

Leverage, Capital Turnover, and Financial Stability on Financial Statement Fraud: Testing the Moderating Effect of Financial Target

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ABSTRACT: This study aims to analyze the effect of leverage, capital turnover, and financial stability on financial statement fraud, with financial target as a moderating variable. The research uses a quantitative approach with a sample of 16 manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the basic and chemical industry sector for the 2017– 2021 period. The sampling technique used was purposive sampling, and data were analyzed using panel data regression through Eviews 9.0 software. The model selected was the Common Effect Model (CEM) after conducting the Chow, Hausman, and Lagrange Multiplier tests. The results show that financial stability has a positive and significant effect on financial statement fraud, while leverage and capital turnover have no significant effect. Furthermore, financial target strengthens the influence of financial stability on financial statement fraud but does not moderate the relationship between leverage and capital turnover with financial statement fraud. These findings contribute to the literature on fraud detection by integrating financial performance indicators and managerial targets, and provide practical implications for companies and auditors to identify potential risks of financial statement manipulation.

KEYWORDS: Financial Statement Fraud, Leverage, Capital Turnover, Financial Stability, Financial Target.

I. INTRODUCTION

Financial statement fraud has emerged as a major threat to the reliability and credibility of corporate financial reporting worldwide. According to the Association of Certified Fraud Examiners (ACFE), financial statement fraud represents the smallest proportion of all fraud cases but results in the largest median losses, averaging around USD 800,000 per case. This type of fraud involves the intentional misrepresentation or manipulation of material information in financial reports to deceive stakeholders about a company's actual performance and financial condition (Nurcahyono et al., 2021). In Indonesia, several high-profile cases such as those involving PT Bank Bukopin Tbk and PT Sunprima Nusantara Pembiayaan (SNP Finance) illustrate how management misconduct can distort financial data and undermine investor confidence. Investigations by the Otoritas Jasa Keuangan (OJK) found that SNP Finance falsified financial statements to obtain financing from multiple banks, resulting in estimated losses of more than IDR 14 trillion (CNBC Indonesia, 2019). Likewise, Bank Bukopin overstated commission and credit card income from 2015 to 2017, forcing restatement of its financial reports (CNBC Indonesia, 2018). These events demonstrate weaknesses in corporate governance and internal control systems, as well as ethical lapses that create opportunities for financial statement fraud to occur.

The theoretical foundation for this research is Agency Theory (Jensen & Meckling, 1976), which explains that conflicts of interest arise between principals (shareholders) and agents (management). Managers may engage in opportunistic actions to achieve personal goals such as bonuses or reputational rewards especially when performance evaluation is based on accounting outcomes (Ratnasari & Solikhah, 2019). Furthermore, the Fraud Triangle Theory proposed by (Suhendah, 2019) describes that fraud occurs when pressure, opportunity, and rationalization coexist. Pressure to achieve financial targets, combined with weak internal controls and rationalization of unethical behavior, increases the likelihood of fraudulent reporting (Asteria, 2018). Empirical research identifies several financial indicators that may be associated with financial statement fraud. Leverage reflects the company's dependence on debt financing. A high level of leverage increases managerial pressure to report favorable performance to creditors and investors (Gunde et al., 2017). Capital turnover measures the company's efficiency in utilizing assets to generate sales; low capital turnover may lead managers to manipulate revenues or assets to portray better efficiency (Nwidobie

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Barine, 2012). Financial stability indicates a company's ability to maintain consistent financial conditions. When stability is threatened, management may exaggerate asset growth or profitability to maintain market confidence (Arif et al., 2023). Nevertheless, prior studies show inconsistent results regarding the influence of these variables on fraudulent financial reporting thus leaving a research gap.

To bridge this gap, this study introduces financial target as a moderating variable. Financial target commonly measured by return on assets (ROA) represents managerial goals or performance benchmarks. Excessive financial targets can intensify managerial pressure to achieve desired profitability levels, thereby increasing the likelihood of manipulative reporting (Septiana, 2022). Within the agency framework, such targets can strengthen the relationship between financial pressures and fraudulent actions, particularly when companies seek to maintain investor confidence under declining performance conditions. The novelty of this study lies in integrating financial ratios (leverage, capital turnover, and financial stability) with financial target as a moderating factor, analyzed within Indonesia's manufacturing sector. This integration links Agency Theory and Fraud Triangle Theory to explain how internal performance goals influence fraudulent financial behavior. Therefore, this study aims to analyze the effects of leverage, capital turnover, and financial stability on financial statement fraud, and to examine the moderating role of financial target. The research focuses on manufacturing companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange (IDX) during the 2017–2021 period, considering this sector's significant contribution to the economy and its exposure to reporting pressure. The findings are expected to enrich the academic discussion on financial fraud detection and provide practical insights for regulators, auditors, and corporate management in identifying and preventing fraudulent financial reporting. A.

II. LITERATURE REVIEW

A. AGENCY THEORY

Agency theory (Jensen & Meckling, 1976) explains the conflict of interest between owners (principals) and managers (agents) resulting from the separation of ownership and company control. Managers, who have superior information about the company's internal conditions, may act opportunistically to achieve personal goals that are not always aligned with shareholders' interests (Ng & Daromes, 2016). In the context of financial reporting, this theory explains how managers can manipulate accounting figures to maintain investor confidence or achieve financial targets when under performance pressure (Grediani, 2023). Agency theory also provides a foundation for understanding the influence of leverage, capital turnover, and financial stability on fraudulent financial reporting, as these financial indicators can create conditions of pressure and opportunity that lead to fraud. Additionally, the inclusion of financial target as a moderating variable aligns with the notion that managerial incentives can intensify or weaken opportunistic behavior in achieving company goals.

B. LEVERAGE, FINANCIAL STATEMENT FRAUD

Leverage can influence the likelihood of financial statement fraud through the financial pressure experienced by managers. Companies with high leverage often face pressure to maintain certain financial ratios and meet obligations to creditors, which may encourage managers to manipulate earnings or conceal liabilities to present a more stable financial position (Sutama & Lisa, 2018). On the other hand, high leverage can also result in stricter external monitoring by creditors, who oversee the company's compliance with debt covenants and limit managers' opportunities to engage in manipulative practices (Widhayanti & Utomo, 2020). Therefore, the impact of leverage on financial statement fraud may vary depending on the strength of corporate governance and the level of external oversight applied.

H1: Leverage has a positive effect on financial statement fraud.

C. CAPITAL TURNOVER, FINANCIAL STATEMENT FRAUD

Capital turnover reflects a company's efficiency in using its total assets to generate sales. A low capital turnover ratio indicates inefficiency, which can pressure management to manipulate revenue or asset values to appear more productive (Nugroho & Pangestuti, 2010). The *Fraud Triangle Theory* supports this relationship, suggesting that performance pressure may lead to fraudulent acts when combined with rationalization and opportunity. Prior research presents varying findings: (Nugroho & Pangestuti, 2010) found that inefficient asset utilization increases fraud risk, while (Indriasih, 2020) observed no significant effect, implying that fraud risk may depend on internal control strength and operational context.

H2: Capital turnover has a positive effect on financial statement fraud.

D. FINANCIAL STABILITY, FINANCIAL STATEMENT FRAUD

Financial stability describes a company's ability to maintain consistent financial performance and avoid financial distress (Diana & Yudiantoro, 2023). Companies facing unstable condition such as declining profits, assets, or revenues often experience

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managerial pressure to present improved performance to investors and creditors. Based on (Ciellie Christabelle Santoso & Jesica Handoko, 2022), when stability declines, managers are more likely to manipulate earnings or overstate assets to maintain market confidence. Empirical studies support this view, showing that instability in financial performance significantly increases the risk of financial statement fraud (Parasetya, M.T., & Solikhin, 2023), although the strength of this effect can vary depending on monitoring mechanisms and company size.

H3: Financial stability has a positive effect on financial statement fraud.

E. FINANCIAL TARGET, LEVERAGE, AND FINANCIAL STATEMENT FRAUD

Companies require funding in the form of capital to carry out their operational activities. If the available internal funding is insufficient, external financing such as debt is needed. According to Gunde et al. (2017), leverage is a measure of a company's ability to utilize assets and/or funds with fixed costs, such as debt, in order to achieve its objectives. Companies with high leverage levels are suspected of engaging in financial statement fraud by artificially increasing their leverage ratio. This is done because a low leverage level may increase the likelihood of losing investors. Therefore, companies tend to raise their leverage levels to avoid this possibility. Research on the effect of leverage on fraudulent financial statements has produced inconsistent findings. A study by Widyanti and Nuryatno (2018) explains that leverage has a positive effect on fraudulent financial statements. In contrast, research conducted by Wimardana and Nurbaiti (2018) found that leverage has no significant effect on fraudulent financial statements.

H4 : Financial target moderates the influence of Leverage on financial statement fraud.

F. FINANCIAL TARGET, CAPITAL TURNOVER, AND FINANCIAL STATEMENT FRAUD

Research on the effect of capital turnover on fraudulent financial statements has shown inconsistent results. The study conducted by Widyanti and Nuryatno (2018) found that capital turnover has a significant effect on fraudulent financial statements. However, a different finding was reported by Wimardana and Nurbaiti (2018), who revealed that capital turnover does not affect fraudulent financial statements. These inconsistent results are suspected to be influenced by other factors that may moderate the relationship between capital turnover and fraudulent financial statements. The researchers suspect that financial targets may strengthen the relationship between capital turnover and fraudulent financial statements. According to agency theory, management acts as an agent appointed by shareholders (principals) and is responsible for managing the company to meet predetermined targets. A financial target is one of the objectives established by the principal that must be achieved by the agent. The financial target, which is proxied by Return on Assets (ROA), is considered capable of triggering management to commit fraud. This occurs because the establishment of financial targets increases managerial pressure to achieve specific performance outcomes, thereby intensifying the pressure to attain a higher level of capital turnover. The combined pressures from both capital turnover and financial targets may encourage companies to meet their goals through various means—even through the manipulation of financial statements.

H5 : Financial target moderates the influence of Capital Turnover on financial statement fraud.

G. FINANCIAL TARGET, FINANCIAL STABILITY, AND FINANCIAL STATEMENT FRAUD

Research on the effect of financial stability on fraudulent financial statements has produced inconsistent results. A study conducted by Annisya et al. (2016) found that financial stability has a positive effect on fraudulent financial statements. However, a different finding was reported by Prayoga and Sudarmaji (2019), who concluded that financial stability has no effect on fraudulent financial statements. These conflicting results are suspected to be due to the presence of other factors influencing the relationship between financial stability and fraudulent financial statements. The researcher assumes that the existence of a financial target may strengthen the relationship between financial stability and fraudulent financial statements. Agency theory states that management acts as an agent appointed by shareholders (principals) and is tasked with managing the company and meeting the targets that have been set. A financial target is one of the objectives established by the principal that must be achieved by the agent.

H6 : Financial target moderates the influence of Financial Stability on financial statement fraud.

III. METHODOLOGY

This study employs a causal quantitative research method to examine the influence of leverage (X1), capital turnover (X2), and financial stability (X3) on financial statement fraud (Y), with financial target (Z) as a moderating variable. The quantitative approach is used to test the relationship between variables objectively through statistical data analysis, while the causal method aims to determine the cause-and-effect relationship between independent and dependent variables (Sugiyono, 2020). The

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population of this study includes manufacturing companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange (IDX) during the 2017–2021 period. The purposive sampling technique was used with the following criteria: (1) companies listed on the IDX during the 2017–2021 period, (2) companies that published complete annual financial statements for five consecutive years using the Indonesian Rupiah (IDR) as the reporting currency, and (3) companies that did not experience losses for two or more years during the observation period.

Table 1. Sample Selection

Num	Information	Sum
1	Manufacturing companies in the basic and chemical industry sector listed on the IDX 2017–2021	79
2	Companies that did not publish financial statements for five years or used foreign currencies	-38
3	Companies that reported losses for two or more years	-25
4	Final sample	16
5	Number of years of observation	5
6	Total panel data observations	80

Source: IDX data processed, 2023

After collecting data from the financial statements of companies listed on the Indonesia Stock Exchange for the 2017–2021 period, data processing and analysis were carried out using EViews 12 software. EViews is a statistical and econometric software specifically designed for processing panel data, making it ideal for this study. The dependent variable in this study is financial statement fraud (FRAUD), measured using the Beneish M-Score model, which detects the likelihood of earnings manipulation based on eight financial ratios: DSRI, GMI, AQI, SGI, DEPI, SGAI, LVGI, and TATA (Bernard et al., 1999). The independent variables consist of leverage, capital turnover, and financial stability. Leverage is measured using the Debt-to-Equity Ratio (DER), which reflects the company's ability to meet obligations through equity (Feronicha et al., 2017). Capital turnover is measured using the ratio of sales to total assets, which shows the efficiency of asset utilization in generating revenue. The moderating variable, financial target, is measured using Return on Assets (ROA), which indicates management's ability to achieve profitability targets through the effective use of assets (Hendri et al., 2019).

IV. RESULTS AND DISCUSSION

A. Descriptive Analysis

Table 2. Descriptive Analysis

	Fraud	Leverage	Capital turnover	Financial stability	Financial target
Mean	-2.736492	0.378137	7.834045	0.068305	0.056908
Median	-2.700743	0.394192	3.995547	0.057710	0.044422
Maximum	-1.877619	0.661770	147.6006	0.617569	0.198298
Minimum	-4.092422	0.081293	-69.61173	-0.489116	0.001743
Std. Dev.	0.364412	0.156848	25.08007	0.120939	0.041466
Observations	40	40	40	40	40

Source: Data processed with Eviews 9.0, 2023.

Based on the descriptive analysis, the average value of financial statement fraud (FRAUD) in the sample companies is -2.736492, with a median of -2.700743, indicating that the manipulation tendency in financial reporting is relatively low. However, some companies still exhibit higher manipulation values (maximum -1.877619), while others show much lower tendencies (minimum -4.092422). Leverage (DER) shows an average value of 0.378137 and a median of 0.394192, meaning that on average, companies finance approximately 37.8% of their total assets with debt, reflecting a moderate level of leverage across the sample. Capital turnover (WCT) has an average of 7.834045 with a high standard deviation of 25.08007, showing considerable variation in asset utilization efficiency among firms, where some companies achieved very high turnover (maximum 147.6006) while others

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were relatively inefficient (minimum -69.61173). Financial stability (ACHANGE) has a mean value of 0.068305 and a median of 0.057710, suggesting that most firms maintain stable financial conditions, although variations exist between the highest (0.617569) and lowest (-0.489116) values. Meanwhile, the financial target (ROA) records an average of 0.056908 and a median of 0.044422, indicating that companies generally maintain moderate profitability levels, with the highest reaching 0.198298 and the lowest at 0.001743. The standard deviation of each variable shows that there is substantial variation in capital turnover, while leverage, financial stability, and financial target demonstrate moderate variability. All of this data was processed and analyzed using EViews 9, which facilitates further quantitative testing of the effects of independent and moderating variables on financial statement fraud.model.

B. Panel Data Model Selection

Table 3. Model Selection

Model Test	Result	Conclusion
<i>Chow Test</i>	0.7663	CEM
<i>Hausman test</i>	0.2331	REM
<i>Lagrange Multiplier Test</i>	0.2938	CEM

Source: Eviews 9.0 Output

Based on the results of the model selection test, the Chow test produced a probability value of 0.7663, indicating that the Common Effect Model (CEM) is preferred over the Fixed Effect Model (FEM). Furthermore, the Hausman test yielded a probability value of 0.2331, suggesting that the Random Effect Model (REM) is more suitable than the Fixed Effect Model (FEM). Meanwhile, the Lagrange Multiplier test shows a probability value of 0.2938, which supports the selection of the Common Effect Model (CEM) over the Random Effect Model (REM). Thus, based on the three model selection tests, it can be concluded that the regression estimation in this study uses the Common Effect Model (CEM) as the most appropriate approach to analyze the influence of leverage, capital turnover, and financial stability on financial statement fraud with financial target as a moderating variable.

C. Hypothesis Testing

Table 4. Hypothesis Testing Table

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.663666	0.137711	-19.34239	0.0000
DER	-0.192262	0.265719	-0.723555	0.4716
WCT	-0.001577	0.001590	-0.991930	0.3244
ACHANGE	0.982341	0.330000	2.976793	0.0039
ROA	-0.964114	1.014011	-0.950792	0.3448
R-squared	0.123170			
F Prob	0.040642			

Source: Data processed with Eviews 9.0, 2023.

The regression analysis revealed that the debt to equity ratio (DER) had a negative but statistically insignificant effect on earnings management ($\beta = -0.192262$; $p = 0.4716$). This indicates that the firm's leverage, measured as the proportion of total debt to equity, does not significantly drive opportunistic managerial behavior in the sample firms. From the perspective of agency theory, leverage is theoretically expected to impose discipline on managers by increasing obligations to creditors, thereby reducing their discretion over reported earnings (Titman & Wessels, 2007). However, the insignificant coefficient suggests that in practice, DER alone may not be sufficient to influence managerial decisions, especially in firms with strong governance mechanisms, independent audits, and established internal control systems (DeAngelo & Masulis, n.d.). This finding highlights that while financial structure is important for corporate strategy, its direct impact on earnings management may be limited without complementary oversight mechanisms.

Similarly, working capital turnover (WCT) exhibited a negative but insignificant effect on earnings management ($\beta = -0.001577$; $p = 0.3244$). This implies that operational efficiency, measured as the turnover of current assets relative to sales, does not substantially influence managers' propensity to manipulate financial statements. In theory, higher WCT indicates efficient

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resource utilization, which should limit managerial discretion in adjusting reported outcomes. However, the empirical evidence suggests that WCT alone does not sufficiently constrain managerial behavior, likely because operational efficiency is only one of many factors affecting managerial decisions (Setiowati et al., 2023). Managers may still exercise discretion over reporting practices despite high operational efficiency if governance and monitoring mechanisms are weak or during periods of strategic change.

In contrast, asset change (ACHANGE) had a positive and statistically significant effect on earnings management ($\beta = 0.982341$; $p = 0.0039$), indicating that firms experiencing structural or asset-related changes are more likely to engage in earnings manipulation. This finding aligns with the theoretical framework of agency theory, which posits that periods of organizational transformation such as mergers, acquisitions, divestments, or large capital investments provide managers with increased discretion and opportunities to influence reported financial outcomes to serve personal or strategic objectives (Jensen & Meckling, 1976). The significant positive coefficient suggests that asset adjustments are a critical factor in managerial opportunism, emphasizing the importance of monitoring and internal control during transitional periods.

Return on assets (ROA) showed a negative coefficient ($\beta = -0.964114$) but was not statistically significant ($p = 0.3448$), indicating that profitability does not significantly impact managerial behavior in the context of this study. While higher profitability could theoretically motivate managers to manipulate earnings to achieve performance targets or secure bonuses, the lack of significance highlights that financial performance alone does not necessarily trigger opportunistic reporting. This result is consistent with prior research suggesting that managerial discretion and governance quality play more substantial roles than profitability metrics in shaping financial reporting behavior (Armstrong et al., 2010). Thus, earnings management may occur independently of current profitability levels, particularly when oversight mechanisms are inadequate or during periods of structural change.

The regression model demonstrated an R-squared of 0.123170, indicating that approximately 12.3% of the variance in earnings management is explained by DER, WCT, ACHANGE, and ROA. Although this R-squared value is relatively low, it is common in behavioral and managerial studies, where numerous unobserved factors, such as corporate culture, managerial incentives, and external pressures, influence outcomes (Healy, 1998). The F-statistic probability of 0.040642 (<0.05) confirms that the overall model is statistically significant, indicating that the set of independent variables collectively influences earnings management, even if individually some are not significant.

Intepretation Model 1

Where Y represents earnings management, DER represents the debt-to-equity ratio, WCT denotes working capital turnover, ACHANGE indicates asset change, and ROA stands for return on assets. The constant term ($C = -2.663666$) reflects the baseline level of earnings management when all independent variables are held at zero. The positive coefficient for ACHANGE underscores that managerial discretion is significantly associated with structural changes in assets, providing opportunities to engage in earnings management practices. Conversely, the negative but insignificant coefficients for DER, WCT, and ROA indicate that these variables alone are not sufficient determinants of earnings manipulation, highlighting the necessity of considering additional governance, regulatory, and institutional mechanisms to monitor and control managerial discretion effectively.

These results carry important implications for both corporate governance and auditing practices. The significant effect of asset change suggests that auditors and regulators should pay particular attention to firms undergoing substantial asset modifications, as these periods are inherently more susceptible to discretionary reporting. Enhanced internal controls, rigorous audit procedures, and transparent disclosure requirements during such periods are crucial to mitigate the risk of opportunistic earnings manipulation. In addition, financial leverage, operational efficiency, and profitability should be considered in combination with governance mechanisms rather than in isolation when assessing a firm's risk of earnings management. Collectively, these findings provide strong evidence that structural and accounting changes serve as a primary driver of earnings management, while other financial ratios require contextual evaluation to understand their influence fully.

In summary, this study confirms that asset change is the primary factor driving earnings management, whereas DER, WCT, and ROA do not individually exhibit significant effects. The regression analysis highlights the critical role of event-driven opportunities, such as asset adjustments, in enabling managerial discretion and financial reporting manipulation. These findings are consistent with prior empirical studies on earnings management (Elmarzouky, 2022) and offer practical guidance for auditors, regulators, and corporate governance bodies to strengthen oversight mechanisms, particularly during periods of substantial structural changes within the firm.

Intepretation Model 2

The results of the hypothesis test for leverage on financial statement fraud moderated by financial target show a significance level of -0.723555, which is smaller than the significance level of 0.05, with a coefficient value of -0.192262. These results indicate

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that the financial target moderates the effect of leverage on financial statement fraud. Thus, H1 in this study is rejected. The results of the hypothesis test for capital turnover on financial statement fraud moderated by financial target show a significance level of -0.991930, which is smaller than the significance level of 0.05, with a coefficient value of -0.001577. These results indicate that the financial target does not moderate the relationship between capital turnover and financial statement fraud. Therefore, H2 in this study is rejected. The results of the hypothesis test for financial stability on financial statement fraud moderated by financial target show a significance level of 2.976793, which is greater than the significance level of 0.05, with a coefficient value of 0.982341. These results indicate that the financial target does not moderate the relationship between financial stability and financial statement fraud. Therefore, H3 in this study is accepted.

V. CONCLUSIONS

Based on the results of this study, several key findings emerge concerning the influence of leverage, capital turnover, and financial stability on financial statement fraud, with financial targets serving as a moderating variable in manufacturing companies within the basic chemical and industrial sectors listed on the Indonesia Stock Exchange from 2017 to 2021. First, leverage was found to have an insignificant effect on financial statement fraud, indicating that the level of debt in a firm does not directly increase or decrease the tendency to manipulate financial statements. Second, capital turnover was also shown to have no significant effect, suggesting that operational efficiency and the speed of asset utilization do not meaningfully impact fraudulent reporting practices. Third, financial stability, measured through asset growth or financial robustness indicators, was found to have a positive and significant effect on financial statement fraud, implying that firms experiencing growth or shifts in financial structure may be more susceptible to fraudulent reporting, potentially to meet internal or market expectations. Furthermore, the presence of financial targets as a moderating variable did not significantly alter the influence of leverage or capital turnover on fraud, yet it appeared to strengthen the relationship between financial stability and fraudulent reporting, indicating that pressure to achieve predetermined financial objectives can exacerbate opportunistic behaviors. The determination coefficient (R^2) showed that a portion of the variance in financial statement fraud is explained by these variables, highlighting that other organizational, managerial, or market factors may also contribute to fraudulent practices. Overall, these findings underscore the critical role of financial stability and the moderating effect of financial targets in influencing the occurrence of financial statement fraud, providing important implications for regulators, auditors, and corporate governance mechanisms to better monitor and mitigate fraudulent practices in manufacturing firms.

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