International Journal of Research and Review
www.ijrrjournal.com E-ISSN: 2349-9788; P-ISSN: 2454-2237

Research Paper

The Effects of Good Corporate Governance and Bonus Compensation Onearnings Management with Firm Size as a Moderating Variable in the Consumer Goods Companies Registered in Indonesia Stock Exchange

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ABSTRACT

The aims of this study were to find out and analyze the effects of good corporate governance which consists of managerial ownership, institutional ownership and audit committee and bonus compensation to earnings management with firm size as a moderating variable in the consumer goods companies registered in Indonesia Stock Exchange. This type of study was a causal associative research. The data was a secondary data in the form of financial statements derived from the Indonesia Stock Exchange site. The population was all consumer goods companies registered in Indonesia Stock Exchange in 2014-2016. The total population was 35 companies. The entire population was selected to be sampled by the census method. Because of the observation in the study was taken from 2014 to 2016, the number of observationwas as many as 105 observations. The methods of data analysis applied the multiple linear regression analysis and residual test for testing moderating variable. The results showed that institutional ownership and audit committee had a significant effect on earnings management while managerial ownership and bonus compensation had no significant effect on earnings management. Moderating test with residual test showed firm size was not able to moderate the effects of managerial ownership, institutional ownership, audit committee and bonus compensation on earnings management in the consumer goods companies registered in Indonesia Stock Exchange.

Keywords: Managerial Ownership, Institutional Ownership, Audit Committee, Bonus Compensation, Earnings Management, Firm Size

INTRODUCTION

In the current era of globalization, competition in the business world is so competitive. If the company is able to earn a large profit, it will provide a great opportunity as well as to get capital from the investors and the creditors. Every investor will be interested to invest in a company that has profits that continue to increase each period. With great expectation, the level of profit to be gained from the investment of its shares will provide the maximum income as well. Therefore, the investors and creditors need accounting information that gives an image of a company's performance as a basis for decision-making.

One source of information used in assessing the financial performance of an enterprise is the financial statements. The information in the financial statements should be presented in accountability and transparency so as not to mislead the user in making the decision. The purpose of the financial statements is to promote the company to investors and potential investors

to invest their capital in the company. In order for investors and potential investors to invest their capital, management should be able to convince the investors and potential investors to the company's performance through the profit obtained in each period. This is because investors are more likely to pay attention to earnings information compared to other information. In addition, earnings information will also help the owners and others in assessing earnings power companies in the future.

This situation is certainly realized by management so that the motivation to perform actions manipulates profit reporting in accordance with his wishes. Behavior management in managing earnings in accordance with the wishes known as earnings management. According to Healy and Wahlen (1999), earnings management occurs when managers use consideration in the preparation and financial reporting to alter financial statements, in order to manipulate the amount of earnings.

The causes of earnings management practices can be illustrated by agency theory. Where in the agency theory explains about the separation of corporate management with company ownership. Separation of this function can lead to agency conflict due to the difference of interest between the owner (principal) and the manager (agent) as the manager of the company. When viewed from the interests, the owner wants maximum return on investment shares invested in the company that is reflected by the amount of dividends distributed from each share owned. While managers want a maximum bonus if the company can achieve profits that have been targeted previously.

Earnings management can also occur because of information gaps (information asymmetry) that occur between owners and management. In accordance with the statement of Richardson (1998) which states that information asymmetry can provide an opportunity for managers to take profit management action.

The action of earnings management has led to several known accounting scandal cases such as Enron, Merck, World Com and the majority of other companies in the United States (Cornett *et al*., 2006). One of the latest phenomenons regarding the case of earnings management occurred at a leading Japanese electronics company that is Toshiba. The case is known to the public by mid-2015. The company is known to manipulate earnings by inflating the company's profit of 151.8 billion yen or about 16 trillion rupiah over the past six years. This amounts to about three times the estimated profit predicted by Toshiba.

Earnings management can be minimized through a monitoring mechanism that can align the various interests that exist within the company. One of them by way of running good corporate governance (Good Corporate Governance). Good Corporate Governance (GCG) is a concept proposed to improve company performance through supervision and control of management performance to create added value for stakeholders.

Monitoring mechanisms used to align interests to achieve good corporate governance can be made through managerial ownership, institutional ownership, and audit committees within a company. Managerial ownership shows the amount of management ownership in the company so management can manage its interests in the company. In addition, there is institutional ownership in which an outside institution such as banking, insurance, financial institutions, or others who participate invest in the company can supervise the company against its activities so that the company will be more careful in carrying out its activities and report its financial statements. The last monitoring mechanism in this study is the audit committee. The audit committee refers that existence of an independent side monitoring and reporting to the owner regarding the implementation of the company's operational activities thereby reducing the management motivation to perform earnings

manipulation actions in the company's financial reporting.

On the other hand, there are factors that motivate management in making earnings manipulation. One of them is bonus compensation. Management has an interest in obtaining bonuses if the company earns both fixed and increased profits. The existence of management interest in obtaining a high bonus causes management did earnings manipulation actions so that companies report earnings that are not in accordance with the actual conditions.

Based on several cases of earnings management that have occurred to date, it can be seen that earnings management practices not only occur in small companies, but also occur in large companies. This is because large companies require large capital in running the company's operational activities. So management will try to attract the attention of investors and creditors to invest. In addition, investors will be more confident with large companies in obtaining increased profits compared with small companies as well as large companies also have the potential to earn higher profits. Based on the above explanation, the researcher uses firm size as moderating variable in this research.

THEORETICAL FRAMEWORK AND HYPOTHESES FORMULATION

1. The Effect of Managerial Ownership on Earnings Management

Managerial ownership shows the ownership of company's shares owned by managers (Prasasti & Ardianto, 2011). With the ownership of shares by the manager, then the position between manager and shareholders will be the same in the interest of improving company performance, especially to maximize the value of the company. In addition, with the ownership of shares by managers, it can minimize agency problems within a company, because managers directly share all the advantages and disadvantages of the decisions they make as they directly own the company through ownership of their shares on the company. When managers have ownership of company stock, then the manager will act in accordance with the interests of other shareholders, because the manager also has an interest in it. Given the similarity of interests between management and shareholders, it can reduce the manager's incentive to take earnings manipulation. This statement is supported by the result of Dustriyani and Nazar (2015) research which stated that managerial ownership had a significant negative effect on earnings management. In a sense, the higher the ownership of shares owned by managers, the less likely the manager to take earnings management action. Based on the description above and based on previous research, then formulated hypothesis as follows:

H_1: Managerial ownership affected the earnings management

2. The Effect of Institutional Ownership on Earnings Management

Institutional ownership shows ownership of shares by insurance companies, banks, investment companies and ownership by other institutions. Jensen and Meckling (1976) argued that institutional ownership has a very important role in minimizing agency conflicts between managers and shareholders. Institutional ownership has the ability to control management through an effective oversight process so as to reduce earnings management action. With the supervision of the shareholders of other institutions, it is expected to reduce the behavior of earnings management by managers. This statement is supported by the results of research conducted by Pujiati and Arfan (2013) where institutional ownership negatively affected earnings management. That is, the existence of institutional ownership will increase supervision on the performance of management that will reduce the motivation of managers to practice earnings management. Hence can be formulated hypothesis as follows:

H_2: Institutional ownership affected the earnings management

3. The Effect of Audit Committee on Earnings Management

With the establishment of an audit committee within a company, the supervision of management performance will also increase. This is in accordance with the purpose of the establishment of the audit committee as a supervisor in the management of the company. The existence of an audit committee within the company that is tasked with overseeing the performance of management, especially in the field of finance and corporate governance, will make the manager to re-think in the management of profit that does not describe the actual situation. This statement is supported by the result of Manuhutu (2016) study which stated that audit committee negatively affected earnings management.

H_3: Audit committee affected the earnings management

4. The Effect of Bonus Compensation on Earnings Management

Bonus compensation is a policy given to managers based on their work in achieving company goals (Wijaya, 2014). Generally bonus will be given if management able to increase profit in accordance with the target set in a period. According to Tanomi (2012), the company that has a bonus plan will make managers disposed to increase earnings. When management is able to increase earnings continuously, then the manager will get a bonus on the results of hard work. Bonus can be in the form of money or goods. More the higher bonus compensation the company promises to the manager, more the higher manager's motivation to do earnings management to maximize his personal well-being. This statement is supported by the result of Yustiningarti and Asyik (2017) research stated that bonus compensation had a significant positive effect on earnings management practices.

H_4: Bonus compensation affected the earnings management

5. Firm Size In Moderating the Effect Of Managerial Ownership, Institutional Ownership, Audit Committee And Bonus Compensation onEarnings Management

Firm size shows the size of a company. The larger a company will enable the greater the profit management. This is because large companies require large capital in running the company's operational activities so that management will be more driven to conduct earnings management that aims to attract the attention of investors and creditors in investing in the company. In addition, larger companies are also more required to meet higher investor expectations. Therefore, more the larger company, need for more control over the performance of management. With managerial ownership, institutional ownership and the establishment of audit committees, it is expected to be able to monitor managers in terms of earnings management. The bigger size of the company, will generate greater profit potential as well, so that the bonus will be obtained by the management will also be greater. The greater the bonus will be obtained, the greater the motivation of management to practice earnings management. This is supported by the Aprina's study (2015) who found a significant positive relationship between firm size and earnings management. Unlike the case with the study results of Dimara and Hadiprajitno (2017) who found that the size of the company negatively affects earnings management.

H5: Firm size was able to moderate the effect of managerial ownership, institutional ownership, audit committee and bonus compensation on earnings management

RESEARCH METHOD

Population and Sample

The population was consumer goods companies registered in Indonesia Stock Exchange in a row of period 2014-2016. The total population of consumer goods companies registered in Indonesia Stock

Exchange in a row of period 2014-2016 was 35 companies. The sampling technique used in this study was saturated sampling, that is sample determination technique with census method to research all population because relative population less than 50. Furthermore, the sample amount in this research was 35 consumer goods companies. The observation year was conducted in 3 years consecutively so that the number of observation in this study was 3 years observation x 35 samples then obtained as many as 105 samples of observation.

Method of collecting data

Data collection method was documentation study, that was by collecting secondary data of sample company in the form of financial statement, records and other information related to research through library, internet media and other mass media. Secondary data in this study obtained by downloading the financial statements of consumer goods companies through the Indonesia Stock Exchange website (www.idx.co.id.)

RESEARCH VARIABLE

1. *Dependent Variables*

Dependent variable was earnings management. In this study, earnings management was measured using discretionary accruals proxies. Discretionary accruals are an accrual component that allows managers to intervene in the preparation of financial statements, so that the reported earnings in the financial statements do not reflect real values or conditions (Guna & Herawati, 2010). Discretionary accruals are calculated using the Modified Jones Model (Dechow *et al*., 1995). This model is used because it is considered as the best model in detecting earnings management and can provide strong results (Yustiningarti, 2017).

2. *Independent Variables*

a. Managerial ownership

Managerial ownership is the amount of share ownership owned by the management of all share capital in a company. Managerial ownership is measured using a ratio scale through the percentage of total shares owned by the management of the total outstanding shares owned by the company.

b. Institutional ownership

Institutional ownership is the amount of share ownership owned by other institutions within a company. Institutional ownership is measured using a ratio scale through the percentage of shares owned by institutional investors compared to the total outstanding shares owned by the company.

c. Audit Committee

Audit Committee is a committee formed by a Board of Commissioners consisting of three or more members and is not a part of the management of the company in charge of supervising, testing and assessing the fairness of the financial statements made by the management. The audit committee is measured using a ratio scale by summing the total members of the audit committee.

d. Bonus Compensation

Bonus compensation is the reward given by the company to the manager in the form of bonuses, both in the form of financial and non financial due to the achievement of performance that exceeds the predetermined target. Bonus compensation is measured using a dummy scale, in which the company providing bonus compensation is assigned a value of 1 and the company that does not provide bonus compensation will be assigned a zero (0).

3. *Moderating Variables*

The moderating variable in this study is firm size. Firm size is a measure of the size of a company by looking at the amount of assets owned by the company at the end of the year. Firm size is measured using the ratio scale by finding the natural logarithm value of total assets.

DATA ANALYSIS METHOD

1. *Descriptive Statistics*

This statistic is used to provide an overview for the profile of the sample. This study uses descriptive statistics consisting of mean

value, standard deviation, minimum and maximum.

2. *Classic Assumption Test*

a. Normality test

Normality test aims to test whether in the regression model of dependent variables and independent variables and moderating variables all three have a normal distribution or not. Normality test in this research is performed by using Kolmogorov-Smirnov Test method.

b. Multicollinearity Test

Multicollinearity is the absence of correlation of independent variables between one another (Ghozali,2005). To detect the presence or absence of multicollinality in the regression model can be seen from the Tolerance and Variance Inflation Factor (VIF) values. If tolerance values <0.10 or VIF> 10 then multicollinearity occurs (Ghozali, 2005).

c. Autocorrelation Test

Autocorrelation is the existence of an interrupt error relationship that appears in time series data. In the assessment of linear regression models contain the assumption that there is no autocorrelation between the confounding error. Autocorrelation testing can be done by calculating Durbin Watson.

d. Heteroscedasticity Test

Heteroscedacity test aims to test whether in the regression model there is a variance inequality of the residual one observation to another observation. Heteroscedasity test can be employed by Scatterplot chart.

3. *Hypothetical Testing*

To test the hypothesis proposed, it is necessary to test statistically. Hypothetical testing in this study applied coefficient of determination (R^2), F test, T test and residual test.

RESEARCH RESULT

1. Descriptive Statistics

Descriptive statistical analysis is a method by which all data used in the study are collected and grouped for later analyzed and interpreted objectively by comparing the minimum, maximum, mean and standard deviations of the sample. The following descriptive statistics of the variables in this study was presented in Table 1.

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Earnings Management	105	-.61	.27	-.0759	.13531
Managerial Ownership	105	.0000	.8180	.056603	.1568633
Institutional Ownership	105	.1400	.9896	.730462	.2004511
Audit Committee	105	0	4	2.71	1.035
Bonus Compensation	105	0	1	.89	.320
Firms Size	105	25.30	32.15	28.4788	1.59389
Valid N (list wise)	105				

For bonus compensation variable is measured by using dummy variable where value 0 indicates company that does not give bonus compensation to management and value 1 indicates company giving bonus compensation to the management. Description of data from bonus compensation variable could be seen in Table 2.

Table 2. Frequency Distribution

Information	Frequency	Percent
Company Providing Bonus Compensation (1)	12	11.4
Companies Not Providing Bonus Compensation (0)	93	88.6
Total	105	100

2. Classic Assumption Test

a. Normality test

After calculated using the Kolmogorov-Smirnov test, the Asymp. values was obtained of 0.541.Because of the value of Asymp. Sig. (2-tailed) *i.e* 0.541, which is larger than 0.05 significance level means that the assumption of normality was accepted.

b. Multicollinearity Test

The VIF value of managerial ownership was 2.013, the VIF value of institutional ownership was 2.040, the VIF value of the audit committee was 1.037, and the VIF

value of the bonus compensation was 1.018. Since the VIF value of managerial ownership, institutional ownership, audit committee, and bonus compensation not more than 10, then there was no indication of multicollinearity.

c. Autocorrelation Test

Obtained value dw = 2,003 du = 1.7617, 4 - du = 2.2383 then du <dw<4-du. Thus, it could be concluded that there was no positive or negative autocorrelation in the research model, which means no autocorrelation problem either positive or negative.

d. Heteroscedasticity Test

After tested using Scatter Plot Graph Test, it was obtained that the point spread and did not form a pattern so that the regression model did not conclude heteroscedasticity.

3. Hypothesis Test Results

a. Coefficient of Determination Analysis (R^2)

The coefficient of determination had a value of (adjusted R^2) = 0.269. This means that 26.9% of changes in earnings management could be explained by changes in managerial ownership, institutional ownership, audit committees and bonus compensation. While the rest of 73.1% is explained by other variable factors not included in this research model.

b. Simultaneous Test Results (F Test)

The result of F statistic test showed that the value of F_{value}(2,932)>F_{table} (2,462) and significant value 0,024 <α = 0,05. It could be concluded that all independent variables of managerial ownership, institutional ownership, audit committee and bonus compensation simultaneously had a significant effect on the dependent variable that was earnings management.

c. Partial Test Results (T test)

After a partial test using T test, the following results were obtained:

1. The value of the regression coefficient of managerial ownership was -0.086, which was negative. The value could be interpreted managerial ownership negatively affected earnings management. Given value of Sig 0,460> 0,05 and t_{value} |-0,742|<t_{table} 1.983, then managerial ownership had no significant effect on earnings management.
2. The regression coefficient value of institutional ownership was -0.231, which was negative. This value could be interpreted as institutional ownership negatively affected earnings management. Sig value of0,013 <0.05 and t_{value} |-2.538| >t_{table} 1,983, then institutional ownership had a significant effect on earnings management.
3. The regression coefficient value of the audit committee was -0.029, which was negative. Those values could be interpreted by the audit committee negatively affected earnings management. Sig value 0,024 <0.05 and t_{value} |-2,287| >t_{table} 1,983, then audit committee had significant effect on earnings management.
4. The value of the regression coefficient of bonus compensation was -0.003, which was negative. The value could be interpreted bonus compensation negatively affected earnings management. Given value of Sig 0,945> 0,05 and t_{value} | -0,070 | <t_{table} 1.983, then bonus compensation had no significant effect on earnings management.

d. Moderating Variable Test Results

After testing the moderating variable by using residual test, obtained value of coefficient of earnings management equal to 0,496, that is positive and not significant if seen from value of Sig= 0,426> α= 0,05. It was concluded that firm size was not significant in moderating the effect of managerial ownership, institutional ownership, audit committee and bonus compensation to earnings management.

DISCUSSION

The first hypothesis which stated managerial ownership affected on earnings management in this study hypothesis was rejected. This is due to the possibility of a small percentage of managerial ownership in a company that is unable to monitor the

performance of management. In addition, the presence or absence of ownership of shares owned by the managerial in the company does not affect the desire of management to take earnings management action. This is because the desire of management to attract potential investors to invest in the company by showing that the company has a good prospect in which the profit is likely to be stable or increased. The results of this study was consistent with previous study conducted by Dimara and Hadiprajitno (2017) which showed that managerial ownership had a negative but insignificant effect on earnings management.

The second hypothesis that stated institutional ownership affected earnings management in this study was accepted. Where institutional ownership succeeds in limiting the practice of earnings management, the greater institutional ownership of firms, the less chance of profits management takes place. Institutional investors are sides who can monitor management with large share ownership. So it can be concluded that institutional ownership has a better ability to oversee the management in conducting earnings management actions compared with individual investors. The results of this study was consistent with other study conducted by Ferdiansyah (2014) and Midiastuty and Machfoedz (2003) who found that institutional ownership had a significant negative effect on earnings management.

The third hypothesis that the audit committee influenced the earnings management in this study hypothesis was accepted. The existence of an audit committee responsible for auditing internally and overseeing the operations of the company, especially management activities in reporting financial statements, will reduce management opportunities in managing earnings. So the management will not take earnings management action on the company's financial statements. The role of the audit committee within a company is very helpful in reducing the motivation of management to take earnings management action. The results of this study was consistent with research conducted by Manuhutu (2016) stated that the audit committee had a negative effect on earnings management.

The fourth hypothesis which stated bonus compensation affected on earnings management in this study was rejected. Giving bonus compensation does not always generate motivation for the management to take earnings management action. This is because the management is more interested to attract investors to invest in the company. So with a large capital will be able to develop a better business towards the end which will increase the profit so that will get a large amount of compensation in the long term when compared with doing earnings management that will only benefit in the short term. The results of this study were consistent with other research conducted by Dustriyani and Nazar (2015) and Ferdiansyah (2014) indicated that bonus compensation had a negative but insignificant effect on earnings management.

The fifth hypothesis that the size of the firm was able to moderate the effect of managerial ownership, institutional ownership, audit committee and bonus compensation on earnings management in this study hypothesis was rejected. By the effect of managerial ownership, institutional ownership, audit committee and bonus compensation on earnings management practices can not be influenced by large or small size of a company. Neither large companies nor small companies still require more oversight of management performance so as not to raise opportunities for management to practice earnings management.

CONCLUSION

Based on the results of research and discussion aforementioned above, it could be concluded that managerial ownership had no significant effect on earnings

management, institutional ownership had a significant effect on earnings management, audit committee significantly influenced earnings management, bonus compensation had no significant effect on earnings management and firm size was unable to moderate the effect of managerial ownership, institutional ownership, audit committees and bonus compensation on earnings management.

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How to cite this article: Pratiwi E, Lubis AF, Bukit R. The effects of good corporate governance and bonus compensation onearnings management with firm size as a moderating variable in the consumer goods companies registered in Indonesia stock exchange. International Journal of Research and Review. 2018; 5(8):113-121.

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