

Covid-19 and Accrual Earnings Management In Indonesia in the Second Quarter

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ABSTRACT: *The first case of COVID-19 in Indonesia occurred in early March 2020, and the number of cases has continued to increase. Finally, on March 31, 2020, the Indonesian government implemented PSBB (Large-Scale Social Restrictions). This study aims to find empirical evidence of differences in earnings management before and after the COVID-19 pandemic in Indonesia in the second quarter (Q2). The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange. The research period is two years, namely Q2 2019 (before the pandemic) and Q2 2020 (after the pandemic). The number of companies sampled in this study was 62 companies. Using the Wilcoxon test, this study finds evidence that there is no difference in accrual earnings management before and after the COVID-19 pandemic in Q2. Therefore, this concludes there is no effect of the COVID-19 pandemic on accrual earnings management practices in manufacturing companies in Indonesia. The condition of the economic crisis in Q2 caused by the COVID-19 pandemic did not necessarily encourage managers to carry out earnings management. Companies cannot carry out earnings management activities and make inaccurate representations of the economic phenomena of companies affected by this pandemic.*

KEY WORD: *COVID-19, Accrual Earnings Management, Q2, Wilcoxon Test*

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I. INTRODUCTION

The COVID-19 pandemic situation is still engulfing almost the entire world today. Some countries also continue to record a significant spike in cases every day. Worldometers (2020) as of Tuesday, June 30, 2020, at 08.45 WIB, the virus that attacks the respiratory system has now spread to 210 countries, and it has infected at least 10,402,897 people worldwide. Residents who were declared cured were 5,659,387 patients, while 507,523 people were reported dead. In Indonesia alone, the number of positive confirmed cases of COVID-19 has reached 55,092 people.

The COVID-19 outbreak has had a severe impact on almost all countries in the world, including Indonesia. In line with the increase in COVID-19 cases, the economic growth of most countries in the world is experiencing a deeper contraction. Ulya (2020) stated that the International Monetary Fund (IMF) estimates that the United States economy will shrink by 6.6 percent in 2020 due to the Covid-19 pandemic. This condition could be worse due to the second wave of the COVID-19 pandemic and increase in systemic poverty. Other risks include significant increases in government and corporate debt levels and low long-term inflation prospects, possibly even deflation.

The impact is not only in one area but in almost all existing activities. The existence of various restrictions in a country could indeed affect world economic activity. The COVID-19 pandemic suppressed Indonesia's economic growth in the second quarter (Q2) of 2020. Badan Pusat Statistik (2020) announced a fairly deep economic contraction in Q2 2020. Economic growth in Q2 2020 fell -5.32% compared to Q2 2019. Meanwhile, from the first quarter (Q1) of 2020 to the second quarter (Q2) of 2020, the Indonesian economy contracted -4.19%. Two consecutive contractions make Indonesia arguably has entered the phase of a technical recession. The reason is that in Q1 2020, Indonesia's Gross Domestic Product (GDP) was -2.41%. Cumulatively during the first semester of 2020, the Indonesian economy was -1.26%.

In the second quarter, Indonesia's economic growth of -5.32% was the lowest since Q1 1999 due to contractions in various components in Q2 2020. The household consumption component, which shares 57.85 percent of GDP, grew by -5.51 percent. Gross Fixed Capital Formation (PMTB) or investment indicator contributing 30.61 percent of GDP is also -8.61 percent. Exports which account for 15.69 percent of GDP, grew -11.66 percent. Imports with a share of 15.52 percent grew -16.96 percent. Government consumption with a

share of 8.67 percent of GDP grew -6.9 percent. Consumption of Non-Profit Institutions Serving Households (LNPR) with a share of 1.36 percent grew -7.76 percent.

This negative growth is inseparable from the influence of the weakening global economy in line with the COVID-19 pandemic and the decline in domestic economic activity due to the Large-Scale Social Restrictions (PSBB) policy to prevent the spread of the COVID-19 pandemic. The performance of the manufacturing industry experienced deep pressure during Q2 2020 as a result of the COVID-19 pandemic.

The supply of raw materials for domestic production, dominated by supplies from abroad, especially China, has disrupted the company's production process. Lockdown policies adopted by foreign countries have affected the mobility of raw material supply. Finally, the fulfillment of raw materials is obtained from other parties, which causes an increase in the price of raw materials.

Restrictions on community social activities automatically reduce the demand for various transportation, accommodation, and trade sectors. The decrease in demand is then responded to by providers of goods/services by reducing production or even temporarily closing their business to reduce costs incurred.

The COVID-19 pandemic can have a significant impact on the 2020 financial statements. Bringham and Houston (2006) and Sutrisno (2012) state that the tendency of investors to pay more attention to earnings information as a measure of company performance will encourage management to manipulate earnings value information.

For owners of capital, in this case, investors, it will not be easy to effectively control the actions taken by agents because they have little information available. The existence of information asymmetry is considered the cause of earnings management. If an agent knows more about the internal company information than a principal does, the agent will have more opportunities to carry out earnings management.

Managers carry out earnings management so that their performance is still considered good despite being hit by the global crisis due to the COVID-19 pandemic. Research by Majid et al.(2020), Azizah, Bantasyam, et al.(2020), Romantis et al.(2020), Azizah, Zoebaedi, et al.(2020), Azizah et al.(2019), Prasetyo et al.(2021) proves that earnings management does occur.

Research conducted by Damayanti and Kawedar (2018) and Ghazali et al. (2015) proves that companies faced with financial distress significantly affect earnings management. Gamayuni (2011) researched earnings management practices in companies that went bankrupt in Indonesia and found substantially higher earnings management practices in bankrupt companies compared to companies that did not go bankrupt during the four years before the bankruptcy.

In addition, research by Azizah (2021), which examines accrual earnings management practices in Q1 2020, proves that earnings management in Q1 2020 during the COVID-19 pandemic is lower than the practice of accrual earnings management in Q1 2019. Based on this explanation, researchers are interested in conducting a study entitled "COVID-19 And Accrual Earnings Management In Indonesia In The Second Quarter". The research's objective is to examine the difference of earnings management in the Q2 2020 (after pandemic COVID-19) and in the Q2 2019 (before pandemic COVID-19).

II. LITERATURE REVIEW

2.1. COVID-19

In late December 2019, the first case of mysterious pneumonia was reported in Wuhan, Hubei Province, China. The spread of the virus is swift, and it has spread outside China. On January 23, 2020, the Chinese government decided to lock down the city of Wuhan gradually. This is because almost all infected patients in Mainland China at that time had a history of attachment to Wuhan. After in-depth research, World Health Organization (WHO) announced the name of this virus was Coronavirus Disease (COVID-19) on February 11, 2020 (World Health Organization, 2020).

On June 17, 2020, Indonesia recorded the highest number of cases of coronavirus infection in ASEAN, with 41,431 positive. The number of deaths due to COVID-19 in Indonesia is also the highest in Southeast Asia, with 2,276 deaths. As of June 30, 2020, the spread of COVID-19 has infected 210 countries (Worldometers, 2020). The spread of SARS-CoV-2 from human to human became the primary transmission source, so that its spread became more aggressive. Transmission of SARS-CoV-2 from symptomatic patients occurs through droplets released when coughing or sneezing (World Health Organization, 2020).

People can prevent COVID-19 transmission by being disciplined about wearing masks, diligently washing hands with soap and running water, and maintaining social distance. World Health Organization (2020). states that most people infected with the virus experience mild symptoms, such as cough and high fever, and they do not need to be hospitalized. Groups at risk for severe illness are the elderly and people with health problems, such as heart disease, diabetes, or lung disease. Health facilities should be prioritized for people at risk for severe symptoms or other serious treatment needs.

2.2. COVID-19 And Accrual Earnings Management In The Second Quarter

In 1970, Akerlof introduced the term asymmetric information (Crystalita dan Juniarti, 2017). Information asymmetry is when a principal does not have sufficient information about an agent's performance. The principal can never find the contribution of the agent's efforts to the actual company results. More information owned by agents (managers) can trigger them to take actions following their wishes and interests to maximize utility for themselves.

Managers can level, increase, or decrease profits through earnings management techniques. Earnings information is essential for investors. It motivates managers to beautify financial statements (window dressing) to get the expected goals even though it is detrimental to other parties (Azizah, 2017a).

The manager's intervention on profit figures to trick stakeholders so that the manager's performance is considered good has made some parties judge earnings management as an act of fraud. However, other parties still believe that earnings management is not a fraud because management intervention within accounting standards still uses generally accepted accounting procedures and methods.

The COVID-19 pandemic has led to the ongoing weakening of people's purchasing power demand, a slowdown in global trade activities, and a decline of factory utilization during the Large-Scale Social Restrictions (PSBB), simultaneously causing companies to face a financial crisis.

Amid the global financial crisis, managers are encouraged to show optimal performance through earnings management (Azizah, 2017b). Through earnings management, managers gain shareholder trust. Earnings management is closely related to the level of profit or achievement of an organization. This is because the profit level is associated with managing performance and the manager's bonus.

III. METHOD

The population of this study is all companies listed on the Indonesia Stock Exchange. The study uses second quarter (Q2) 2020 as the period affected by the COVID-19 pandemic and Q2 2019 for the period not affected by the COVID-19 pandemic. The research sample is manufacturing companies listed on the Indonesia Stock Exchange. The sampling uses a purposive sampling method. The criteria used in the sampling are as follows:

1. The company belongs to the manufacturing industry.
2. The company published its financial statements for Q2 2018, Q2 2019, and Q2 2020.
3. Research data is presented in published financial reports.

Operationalization of variables this research were COVID-19 and earnings management. COVID-19: On February 11, 2020, World Health Organization (WHO) announced the name of this outbreak was Coronavirus Disease (COVID-19) caused by the Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) (World Health Organization, 2020). The period before COVID-19 and the period after COVID-19 will be the differentiating variables in this study. Q2 2019 is the period before COVID-19 (pre-test), while Q2 2020 is after the COVID-19 (post-test). The implementation of PSBB in Indonesia took effect on March 31, 2020, so the period after the implementation of PSBB is assumed to be the period affected by the COVID-19 pandemic.

Earnings Management: Earnings management is a manager's action in manipulating financial statement figures or manipulating profit information obtained by a company (Ponto and Rasyid, 2017). Earnings management in this study is accrual earnings management. This study uses discretionary accruals to proxy earnings management using the Modified Jones model (Dechow et al., 1995). The amount of accruals reflected in the calculation of earnings consists of discretionary accruals and non-discretionary accruals. Non-discretionary accruals are components of accruals that occur in line with changes in the company's activities. Discretionary accruals are components of accruals derived from earnings management by managers. Earnings management is measured through Discretionary Accruals, calculated by setting aside Total Accruals (TA) and Non-discretionary Accruals (NDA). As desired, discretionary accruals (DA) is an abnormal accrual rate originating from engineering earnings policy. To calculate Discretionary Accruals (DA), the Modified Jones model is used. The Discretionary Accruals (DA) Calculation Model is as follows:

$$DA_{it} = (TA_{it}/A_{it-1}) - NDA_{it}$$

Description:

- DA_{it} : Discretionary Accruals of company i in period t
 TA_{it} : Total Accruals of company i in period t
 A_{it-1} : Total assets of company i in period t-1
 NDA_{it} : Non-Discretionary Accruals of company i in period t

To measure Discretionary Accruals, first calculate Total Accruals with the modified Jones method, namely:

$$TA_{it} = NI_{it} - CFO_{it}$$

Description:

TA_{it} : Total Accruals of company i in period t

NI_{it} : Net profit of company i in period t

CFO_{it} : Cash flow from operating activities of company i in period t

The Total Accrual (TA) value is estimated using the Ordinary Least Square (OLS) regression equation as follows:

$$TA_{it}/A_{it-1} = \beta_1 (1 / A_{it-1}) + \beta_2 (\Delta REV_{it} / A_{it-1}) + \beta_3 (PPE_{it} / A_{it-1}) + e$$

Description:

TA_{it} : Total Accruals of company i in period t

A_{it-1}: Total assets of company i in period t-1

β₁,β₂,β₃: Regression coefficient

REV_{it} : Change in company i's income in period t

PPE_{it} : Fixed asset value (gross) of company i in period t

e : error terms

From the regression equation above, Non-Discretionary Accrual (NDA) can be calculated by the formula:

$$NDA_{it} = \beta_1 (1/A_{it-1}) + \beta_2 (\Delta REV_{it}/A_{it-1} - \Delta REC_{it}/A_{it-1}) + \beta_3 (PPE_{it}/A_{it-1})$$

Description:

NDA_{it} : Non-Discretionary Accruals of company i in period t

A_{it-1} : Total assets of company i in period t-1

β₁,β₂,β₃: Regression coefficient

REV_{it} : Change in company i's income in period t

REC_{it} : Changes in receivables of company i in period t

PPE_{it} : Fixed asset value (gross) of company i in period t

To test differences in accrual earnings management in the period before the COVID-19 pandemic and after the COVID-19 pandemic in Q2, the Paired Sample T-test was used if the residuals were normally distributed (passed the normality test). The Paired Sample T-test aims to determine whether there is a difference in the average of two samples (two groups) that are paired or related, with the following criteria:

- Determine the level of significance (α), which is 5%.
- Determine the criteria for acceptance/rejection of H₀ by looking at the significant values:
 If significant < 5%, then there is difference in the accrual earnings management in the pre-test (before the COVID-19 pandemic in Q2) and the post-test (after the COVID-19 pandemic in Q2).
 If significant > 5%, then there is no difference in the accrual earnings management in the pre-test (before the COVID-19 pandemic in Q2) and the post-test (after the COVID-19 pandemic in Q2).

However, if it does not pass the normality test, then to test differences in accrual earnings management in the period before the COVID-19 pandemic and after the COVID-19 pandemic, the Wilcoxon test is used, with the following criteria:

- Determine the level of significance (α), which is 5%.
- Determine the criteria for acceptance/rejection of H₀ by looking at the significant values:
 If significant < 5%, then then there is difference in the accrual earnings management in the pre-test (before the COVID-19 pandemic in Q2) and the post-test (after the COVID-19 pandemic in Q2).
 If significant > 5%, then there is no difference in the accrual earnings management in the pre-test (before the COVID-19 pandemic in Q2) and the post-test (after the COVID-19 pandemic in Q2).

IV. RESULTS

Based on the predetermined sample selection criteria, the number of manufacturing companies registered in a row for three years in Q2 was 81 companies. The number of incomplete data came from 19 companies, so the number of companies sampled in this study was 62 (sixty-two) companies as shown in table 1 below:

Table 1: Sample Selection Criteria

Description	Number of Companies
Companies listed in a row in Q2 2018, Q2 2019, Q2 2020	81
Incomplete data	(19)
Sample companies	62

Table 2: Normality Test Results

Q2 (Second Quarter)	Kolmogorov-Smirnov		
	Statistic	df	Sig.
Earnings management in the Q2 of 2019	,189	62	,000
Earnings management in the Q2 of 2020	,216	62	,000

Based on the normality test in table 2 above, the results show that the residuals are not normally distributed. Therefore, an alternative solution to substitute the paired sample t-test is non-parametric statistical analysis with the Wilcoxon test (Ghozali, 2015). Like the paired sample t-test, the Wilcoxon test is also used to determine whether there is a difference in the average of two paired samples. The results of the Wilcoxon test are in table 3 below:

Table 3: Hypothesis Testing Results

	Post Test-Pre Test	Conclusion
Asymp.Sig. (2-tailed)	0,235	there is no difference in the accrual earnings management in the pre-test (before the COVID-19 pandemic in Q2) and the post-test (after the COVID-19 pandemic in Q2)

The result of hypothesis testing using the Wilcoxon test is that Asymp.Sig. (2 tailed) is 0.235 greater than 0.05. This shows H_a is rejected, meaning that there is no difference in the accrual earnings management in the pre-test (before the COVID-19 pandemic in Q2) and the post-test (after the COVID-19 pandemic in Q2). Therefore, it can be concluded that there is no effect of the COVID-19 pandemic on accrual earnings management practices in Q2.

Compared to Q1 2020, the impact of the COVID-19 pandemic on the Indonesian economy was severe in Q2. Indonesia's economy in Q1 2020 compared to Q1 2019 still grew by 2.97 percent (BPS, 2020). However, this positive growth did not occur in Q2. Compared to the second quarter of last year, the Indonesian economy in Q2 2020 against Q2 2019 experienced a growth contraction of 5.32 percent (Badan Pusat Statistik, 2020).

The growth of Indonesia's economic conditions in Q2 2020 was strongly influenced by the COVID-19 pandemic situation (Ministry of Finance, 2020). Not only Indonesia but all countries are also taking steps to reduce the transmission of COVID-19 through measures that are quite drastic in affecting socio-economic activities.

The challenge of large-scale social restrictions (PSBB) for Indonesia also affected the economy in the second quarter, causing social problems for the community. Public consumption, which affects nearly 60% of the economy, also declined. Likewise, weakening investment has an impact on a decline in economic activity. The rest of the world is also experiencing a weakening, so that exports also affect Indonesia's export-oriented economic base. Meanwhile, Indonesia's manufacturing sector, which requires imports, has also experienced a decline due to the impact of the COVID-19 pandemic.

Table 4: Impact of the COVID-19 Pandemic in the 2nd Quarter

Financial Information	Average Value in Q2 2019	Average Value in Q2 2020	Description (Compared to Q2 2019)
Sales	Rp 7.179.689.835.778	Rp 6.386.803.884.286	Decreased by Rp 792.885.951.492
Cost of goods sold	Rp 5.595.090.823.538	Rp 4.843.128.936.699	Decreased by Rp 751.961.886.839
Selling cost	Rp 503.411.569.667	Rp 502.347.458.699	Decreased by Rp 1.064.110.968
Administration and general fee	Rp 349.908.320.789	Rp 354.446.409.393	Increased by Rp 4.538.088.604
Profit	Rp 636.086.378.753	Rp 611.753.793.546	Decreased by Rp 24.332.585.207
Accrual earnings management	0,044912	0,040784	Decreased by 0,004128

In table 4, sales in Q2 2020, compared to Q2 2019, decreased by 11%. The COVID-19 pandemic in the second quarter has resulted in a decrease in sales of IDR 792,885,951,492 compared to sales in Q2 2019. The average value of accrual earnings management did not experience significant changes in Q2 2020. Conditions of the economic crisis in the second quarter caused by the COVID-19 pandemic do not necessarily encourage managers to carry out earnings management. Companies cannot carry out earnings management activities and make inaccurate representations of the economic phenomena of companies affected by this pandemic.

The results of this study are not in line with research conducted by Azizah (2021) and Gamayuni (2011), which states that earnings management behavior will increase as the company's financial difficulty level increases. The global COVID-19 pandemic has made companies more careful in managing their companies, including earnings management practices. During Q2 2020, companies continued to carry out accrual earnings management, but with relatively the same numbers as before COVID-19 as we can see in table 4 above.

V. CONCLUSION

The manufacturing sector, which is the foundation of the Indonesian economy, cannot be separated from the impact of the COVID-19 pandemic (Santoso, 2020). The deteriorating economic conditions still require managers to show good performance. The information gap owned by managers and shareholders causes managers to carry out earnings management (Azizah, 2017a).

This study proves no difference in accrual earnings management before the COVID-19 pandemic and after the COVID-19 pandemic in the second-quarter period, so it can be concluded that there is no effect from the COVID-19 pandemic on accrual earnings management practices in manufacturing companies in Indonesia. Companies cannot carry out earnings management activities and make inaccurate representations of the economic phenomena of companies affected by this pandemic.

The COVID-19 pandemic, which has caused a global economic crisis, has forced companies to experience unfavorable conditions simultaneously. So with the COVID-19 pandemic, it seems as if stakeholders understand the current situation.

The economic crisis that resulted in the global financial crisis has made companies understand this condition so that managers do not carry out earnings management too aggressively because the company's financial crisis did occur on a massive scale. Therefore, financial statements that show unfavorable performance are understandable, but managers still polish it by thinly carrying out accrual earnings management.

This research is expected to contribute to the makers of accounting rules and standards to see to what extent the effectiveness of existing rules and standards can prevent managers from carrying out earnings management. It is expected that auditors can use the results of this study as a reference in carrying out audits of the company's financial statements. Moreover, users of financial statements can use this research as a basis for analyzing financial statements because invalid accounting information can cause investors to make wrong decisions and invest wrong funds. Furthermore, companies must mitigate the risk of every possible threat to minimize the impact. In addition, companies can implement the industrial revolution 4.0 to minimize the impact of the COVID-19 pandemic.

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