

Financial distress, cash holding, and its effect on earnings management with internal control as a moderator

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Abstract

Purpose: This study aims to analyze the effect of financial distress and cash holding on earnings management, with internal control as a moderating variable. The research seeks to explain how financial conditions and liquidity influence managerial decisions in presenting financial statements.

Methodology/Approach: The study uses manufacturing companies listed on the Indonesia Stock Exchange (IDX) that consistently published annual reports from 2021–2023, totaling 130 firms. Data were obtained from audited financial statements through the official IDX database. Multiple linear regression is used to examine the direct effects of financial distress and cash holding on earnings management, while moderated regression analysis tests the moderating role of internal control.

Results/Findings: The results show that financial distress has a positive effect on earnings management, indicating a higher likelihood of manipulation when firms face financial pressure. Cash holding has a negative effect on earnings management, suggesting that higher liquidity reduces incentives to manipulate earnings. Internal control does not moderate the relationship between financial distress, cash holding, and earnings management.

Conclusion: Financial distress and cash holding significantly influence earnings management, but internal control does not act as a moderating factor.

Limitations: This study is limited to manufacturing firms during 2021–2023, so results may differ in other sectors or periods.

Contribution: This study contributes by examining accrual earnings management with internal control as a moderating variable, a combination that remains underexplored in prior research.

Keywords: *Cash Holding, Earnings Management, Financial Distress, Internal Control*

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1. Introduction

Every company has a specific purpose, and most companies are established with a common goal: to make a profit to survive in business (Gunawan & Putra, 2021). However, the ever-growing business world makes many companies face various types of risks to make a profit; therefore, company management tries to meet these goals by carrying out earnings management (Wilamsari, Wardayati, & Winarno, 2022). Company management uses earnings management to affect the information presented in financial statements to manipulate shareholders (Sugiarto, Trisnawati, & Verawati, 2024).

One of the companies suspected of carrying out earnings management by the Financial Services Authority (OJK) is PT Waskita Karya (Persero) Tbk. The alleged earnings management arose when Waskita posted a profit of 4.2–4.6 trillion Rupiah in 2017 to 2018, the highest result in history, but suffered a loss of 9.3 trillion Rupiah during the Covid-19 pandemic in 2020. The OJK questioned the huge profit because it had a small profit margin and negative cash flow (Binekasri, 2023) Indonesia, 2023a). However, Waskita was ultimately freed from bankruptcy charges because the PKPU lawsuit was rejected by the court (Triadji, Busnetty, & Sihombing, 2024). Waskita Karya's earnings management actions could actually be disputed from the beginning if the dominant factors that influenced them were known (Rahman, Rahayu, & Hendrayati, 2025).

According to Al-Shaer and Zaman (2021), company management usually uses earnings management to deceive stakeholders regarding the financial problems faced by the company. Companies affected by financial difficulties influence the decision-making of company management because they are under pressure from the challenges faced by the company (Wilamsari et al., 2022). Financial distress occurs when a company has difficulty or fails to fulfill its obligations because it does not have sufficient funds and thus cannot meet its goals (Khafid, Tusyanah, & Suryanto, 2019). Good company management can determine the appropriate financial strategy for the company when it experiences financial distress so that the company can operate and generate finances until it exits the financial distress phase (Setiany, 2021). Company management can analyze financial distress using the company's financial reports (Ramadhan & Firmansyah, 2022).

According to Ridanti and Suryaningrum (2021), financial reports are a collection of information related to a company's financial condition that can be used by external parties to assess the company. According to Wilamsari et al. (2022), financial reports are a communication tool for companies and accountability of company management that financial accounting standards must present to show a company's actual condition. Manipulation of financial reports can be avoided if a company has adequate internal control. Internal control began to be noticed when the United States formed the Sarbanes-Oxley Act (SOX) in 2002 because of the Enron financial case. Internal control is designed to help companies achieve their goals because it can oversee business processes, secure assets, and affect all aspects of the company's business (Ikwuo, Nworie, & Moedu, 2024).

Companies that experience financial distress tend to have less effective internal controls, which can become a loophole for fraud and bankruptcy (Wilamsari et al., 2022). Another critical factor in measuring a company's financial performance is cash holdings because the cash owned by the company can prevent the company from risky financial alternatives. However, having too much money is also not good because it reduces the amount of interest earned from investments that the company can make (Khuong & Liem, 2020). Cash holdings are one of the factors that can be easily controlled by company management because of their liquid and short-term nature, so that company management can minimize external funding for operations (Saniamisha & Jin, 2019). This study aims to analyze the effect of financial distress and cash holdings on earnings management, as well as the impact of financial distress and cash holdings on earnings management, which is moderated by internal control. Economic distress in this study uses the Altman (1968) model because it has a high prediction rate of 60% and is used by many countries (Ramadhan & Firmansyah, 2022).

Cash holdings in this study align with the research of Putri and Ary Binsar Naibaho (2022). Earnings management in this study uses the Modified Jones (1991) Model modified by Dechow, Hutton, Kim, and Sloan (2012) and used by Cohen, Dey, and Lys (2008) and Li et al. (2020). Internal control in this study is by regulation X.K.6 of 2012, using the Internal Control Disclosure Index (ICDI) from Arisandi, Islami, and Soeprajitno (2022), used by Edi (2023). This study is expected to contribute to the literature on finance, particularly earnings management and financial distress. This study is also likely to be useful for companies experiencing financial difficulties so that they can effectively and efficiently manage their finances. This study can also be helpful for government institutions, especially the Financial Services Authority (OJK), in preparing regulations related to internal control for companies (Galatio & Trisnawati, 2024).

This study is also expected to be helpful for the Indonesian Institute of Accountants (IAI) in improving accounting standards in Indonesia, especially in the financial reporting section. This study uses the Agency theory introduced by Jensen and Meckling (2019), which was then used as the basic theory for developing the concept of this study (Eladira, Lubis, & Sakti, 2024). According to Jensen and Meckling (2019), agency theory is the relationship between two parties, namely the principal and the agent, where the principal gives the agent authority to run the company and make decisions. Problems between principal and agent can arise if the interests of the agent and principal are not aligned. The principal wants to use their investment as effectively as possible to increase their maximum profit. In contrast, the agent wants to use the investment to maximize the company's benefits (Putri & Ary Binsar Naibaho, 2022).

Other problems can also arise between the principal and agent due to the inequality of information obtained, where the agent has full access and understands information related to the company's operations. The principal has limited access, so he does not have actual information about the company's condition (Agustia, Muhammad, & Permatasari, 2020). The principal who gives the agent the authority to manage the company can provide the agent with the freedom to manipulate the company's performance through the information in the financial statements so that the resulting profit can be what is needed so that earnings management is carried out by the agent (Kalbuana, Utami, & Pratama, 2020).

2. Literature Review

2.1 Agency Theory

Jensen and Meckling (2019) introduced the Agency Theory and was later used as the basic theory for developing the concept of this study. According to Jensen and Meckling (2019), Agency Theory is the relationship between two parties, namely the principal and the agent, where the principal gives the agent authority to run the company and make decisions. Problems between the principal and the agent can arise if the interests of the agent and the principal are not aligned. The principal wants to use his investment as effectively as possible to increase the maximum possible profit. In contrast, the agent wants to use the investment to maximize the company's benefits.

Other problems can also arise between the principal and the agent due to the inequality of information obtained, where the agent has full access to and understands information related to the company's operations. However, the principal has limited access to information, resulting in a lack of accurate insight into the company's actual condition (Agustia et al., 2020). Principals who give authority to agents to manage the company can give agents the freedom to manipulate the company's performance through information inside the financial statements, so that the resulting profit can be manipulated to what is needed, in which earnings management is carried out by agents (Kalbuana et al., 2020). Agency theory and earnings management are closely related, where agency theory explains the conflict of interest between management (agents) and company owners (shareholders/principals), which can encourage earnings management practices. Earnings management is a company's attempt to influence financial reporting to look better than it actually is, often for the benefit of management.

2.2 Signaling Theory

Signaling theory was developed by Spence (1978) based on the job market, where it was concluded that relevant information provided by the owner of the information can be used by the party receiving the information to determine their behavior according to the signal given from the information. This theory is then used as a reference for investors in decision-making and company management, as a party with information will try to provide good information related to their company to magnetize investors to invest in it (Putri & Ary Binsar Naibaho, 2022).

For this reason, company management will try to give a positive signal by carrying out earnings management in the company so that the information provided to investors regarding the company's cash flow and future profits can increase investors' desire to invest because they get a signal that can reduce the inequality of information between company management and investors (Aljughaiman, Nguyen, Trinh, & Du, 2023; Kusuma & Lukman, 2023).

2.3 The Effect of Financial Distress on Earnings Management

According to Al-Shaer and Zaman (2021), financial distress occurs when the value of assets that a company can liquidate is less than the value requested by creditors, which can lead to bankruptcy in the long term. Therefore, company management tries to manipulate its income to achieve the desired target and mislead stakeholders about the company's performance. Companies experiencing financial distress usually do not have many resources to manage real earnings because they have to involve many aspects and processes, from operations to research and development. Hence, they prefer to use accrual earnings management by changing only accounting policies or methods. Based on the above description, the following hypothesis can be formulated:

H1: Financial distress has a positive effect on accrual earnings management

2.4 The Effect of Cash Holding on Earnings Management

According to Putri and Ary Binsar Naibaho (2022), Cash holdings owned by a company will affect investor interest, and company management has the power to determine the amount of cash holdings owned by the company. However, excessive cash holdings can be risky because there is a concern that the money will only be used for management's personal needs. It would be better if the money were invested in promising projects instead. Based on the above description, the following hypothesis can be formulated:

H2: Cash Holding hurts earnings management

2.5 The Effect of Financial Distress Moderated by Internal Control on Earnings Management

According to Li et al. (2020), companies with improved internal controls reduce their earnings management levels. With effective internal control, management will be forced to report financial statements honestly and avoid manipulation. Internal control has one objective, namely, to ensure the reliability of financial reporting. The internal control system ensures that every process in the company runs in accordance with policies and procedures, including the preparation of financial reports. As a result, this control system minimizes the gaps in deviation that may occur in the process of preparing financial reports (Jessica, 2021). Based on the above description, the following hypothesis can be formulated:

H3: Internal Control weakens the effect of financial distress on earnings management

2.6 The Effect of Cash Holding Moderated by Internal Control on Earnings Management

According to Putri and Ary Binsar Naibaho (2022), companies with reasonable internal controls tend to have low cash holdings because they will assess the right amount of cash and determine policies related to cash. According to Chen, Yang, Zhang, and Zhou (2020) companies with good internal control tend to have low cash levels because management assesses the benefits and costs of holding more cash. Conversely, companies with poor internal controls tend to have high cash levels. The results of Putri and Ary Binsar Naibaho (2022) show that internal control moderates the effect of cash hoarding on earnings management. Based on the above description, the following hypothesis can be formulated:

H4: Internal Control strengthens the effect of cash holding on accrual earnings management

3. Research Methodology

This study used a quantitative method. The objects used in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX). This research uses secondary data in the form of financial reports taken from the site www.idx.co.id, with a research period of 3 years from 2021 to 2023. The sample selection in this study used a non-probability sampling method with a purposive sampling technique, where several criteria must be met as follows:

Table 1. Research Sample

Criteria	Samples
Manufacturing companies listed on the IDX in 2019-2023	181
Companies have complete data related to variables from 2019 to 2023	137
Companies publish consistent annual reports from 2021 to 2023	130
Total companies in the sample	130
Observation year	3

Source: Data processing results

The dependent variable in this study is earnings management, with independent variables of financial distress and cash holdings and moderating variables of internal control. The control variables used in this study are return on assets (ROA), and company size. Earnings management is a management action that influences financial reports so that their information can deceive shareholders about the company's financial performance or produce figures that indicate a healthy company in the financial report (Agustia et al., 2020). The model used in this study to measure earnings management was developed by Kothari, Leone, and Wasley (2005). This model is aligned with Ramadhan and Firmansyah (2022). The research model is shown in Equation 1.

$$\frac{TACC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{TA_{it-1}} \right) + \beta_3 (ROA_{it-1}) + \varepsilon \dots\dots\dots 1$$

Where:

$TACC_{it}$	= Total accruals of company i in year t ($NI_{it} - CFO_{it}$)
NI_{it}	= Net profit of company i in year t
CFO_{it}	= Cash Flow from operating activities of company i in year t
TA_{it-1}	= Total assets of company i at the end of year t-1
REV_{it}	= Changes in company i's profits in year t
ROA_{it-1}	= Return on Asset of company i at the end of year t-1
ε	= Discretionary accrual value

When a company does not have the same assets and liabilities or cannot pay its obligations, it will be threatened with bankruptcy (Aljughaiman et al., 2023). This study uses the Altman (1968) model to measure financial distress. This model aligns with Ramadhan and Firmansyah (2022) and Aljughaiman et al. (2023). The research model is shown in Equation 2.

$$Z = 1.2 \frac{(\text{Working Capital})}{\text{Total Asset}} + 1.4 \frac{(\text{Retained Earnings})}{\text{Total Asset}} + 3.3 \frac{(\text{Income Before Tax} + \text{Interest Expense})}{\text{Total Asset}} + 0.999 \frac{(\text{Sales})}{\text{Total Asset}} \dots\dots\dots 2$$

From calculation model 2, the greater the Z, the lower the level of financial distress experienced by the company. In this study, the Z value was changed by multiplying Z by -1 to show an increase in the financial distress value (Ramadhan & Firmansyah, 2022). Cash is the most liquid asset and is classified as a current asset that can be used as a basis for accounting measurement. Cash equivalents are short-term investments that are easily liquidated and low risk because they are close to maturity. Cash holdings are the amount available for a company to invest or distribute to investors. Cash holdings are in line with the research of Putri and Ary Binsar Naibaho (2022), as shown in Formula 3.

$$\text{Cash Holding} = \frac{(\text{Cash} + \text{Cash Equivalent})}{\text{Total Asset}} \dots\dots\dots 3$$

According to the COSO framework, internal control is a process a company uses to achieve its goals and the basis for evaluating the effectiveness of its activities, finances, and business processes (Arisandi et al., 2022). According to accounting theory, internal control is a process influenced by organizational structure, working methods, authorization, management, and information systems designed to help the organization achieve its goals. However, company resources must also be monitored to detect and prevent fraud (Putri & Ary Binsar Naibaho, 2022). Internal control is a tool that can help companies achieve their goals, primarily through the reliability of financial reports (Sitanggang, Aryati, Pamungkas, & Agoes, 2022). The measurement of internal control uses the Internal Control Disclosure Index (ICDI) model, which is based on Indonesian financial reporting regulations, namely regulation number X.K.6 of 2012 by Bapepam concerning the submission of annual reports of issuers or public companies (Edi, 2023). The research model is shown in Table 2 and Formula 4.

Table 2. *Internal Control Disclosure Index (ICDI)*

Audit Committee	Internal Audit Unit
1. Name of the committee	1. Internal audit name
2. Job history, work experience, and legal basis for appointment	2. Job history, work experience, and legal basis for appointment
3. Education history	3. Qualification or certification as an internal audit professional
4. Term of office of audit committee members	4. Structure and position of the internal audit unit
5. Disclosure of audit committee independence	5. Duties and responsibilities of the internal audit unit as stated in the internal audit unit charter
6. Disclosure of company policies and their implementation regarding the frequency of audit committee meetings and the level of attendance of audit committee members at these meetings	6. Brief description of the implementation of the internal audit unit's duties in the fiscal year
7. Brief description of the implementation of audit committee activities in the fiscal year, as stated in the audit committee charter	
Internal Control System	Risk Management System
1. Financial and operational control, and compliance with other laws and regulations	1. Overview of the Company's risk management system
2. Review of the effectiveness of the internal control system	2. Types of risks and how they are managed
	3. Review of the effectiveness of the Company's risk management system

Source: Edi (2023)

If the specified information criteria are in the company's annual report, then it will be given a score of 1 (one) on the criteria. If the specified information criteria are not in the company's annual report, then it is given a score of 0 (zero). All criteria are then added to determine the company's score (Edi, 2023).

$$IC = \frac{\sum X_{ij}}{N_j} \dots\dots\dots 4$$

Where:

X_{ij} = number of items disclosed by the company

N_j = maximum number of items disclosed by a company

Return on Assets (ROA) can be used to assess the health of a company (Arisandi et al., 2022). ROA as a control variable in this study is in line with the studies of Ramadhan and Firmansyah (2022) and Arisandi et al. (2022). The research model is shown in Equation 5.

$$Return\ on\ Asset\ Ratio = \frac{Net\ Income}{Total\ Asset} \dots\dots\dots 5$$

Company size is the size of a company measured by the number of assets it owns (Wilson, 2019). Company size is used as a control variable in this study, in line with the research of Arisandi et al. (2022). The research model is shown in Equation 6.

$$Size = Ln(Total\ Aset) \dots\dots\dots 6$$

This study used multiple linear regression and moderated regression for data testing. Research model 7 test hypotheses 1 and 2, while research model 8 test hypotheses 3 and 4.

$$AEM_{it} = \beta_0 + \beta_1 FINDIS_{it} + \beta_2 CASH_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \dots\dots\dots 7$$

$$AEM_{it} = \beta_0 + \beta_1 FINDIS_{it} + \beta_2 CASH_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \beta_5 IC_{it} + \beta_6 IC_{it} * FINDIS_{it} + \beta_7 IC_{it} * CASH_{it} + \varepsilon_{it} \dots\dots\dots 8$$

Where:

AEM_{it}	= <i>Accrual earnings management</i> company in year t
$FINDIS_{it}$	= <i>Financial distress</i> company i year t
$CASH_{it}$	= <i>Cash holding</i> company in year t
ROA_{it}	= <i>Return on asset</i> company i year t
$SIZE_{it}$	= <i>Firm size</i> company i year t
ε_{it}	= Residual values of the regression equation

4. Results and Discussion

4.1 Result

Data analysis was performed using EViews on 390 data points from 130 companies for three years. The following is a descriptive statistical test, as shown in Table 3.

Table 3. Descriptive Statistics

Variabel	N	Min.	Max.	Med.	Mean
AEM	90	-0,29288	0,56484	0,05346	0,01998
FINDIS	390	-13,21247	12,94585	1,45563	1,61002
CASH	390	0,00035	0,93043	0,10462	0,05917
IC	390	0,33333	1,00000	0,88248	0,94444
ROA	390	-0,94890	0,36362	0,03854	0,03888
SIZE	390	24,65497	33,73062	28,44652	28,26252

Based on Table 3, AEM shows an average value of 0.01998, a median value of 0.05346, a minimum value of -0.29288 by ALKA in 2023 and a maximum value of 0.56484 by ALKA in 2021. FINDIS shows an average value of 1.61002, a median value of 1.45563, a minimum value of -13.21247 by HDTX in 2023, and a maximum value of 12.94585 by UCID in 2021. CASH shows an average value of 0.05917, a median value of 0.10462, a minimum value of 0.00035 by PURE in 2021, and a maximum value of 0.93043 by ALKA in 2023. IC shows an average value of 0.94444, a median value of 0.00035 by PURE in 2021, and a maximum value of 0.93043 by ALKA in 2023. median of 0.88242, a minimum value of 0.33333, and a maximum value of 1.00000. ROA shows an average value of 0.03888, a median value of 0.03854, a minimum value of -0.94890, and a maximum value of 0.36362. SIZE shows an average value of 28.26252, a median value of 28.44652, a minimum value of 24.65497, and a maximum value of 33.73062.

Based on the analysis of the correlation coefficient in Table 4.3, the correlation coefficient (R) value in Model 1 is 0.61381. The R value between 0.60 and 0.799 indicates that there is a strong relationship between the dependent variable earnings management and the independent variables financial distress and cash holdings. In Model 2, the correlation coefficient (R) is 0.60630. The R value between 0.60 and 0.799 indicates that there is a strong relationship between the dependent variable earnings management and the independent variables financial distress and cash holdings, as well as the internal control moderation variable.

Based on the analysis of the determination coefficient, the determination coefficient value (Adjusted R²) of model 1 is 0.41317. This means that the variation in the dependent variable earnings management that can be explained by the variation in the independent variables financial distress and cash holding is 41.32%, while the remaining 58.68% is explained by the variation in other variables not included in the regression model of this study. In Model 2, the coefficient of determination (Adjusted R²) is 0.39467. This means that the variation in the dependent variable earnings management that can be explained by the variation in the independent variables financial distress and cash holding and the moderation variable internal control is 39.37%, while the remaining 60.63% is explained by the variation in other variables not included in the regression model of this study. Table 4.3 shows the results of the F-test conducted to determine whether the regression model is fit for use in the regression model of this study.

Based on the F test, the significance value is 0.000 for both models. This means that the significance value is smaller than alpha 0.05, which states that the model is fit, and it can be concluded that both models are suitable for use in the study.

Table 4. Hypothesis Test

Variabel	Model 1				Model 2			
	Coef	t-stat	Prob		Coef	t-stat	Prob	
C	3,33819	6,62065	0,0000	***	3,59384	6,78125	0,0000	***
FINDIS	0,02233	11,17294	0,0000	***	0,02532	5,59734	0,0000	***
CASH	-0,12179	-2,20767	0,0141	**	0,24243	0,55939	0,2882	
IC					-0,09678	-2,11453	0,0177	**
ROA	0,08562	3,29927	0,0006	***	0,10675	3,24510	0,0007	***
SIZE	-0,11628	-6,53613	0,0000	***	-0,12236	-6,43682	0,0000	***
FINDIS*IC					-0,00364	-0,63415	0,2633	
CASH*IC					-0,38092	-0,83563	0,2021	
R	0,61381				R	0,60630		
Adj. R2	0,41317				Adj. R2	0,39467		
F-stat.	3,05925				F-stat.	2,86485		
Prob (F-stat)	0,00000				Prob (F-stat)	0,00000		

Note:

***) influence parameter significance 1% or 0.01

**) influence parameter significance 5% or 0.05

*) influence parameter significance 10% or 0.1

The table above shows that in Equation 1, without internal control moderation, financial distress, cash holding, ROA, and company size have a significant effect on earnings management. In Equation 2, with internal control moderation, partially financial distress, ROA, and company size have a significant effect on earnings management. However, cash holdings do not significantly affect earnings management. The role of internal control as a moderator in Equation 2 was insignificant.

4.2 Discussion

4.2.1 The Effect of Financial Distress on Earnings Management

Based on the tests conducted, financial distress positively affects earnings management; therefore, H1 is accepted. The management of companies experiencing financial distress will try to manipulate the company's income to achieve the desired targets and show stakeholders related to the company's performance so that it can be considered good. Thus, the company's management will choose to use accrual earnings management only by changing the accounting policies or methods used. This is in line with research by Aljughaiman et al. (2023), Edi (2023), and Wilamsari et al. (2022), where financial distress has a positive effect on accrual earnings management. Companies experiencing financial difficulties tend to be more motivated to manipulate their financial statements to look good in the eyes of investors and creditors.

4.2.2 The Effect of Cash Holding on Earnings Management

Based on the tests conducted, cash holdings hurt earnings management; therefore, H2 is accepted. The cash holdings of a company affect investor interest in the company, and the company's management, which has the power, determines the amount of cash holdings owned by the company. However, excessive cash holdings can be risky because there is a concern that the money will only be used for management's personal needs. It would be better if the money were invested in promising projects instead. Several studies (Gayatri & Wirasedana, 2021; Jiang & Wu, 2022; (Saniamisha & Jin, 2019) indicate that cash holdings encourage companies to engage in income smoothing. Income smoothing is a form of earnings management in which companies attempt to smooth earnings fluctuations over time. Companies with high cash holdings may be more likely to engage in income smoothing because they have more resources to manage and achieve their desired earnings targets.

4.2.3 The Role of Internal Control in Moderating the Effect of Financial Distress on Earnings Management

The tests that have been carried out show that the interaction of internal control as a moderating variable on the effect of financial distress on earnings management has a significance value of 0.2633. This significance value is greater than alpha 0.05, so it can be concluded that there is no effect of internal control as a moderating variable on the interaction of financial distress on earnings management; therefore, H3 cannot be accepted. The management of companies experiencing financial distress will try as much as possible to show stakeholders that the company still has good performance so that they will carry out earnings management without paying attention to the internal control implemented by the company because the company's management will prioritize the company's performance rather than internal control. This finding is inconsistent with Chalmers et al. (2019), Li et al. (2020), and Williamsari et al. (2022), which show that Internal Control has a moderating effect on the relationship between financial distress and earnings management.

4.2.4 The Role of Internal Control in Moderating the Effect of Cash Holding on Earnings Management

The tests that have been carried out show that the interaction of internal control as a moderating variable on the effect of cash holding on earnings management has a significance value of 0.2021. This significance value is greater than 0.05; therefore, it can be concluded that there is no effect of internal control as a moderating variable on the interaction of cash holdings on earnings management. Therefore, H4 cannot be accepted either. This finding is inconsistent with that of Putri and Ary Binsar Naibaho (2022), who showed that companies with reasonable internal control tend to have low cash holdings because they assess the right amount of cash and determine policies related to cash. Company management determines the amount of cash held according to the company's needs. This determination is made according to the right amount so that the company's performance can be seen in the report. Sometimes, internal control does not affect the amount of cash held by the company because the cash figures according to internal control sometimes do not look good in financial statements. Zimon et al. (2021) and Zheng and Han (2025) show that quality internal control increases its restraining effect on accrual earnings management.

5. Conclusion

5.1 Conclusion

Based on this research, it can be concluded that financial distress positively affects earnings management, and cash holdings hurt earnings management. Companies experiencing financial distress will try to beautify their financial reports and regulate cash holdings that are not too large to attract investors to help the company's financial condition. Internal control does not affect the interaction between financial distress, earnings management, and cash holdings on earnings management. This is because, although good internal control is important for the integrity of financial reporting and efficient company operations, research shows that the existence of internal control alone may not be enough to prevent or reduce earnings management. Companies must ensure that their internal controls are designed and implemented effectively to achieve their objectives and consider other factors that may affect earnings management practices.

5.2 Limitation

This study only uses manufacturing sector company data published during 2021-2023, so companies in different sectors may have different results.

5.3 Suggestion

The suggestion for further researchers is to use other moderating variables beside internal control (for example GCG) that can influence the interaction between the financial distress, cash holding and earning management, so that it is hoped that it can explain the interaction between financial distress, cash holding and earning management, more specifically.

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