁: Net Income has a significant effect on earnings management in the financial sector during 2019-2023.
- H₂: Other Comprehensive Income has a significant effect on earnings management in the financial sector during 2019-2023.

3. Research Methods

This study uses a quantitative descriptive approach in the form of secondary data recorded on the Indonesia Stock Exchange in the financial sector. The financial sector was chosen because it has complex but uniform financial statements, facilitates comparisons between companies, and plays a crucial role in the Indonesian economy, making it vulnerable to the negative impact of profit management practices on public reputation and trust. The population in this study is the financial sector listed on the Indonesia Stock Exchange for the 2019-2023 period. The sampling technique was carried out using Purposive Sampling with the criteria presented in table 1 which was obtained from 62 research samples. The following are the research sample criteria:

Table 1. Sample Criteria Table

No	Criteria	Number
1	Research Population	105
2	Entities that are not incorporated in the financial sector consecutively during the 2019-2023 research period	(4)
4	Entities that do not have and/or do not report total Other Comprehensive Income consecutively during the 2019-2023 research period	(3)
5	Entities that experienced consecutive losses (minus) during the 2019-2023 research period	(36)
	Total research sample	62
	Total observation data (2019-2023)	310

Source: by researchers, 2025

The dependent variables in this study using accrual profit management The Modified Jones Model is calculated by estimating the total accrual as a function of changes in income and fixed assets, then subtracting the non-discretionary accrual from the total accrual to obtain discretionary accrual as a proxy for profit management practices. The independent variable consists of two, namely net income and other comprehensive income. Net income is calculated by dividing the net income of the parent entity (NI Parent) by total assets, while other comprehensive income (OCI) is calculated by dividing other comprehensive income by total assets. The control variable consists of cash flow operations measured by the CFO/Total Assets ratio of firm size measured by the natural logarithm of total assets, and leverage measured by the ratio of total liabilities to total assets. This study uses panel data so that it is analyzed by panel data regression using the Partial Least Squares (PLS) method because PLS is able to handle the complexity of the relationship between latent variables, small sample size, and does not require the assumption of data normality; The analysis is

carried out by estimating structural models and simultaneous measurements to obtain causal relationships between variables.

4. Results

Results of the analysis

Table 2. Descriptive Statistical Test

Variable		Mean	Median	Standard Deviation
NI	Independent	0.418	0.055	0.993
OCI	Independent	0.398	0.060	1.386
DA	Dependent	2.850	0.001	52.234
LEV	Control	18.893	0.329	68.032
FIRM SIZE	Control	12.911	13.147	0.925
CFO	Control	0.551	0.005	2.891

Source: Processed Smart PLS, 2025

The study's variables' descriptive statistical analysis findings are displayed in Table 2. With a mean of 0.418, median of 0.055, and standard deviation of 0.993, NI (Net Income) and OCI (Other Comprehensive Income) are the independent variables. Other Comprehensive Income has a median of 0.060, and standard deviation of 1.386. The earnings management (DA) dependent variable is rather large with a standard deviation of 52.234, a median of 0.001, and an average of 2.850. Heterogeneity in the level of accrual manipulation may be shown by the high standard deviation of DA, which implies significant variability among the observational data.

Leverage, Firm Size, and Cash Flow from Operations (CFO) are the control variables that are utilised. The data on firm leverage is spread out quite a bit, with a mean of 18.893, a median of 0.329, and a standard deviation of 68.032 for LEV. The distribution of firm size is rather similar, with a mean of 12.911, a median of 13.147, and a standard deviation of 0.925. There is some variety in operational cash flow among the sample, as seen by the CFO's mean of 0.551, median of 0.005, and standard deviation of 2.891. Taken together, these numbers paint a rough outline of how the study's important variables were distributed.

Table 3. Determination Coefficient Test

R Square		R Square Adjusted
Y	0.106	0.091

Source: Processed Smart PLS, 2025

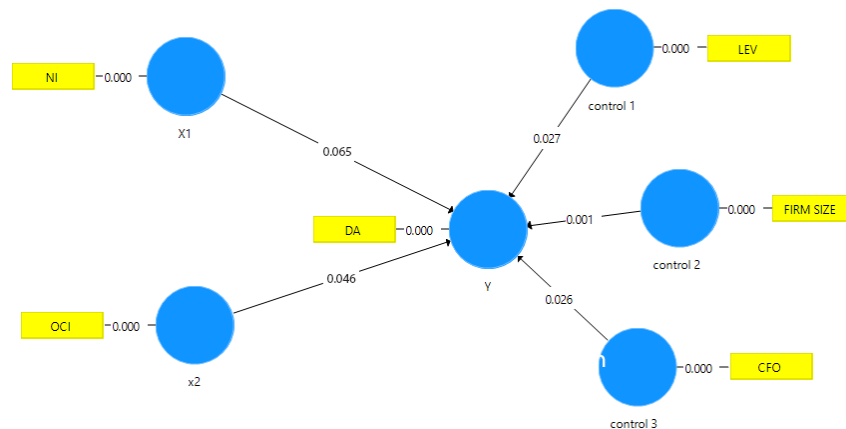
Results of the Smart PLS analysis tool's R Square and Adjusted R Square tests are displayed in Table 3. The model's independent variables can only account for 10.6% of the variation in the dependent variable (Y), as shown by the R Square value of 0.106. The number of independent variables is adjusted for in the model, leading to a lower Adjusted R Square value of 0.091. Due to the influence of extraneous factors, the model's poor R Squared value suggests that it can only make limited predictions about the dependent variable.

Table 4. Q² Predict Test

	RMSE	MAE	MAPE	Q ² _predict
DA	2.694	1.196	38166.567	0.006

Source: Processed Smart PLS, 2025

Table 4 displays the outcomes of the Q² Predict Test, which utilized the RMSE, MAE, MAPE, and Q² Predict metrics to assess the model's predictive capabilities. The magnitude of model prediction error on the dependent variable DA (earnings management) is indicated by the RMSE value of 2.694 and MAE of 1.196. There may be some outliers in this data set due to the extremely high MAPE value (38166.567). On the other hand, the model's Q² Predict value of 0.006 indicates that it does not have a very high predictive capacity, suggesting that it is not entirely effective in providing accurate predictions due to the influence of other factors.



Source: Processed Smart PLS, 2025

Figure 2. Second Test Path Coefficient Model

Second Test Path Coefficient Model in Figure 2 above represents this research model which consists of net income and other comprehensive income as independent variables on earnings management as the dependent variable and then added with control variables such as leverage, firm size and cash flow operations. The values presented in Figure 2 are also clarified in the explanation of table 5 of the hypothesis test below.

Table 5. Hypothesis Test

	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics (O/STDEV)	P Values
X1 -> Y	0.038	0.044	0.081	0.094	0.065
x2 -> Y	-0.067	-0.065	0.037	2.317	0.046
control 1 -> Y	-0.052	-0.051	0.029	1.805	0.036
control 2 -> Y	0.194	0.197	0.061	3.170	0.001
control 3 -> Y	-0.244	-0.250	0.124	1.970	0.025

Source: Processed Smart PLS, 2025

Based on the hypothesis test in table 5 and figure, above, the SmartPLS analysis tool is used to evaluate the effect of net income (X1), other comprehensive income (X2), and control variables such as leverage (control 1), firm size (control 2), and cash flow from operations (CFO) (control 3) on the earnings management variable (Y). While the significance of each variable's effect is determined by the T-Statistics and P-Values, the Original Sample (O) value shows the magnitude of that effect. The research indicates that the influence of net income on earnings management (X1 → Y) is not significant at the 95% confidence level. The P-value is 0.065, which is bigger than 0.05. Conversely, at the 95% confidence level, the impact of other comprehensive income on earnings management (X2 → Y) is statistically significant with a coefficient of -0.067 and a P-Value of 0.046.

At the 95% confidence level, the negative association between the leverage control variable (control 1 → Y) and the dependent variable (Y) is indicated by a coefficient of -0.052 and a P-Value of 0.036. Moreover, with a coefficient of 0.194 and a P-Value of 0.001, the control variable firm size (control 2 → Y) demonstrates a highly significant beneficial effect on earnings management. A negative effect of CFO (control 3 → Y) is statistically significant (-0.244 coefficient, 0.025 P-Value). Based on these findings, the control variable is a strong predictor of earnings management variable variance.

Discussion

The Effect of Net Income on Earnings Management in the Financial Sector

According to the study's premise, financial institutions' profits management practices will be significantly impacted by net income from 2019 to 2023. Although net income is an important financial statement indicator, this study found that it does not influence earnings management. Net income and other revenue components do not always have sufficient relevance to reliably forecast earnings management, according to prior research. This is particularly true when dealing with more intricate forms of earnings management (Kusuma et al., 2021; Wei, 2023).

Net income is often used as an indicator of firm performance. However, its effect on earnings management may vary depending on the context and accounting practices applied by management (Hamdani et al., 2024; Yolanda & Kholmi, 2024). One reason why net income does not influence earnings management is the existence of earnings management practices carried out by companies to achieve certain goals, such as increasing firm value or meeting market expectations (Yolanda & Kholmi, 2024). In this context, management may use different accounting techniques to manipulate financial statements, thus obscuring the relationship between net income and earnings management. Other research also shows that companies under pressure to meet performance targets often engage in earnings management practices, which may reduce the reliability of net income as a performance indicator (Khuong et al., 2020).

Analysis of financial companies listed on the Indonesia Stock Exchange reveals that net income does not influence earnings management, according to studies on the topic. Consistent with this finding, Dessyana & Aliah (2022) examined the impact of net income as ROA and managerial ownership on earnings management in Indonesian financial organizations from 2017 to 2020. Although net income is a key metric for financial

statements, this result implies that it does not influence earnings management choices. Based on these findings, it seems that managerial policies and market conditions have a greater impact on financial earnings management strategies.

Profitability, as defined by net income, impacts earnings management in the context of companies listed on the Indonesia Stock Exchange, according to research by Dharma et al. (2021). Companies that are very profitable are more likely to engage in earnings management (Wardhani et al., 2022), according to this study, which shows that profitability is influence affects earnings management. Several things can bring this about, such as openness of financial statements and supervision from interested parties. Therefore, these findings provide credence to the idea that net income, as a measure of profitability, can play a role in earnings management. Nevertheless, it is understandable that corporations would rather not engage in questionable earnings management techniques in order to preserve their reputation and the confidence of their investors.

Further, among companies listed on the Indonesia Stock Exchange, research conducted by Firza (2022) reveals that profitability and other financial ratios do not significantly impact profits smoothing (Firza, 2022). These results show that aggressive earnings management strategies are not necessarily followed by strong financial performance by corporations. Rather than participate in behaviors that could damage their reputation in the market, organizations may choose to disclose realistic and accountable earnings, according to this research. Hence, it's possible that internal policies and external oversight have a bigger impact on earnings management practices than net income does in the banking industry listed on the Indonesia Stock Exchange.

According to agency theory, managers are motivated to use accounting flexibility to accomplish certain goals, which can lead to conflicts of interest because shareholders and managers do not have equal access to information. Although net income is a measure of profitability, these findings provide credence to the idea that it might not be the best metric to use when trying to rein in managers' opportunistic actions. Dharma et al. (2021) found that managers may be more likely to engage in earnings management in order to preserve the company's reputation when profitability is high. On the other hand, Firza's (2022) research shows that, particularly for more realistically reporting businesses, profitability is not necessarily correlated with earnings smoothing procedures. These findings provide credence to the agency theory concept that managerial incentives and external monitoring have a greater impact on profits management techniques than purely financial indicators like net income.

The Effect of Other Comprehensive Income on Earnings Management in the Financial Sector

For earnings management purposes, the other comprehensive income variable is influence. This indicates that there is a negative trend in earnings management when corporations report increased Other Comprehensive Income. Although there is dispute about the correctness and transparency of this component in financial statements, previous research has shown that Other Comprehensive Income can provide relevant information in the context of earnings management (Hidayat et al., 2021; Wang et al., 2022). Because of their distinct effects on

accounting choices and earnings management, it is crucial to analyze net income and Other Comprehensive Income independently when conducting earnings management analyses.

According to other studies, Other Comprehensive Income can lessen the likelihood of excessive earnings management by offering more clear and comprehensive information regarding firm performance (Fransiska, 2021; Ilić et al., 2024). Companies with stronger earnings management procedures are those that are more open about reporting Other Comprehensive Income. Stricter regulation and oversight of the company's financial accounts are two external elements that can impact the substantial impact of Other Comprehensive Income. In this light, financial institutions may feel increased pressure to provide accurate Other Comprehensive Income reports in order to satisfy regulators and keep their investors' trust (Al-Mughrabi, 2020).

Lower levels of earnings management are typically observed in organizations with tighter control of financial statements, according to research. This lends credence to the idea that Other Comprehensive Income can be used to curb profits management strategies (Strakova, 2021). With this in mind, Other Comprehensive Income has become a major player in the earnings management game for financial companies trading on the IDX. Gains and losses that have not been realized are accounted for in equity rather than net income and are thus part of Other Comprehensive Income. Considering Indonesia's regulatory climate, which places a premium on detailed financial reports, this differentiation is crucial since it gives businesses greater leeway in how they handle reported results.

Kusuma et al. (2021, 2022b) and Kusuma & Agustin (2023) cite research that shows how Other Comprehensive Income is presented can impact how investors perceive and make decisions, which in turn impacts the company's financial success. Furthermore, Other Comprehensive Income reporting could give management a way to smooth earnings, a typical tactic for satisfying market expectations and giving the impression of more stable financial performance (Kusuma et al., 2021, 2022b; Kusuma & Agustin, 2023). Companies in Indonesia's financial sector can employ Other Comprehensive Income to reduce net income volatility, highlighting the relationship between Other Comprehensive Income and earnings management. The necessity for openness and the possibility of asymmetric information that can develop when businesses choose which Other Comprehensive Income items to disclose add another layer of complexity to the role of Other Comprehensive Income in earnings management (Sumarni, 2020). Given these factors, financial markets need a legal framework to encourage full profits disclosure in order to increase confidence and decrease information asymmetry (Saptono & Khozen, 2022).

The impact of Other Comprehensive Income extends beyond reporting practices and influences the company's strategic decision-making. Companies can use their comprehensive income as a signal to investors about their financial health, which can impact dividend policy and investment strategy (Kusuma et al., 2021; Kusuma & Agustin, 2023). The significance of Other Comprehensive Income in financial analysis and investment decisions is further underscored by its predictive power in anticipating future earnings (Lee et al., 2020). Hence, in light of the changing financial landscape in Indonesia, Other Comprehensive Income

management becomes a crucial part of the earnings management plan as a whole. Czajor et al. (2020) and Harasheh et al. (2021) point out that there needs to be continuous research and regulatory oversight in Indonesia's financial sector to make sure that reporting practices are in line with global standards and help keep markets stable, because of the interplay between Other Comprehensive Income s, earnings management, and investor perceptions.

A conflict of interest between managers and owners is shown in the relationship between other comprehensive income and earnings management within the framework of agency theory. Accounting information can be manipulated by managers with greater knowledge than owners in order to achieve personal goals, according to agency theory. These goals could include keeping their position or improving their performance-based compensation. This study's results corroborate the idea that managers can manipulate financial statements by using components of comprehensive income, since Other Comprehensive Income has a substantial impact on earnings management. The inability of owners and other stakeholders to conduct an honest evaluation of the company's financial performance is one reason why agency difficulties can arise when Other Comprehensive Income is used as a tool for earnings management.

Additionally, to decrease managers' opportunistic conduct, agency theory stresses the significance of oversight and good corporate governance procedures. This study's finding that Other Comprehensive Income significantly impacts profits management lends credence to the claim that more transparency and regulation are required to reduce information asymmetry and enhance financial statement quality. Instead of being used to manipulate results, Other Comprehensive Income can be used to boost openness in the financial sector through the introduction of thorough reporting standards and strong external scrutiny. As a result, managers and investors can have more accurate information through Other Comprehensive Income disclosure that follows good governance norms. This, in turn, can boost market trust and reduce agency costs related to financial reporting.

The Effect of Leverage, Firm Size, Cash Flow from Operations (CFO) as a variabel control on Earnings Management in the Financial Sector

The empirical findings of this study reveal that leverage, as a control variable, has a significant negative effect on earnings management in the financial sector. This suggests that companies with higher debt levels are less likely to engage in earnings manipulation. One possible explanation is that higher leverage increases scrutiny from creditors and external stakeholders, thus limiting managerial discretion in financial reporting. This finding aligns with the agency theory perspective, where debt acts as a monitoring mechanism that disciplines managerial behavior and reduces opportunistic financial reporting (Widjaja & Susanto, 2020; Wiyogo et al., 2021).

Firm size demonstrates a positive and highly significant relationship with earnings management. Larger financial institutions, due to their complex structures and resource availability, may have greater opportunities and incentives to engage in earnings management practices. Additionally, bigger firms are often under more pressure to meet market expectations, which can encourage the smoothing of earnings. This result supports

prior studies suggesting that firm size can amplify earnings management, not only due to visibility but also due to the managerial confidence in managing perceptions of performance (Fadlli & M.M., 2020; Hastuti et al., 2018; Utami & Sri, 2019).

Moreover, the analysis shows that Cash Flow from Operations (CFO) negatively affects earnings management. Firms with stronger operational cash flows tend to rely less on accrual adjustments to manipulate earnings, possibly because robust cash flows reflect strong underlying performance, reducing the need for earnings smoothing. This finding reinforces the notion that healthy financial conditions, as indicated by high CFO, reduce the likelihood of accounting manipulation. Collectively, the results affirm that leverage, firm size, and CFO are significant predictors of earnings management behavior in the financial sector and should be carefully considered when assessing the quality of financial reporting (Cendra & Sufiyati, 2020; Hastuti et al., 2018).

5. Conclusion and Suggestion

Despite its importance as a financial statement indicator, this study finds that net income had no discernible impact on earnings management in Indonesia's banking sector from 2019 to 2023. This finding is consistent with others that have shown that net income is not always a good indicator of earnings management, particularly when businesses engage in accounting procedures that can alter their financial statements. Between 2019 and 2023, the banking industry listed on the Indonesia Stock Exchange is significantly impacted by Other Comprehensive Income when it comes to earnings management. These findings point to the possibility that more openness in Other Comprehensive Income reporting can lead to less earnings management and better financial data for investors. Furthermore, the study emphasizes that while examining earnings management techniques, it is crucial to consider factors other than net income. These factors include managerial strategies, market conditions, and external oversight. Compliance with reporting standards and stringent restrictions further emphasizes Other Comprehensive Income's strategic function as a tool to prevent earnings manipulation, which affects investment choices and market stability. Furthermore, control variables like leverage, company size, and CFO (cash flow from operations) have a notable impact on earnings management. Firm size has a favorable effect on leverage and CFO, suggesting that bigger companies are better at managing their profits, although liquidity concerns and high debt levels can put a lid on the practice.

The study's findings suggest that financial sector regulators and stakeholders should step up their oversight of corporate financial reporting to curb the harmful effects of profits management on accountability and transparency. Further investigation into the impact of additional variables like debt, company size, and operational cash flow can round out our understanding of the elements that impact earnings management. Having a better grasp of these dynamics could lead to better accounting procedures and more accurate financial statements that represent the company's success.

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