

# The Role of Audit Committees in Moderating Tax Planning, Deferred Tax, and Firm Size on Earnings Management: Evidence from Consumer Goods Companies (2019–2023)

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## ABSTRACT

*This study aims to reveal the essence of audit committees in relation to tax planning, deferred tax expense, and company size on earnings management in consumer goods companies listed on the Indonesia Stock Exchange during the period 2019-2023. Quantitative measurements were made by applying structural model equations through WarpPLS V.8.0 analysis on 19 companies that met Purposive Sampling, with a total of 95 data observations for primary and non-primary consumer companies from 2019 to 2023. The study found that tax planning, tax expenses, and company size have a significant negative relationship with corporate earnings management practices, with an R-Square value of 22.6%, indicating the existence of a good earnings management prevention strategy in the research variable relationship. Tax planning ( $\beta=-0.390$ ,  $p<0.001$ ) suppresses earnings management, deferred tax expenses ( $\beta=-0.290$ ,  $p<0.001$ ) suppress earnings management, and company size ( $\beta=-0.562$ ,  $p<0.001$ ) suppresses earnings management. The audit committee plays an important role in strengthening the relationship between tax planning ( $\beta=-0.215$ ,  $p<0.001$ ) and company size ( $\beta=-0.366$ ,  $p=0.003$ ) in inhibiting corporate earnings management tendencies. However, in the case of deferred tax expenses ( $\beta=0.559$ ,  $p<0.001$ ), the audit committee allows earnings management to occur due to complexities and temporary differences that can become loopholes for management to commit fraud. This study provides insights into the comprehensive strengthening of corporate financial reporting oversight to avoid conflicts of interest between principals and agents, thereby maximizing corporate performance through corporate governance.*

**Keywords:** Audit Committee, Earnings Management, Firm Size, Deferred Tax Expense, Tax Planning

## INTRODUCTION

Financial statements are a fundamental instrument in business entities, and financial reporting is the basis for companies to make decisions regarding their business development. In decision-making, company managers play a crucial role that can impact business operations. Financial reporting, which forms the basis for decisions, must meet assessment criteria that address the company's needs. The reporting disclosed in financial statements must meet criteria that include relevance, reliability, ease of understanding, and comparability to assess the effectiveness, efficiency, and economy of the company during its operational activities (Opore et al., 2023; Shu & Chiang, 2014). However, in practice, there are still cases of misconduct aimed at embellishing financial reports. Ernst & Young (2019) revealed that companies engaged in the production of

consumer goods were found to have committed financial reporting irregularities, which, upon investigation, were concluded to be manipulation by adding value to several accounts, amounting to trillions of rupiah. This indicates a contradiction with the actual purpose of financial reporting. Moreover, the Covid-19 pandemic has weakened consumer interest, which could potentially lead companies to manipulate their reports by maintaining their financial ratios to measure liquidity and support the company's going concern by engaging in profit management, which is synonymous with creative accounting (Baqae & Farhi, 2022; Ferreira et al., 2021; Lassoued & Khanchel, 2021).

Conflicts of interest that arise within companies, between agents who defend their personal interests and principals who are focused on improving the company's financial performance, trigger misconduct in financial reporting (Türegün, 2018). Another view highlights that external pressures can force companies to adjust their financial reporting to reduce political consequences, such as government scrutiny or negative public perception (Makhaiel & Sherer, 2018; Timbate & Asrat, 2024). Conflicts within companies provide an extension for companies to pay attention to structured taxation aspects through effective management strategies in reporting pre-tax profits, so that the urgency of corporate tax planning and measurement of deferred tax expenses become alternatives that can be controlled by management to strengthen company value and investor perception. Thus, the size of a company will strengthen the capacity and complexity of corporate governance, including profit management practices. Large companies tend to have stricter monitoring systems, but on the other hand, they also have greater access to profit management strategies (Githaiga et al., 2022). Strict corporate supervision is an internal control mechanism carried out by the company's audit committee. Supervision and prevention in the management of company operations are its main tasks, so that companies with better supervision and control tend to engage in less manipulation.

Several previous studies have revealed inconsistent findings in explaining the relationship between the research variables (Agustin, 2022; Amelinda & Kuntadi, 2019; Effendi, 2022; Görlitz & Dobler, 2023; Hasty & Herawaty, 2017; Ratu et al., 2023; Mgammal, 2020; Nofrivul et al., 2022; Rosharlianti & Hidayat, 2019). The inconsistency in these research findings forms the basis for testing the research conducted. This study also responds to cases of manipulation that have occurred in consumer companies, indicating a lack of implementation of internal control functions and the role of audit committees in mitigating the risk of such irregularities. The gaps and inconsistencies in previous studies open up space for research to reveal the interactions and relationships in tax planning, deferred tax expenses, company size, and the role of audit committees in controlling earnings management in consumer companies listed on the Indonesia Stock Exchange for the period 2019–2023.

There have not been many previous studies that holistically reveal the role of the Audit Committee in strengthening or weakening the relationship in controlling company profit management. Therefore, this understanding is essential in filling the literature gap and providing a more holistic perspective. The role of the Audit Committee provides an integrative approach model in accounting studies. Previous studies have been limited in highlighting aspects of tax planning, deferred tax expenses, company size, and audit committees in their position to influence earnings management (Ratu et al., 2023; Panjaitan & Muslih, 2019; Rosharlianti & Hidayat, 2019). With the limited existing models, this study offers novelty through the expansion of a moderating research model so that it can provide added value to the understanding of earnings management practices. The audit committee shows potential innovation that explains how internal control can reform earnings management practices from the perspective of tax planning and deferred tax liabilities and strengthen the contribution of research related to current corporate governance, especially consumer companies.

With clarity on the above phenomena and gaps, this study aims to reveal the essence of audit committees in the relationship between tax planning, deferred tax expenses, and company size on earnings management in consumer goods companies listed on the Indonesia Stock Exchange for the period 2019-2023. This research is expected to contribute to expanding understanding through the integration of agency theory and political cost theory in the broader and more contextual context of profit management. Practically, this research can serve as a basis for companies and policy supervisors in formulating more effective supervisory regulations and improving financial

reporting transparency to reduce profit manipulation that is detrimental to stakeholders. Thus, this research contributes to improving corporate governance and strengthening the integrity of financial reports.

## LITERATURE REVIEW

### Agency Theory

The agency theory stems from the inherent conflict of interest in the principal-agent relationship within a company. In this case, the principal is the owner and/or investor in the company, while the agent is represented by the company's management in managing the company to report to the principal. Conflict in this relationship arises due to the separation of ownership and control of the company, which creates information asymmetry within the company, so that management tends to be dominant in knowing the internal conditions of the company compared to the principal. This event opens up opportunities for agents to engage in opportunistic actions that prioritize personal interests over the interests of the principal, which can be seen in the company's earnings management practices. Based on these internal company events, the agency theory according to Meckling & Jensen (1976) was developed (Oussii & Klibi, 2023).

In the context of this study, agency theory is the fundamental basis that views the audit committee as a corporate governance mechanism designed primarily to monitor and minimize opportunistic managerial behavior. The formation of an audit committee plays a role in acting as a bridge that conducts supervision to ensure the reliability, suitability, easiness, and comparability of financial reports that are rigidly and comprehensively communicated to the owners and/or investors of the company, including tax planning operations and deferred tax expenses that accurately reflect the company's economic performance. Several studies confirm the relevance of agency theory in explaining the role of supervision in corporate earnings management (Bansal, 2024; Bouaziz et al., 2020; Effendi, 2022; Ratu et al., 2023; Mensah & Boachie, 2023; Shoaib & Siddiqui, 2022). Thus, existing research indicates that agency conflicts are the main drivers of earnings management, and audit committees are a centralized oversight solution for companies. Thus, the measurement of the effectiveness of the audit committee, which is considered to be the principal's defense in aligning interests and reducing agency costs in this study, emphasizes potential areas that could open up opportunities for opportunistic actions by agents through tax planning, deferred tax expenses, and corporate asset management, which are indicators of company size.

### Earnings Management

Manajemen Earnings management refers to managerial actions that deliberately influence financial reporting through adjustments in order to achieve certain objectives, exceeding the limits of the principles of accounting (Bansal, 2024). These actions can take the form of manipulating accrual figures or operational activities to achieve certain targets, such as fulfilling contracts with principals, meeting market expectations, reducing tax expenses, or controlling the perceptions of interested parties. It stems from conflicts of interest between management and owners, as well as external pressures such as regulations and the need to maintain the company's image, and the complexity of the organizational structure and size of the company, which also enable management to carry out these actions through various legal and borderline profit management mechanisms.

An in-depth study of profit management practices through the relationship between tax planning, deferred tax expenses, and company size, which is assessed based on the management of company assets, is very important because these factors reflect the financial dimensions and external influences that can trigger profit management practices by managers (Alahdal et al., 2025; Baskaran et al., 2020). Aggressive tax planning allows companies to manage taxable income by considering the timing and size of deferred taxes, thereby affecting reported income. Furthermore, company size correlates with operational complexity and exposure to public scrutiny, which increases the opportunities and motives for profit management. It is under these conditions that the audit committee is required to play a crucial role in implementing internal control mechanisms that are considered to increase transparency and reduce opportunistic behavior by management in manipulating company profits. Several previous studies have confirmed that managerial competence can significantly improve corporate earnings management practices, thereby

reinforcing the position of earnings management as a multidimensional phenomenon that requires attention in improving corporate governance (Bouaziz et al., 2020; Mensah & Boachie, 2023; Shoaib & Siddiqui, 2022).

### **Tax Planning and Earnings Management**

Tax planning is a strategic effort undertaken by companies to legally minimize their tax burden through the selection of specific business policies and transactions in order to optimize profits (Armstrong et al., 2019; Saragih & Ali, 2023). In the context of this study, the relationship between tax planning and earnings management is linked to the company's motive to adjust its financial statements by manipulating recorded income and corporate tax expenses to produce financial statements that meet the expectations of stakeholders without violating applicable regulations. The findings of Chen et al. (2025) and Nabila & Herdianty (2023) reveal a consensus that in profit management practices, management carries out its actions through comprehensive tax planning mechanisms to identify loopholes that could open up opportunities for inflating costs in certain accounts and avoid excessive tax payments from the company's operational activities. Thus, it is concluded that tax planning opens up opportunities for profit management practices.

**H<sub>1</sub>:** Tax planning has a relationship with earnings management.

### **Deferred Tax Expense and Earnings Management**

Deferred tax expenses arise due to temporary differences between accounting profits in commercial reports and fiscal profits based on tax calculations, resulting in the recognition of future tax liabilities. Deferred tax expenses are an important instrument in corporate tax planning management, which opens up opportunities for management to engage in profit management practices. Deferred tax expenses reveal internal and external mechanisms in corporate governance, including profit management practices, so that temporal dimensions and fiscal policies are reflected through these tax expenses, enabling management to manage profits in accordance with the company's strategic interests by deferring profit recognition or accelerating expense recognition in order to report stable profits or profits in line with company targets (Saragih, 2024; Saragih et al., 2024). Referring to the research of Nofrivul et al. (2022) and Tartono et al. (2021) which reveals a positive relationship between deferred tax expense as a management tool for profit manipulation. The potential arising from rigid timing differences in commercial and fiscal reports clarifies the fraudulent activities carried out by management through deferred tax expense accounts.

**H<sub>2</sub>:** Deferred tax expense has a relationship with earnings management.

### **Company Size and Earnings Management**

Company size reflects the complexity of asset management and the intensity of scrutiny from various parties, which can create incentives to manage profits to maintain the company's reputation and value. Large companies tend to receive more attention from stakeholders such as regulators, investors, and the media, who put pressure on companies. Therefore, in maintaining the stability and financial image of the company, it triggers the emergence of profit management practices that are intended to produce profits that appear more stable and meet external expectations (Oussii & Klibi, 2023; Velte, 2024). However, small companies also have a tendency to engage in earnings management, albeit at a different level from large companies, due to their lower flexibility and relatively lower supervision. The complexity of operations and business scale in large companies also provides more space and mechanisms for management to strategically record earnings. Research by Adyastuti & Khafid (2022) and Panjaitan & Muslih (2019) agree in stating the negative relationship between company size and earnings management. Existing research reveals that the larger the company size, the more attractive it is to investors to invest in the company. This indicates that the presentation of information that is good and in accordance with applicable reporting standards is the main basis for companies being increasingly monitored by many parties who may be interested in investing in them. Therefore, under these conditions, company management is limited in its ability to engage in profit manipulation practices.

**H<sub>3</sub>:** Company size has a relationship with earnings management.

### **Tax Planning, Earnings Manajemen, dan Audit Committee**

Tax planning is a strategic activity of companies in managing their tax obligations to minimize their fiscal burden legally, which can indirectly provide opportunities for management to engage in earnings management practices. On the other hand, earnings management is a manipulative act carried out in a company's financial statements to achieve certain objectives, including reducing tax burdens and presenting better company performance. In relation to these two things, the opportunities created by tax planning for management to manipulate reported profits can be minimized through effective internal oversight, via the audit committee's function of limiting manipulative practices through regular audits conducted with competence and independence to enhance transparency, oversee tax policy, and optimize control over financial statements, thereby reducing opportunities for profit management through tax planning.

Several previous studies have revealed a correlation that emphasizes the effectiveness of the audit committee in reducing profit management in companies in the tax planning mechanism (Wardana et al., 2024; Wirawan, 2020). Ideal and strict supervision is the basis for management's tax planning to suppress fraudulent practices in corporate profit manipulation. Thus, the essence of the audit committee is to reduce the opportunity for profit management practices in the company's tax planning process.

**H<sub>4</sub>:** Audit Committee moderate the relationship between tax planning and corporate earnings management.

### **Deferred Tax Expense, Earnings Management, and Audit Committee**

Deferred tax expense is the result of differences between commercial financial statements and fiscal financial statements, which form the basis for tax calculations. Deferred tax expense is considered a strategic tool in regulating the timing of revenue and expense recognition, thereby affecting reported company profits. This condition opens up opportunities for management to play with the figures in the report, which is interpreted as a practice of manipulating reports to illustrate the achievement of targets, including the avoidance of losses and the stability of company profits. However, the effectiveness of earnings management through deferred tax expense can be minimized if internal supervision through the audit committee is carried out properly, thereby preventing opportunistic management from engaging in manipulation.

Previous studies have found similar patterns related to the importance of internal supervision in controlling company financial reports in the reporting of deferred tax expenses by management (MacCarthy, 2021; Xue, 2022). Thus, the essence of the audit committee is to reduce the opportunity for earnings management practices in the reporting of company deferred tax expenses.

**H<sub>5</sub>:** Audit Committee moderate the relationship between Deferred tax expense and corporate earnings management.

### **Company Size, Earnings Management, and Audit Committee**

Management behavior in managing a company can be demonstrated by the total assets it owns, which can explain the size of the company. Large companies often have complex operations and are in the spotlight of stakeholders, thereby creating greater motivation to engage in earnings management in order to maintain the image and stability of their financial statements. However, the level of complexity and large scale creates a need for effective oversight mechanisms, responding to the role of the audit committee in controlling the company internally and limiting earnings management practices (Githaiga et al., 2022; Juhmani, 2017; Türegün, 2018).

The effectiveness of the audit committee's function is able to reduce the level of manipulation carried out by management by narrowing the opportunities for monitoring company assets. Thus, the essence of the audit committee is able to reduce the opportunities for profit management practices in the management of company assets, which are indicators for measuring the company.

**H<sub>6</sub>:** Audit Committee moderate the relationship between company size and corporate earnings management.

## METHOD

The numerical approach in this study directs the research towards quantitative measurements with data obtained through IDX for the primary and non-primary consumption sectors. The study focuses on consumer companies due to their different tax reporting characteristics compared to other sectors. Table 1 shows the observation data of companies that meet the research criteria through purposive sampling, resulting in 95 observation data on 19 companies in the 2019-2023 period.

Table 1. Research sample criteria

Criteria	Total Companies
Primary and non-primary consumer goods companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023	97
Primary and non-primary consumer goods companies that recorded profits in 2019-2023	(74)
Companies that reported their financial statements in Indonesian Rupiah (IDR) from 2019 to 2023	(4)
Total Sample Companies	19
Number of Observations (19 x 4)	95

The study applied the partial least squares structural equation modeling (SEM-PLS) method, with analysis performed using WarpPLS V.8.0 software. The SEM-PLS approach was chosen because it is capable of testing the complexity of relationships between latent variables while accommodating models containing moderating variables such as audit committees in the relationship between the variables in this study (Hair et al., 2019; Sarstedt et al., 2021). By utilizing the WarpPLS V.8.0 software, nonlinear relationship analysis and robust parameter estimation can be tested even with a relatively small sample size. The flexibility in testing SEM PLS, which does not require strict assumptions of data normality and focuses more on prediction than theory confirmation, as well as its ability to analyze small sample sizes, is what led this study to apply the SEM PLS method. Nevertheless, SEM PLS is considered more capable of producing more reliable and robust findings compared to other models, especially when the data used does not meet the assumptions and prevents bias if the normality assumption is not met. Previous studies have applied similar methods in their testing to reveal their research findings. The measurement of the research variables is shown in Table 2, which specifically displays the measurement of the research variables. Table 3 shows that the recommendations of Hair et al. (2019) regarding reliability and validity in the application of the PLS model have been fulfilled.

Table 2. Operational Variables

Variable	Measurement	Scale
Tax Planning (X1)	$TRR_{it} = \frac{NI_{it}}{EBIT_{it}}$	Rasio
Deferred Tax Expense (X2)	$DTE_{it} = \frac{BPT_{it}}{TAAT_{it}}$	Rasio
Company Size (X3)	$Size = \ln(Total\ Aset)$	Rasio
Earnings Management (Y)	$\Delta E = \frac{E_{it} - E_{it-1}}{MVE_{it-1}}$	Rasio
Audit Committee (Z)	The Existence of an Audit Committee Structure in Companies	Dummy

## RESULTS

In explaining the relationship between tax planning, deferred tax liabilities, and company size in

profit management practices, and assessing the role of audit committees in conducting supervision, testing of the data obtained is required. The validity and reliability of research data are benchmarks in determining the reliability of research. Based on data obtained from the official website of the Indonesia Stock Exchange and companies sampled in the research, testing of the validity and reliability of research data with SEM-PLS was conducted using Composite Reliability, Cronbach's Alpha, and AVEs in the WarpPLS V.8.0 application. Table 3 presents the results of testing these measurements, which show values that meet the standards proposed by Hair et al. (2019), so it can be stated that the research data is suitable for research.

Table 3. Validity and Reliability Testing Results

Variable	Composite Reliability	Cronbach's Alpha	Average Variances Extracted
TRR	1.000	1.000	1.000
DTE	1.000	1.000	1.000
FS	1.000	1.000	1.000
EM	1.000	1.000	1.000
AC	1.000	1.000	1.000
AC*TRR	1.000	1.000	1.000
AC*DTE	1.000	1.000	1.000
AC*FS	1.000	1.000	1.000

Source: WarpPLS 8.0 (2025)

### Inner Model Testing

Structural testing in the SEM-PLS model was conducted to predict causal relationships between latent variables. This process involved evaluating path coefficients to measure the magnitude and significance of the influence of each independent variable on the dependent variable. In addition, model suitability is also assessed to understand the clarity and direction of the relationship between latent constructs, thereby providing an overview of the overall structure of the research model. Model evaluation includes assessment of the coefficient of determination (R-Square), predictive relevance (Q-Square), and hypothesis testing, which together determine the explanatory and predictive power of the analyzed model. R-Square explains the amount of variance in the dependent variable that can be explained by the independent variables, while Q-Square measures the predictive relevance of the research model, and hypothesis testing serves to test the interaction and significance of the relationship between exogenous and endogenous variables in the research model.

Table 4. R-Square and Q-Square Testing

Earnings Management	Value
R-Squared	0,226
Q-Squared	0,119

Source: WarpPLS 8.0 (2025)

Table 4 shows that this research model is able to explain 22.6% of the variation in earnings management as seen from the R-Squared value of 0.226. This means that the variables of tax planning, deferred tax expense, and company size are collectively quite strong in explaining earnings management behavior in consumer goods companies on the Indonesia Stock Exchange during the 2019-2023 period. The Q-Squared value of 0.119 also indicates that this model has good

predictive power in the context of the data used.

Table 5. Inner Model Testing

Indicator	Result		Criteria	Description
Average-Path-Coefficient-(APC)	0.397	P <0,001	P <0,05	Fulfilled
Average-R-Squared-(ARS)	0.226	P 0.001	P <0,05	Fulfilled
Average-adjusted-R-Squared-(AARS)	0.173	P 0.007	P <0,05	Fulfilled

Source: WarpPLS 8.0 (2025).

Table 5, the test results show that the structural relationships in the model are statistically valid. In addition, other test results show reliable values for interpretation (Hair et al., 2019)

Table 6. F-Square Testing

Hypothesis	Effect Size
TRR (X1) => EM (Y)	0.074
DTE (X2) => EM (Y)	0.057
FS (X3) => EM (Y)	0.078
TRR (X1) * AC (Z) => EM (Y)	0.049
DTE (X2) * AC (Z) => EM (Y)	0.109
FS (X3) * AC (Z) => EM (Y)	0.026

Source: WarpPLS 8.0 (2025)

Measurements of the magnitude of influence (F-Square) (Table 6) on the research variables show a small effect size, which on the measurement scale proposed by Cohen (Carey et al., 2023; Cohen et al., 2024) where a value of 0.02 indicates a small scale, a value of 0.15 indicates a medium scale, and a value of 0.35 indicates a large effect, thus indicating that the contribution of tax planning, deferred tax liability, and company size to earnings management with the strengthening of the audit committee's role is still limited but has theoretical significance. Within the agency theory framework, these findings explain that tax planning, deferred tax expenses, and company size influence managerial policy, although they are not dominant factors. These conditions reveal that companies in the primary and non-primary consumption sectors tend to be subject to strict regulation and governance, so that opportunities for earnings management are more controlled. However, the audit committee's moderation of the relationship between deferred tax expense and profit management, which is relatively greater than the relationship between other variables, confirms the important role of the audit committee in implementing oversight mechanisms to narrow the opportunistic gap that arises from temporary differences between a company's commercial and fiscal reports. This finding reaffirms the existence of a relationship that explains the effectiveness of audit committees in strengthening governance and reducing the potential for management accrual manipulation, and also reflects the causes of high risk of earnings management practices through deferred tax expenses. However, this study found that audit committee oversight that assesses reports as a whole without considering the value of each account becomes a loophole that management exploits to manipulate profits through corporate tax reporting mechanisms.

### Research Hypothesis Testing

Table 7. Hypothesis Testing Results

Hypothesis	Path Coefficient	P-Value	Description
TRR (X1) => EM (Y)	-0.390	<0.001	Rejected
DTE (X2) => EM (Y)	-0.290	<0.001	Rejected
FS (X3) => EM (Y)	-0.562	<0.001	Accepted

TRR (X1) * AC (Z) => EM (Y)	-0.215	<0.001	Accepted
DTE (X2) * AC (Z) => EM (Y)	0.559	<0.001	Rejected
FS (X3) * AC (Z) => EM (Y)	-0.366	0.003	Accepted

Source: WarpPLS 8.0 (2025)

Table 7, testing of the research hypothesis shows that tax planning has a significant negative relationship with earnings management with a path coefficient of -0.390 and a P-Value <0.001. In addition, deferred tax expense and company size also have a significant negative relationship with earnings management, with path coefficients of -0.290 and -0.562, respectively, and P-values of <0.001. Thus, the research hypothesis in revealing the relationship between tax planning, deferred tax expense, and company size can be accepted.

Furthermore, the essence of the audit committee in the hypothesis testing results shows values with path coefficients of -0.215, 0.559, and -0.366, respectively, with P-values of <0.001, <0.001, and 0.003. Thus, the research hypothesis in revealing the essence of the audit committee in the relationship between tax planning, deferred tax expense, and company size can be accepted.

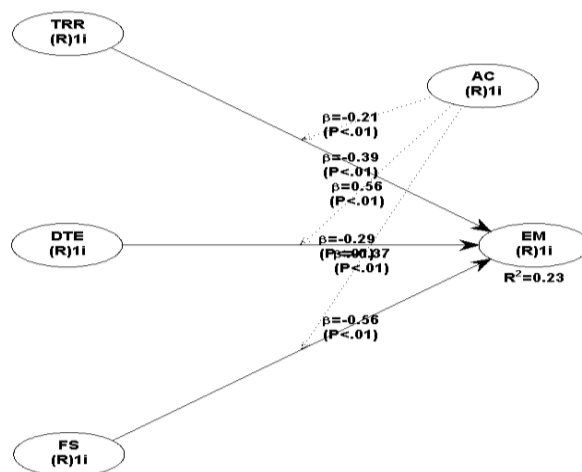


Figure 1. Testing Framework Results  
Sumber: WarpPLS 8.0.

## DISCUSSION

### Tax Planning Suppresses Earnings Management Practices

The results of the study indicate that tax planning has a significant negative relationship with profit management practices with a path coefficient of -0.390, p-value <0.001, which indicates a paradoxical phenomenon in the context of agency theory. Although several previous studies have revealed findings that tax planning is often associated with opportunistic management practices, these findings reveal that structured tax planning strategies can serve as an internal control mechanism that limits managerial discretion in engaging in profit manipulation. This perspective is in line with previous research findings showing that transparent and systematic tax planning reduces information asymmetry between principals and agents, thereby minimizing conflicts of interest.

In the context of agency theory, findings showing that tax planning has a significant negative relationship with earnings management suggest that effective tax planning creates an incentive structure that aligns the interests of management with those of shareholders through the optimization of legitimate tax burdens. When companies implement comprehensive tax planning strategies, management tends to focus on real operational efficiency rather than accrual manipulation, because good tax strategies require transparency and consistency in financial reporting.

The findings of Achyani & Lestari (2019) state that management's self-interest in managing profits is the basis for this deviant behavior, so that the existence or absence of tax planning does

not affect management in managing profits. However, the findings of Nabila & Herdianty (2023) and Nofrivul et al. (2022) contradict this perspective, stating that tax planning has a significant partial relationship with the occurrence of earnings management, and that increased tax planning tends to increase the potential for corporate earnings management.

### **Deferred Tax Expense Suppresses Earnings Management Practices**

Deferred tax expenses play an important role in controlling earnings management because they are conservative in nature and are linked to accounting principles that require companies to recognize their future tax liabilities carefully. When deferred tax expenses are high, companies are faced with tax liabilities that must be recorded transparently and accurately, thereby reducing the opportunity for management to manipulate the accounts for specific purposes. The results of the tests in this study show that deferred tax expenses have a significant negative relationship with earnings management with a path coefficient of -0.290, significance  $<0.001$ , indicating that the greater the deferred tax expenses, the less earnings management practices in the company. This shows that an increase in deferred tax liabilities can be a control or 'natural limit' that restricts management's flexibility in managing profits opportunistically. In other words, deferred tax liabilities can function as an effective control mechanism in reducing profit manipulation, while encouraging companies to be more transparent and accountable in their financial reporting.

The relationship between the test results in this study is highly relevant to the assumptions of agency theory. In its explanation, agency theory arises from a conflict of interest between management and company owners, whereby flexibility in financial reporting can become a basis for management to manipulate information, including deferred tax liabilities, to manipulate profits for specific purposes. However, this conflict of interest can be reduced by management's transparent reporting when deferred tax expenses increase in value, requiring conservative reporting of the company's tax liabilities, which limits managers' room for manipulation. In other words, deferred tax expenses act as a natural control mechanism that helps companies reduce opportunistic behavior by managers. The findings of Achyani & Lestari (2019) reinforce the research findings, revealing that corrections to fiscal reports in financial statements when management manipulates deferred tax expenses are the basis for management's self-restraint in doing so. However, Tartono et al. (2021) and Nofrivul et al. (2022) reveal that in practice, when companies manipulate profits in their commercial reports, this activity is recorded again in fiscal reports, so that the temporary differences reflected in deferred tax expenses are not significant in detecting profit management.

### **Company Size Suppresses Profit Management Practices**

Company size has a strong negative relationship with profit management practices, with a path coefficient of -0.562 and a p-value  $<0.001$ , reflecting that complexity in corporate governance systems can reduce profit manipulation by company management. The test results indicate that companies with good and structured asset management are able to overcome external and internal problems so that indications of profit management practices can be naturally avoided because companies tend to experience more intense external pressure from stakeholders, who demand greater transparency and accountability in financial reporting. This creates an environment where profit management practices become more difficult and high-risk, due to the potential for greater scrutiny and negative consequences for the company's reputation.

Based on research findings, agency theory emphasizes that company size has implications for the high agency costs that must be managed through effective governance mechanisms. As oversight costs increase with company size, management is faced with a more stringent control structure and a more standardized reporting system. Thus, large companies are more inclined to implement comprehensive internal control policies and transparent governance in order to reduce the risk of conflicts of interest between principals and agents. In addition, company size is also related to the capacity of organizations to form special supervisory boards that serve to conduct professional supervision, which plays a critical role in limiting management's room for maneuver in profit manipulation. The findings of Adyastuti & Khafid (2022), are in line with the findings that emphasize that easily obtainable company information forms the basis for public oversight to assess

company performance, thereby minimizing management's actions in committing fraud related to information and company profit management behavior, by increasing accountability and transparency in reporting. Alam et al. (2020) and Panjaitan & Muslih (2019) support these findings, making them more complex.

### **The Audit Committee strengthens tax planning in suppressing earnings management practices.**

The audit committee is a form of corporate oversight that aims to improve corporate governance for the common good. The audit committee's moderation test on the relationship between tax planning and profit management in this study shows a significant negative path coefficient of 0.215, <0.001, indicating that the effectiveness of the audit committee strengthens the relationship between tax planning and the prevention of profit manipulation. Effective supervision by the audit committee's supervisory board encourages management to be aware of the need to refrain from manipulative actions in order to avoid the negative consequences of such actions. In agency theory, the role of the audit committee is to form a key supervisory mechanism that provides control over potentially opportunistic management decisions, particularly in the context of implementing tax strategies that may have implications for profit reporting.

A professional audit committee with technical competence and a high level of independence can improve the accuracy and transparency of tax planning, thereby contributing to the restriction of profit manipulation practices. The audit committee plays a role in reviewing tax policies and ensuring that the tax strategies implemented are not used as a tool for profit distortion, but rather as a valid and ethical fiscal instrument. Thus, the role of the audit committee is a solution in mitigating information asymmetry and conflicts of interest that often arise in the tax decision-making process within companies, which are often a vulnerable point for corporate profit management practices. In addition, this dynamic reflects the increasingly complex corporate governance function in the implementation of the audit committee's duties, which acts as an extension of the board of commissioners in overseeing managerial activities, including proper tax management. The effectiveness of a company's audit committee can be influenced by organizational culture and company standards and policies, but it is consistent that strengthening oversight mechanisms through an active audit committee can improve the accountability and integrity of financial reports.

The findings of Wirawan (2020), and Wardana et al. (2024), confirm that managerial and institutional ownership in corporate governance strengthens the relationship between company size and the prevention of profit management practices, where the level of oversight participation demands coherent company financial reporting.

### **The Audit Committee weakens deferred tax expense in suppressing earnings management practices**

The role of the company's audit committee is essentially to conduct comprehensive supervision of every aspect of financial reporting in order to avoid company losses. However, the research findings state that the moderation of the audit committee in the relationship between deferred tax expenses and earnings management is positively significant with a path coefficient of 0.559, <0.001, indicating the possibility of earnings manipulation by management. Temporary differences between commercial and fiscal reporting can create opportunities for management to make discretionary accruals adjustments. A competent and independent audit committee focuses on overseeing financial statements as a whole. However, the complexity and technical measurability of deferred tax expenses due to temporary differences allow audit committees to lack detailed oversight, opening up opportunistic space for management to take advantage of it to smooth earnings management. In other words, lax oversight due to the non-specificity of audit committee controls can open loopholes that allow management to engage in subtle earnings management.

The audit committee's oversight of the relationship between deferred tax expense and earnings management, which had a predominantly positive effect on the test results, explains that the audit committee's intensive oversight and risk management of the quality of deferred tax expense reporting encourages management to use deferred tax expense as a more structured and controlled

earnings management tool. Thus, indirectly, the practice of earnings management through deferred tax expenses occurs legally under the supervision of the audit committee. Xue's (2022) findings support the augmentation of findings in maintaining the supervisory function, which can lead to abnormal activities in large deferred taxes on estimated earnings. The level of corporate governance, audit quality, and the professional capabilities of analysts have a moderating effect and correlate with abnormal changes in this relationship. This finding emphasizes the role of supervision, which is not only carried out by the audit committee within the company, but also requires external supervision by financial supervisory agencies such as the Financial Services Authority and the Directorate General of Taxes to strengthen monitoring of profit management practices emphasized by management through the company's deferred tax expenses. In addition, there needs to be internal coordination within the company to ensure that there is no suspicion in the deferred tax expense reporting process, thereby maintaining investor interest in investing in the company.

### **The Audit Committee strengthens company size in suppressing earnings management practices**

The audit committee moderates the relationship between company size and earnings management, with a path coefficient of -0.366 and a significance of 0.003. This negative moderation reinforces the controlling effect of company size through structured asset management to build corporate oversight that can curb management's tendency to manipulate financial statements. This finding is significant because the moderation results of the audit committee deepen the restrictive effect that large companies have on financial statement manipulation practices, so that agency costs can be optimally reduced to maximize corporate governance. In line with agency theory, companies with large asset and operational scales are better able to empower internal oversight structures, including the formation of independent audit committees that have access to all strategic information and autonomy in evaluating the quality of financial reporting. An effective audit committee strengthens the supervisory and monitoring effects on management, as a professional audit committee is tasked with ensuring that accounting policies and procedures are implemented consistently and in accordance with applicable regulations.

The results of this study show a significant negative impact, reducing the potential for profit management practices to become more pronounced due to the simultaneous interaction of company size and the role of the company's audit committee. These findings confirm that there is an improvement in operational mechanisms that are not only limited to internal control but also encourage the creation of a strong culture of transparency and accountability. Thus, this study adds to the body of empirical evidence that optimizing governance structures, through strengthening oversight functions such as audit committees within companies, is an important foundation for combating potential risks of misstatement in financial reporting and strengthening principal-agent relationships in various global interactions. In several previous studies, the function of the audit committee was a variable measuring earnings management in companies, with company size as a moderating variable that strengthened the relationship (Githaiga et al., 2022; Juhmani, 2017; Türegün, 2018). The framework of the audit committee in moderating the relationship between company size and earnings management practices is still limited, so this study found new findings that can be explored qualitatively for further research.

### **CONCLUSION**

The study reveals the role of the audit committee in the tendency of earnings management practices in tax planning mechanisms, deferred tax expenses, and company size. The relationship between tax planning and earnings management was found to be a strategy that inhibits earnings management, where the better the planning, the less opportunistic earnings management is carried out. Similarly, deferred tax expenses, which reflect company earnings despite temporary differences in reporting, support restrictions on management activities to engage in earnings management. In addition, company size, which indicates ease of public access, is a major force that works to inhibit management from engaging in manipulation. Furthermore, the audit committee's supervision of the company's operational activities in this study was found to reinforce the drive

for tax planning and company size in the tendency for earnings management, in contrast to deferred tax expenses, where the audit committee's supervisory activities became a strong basis for earnings management to be carried out subtly. The gap between temporary differences in commercial and fiscal reports indicates that manipulation is carried out subtly and unconsciously by the audit committee, which focuses on comprehensive oversight of comprehensive financial reporting. Thus, the tendency for earnings management is limited to activities that have negative consequences for company value, and there is a need for improved corporate governance. This finding supports the practice of conflicts of interest within companies, which underlies the emergence of agency costs within companies based on agency theory assumptions. However, it also confirms that effective prevention strategies in corporate tax management can minimize fraudulent activities committed by internal company management.

This study emphasizes governance improvements to assess comprehensive financial reporting with detailed issues that can prevent corporate earnings management practices. The research is limited to quantitative activities and companies in the consumer sector listed on the Indonesia Stock Exchange, and the sample size used is still small in the Primary and Non-Primary Consumption sectors on the Indonesia Stock Exchange for the 2019-2023 period, so that through purposive sampling, only 95 observation data samples were found. However, the research does not create biases that could lead to losses in corporate literature and practices. With these findings, further research is recommended to explore the limited findings qualitatively. In addition, cross-sector research to increase the number of research samples, as well as cross-country research for a more comprehensive comparison, can be conducted in subsequent studies. The use of mixed methods is one of the recommended research techniques that can be used.

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