



The Effect of Financial Leverage, Capital Turnover, Asset Composition, Firm Size on The Tendency of Financial Statement Fraud

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Abstract This study aims to determine the factors that can predict the tendency of financial statement fraud in manufacturing companies. This study used a sample of 185 manufacturing companies that published financial reports on the Indonesia Stock Exchange for three years, namely 2019 to 2021. The data collection method was carried out by purposive sampling. While the analysis used was panel data regression. The results of the data analysis showed that all independent variables Financial Leverage (X1), Capital Turnover (X2), Asset Composition (X3), and Firm Size (X4) influenced the tendency of financial statement fraud.

Keywords: Financial Leverage, Capital Turnover, Asset Composition, Firm Size, Financial Statement Fraud

INTRODUCTION

In the economic development of Indonesia, the manufacturing sector has significantly contributed to the GDP, with a 22% share from 2019 to 2021. This underscores the importance of manufacturing companies as a cornerstone of Indonesia's economy, highlighting the need for these companies to attract investors for operational funding to achieve high profits (Abubakar et al., 2024). Therefore, company management needs to produce financial statements that are available to the public, ensuring that the information contained is accurate and truly reflective of the company's financial situation. Any inaccuracies in financial reporting can result in significant losses for various stakeholders (Mongwe & Malan, 2020).

In practice, producing accurate and reliable financial statements is challenging due to the external pressures and financial stability concerns faced by management (Khudir, 2021). This pressure may drive managers to engage in financial reporting fraud. Evidence of such fraud includes PT Garuda Indonesia Tbk, which reported revenue of USD 239.94 million, including USD 28 million from a partnership with PT Sriwijaya Air, yet PT Mahata has not made any payment for the recorded revenue (SP 26/DHMS/OJK/VI/2019).

Additionally, PT Tiga Pilar Sejahtera Food Tbk is suspected of overstating figures by Rp 4 trillion in accounts receivable, inventory, and fixed assets, and Rp 662 billion in sales, with further allegations of Rp 1.78 trillion in funds transferred through transactions with affiliates of the previous management (cnnindonesia.com, 2019). Lastly, PT Kimia Farma Tbk, which went public on July 4, 2001, reported a net profit of Rp 132 billion in its December 31, 2001, financial statements. However, the OJK deemed this profit excessively high and suspected manipulation. An

The Effect of Financial Leverage, Capital Turnover, Asset Composition, Firm Size on The Tendency of Financial Statement Fraud audit on October 2, 2002, revealed the actual profit was Rp 99.56 billion, indicating that PT Kimia Farma Tbk had overstated its net profit in the December 31, 2001, financial report (cnbcindonesia.com, 2021).

RESEARCH METHODS

The research methodology employed is quantitative, defined as research that can be measured using numerical scales and hypothesis testing. The research design is causal. The aim of this study is to determine whether the hypotheses regarding the effects of certain variables are valid, specifically to test the impact of Financial Leverage (X1), Capital Turnover (X2), Asset Composition (X3), and Firm Size (X4) on Financial Statement Fraud (Y) among manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021. This study is conducted in Indonesia using secondary data from annual financial reports for the years 2019-2021. The sample selection criteria are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021.
2. Manufacturing companies that were not suspended during the years 2019-2021.
3. Manufacturing companies with revenue reported for the years 2019-2021.

RESULTS AND DISCUSSION

Descriptive Statistics Test

Tabel 1. Descriptive Statistical Test Results

	Y	X1	X2	X3	X4
Mean	19.59084	0.521030	0.889848	0.495684	26.80676
Median	20.03944	0.475580	0.781320	0.489920	27.68319
Maximum	30.00701	5.167740	6.949370	1.000000	33.53723
Minimum	13.35042	0.003450	0.000440	0.026990	17.75151
Std. Dev.	2.399279	0.447861	0.637807	0.204171	3.540949
Skewness	-0.513933	6.211839	3.240688	0.070556	-1.153094
Kurtosis	3.710003	58.89094	23.97032	2.515313	3.590759
Jarque-Bera	36.08919	75807.10	11140.76	5.893043	131.0609
Probability	0.000000	0.000000	0.000000	0.052522	0.000000
Sum	10872.91	289.1717	493.8658	275.1046	14877.75
Sum Sq. Dev.	3189.123	111.1210	225.3661	23.09399	6946.230
Observations	555	555	555	555	555

Source: Output Eviews 12

The table above shows that the sample consists of 185 companies over a period of 3 years, from 2019 to 2021, resulting in a total of 555 observation units. These are explained by the variables Financial Leverage (X1), Capital Turnover (X2), Asset Composition (X3), Firm Size (X4), and Financial Statement Fraud (Y).

Panel Data Regression Model

Table 2. Concluding Results of the Panel Data Regression Model

Test	Test Criteria	Significant	Results
Chow	<i>Cross-section F</i>	0,7777	<i>Common Effect</i>

Hausman	<i>Cross-section Random</i>	0,1233	<i>Random Effect</i>
Lagrange Multiplier	<i>Breush-Pagan</i>	0,2349	<i>Common Effect</i>

Source: Processed data

Based on the results of the three tests conducted, it can be concluded that the panel data regression model to be used for hypothesis testing is the Common Effect Model (CEM).

Classic assumption test

The test results indicate that the variance inflation factor (VIF) values for all variables are less than 0.85, suggesting that the model is free from multicollinearity issues. Additionally, the heteroscedasticity test results show that the p-values for all independent variables are greater than 0.05, indicating that there is no evidence of heteroscedasticity in the research model.

Partial Test T

Table 3. Partial Results T Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.00E-06	4.19E-06	0.239740	0.8106
X1	1.199999	1.11E-06	1076757.	0.0000
X2	1.400000	8.43E-07	1660948.	0.0000
X3	3.299999	2.65E-06	1243822.	0.0000
X4	0.600000	1.40E-07	4293089.	0.0000

Sumber: Data diolah dengan Eviews 12, 2024

With the p-values for each independent variable being 0.0000, which is less than 0.05, hypotheses H1, H2, H3, and H4 are accepted. This indicates that Financial Leverage, Capital Turnover, Asset Composition, and Firm Size all have a significant impact on the tendency for financial statement fraud in this study.

Impact of Financial Leverage on Financial Statement Fraud

The t-test for the financial leverage variable shows a significance value of 0.0000, less than 0.05. The analysis reveals that Financial Leverage (X1) positively affects the Z-Score, which predicts Financial Statement Fraud. This is because a company unable to meet its obligations will have high financial leverage. High financial leverage can make a company’s performance appear poor due to its low ability to pay off debts. This situation can affect creditors' willingness to lend funds, prompting company management to manipulate financial statements to improve the appearance of company performance.

Impact of Capital Turnover on Financial Statement Fraud

The t-test for the capital turnover variable shows a significance value of 0.0000, less than 0.05. The analysis indicates that Capital Turnover (X2) has a significant positive effect on the Z-Score, predicting Financial Statement Fraud. Capital Turnover is a crucial indicator of how efficiently a company uses its capital or assets to generate revenue. A high capital turnover rate pressures management to maintain or improve this ratio to demonstrate good company performance, both operationally and in capital management. This pressure can increase the risk of financial statement fraud.

Impact of Asset Composition on Financial Statement Fraud

The t-test for the asset composition variable shows a significance value of 0.0000, less than 0.05. The analysis reveals that Asset Composition (X3) positively and significantly affects the Z-Score, predicting Financial Statement Fraud. Proper management and allocation of assets can

The Effect of Financial Leverage, Capital Turnover, Asset Composition, Firm Size on The Tendency of Financial Statement Fraud enhance financial performance and achieve business objectives more effectively. However, certain types of assets are more susceptible to manipulation or inaccurate valuation. Management may manipulate current asset accounts to inflate sales figures.

Impact of Firm Size on Financial Statement Fraud

The t-test for the firm size variable shows a significance value of 0.0000, less than 0.05. The analysis shows that Firm Size (X4) has a significant positive effect on the Z-Score, which predicts Financial Statement Fraud. Firm size can be categorized as large or small, based on total sales, total assets, or the number of employees. A large firm typically has substantial assets and sales, supporting large-scale production processes. Larger firms often need a good reputation to attract relations or investors. The larger the company, the easier it is to enhance its perceived value. As a result, management may engage in financial statement manipulation to present a favorable financial image.

CONCLUSIONS

The factors influencing the tendency for financial statement fraud are strongly explained by the variables of financial leverage, capital turnover, asset composition, and firm size. The research findings support agency theory, which posits that only company management has deeper access to information than investors. Consequently, management may engage in financial statement fraud to present a more favorable company performance, thereby attracting more investors to fund the company's operations.

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