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# Earnings management in discontinued operations

*Operation and business line discontinuation can be used as a tool to implement earnings management practices, whether beneficial or detrimental. This study aims to analyze the impact of discontinued operations on earnings management practices in Indonesia. This study was conducted on companies listed on the Indonesia Stock Exchange (IDX) that reported discontinued operations from 2016 to 2024. The Modified Jones Model was used to measure earnings management. Using Generalized Least Squares, this study found that discontinued operations had a positive effect on earnings management practices. This indicates that reporting discontinued operations can be a tool for manipulating financial statements and enhancing profit outcomes, thereby affecting the integrity of financial information presented to stakeholders. Therefore, stakeholders need to evaluate the financial health of companies and assess investment risks and strategies based on the accuracy of financial reports and earnings management practices.*

***Keywords:*** *discontinued operations; earnings management; modified Jones model.*

**Introduction.** Financial statements are the identity of a company that contains the company's financial condition (Guragai & Hutchison, 2020) which serves as information for internal and external parties (Handayani, 2018). The existence of a company's finances is very important to ensure the continuity of operations and growth of the company (Taniadji et al., 2014). A company's financial condition is useful for carrying out operational activities, expanding business, and developing new products or services. Without a stable financial condition, a company cannot survive in increasingly fierce competition (Hu et al., 2015). A company's cash flow is also an important factor in attracting investors and increasing consumer confidence (Inoue, 2021). Therefore, the existence of financial statements must be managed well so that companies can grow and survive in the long term. Accurate and transparent financial statements provide an overview of a company's financial performance (Moardi et al., 2020). However, in practice, earnings management often occurs where companies manipulate financial statement figures to achieve profit targets or meet market expectations (Fiqriansyah et al., 2024). One area that is often manipulated is discontinued operations, where companies attempt to present the financial results of sold or closed business units in a more favorable light or reduce existing losses (Inoue, 2021).

One of the main challenges in maintaining a company's cash flow is keeping expenses within reasonable limits (Guragai & Hutchison, 2020). This can be achieved by optimizing cost management and pursuing new profitable business opportunities (Flavell et al., 2019). Additionally, companies must maintain stable liquidity by effectively managing cash flow and maintaining a healthy debt ratio (Alareeni, 2017). If the company's viability cannot be sustained, several options may be considered, including ceasing operations or closing parts of the business (Krishnan & Wang, 2015).

Discontinued operations (DO) is a term used in financial statements to describe a business or activity that has been discontinued or sold (Inoue, 2021). DO reporting relates to the termination/sale of a subsidiary or specific business unit to generate profits or establish a new subsidiary (Indonesian Institute of Accountants, 2023). Improving operational efficiency through DO involves optimizing resource utilization, reducing operational costs, and simplifying business processes, thereby enhancing the company's productivity and profitability (Costas et al., 2020). The existence of DO has a negative impact on companies, namely a decrease in operational efficiency that may force companies to report the cessation of operations to avoid further losses or financial problems (Guragai & Hutchison, 2020). Therefore, financial statements that include DO are very important for companies in managing their financial condition and improving operational performance (Scott, 2015).

DO reporting can be misused by companies (Leonard & Sun, 2022). Forms of misuse can include profit manipulation in income statements and the application of earnings management practices (Nagar & Sen, 2017). Earnings management is the act of companies managing or modifying financial statements to improve performance and stock prices (Nagar & Sen, 2017). Profit management practices are carried out in various ways, such as reducing tax burdens, changing accounting methods, or delaying revenue recognition (Silva et al., 2018). Good profit management is conducted with ethical objectives, such as optimizing operating profits, avoiding contract violations, or avoiding political costs, within ethical and legal boundaries and in accordance with applicable accounting standards (Costas et al., 2020). Conversely, poor earnings management involves manipulating information in financial statements for personal gain or misleading financial statement users, which reduces the credibility and validity of information and creates misperceptions (Costas et al., 2020). Earnings management can also take the form of opportunistic actions by management to obtain bonuses or avoid regulatory obligations, which can damage the company's value and reduce investor confidence (Costas et al., 2020).

Earnings management can create an unrealistic picture of a company's performance and harm investors (Kang et al., 2018). Manipulated DO reporting can lead to earnings management practices (Lord & Saito, 2020). A case of earnings management occurred at PT Timah Tbk, which manipulated its financial statements. In 2015, PT Timah Tbk reported negative business performance with a loss of fifty-nine billion rupiah (Egenius, 2016). This case was the result of the company's management actions to overstate the financial statements (inflating profits / exaggerating). As a result of this case, PT Timah was imposed with significant penalties and the closure of three major mines owned by PT Timah.

One of the challenges faced by the company is transparency and accountability in financial reporting to both internal and external parties (Patricia M. Dechow, 2013). The company must also generate profits and meet financial targets to survive (Nagar & Sen, 2017). These challenges require companies to find a balance between profit and long-term business sustainability (John Wiley & Sons, 2015). As in the case of PT. Timah, companies have the opportunity to manipulate profits through various means, such as reporting inaccurate revenues or reducing expenses. This can be done by changing the accounting methods used, arranging certain transactions, or hiding important information (Wulanda & Aziza, 2019).

One method of earnings management is accrual-based earnings management. Accrual-based earnings management is an accounting practice to manipulate a company's financial statements to improve performance or influence investor perceptions (Alhadab & Nguyen, 2018). Accrual-based earnings management focuses on managing accrual components in financial statements, such as sales expenses, revenue, operating costs, and asset value estimates (Salehi et al., 2018). Accrual-based earnings management involves delaying the recognition of expenses or accelerating the recognition of revenue to create artificial profits in the short term (Hsieh et al., 2021). Accrual-based earnings management produces inaccurate and misleading financial statements due to the application of incorrect accounting strategies (Li et al., 2022). This can cause investors and creditors to doubt and distrust the company's financial statements.

Based on these issues, this study will examine the effect of DO reporting on accrual-based earnings management. This study contributes to the literature by providing empirical evidence that DO also affects earnings management practices, which have previously been under discussed in Indonesia. Through this study, the dynamics of changes in earnings management strategies and the impact and implications of financial reporting on DO can be better understood. Investors and creditors also need to be more cautious in assessing companies with a history of DO and unethical earnings management practices to avoid the risks of harmful earnings management.

**Theoretical Framework and Hypothesis Development.** Discontinued operations, according to IFRS 5, are components of a company that have been permanently closed or sold during a period (IAI, 2021). Discontinued operations are reported when a company's operations are ceased or a subsidiary is sold (IAI, 2021). Discontinued operations are reported when a company experiences either gains or losses (Silva et al., 2018). When a company divests a business unit / operation, it reports the income or loss from that unit in the income statement (Silva et al., 2018). DO reporting must include relevant information such as the costs of discontinuing operations and the gains or losses from the sale or discontinuation of operations (Leonard & Sun, 2022). Thus, in the income statement, revenues, expenses, gains, and losses related to discontinued operations are reported separately from continuing operations.

Discontinued operations are reported in the income statement before extraordinary items. Entities or companies report the total profit / loss from discontinued operations in the income statement (Darrough et al., 2019). Whenever DO is reported, companies must adhere to the same guidelines, such as classifying discontinued assets as non-current assets held for sale, discontinuing depreciation, and presenting related information separately in the income statement and financial position (Lauw & Aryati, 2022). Reporting DO according to IFRS 5 will ensure the transparency and accuracy of financial statements. With proper classification, measurement of assets, cessation of depreciation, and separate reporting, companies can provide a clear and reliable picture of their financial condition to stakeholders to make better decisions.

Companies cease operations because management believes that the business segment does not offer good prospects for the future (Lord & Saito, 2020). Cessation of operations can minimize losses that would occur if the company continued the business segment. However, reporting discontinued operations can also be used by company management to insert profit management practices (Wang & Hagigi, 2019). Several studies have found that there is a relationship between discontinued operations and the emergence of earnings management practices (Guragai & Hutchison, 2020; Inoue, 2021; Silva et al., 2018). Earnings management can occur when a company ceases unprofitable business operations and recognizes losses in its financial statements (Inoue, 2021). Companies can take advantage of this opportunity to manage profits by recognizing larger losses than necessary, thereby reducing reported net income (Guragai & Hutchison, 2020). Companies can utilize DO to manage profits by recognizing income generated from discontinued operations as higher than necessary (Silva et al., 2018).

Earnings management occurs when company management attempts to provide misleading information to attract investors / creditors in order to generate good economic performance (Nagar & Sen, 2017). Profit management practices are carried out with the aim of embellishing the picture presented by financial statements compared to the actual situation (Inoue, 2021) so that the information disclosed does not reflect the actual conditions (Al-mohareb & Alkhalaileh, 2019). There are various reasons that drive profit management, including bonus incentives, political pressure, tax benefits, changes in ownership, and the launch of an Initial Public Offering (IPO) (Mahrani, 2018).

Earnings management can be carried out by increasing sales (offering discounts to customers), increasing production to lower the cost of goods sold, and reducing discretionary costs (advertising expenses, sales expenses, general administrative expenses, and research and development expenses) (Hsieh et al., 2021). Earnings management can be done through accrual-based earnings management, which is a practice carried out by companies to manage or manipulate their financial statements to make them look better in terms of financial performance or profitability (Darrough et al., 2019). Profit management practices are carried out with the aim of influencing investors' and analysts' opinions on company performance, as well as to meet market expectations regarding the company's financial performance (Salehi et al., 2020).

This study uses agency theory to explain the relationship between accrual-based earnings management and discontinued operations. Agency theory explains that there is a difference in interests between agents and principals, where the desires or goals of the two parties conflict, leading to a conflict (Jensen & Meckling, 1976). Agency theory arises when business operations are not directly managed by the entity's owners but are entrusted to agents, such as subordinates, management, and others (Fayezi et al., 2012). Company leaders establish rules for company management to make decisions that align with the interests of both the company leaders and stakeholders (Jensen & Meckling, 1976).

Clear reporting on DO can encourage companies to use accrual-based profit management methods more intensively (Kassamany et al., 2017). With detailed reporting on discontinued assets, related costs, and gains or losses from sales, companies tend to manage revenue and expenses strategically to reflect more stable or profitable financial performance. This can be done to achieve specific reporting objectives, such as increasing market value or meeting analyst and stakeholder expectations (Hsieh et al., 2021). Companies that report DO have greater flexibility in managing financial statements to adjust reported profits (Kassamany et al., 2017). Thus, companies can more easily engage in profit management practices to achieve desired financial targets.

Earnings management through DO is carried out by managers to influence reported earnings (Arhinful & Radmehr, 2023). Earnings management practices can be used as a corporate strategy to optimize reported earnings. Therefore, DO can be used as a tool for earnings management to achieve corporate financial objectives (Nagar & Sen, 2017). Companies can utilize revenue recognition from DO to manage profits (Silva et al., 2018). DO reporting can be used to manipulate financial statements to improve investors' and stakeholders' perceptions of the company's condition (Debbianita, 2019). Additionally, the decline in operational efficiency due to DO encourages companies to engage in profit management practices to maintain the stability of financial statements (Guragai & Hutchison, 2020). In this context, transparent and accurate reporting of DO can provide opportunities for companies to time the recognition of revenue and expenses, which has the potential to positively influence accrual-based earnings management practices, leading to the following hypothesis:

H1: Reporting discontinued operations has a positive effect on accrual-based earnings management.

**Research Method.** This study is an explanatory quantitative study aimed at determining the effect of reporting discontinued operations (DO) on earnings management. This study uses data from the financial statements of companies listed on the Indonesia Stock Exchange (IDX), and the identification of DO reporting is taken from the OSIRIS database for the years 2016–2024. DO is regulated in IFRS 5, which defines non-current assets held for sale and discontinued operations (IAI, 2023). Regulations on DO in Indonesia were enacted on May 6, 2003 (IAI, 2023). The research was conducted from 2016 to 2024 (n = 166). The dependent variable of this study is earnings management, measured using the Modified Jones model (Jones, 1991). The Modified Jones method states that credit sales occur due to earnings management, meaning it is easier to control revenue by managing how revenue is recognized rather than through direct sales (Suyono, 2017). This model can be adapted and used across various industries, both small and large (Martinez & Carvalho, 2022). Although each company has different characteristics, the Modified Jones model shows high stability (Lu & Wang, 2018). The Modified Jones model calculation is performed in stages and is based on discretionary accrual values. The first stage involves calculating total accruals using the following equation:

$$TAC_{it} = NI_{it} - CFO_{it}. \quad (1)$$

$TAC_{it}$ is the total accruals of company i in period t. $NI_{it}$ is the total net income of company i in period t. $CFO_{it}$ is the cash flow of company i in period t. After determining the total accruals, the values of coefficients a1 to a3 are calculated using the following equation:

$$TAC_{it}/A_{it-1} = a1\ (1/A_{it-1}) + a2\ (\Delta REV_{it}/A_{it-1}) + a3\ (PPE_{it}/A_{it-1}) + \in. \tag{2}$$

$A_{it-1}$ is the total assets of company i in year t.$\Delta REV_{it}$ is the change in revenue of company i in year t.$PPE_{it}$ is the property, plant, and equipment of company i in year t. The values of a1, a2, and a3 are used in the third equation to calculate non-discretionary accruals that take into account changes in accounts receivable because they reflect expenditures or receipts that are not affected by managerial decisions. The calculation of non-discretionary accruals separates profit fluctuations caused by factors such as changes in market conditions or business cycles from intentional profit manipulation by management. This enables investors and analysts to gain a better understanding of a company's actual performance, helping to reduce uncertainty in evaluating investment potential, as well as enhancing transparency and trust in financial markets (Martinez & Carvalho, 2022). Non-discretionary accruals are calculated using the following equation:

$$NDA_{it} = a1\ (1/A_{it-1}) + a2\ ((\Delta REV_{it} - \Delta REC_{it})/A_{it-1} + a3\ (PPE_{it}/A_{it-1}), \tag{3}$$

where $\Delta REC_{it}$ is the change in company i's accounts receivable in year t.

After obtaining the total accruals and non-discretionary accruals, the earnings management value (DA) is obtained from the following calculation:

$$DA_{it} = (TAC_{it}/A_{it-1}) - NDA_{it}. \tag{4}$$

The independent variable in this study is DO, which is the profit or loss from the cessation of company operations reported separately in the income statement (Indonesian Institute of Accountants, 2023). The presence of DO will result in a loss, so the company reports it as an expense (Leonard & Sun, 2022). DO is measured using a ratio scale with the formula developed by Murwaningsari (2018) as follows:

$$DO_i = Discontinued\ Operations_i \div revenue. \tag{5}$$

This study uses several control variables to control their impact on the independent and dependent variables, so that it can be determined whether there is an influence between DO and profit management. The first control variable is leverage. Leverage is the ratio of a company's debt usage, represented by the relationship between a company's debt and its equity or assets (Herlin Tunjung, 2019). Leverage, or the use of borrowed funds, can affect a company's profits in two ways. First, through operational leverage, a company's can maximize operational results by using existing assets and resources efficiently (Lajili et al., 2020). Second, through financial leverage, a company can increase profits by using borrowed funds with interest rates lower than the expected return on investment (Sunaryo, 2018). Additionally, a high leverage ratio, typically characterized by a debt-to-equity ratio exceeding 1, indicates that a company's external financing exceeds its equity (Muhtaseb et al., 2023). A high leverage ratio also signifies that a company is at risk of being unable to meet its debt obligations. Companies with high debt levels face greater risks and opportunities to engage in profit management practices, even considering business restructuring (Arhinful & Radmehr, 2023). High debt levels may also encourage management to adopt profit management practices, such as delaying expense recognition, to achieve profit targets or maintain financial stability. The leverage calculation is as follows:

$$Leverage\ = \frac{Total\ debt}{Total\ asset}. \tag{6}$$

The second control variable is profitability. Profitability indicates how well a company can generate profits over a certain period by maximizing sales, asset utilization, or capital use (Kapoor & Goel, 2019). Investors tend to be attracted to companies with high profitability, so management will strive to ensure that the company can demonstrate high profitability (Darrough et al., 2019). The calculation of profitability using Return on Assets (ROA) provides an overview of how efficiently a company generates profits from its assets (Handayani, 2018). ROA measures a company's ability to utilize assets to generate profits, making it an indicator for companies to evaluate financial performance (Moardi et al., 2020). In addition, changes in ROA can provide clues about possible profit management practices, such as accounting adjustments made to influence the company's profitability in its financial statements (Handayani, 2018). Thus, ROA not only provides information about overall profitability but also allows for a more in-depth analysis of discontinued operations and potential profit management practices. Profitability is calculated using the following equation:

$$ROA = \frac{Net\ Income}{Total\ asset} \times 100\%. \tag{7}$$

The final control variable in this study is firm size. Firm size encompasses the amount of a company's resources, as indicated by total/average assets and sales volume (San Martin Reyna, 2018). Firm size can influence profit management practices because the scale, complexity, and resources possessed by a company can create incentives for management to manipulate profits in financial reporting (Inoue, 2021). Firm size can influence earnings management by providing incentives for management to engage in more aggressive earnings practices in larger companies due to pressure to maintain reputation and high market expectations (Suriani, 2022). Large companies have more resources and strong internal controls, making it easier to manipulate financial figures to achieve profit targets (Hariyanto, 2021). Conversely, smaller companies may use more aggressive profit management practices due to pressure to achieve higher profits, and less stringent controls and monitoring may increase the likelihood of profit manipulation (Ibhagui & Olokoyo, 2018). Firm size is measured as follows:

$$Firm\ size = Ln\ (Total\ asset). \tag{8}$$

Before conducting further analysis, data screening was performed using boxplots to detect univariate outliers and Mahalanobis distance to detect multivariate outliers. The data screening results showed no outliers. Next, classical assumption tests were conducted, consisting of normality, heteroscedasticity, multicollinearity, and autocorrelation tests as prerequisites for regression. The normality test using the Shapiro-Wilk test yielded a p-value < 0.05, indicating that the data were not normally distributed (Hair, 2019). The heteroscedasticity test using the Wald test yielded a p-value < 0.01, indicating the presence of heteroscedasticity (Hair, 2019). The multicollinearity test showed that all variables had VIF values less than 10, indicating that the data was free from multicollinearity (Hair, 2019). The autocorrelation test using the Wooldridge test produced a p-value < 0.05, indicating the presence of autocorrelation (Hair, 2019). After conducting the prerequisite tests, hypothesis testing was performed to determine the effect of DO reporting on profit management. This effect was tested using Generalized Least Squares (GLS). This method is more effective than Ordinary Least Squares (OLS) in estimating data that experiences normality and heteroscedasticity problems (Hair, 2019). The following is the regression equation model:

$$Y = \beta_0 + \beta_1 X + \beta_2 C_1 + \beta_3 C_2 + \beta_4 C_3 + \varepsilon. \quad (9)$$

Explanation:

Y = Profit management
X = Discontinued operations
$\beta_0$ = Constant
$\beta_{1\text{–}4}$ = Coefficient of variables X and C
$C_1$ = Leverage
$C_2$ = Profitability
$C_3$ = Firm size
ε = Error

Hypothesis testing was used to determine the effect between earnings management and DO, with the conclusion that the research hypothesis was rejected with a p-value < 0.05 (Hair, 2019).

**Results and Discussion.** Table 1 shows an average earnings management value of 0.401, indicating that the sample companies employ earnings management practices (Alzoubi, 2016). A positive average profit management value indicates that most companies use profit management to increase profits and attract the interest of investors and creditors in supporting financing or investment (Kassamany et al., 2017; Shen, 2020). The lowest profit management value is held by PT. Jasa Marga at -0.5604. This low value may be due to the fact that PT Jasa Marga’s shares are majority-owned (70 %) by the government. Companies owned by multiple institutions are less likely to engage in profit manipulation due to strict oversight of actions that could harm investments (Akter et al., 2024; Hsieh et al., 2021). Institutional ownership provides advantages in terms of access to resources and technology, as well as barriers to competitors through government involvement in regulation and infrastructure (Lauw & Aryati, 2022).

*Table 1*

*Descriptive Statistics*

| Variable | N | Min | Max | Mean | Std. Dev. |
|---|---|---|---|---|---|
| Y Profit Management | 166 | -.5604 | .6214 | .0401 | .1228 |
| X DO | 166 | -.9800 | .8100 | -.2069 | .3151 |
| C1 *Leverage* | 166 | -.2214 | -.1455 | .6870 | 1.5269 |
| C2 *Profitability* | 166 | -.1433 | .9957 | .3269 | .2561 |
| C3 *Firm size* | 166 | 11.1343 | 31.8046 | 23.5639 | 1.5941 |

The highest profit management value is held by PT. Asuransi Sinar Mas, which is 0.6214. This company operates in the financial services sector, which has many competitors, resulting in high competition that triggers the opportunity for profit management practices (Mahrani & Soewarno, 2018; Mardnly, 2021). Companies with high managerial ownership, such as PT. Asuransi Sinar Mas, can be influenced by company size and bonus compensation, which significantly impact profit management (Muiz & Ningsih, 2020). High managerial ownership tends to influence company policies and decision- making, encouraging management to manage profits (Agustin et al., 2021).

From Table 1, the average DO is -0.20, indicating that the sample companies incurred losses from sales, asset disposals, or discontinued operations (Inoue, 2021). This value indicates that the proceeds from asset sales or discontinued operations are lower than their book value (Inoue, 2021). This occurs because the existence of DO causes one source of income to be lost, thereby reducing the company’s revenue and net profit (Debbianita, 2019). Reporting DO is not beneficial because it involves business segments or company assets that are experiencing losses, so the company decides to discontinue these operations to minimize losses and focus on more profitable activities.

Table 1 shows a high leverage of 68.7 %, which can be a tool for managers to engage in earnings management to avoid debt agreements and enhance the company’s bargaining power in debt negotiations (Arhinful & Radmehr, 2023; OJK, 2023). The average profitability is positive, indicating that the sample companies have good profitability (Al-mohareb & Alkhalaileh, 2019) because they are able to generate net income and after-tax income using their own capital, where the higher the ROA, the more efficient the use of own capital (Guragai & Hutchison, 2020). Firm size has an average of 23.56, indicating that the average company size is large (Suryani & Rofida, 2020).

Table 2 shows the correlation between earnings management and DO and leverage. The positive correlation between earnings management and DO indicates that companies reporting DO tend to engage in earnings management practices (Darrough et al., 2019). The leverage variable is negatively correlated with earnings management practices, meaning that the higher a company's leverage, the lower the likelihood of earnings management practices being carried out. Companies with high leverage have limitations in manipulating financial data and must comply with debt agreements with creditors and shareholders (Al-mohareb & Alkhalaileh, 2019). The reporting of DO in financial statements is correlated with a company's leverage level. When a company sells or discontinues part of its business, the related assets and liabilities are removed from the balance sheet (Muhtaseb et al., 2023). This can reduce the company's total assets or liabilities, which ultimately changes the leverage ratio, i.e., the ratio between debt and equity. If DO reduces debt significantly, the company's leverage will decrease, and vice versa.

*Table 2*

*Correlation Test Results*

| Variable | Y | X | C1 | C2 | C3 |
|---|---|---|---|---|---|
| Y Profit Management | 1,000 | | | | |
| X DO | 0.3254 | 1 | 1.000 | | |
| C1 *Leverage* | -0.3814* | -0.1630* | | | |
| C2 *Profitability* | -0.1924* | -0.2219* | 0.1946* | 1 | |
| C3 *Firm size* | -0.0017 | -0.1061 | -0.0332 | -0.0186 | 1.00 |

*Note:* *significant correlation at p< 0.05

Table 3 shows that DO has a positive effect on earnings management, so the research hypothesis (H1) cannot be rejected, meaning that the presence of DO increases EM. These research results are in line with previous studies that found that DO has a positive effect on earnings management (Darrough et al., 2019; Guragai & Hutchison, 2020; Silva et al., 2018). The positive effect of DO on profit management indicates that companies tend to engage in profit management practices when reporting DO (Dianti, 2017). The presence of DO in a company reduces its revenue and profit quality (Nagar & Sen, 2017). The decline in revenue and profit occurs because DO reporting involves businesses that have ceased operations or are to be sold. Revenue and profit from such operations are no longer included, so the figures reported in the company's financial statements only reflect the results of ongoing operations (Ji et al., 2020). This decline in revenue is often caused by a shift in focus from active operations to the sale or discontinuation of assets that no longer support the core business growth (Anindya et al., 2020). As a result, financial statements may show profits that appear lower or less stable, as revenue from discontinued operations no longer impacts revenue and profit quality (Saito, 2019).

*Table 3*

*Results of GLS Regression Test*

| Variable | Coefficient | *p-value* |
|---|---|---|
| *X Discontinued operations* | 0.339 | 0.022 |
| *C1 Leverage* | -0.340 | 0.000 |
| *C2 Profitability* | -0.062 | 0.28 |
| *C3 Firm Size* | -0.424 | 0.485 |
| Constant | 0.185 | 0.000* |
| ***Wald-chi*** | | **42.84** |
| ***F*** | | **0.000** |

*Note:* *significant coefficient at $p < 0.05$

DO reporting actually provides companies with the opportunity to manage profits more effectively, using revenue and expense recognition from discontinued operations to influence financial statement results in a favorable manner (Darrough et al., 2019). Companies report DO and utilize it to restructure strategies and focus on financial performance, enhance financial transparency, and reduce profit fluctuations caused by ongoing operational instability (Inoue, 2021). Thus, DO reporting not only serves as an indicator of internal issues but also as a tool for profit management, yielding positive outcomes that improve market perception and corporate financial performance.

The intensity of DO reporting by companies is related to profit management practices, as seen in PT. Taisho Pharma, which reported DO six times during the study period and had the highest profit management value. A high level of DO reporting indicates significant changes in the company's strategy or business focus (Leonard & Sun, 2022). PT. Taisho Pharma's DO reporting indicates that the company's management may be engaging in high profit management. Management can use DO to manipulate financial reports, for example, by removing loss-making business segments to create a better picture of financial performance (Wang & Hagigi, 2019).

This study found that leverage has a negative effect on earnings management. This indicates that the higher the leverage ratio, the less likely a company is to engage in earnings management practices. Companies with high leverage ratios tend not to engage in earnings management to avoid violating debt covenants (Lazzem & Jilani, 2017; Lord & Saito, 2017). High leverage levels can also increase the risk of debt covenant violations, motivating managers to avoid profit management practices (Ghorbani & Salehi, 2021). Profitability and firm size do not influence earnings management. Companies with high profitability tend not to need to engage in earnings management, while large companies, despite having more resources, must face strict oversight (Hariyanto, 2021). Therefore, profit management decisions are more influenced by corporate objectives, internal policies, and market pressures than by profitability or firm size (Al-mohareb & Alkhalaileh, 2019).

The results of this study confirm the agency theory, which states that DO reporting by companies can be a means for managers to engage in opportunistic behavior, thereby positively influencing earnings management. Earnings management practices by companies are carried out in order to align the interests of company owners, managers, and subordinates. Thus, the prevalence of earnings management practices shows the contribution of company owners and managers. Agency theory states that business activities are not always carried out directly by the entity's owners but are delegated to agents such as subordinates, managers, and so on (Jensen & Meckling, 1976). Managers may use DO reporting to divert attention from poor financial performance by manipulating financial statements and inflating reported profits (Fayezi et al., 2012; Ghorbani & Salehi, 2021). This reflects managers' efforts to meet shareholder expectations and maintain compensation or positions, even though the company's financial results do not reflect the actual conditions (Shahzad et al., 2019). Thus, this study links profit management practices to agency theory, showing that the use of discontinued operations reporting as a tool for financial manipulation is a form of misalignment of interests between managers and shareholders (Liu & Sun, 2022).

**Conclusion, Implications, and Limitations.** This study aims to determine the relationship between DO reporting and the application of profit management practices in Indonesia. This study found that DO disclosure has a positive effect on profit management practices. Companies are expected to reduce the tendency to apply profit management practices by reporting DO. The existence of DO enables managers to engage in profit management by reclassifying revenue, expenses, gains, and losses (Debbianita, 2019). This study confirms agency theory, which states that the existence of DO enables managers to transfer operational costs to the DO account, thereby giving rise to profit management practices (Martinez & Carvalho, 2022).

This study shows that DO can positively influence profit management practices, so companies need to adopt strict accounting standards and maintain ethics in DO reporting to avoid financial statement manipulation. This study can help companies improve transparency by providing clear, data- driven guidelines on how to accurately report and manage DO. By understanding and applying the appropriate reporting standards, companies can present more detailed and consistent information regarding assets and liabilities related to DO, as well as its impact on reported profits. This will facilitate investors, auditors, and regulators in assessing a company's financial performance and making more informed decisions.

Data collection for this study began in 2016–2022 because the focus on this period covers crises or significant changes in IFRS policies. Therefore, future research may consider data on DO reporting in terms of changes in IFRS rules that occurred before 2016 and after 2016. Future research is expected to explore changes in the revision of IFRS 5 regulations. The measurement of earnings management in this study uses *accrual-based earnings management*, so future research can conduct robustness tests using other methods such as *real earnings management* or *classification shifting.*

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**Суряні А.В., Пратіста М.В., Прастіті С.Д., Ларасаті І.П.**

**Управління прибутками в припинених операціях**

Припинення діяльності та бізнес-напрямів може використовуватися як інструмент для впровадження практик управління прибутками, незалежно від того, чи є це вигідним чи шкідливим. Мета цього дослідження – проаналізувати вплив припинених операцій на практики управління прибутками в Індонезії. Дослідження проводилося на компаніях, що котируються на Індонезійській Фондовій Біржі (IDX) і які звітували про припинені операції з 2016 по 2024 рік. Для вимірювання управління прибутками було використано модифіковану модель Джонса. За допомогою методу узагальнених найменших квадратів це дослідження виявило, що припинені операції позитивно впливали на практики управління прибутками. Це свідчить про те, що звітування про припинені операції може бути інструментом для маніпулювання фінансовими звітами та підвищення прибутковості, що впливає на цілісність фінансової інформації, яка надається зацікавленим сторонам. Тому зацікавлені сторони мають оцінювати фінансовий стан компаній та оцінювати інвестиційні ризики та стратегії на основі точності фінансових звітів та практик управління прибутками.

**Ключові слова:** припинена діяльність; управління прибутками; модифікована модель Джонса.

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