

IMPACT OF TRANSACTIONS WITH RELATED PARTIES ON BEHAVIOR MANIPULATION OF PROFITS USING THE ACCRUED EARNINGS MANAGEMENT

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Abstract

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The purpose of this study is to examine the relationship between related party transactions (RPTs) and profit manipulation. Researching this relationship is necessary when Vietnam is approaching the International Financial Reporting Standards (IFRS), and transactions with related parties arise as normal economic transactions (Khuong et al., 2024). Therefore, this study used the variable measuring earnings manipulation behavior as the level of manipulation based on accrual earnings management (AEM). The data used is from 56 non-financial enterprises with an average capital size of VND 2,000–10,000 billion and listed on the Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) in the period of 2018–2021, collected from S&P Global and financial reports published by the companies. After collection, the data is processed and cleaned in Excel, and a regression model is built using Stata software. The author is using ordinary least squares (OLS), fixed effects model (FEM), random effects model (REM), and feasible generalized least squares (FGLS) methods to test model error. The regression results show that RPTs and financial leverage have a positive and the size of total assets and audit quality have a negative impact on earnings manipulation on an accrual basis. From the results of empirical research, the study has made a number of appropriate policy recommendations to minimize profit manipulation in enterprises.

Keywords: Manipulation of Profits, Acquisition Basis, Related Party Transactions

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1. INTRODUCTION

Profit manipulation behavior is common worldwide and is not new in Vietnam. Related party transactions (RPTs) have often played a significant role in recent high-profile accounting scandals. These transactions have been reported not only in the US market, as seen in the cases of Enron and Adelphia (Gordon et al., 2007), but also in European and emerging markets, such as those in Asia. The concern with RPTs lies in the nature of the relationships between these parties and the companies involved. In many cases, RPTs are not standard transactions and can, therefore, be used illegally to benefit certain parties. RPTs have been used in business for a long time. They can be beneficial to a company by facilitating transactions and reducing costs (Srinivasan, 2013; Di Carlo, 2014), as well as improving the monitoring of transactions (Utama & Utama, 2014). However, much of the literature on RPTs highlights significant concerns about the potential for controlling shareholders to abuse RPTs to divert money from the firm for their own benefit, to the detriment of shareholders and other stakeholders (Habib et al., 2017; Williams & Taylor, 2013; Liu et al., 2014). In Vietnam, although a series of supervisory mechanisms and agencies have been established, this practice still exists and is becoming more sophisticated because of legal management practices and within the scope of the flexibility that accounting provides. allows standards other than illegal activities and is classified as a case of fraud. A related party that can be used as a tool to manipulate earnings. RPTs are considered normal transactions, but the nature of the relationships and transactions with related parties may result in a higher risk of material misstatement of the financial statements than with unrelated parties such as Related party transactions may not be possible under normal market terms and conditions, some RPTs may be entered into without an exchange of benefits. economic benefit. Lo and Wong (2011) show that the RPTs are used to manipulate profits for financial reporting and tax purposes. In the context of Vietnam's increasingly harmonizing with International Financial Reporting Standards (IFRS), accounting principles are increasingly strict, so manipulating profits through accounting flexibility is less effective and risky. cheating. While RPTs arise as a normal economic transaction, it is not expressed through any indicators in the reports. Therefore, managers are more likely to manipulate profits using RPTs. Therefore, the topic was implemented to examine the existence of Vietnamese companies' profit manipulation behavior through transactions with related parties.

There have been studies that have specifically examined factors in earnings management (EM), such as debt structure, bankruptcy risk, board of directors' characteristics, etc. However, in Vietnam, there has not been a specific study on the impact of RPTs on profit manipulation behavior. The author believes that the impact of RPTs on EM is very important, as RPTs seem to be a normal economic transaction for enterprises. However, the nature of relationships and transactions with related parties can lead to a higher risk of material misstatements in financial statements compared to transactions with unrelated parties.

The general objective of the study is to examine the impact of transactions with related parties on profit manipulation behavior of companies in Vietnam.

The overall goal of the research is: 1) to clearly articulate the theoretical foundation for using RPTs in profit manipulation; 2) to develop a research model that assesses the impact of RPTs on profit manipulation and analyzes the findings; and 3) to offer recommendations to stakeholders when there is evidence of RPTs use for profit manipulation, as well as propose directions for future research. To answer the above research objective, the research questions are as follows:

RQ1: What is the theory behind RPTs, profit manipulation behavior, and the impact of RPTs on profit manipulation behavior?

RQ2: How do RPTs affect accrual profit manipulation behavior and real earnings management behavior?

RQ3: What is the level of accrual profit manipulation compared to the level of real earnings management?

The research focuses on examining the impact of RPTs on profit manipulation behavior in Vietnam. The spatial scope of the study is limited to non-financial enterprises with average capitalization that are listed on the Vietnam Stock Exchange. The time frame of the research covers the period from 2018 to 2021.

The research method involves an overall assessment of previous research models in order to develop a research hypothesis that is suitable for the topic of the impact of RPTs on profit manipulation behavior. Additionally, the study synthesizes, evaluates, and logically interprets the research results, followed by a discussion and the provision of appropriate recommendations.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 outlines the theoretical framework and describes the collection of data samples and the research methodology. Section 4 shows the research results of ordinary least squares (OLS), fixed effects model (FEM), random effects model (REM), Hausman test, and checks the model for defects. Section 5 provides the discussion. Finally, Section 6 shows some main conclusions and policy implications of the study practice and recommendations.

2. LITERATURE REVIEW

Chen et al. (2011) contributed to EM theory by addressing the RPTs problem in the initial public offering (IPO) process of Chinese companies. The results of the study show that controlling shareholders structure RPTs during the IPO stage and that these RPTs are positively related to firm performance. In addition, the research results also indicate that a decrease in RPTs after an IPO leads to a decrease in company performance and negatively affects a company's stock returns.

Ryngaert and Thomas (2012) point out that RPTs expose the possibility of insider parties expropriating shareholders' assets through self-dealing. In addition, the research results of Kohlbeck and Mayhew (2017) show that transactions with related parties provide signals that the company is internally conducting proprietary trading transactions between the company and management or majority shareholders. The activities undertaken by the board of directors show that related-party transactions are used as tools for EM.

Sarlak and Akbari (2014) use data from companies listed on the Tehran Stock Exchange (the capital of Iran) to test whether RPTs have an impact on EM. Panel data and multivariate regression analyses were used to test the hypotheses. The research results show that there is a positive relationship between RPTs and EM.

El-Helaly et al. (2018) conducted a sample of companies listed on the Athens Stock Exchange, confirming that actual EM and RPTs are used as tools. adjusted real profits. In contrast, Kuan et al. (2010) find no association between cumulative profit management and RPTs. The RPTs effect may also depend on a number of factors, such as legal context and institutional environment (Pizzo, 2013).

Desai et al. (2004) point out that the risk of RPTs is high in the case of ownership concentration and the existence of controlling shareholders.

Marchini et al. (2018) examine whether Italian firms use party transactions to manage earnings and, subsequently, whether they attempt to minimize detection through valuation. Consistent with agency theory, Marchini et al.'s (2018) research shows that related-party transactions are more likely to be used for EM than other types of transactions.

Anh (2020) focuses on analyzing the impact of financial factors on the profit management of real estate companies listed on the Vietnamese stock market. The study is based on data from the financial statements of 58 real estate businesses listed on the Vietnam Stock Market (period 2013–2018). The results show that the listed real estate companies have heterogeneous EM levels measured by the adjusted Jones model during the study period.

Chen et al. (2020) analyzed the impact of RPTs on the quality of financial reporting of Chinese companies. The results showed that RPTs can reduce the quality of financial reporting, creating opportunities for profit manipulation.

Johnson and Mitton (2003) showed that in Southeast Asian countries, high levels of RPTs are associated with increased EM, which negatively affects the quality of financial reporting.

Handayani et al. (2021) researched in manufacturing companies listed on the Indonesian Stock Exchange, and empirical research results showed that RPTs have a significant positive impact on the management of accrued profits.

Giang et al. (2024) researched the manipulation of announced profits of companies listed on the Vietnamese stock market in four aspects: 1) quality of accrual accounting variables, 2) manipulation of profits to achieve goals (avoiding reporting losses, avoiding a decline in profits), 3) manipulating data to stabilize profits, and 4) typical fraud situations. Through an empirical analysis of profit manipulation in Vietnamese listed companies in the period 2017–2019 and a comparison with other countries in the region, the authors conclude that Vietnamese listed companies have a high level of manipulation. profit manipulation is higher than that of Singaporean and Malaysian companies in manipulating data to avoid reporting losses and avoiding a decline in profits in the 2017–2019 period. This result is consistent across all three analysis criteria: quality of accruals, manipulation of data to stabilize profits, and manipulation of data to avoid reporting losses.

Van and Hung (2022) examine the impact of EM measured by adjusted accruals in Vietnam with

the impact of debt structure, including both short-term and long-term debt on EM, and how debt structure relationships affect EM in the presence and absence of financing constraints. The results show that short-term and long-term debt positively impact EM, while long-term debt is inversely proportional to EM. Additionally, debt only has an impact on EM when the firm has no financial constraints.

Anh and Da Hanh (2023) analyzed the manipulation of financial statements of listed companies on the Ho Chi Minh Stock Exchange (HOSE). The study used a sample of 185 financial statements from 128 companies during the period 2016–2019. The results showed that there is a difference in the index of selling and administrative expenses between the two groups — those reporting with and without signs of manipulation. In addition, the possibility of financial statement manipulation is negatively correlated with variables such as sales growth index (SGI), depreciation index (DEPI), total accruals to total assets ratio (TATA), and leverage index (INV), while it is positively correlated with the variable sales, general, and administrative expenses index (SGAI).

Dao and Le (2022) examined the impact of EM on the financial performance of listed companies in Vietnam. This study analyzes the relationship between two forms of EM: 1) REM and 2) accrual earnings management (AEM). The results show that both forms of EM have a negative impact on the financial performance of the company, while emphasizing the important role of corporate governance in minimizing earnings manipulation.

The detrimental effect of RPTs on the quality of earnings stems from the concern that management might exploit these arrangements for their personal benefit, which may not align with the interests of shareholders (Alsultan, 2023).

In summary, both international and Vietnamese scholars have shown interest in research models that assess the impact of RPTs on profit manipulation behavior. Based on the theoretical foundations outlined above, this study proceeds to test the following hypotheses:

H1: RPTs have a positive impact on cumulative profit manipulation behavior.

H2: The larger the total asset size, the lower the level of cumulative profit manipulation.

H3: Business performance has a negative impact on AEM.

H4: The higher the revenue growth, the lower the level of cumulative profit manipulation.

H5: Cash flow from operating activities affects AEM in the same direction.

H6: Financial leverage has a positive impact on AEM.

H7: Price-to-book (P/B) index has a positive impact on AEM.

H8: Audit quality restrains and prevents earnings manipulation.

3. RESEARCH METHODOLOGY

3.1. Theoretical framework

Accrual earnings management is the way managers use accounting policies permitted by Generally Accepted Accounting Principles (GAAP) to influence profits. For example, choose an accounting policy to

record inventory value using the first-in, first-out (FIFO) or weighted average method. Accrued profit management has an accrual reversal in the period after the operation. If profits increase at this time, then profits in the next period will decrease. Conversely, a decrease in current profits according to the accrual method increases the profits in the next period. Managing profits by using the accrual method does not affect a company's cash flow. Accrued profits can be divided into two components: 1) nonadjustable accrual profits and 2) adjustable accrual profits. Non-adjustable accruals are determined by the company's normal economic conditions (Xiong, 2006). Adjustable accruals are those that are not specified in the contract and are a policy option for managers. Therefore, discretionary accruals are said to result from managerial opportunism.

To better measure and understand the AEM, we rely on the relationship between the cash flow report and the operating results report. The operating results report is prepared on an accrual basis, and

the LCTT report is prepared on a cash basis, so the accruals are determined as follows:

$$TA = PAT - CFO \tag{1}$$

where,

- *TA*: total accrual;
- *PAT*: profit after tax;
- *CFO*: cash flow from operating activities.

$$TA = DA + NDA \tag{2}$$

where,

- *DA*: adjustable accrual accounting;
- *NDA*: non-adjustable accrual accounting.

Administrators can only make profit adjustments through the *DA*. Thus, to obtain information on whether the financial statements are adjusted, the models must estimate the project.

Table 1. Summary of AEM measurement models

<i>Model</i>	<i>Theory</i>
<p><i>Healy's (1985) model:</i></p> <ul style="list-style-type: none"> • $NDA_{i,t} = \frac{\sum TA_{i,t}/A_{i,t-1}}{n}$ • $DA_{i,t} = A_{i,t}/A_{i,t-1} - NDA_{i,t}$ 	The construction model assumes that in the long term, the adjustable accrual value must be 0, so <i>NDA</i> is determined as the average <i>TA</i> variable of previous years. The model has the disadvantage that the <i>NDA</i> is the same mid-term, but in reality, that is not the case.
<p><i>DeAngelo's (1986) model:</i></p> <ul style="list-style-type: none"> • $NDA_{i,t} = A_{i,t-1}/AT_{i,t-2}$ • $DA_{i,t} = A_{i,t}/A_{i,t-1} - NDA_{i,t}$ 	Overcome the problem of taking the average <i>NDA</i> value across periods of Healy (1985). DeAngelo (1986) determines <i>NDA</i> according to <i>DA</i> of period <i>t - 1</i> , with the hypothesis that period <i>t - 1</i> has no profit adjustment, and <i>NDA</i> does not change between period <i>t - 1</i> .
<p><i>Jones' (1991) model:</i></p> <ul style="list-style-type: none"> • $\frac{NDA_{i,t}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV}{A_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{A_{i,t-1}}$ 	Different from the constant <i>NDA</i> assumption of the two previous models. Jones (1991) established on the basis that <i>NDA</i> depends on revenue (<i>REV</i>) and the size of the historical cost of fixed assets. However, the model still has the limitation that revenue is treated as <i>NDA</i> .
<p><i>Dechow and Sloan's (1991) model:</i></p> <ul style="list-style-type: none"> • $NDA_{i,t} = \alpha_1 + \alpha_2 \text{median}_i TA_{i,t}/A_{i,t}$ 	Industry model with the hypothesis that businesses in the same industry have the same fluctuations in factors affecting <i>NDA</i> .
<p><i>Dechow et al.'s (1995) model:</i></p> <ul style="list-style-type: none"> • $\frac{NDA_{i,t}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV - \Delta REC}{A_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{A_{i,t-1}}$ 	Based on the model Jones (1991) and Dechow et al. (1995) used cash revenue fluctuations instead of revenue fluctuations.
<p><i>Dechow and Dichev's (2002) model:</i></p> <ul style="list-style-type: none"> • $\Delta WC = \alpha + \beta CFO_{t-1} + \beta CFO_{t-2} + \beta CFO_{t-3} + \epsilon$ 	Dechow and Dichev (2002) propose a new measure of one aspect of cumulative quality and working capital earnings. This model measures accruals as a function of current, past, and future <i>CFO</i> because future <i>CFO</i> can be expected through accruals.
<p><i>Kothari et al.'s (2005) model:</i></p> <ul style="list-style-type: none"> • $\frac{NDA_{i,t}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV - \Delta REC}{A_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \alpha_4 \frac{ROA_{i,t}}{A_{i,t-1}}$ 	Based on the models of Jones (1991) and Dechow et al. (1995), Kothari et al. (2005) continued to develop and add variables on return on assets (<i>ROA</i>) to the original model of Jones (1991).
<p><i>Model Francis et al.'s (2005) model:</i></p> <ul style="list-style-type: none"> • $TA = \alpha + \beta CFO_{t-1} + \beta CFO_t + \beta CFO_{t+1} + \beta \Delta Rev + \beta PPE + \epsilon$ 	Analyze the standard deviation of the residuals from the accrual model into an innate component that reflects the company's operating environment and a discretionary component (<i>v</i>) that reflects management's choices.

Note: Variables used in the above AEM measurement models: *NDA*: accrual accounting variables cannot be adjusted; ΔREV : change in revenue in year *t* compared with year *t - 1*; ΔREC : replace accounts receivable in year *t* compared with year *t - 1*; *PPE*: historical cost of tangible fixed assets in year *t*; $A_{i,t}$: total assets in year *t*; $A_{i,t-1}$: total assets in year *t - 1*; and $A_{i,t-2}$: total assets in year *t - 2*.
Source: Authors' compilation.

3.2. Research models

Research model to evaluate the impact of transactions with related parties on cumulative profit manipulation behavior.

$$AEM_{i,t} = \beta_0 + \beta_1 LnA_{i,t} + \beta_2 Grow_{i,t} + \beta_3 CFO_{i,t} + \beta_4 DE_{i,t} + \beta_5 PB_{i,t} + \beta_6 ROA_{i,t} + \beta_7 RPT_{i,t} + \beta_8 adopt_AQ + \epsilon_{i,t} \tag{3}$$

Table 2. Variables in the research model

<i>Variable</i>	<i>Variable name</i>	<i>Previous papers</i>
<i>AEM</i>	Management of accumulated profits: measured by the absolute value of the adjustable accruals (<i>DA</i>) of the Dechow et al.'s (1995) model, adjusting the Jones (1991) model.	Sari et al. (2021), Handayani et al. (2021), Dechow et al. (1995)
<i>RPT</i>	$Transactions\ with\ related\ parties = (receivables + related\ party\ liabilities) / equity$	Sari et al. (2021)
<i>lnA</i>	Scale of total assets: measured by logarithm of total asset value.	Sari et al. (2021), El-Helaly et al. (2018), Marchini et al. (2018), Kuan et al. (2010)
<i>Grow</i>	$Revenue\ growth = (revenue\ in\ year\ t - revenue\ in\ year\ t-1) / revenue\ in\ year\ t-1$	Handayani et al. (2021), Chen et al. (2011), Srinivasan (2013)
<i>CFO</i>	Net cash flow from operating activities: determined by the formula: $Net\ cash\ flow = sign(LCTT) \times log(LCTT + 1)$	Handayani et al. (2021), Marchini et al. (2018), Kuan et al. (2010)
<i>DE</i>	$Financial\ leverage = debt / equity$	Handayani et al. (2021), Sari et al. (2021), El-Helaly et al. (2018), Marchini et al. (2018)
<i>PB</i>	$PB\ coefficient = market\ value / book\ value$	Teguh and Kristanto (2020), El-Helaly et al. (2018), Tong and Wang (2008)
<i>ROA</i>	$Return\ on\ total\ assets = profit\ after\ tax / average\ total\ assets$	Kuan et al. (2010)
<i>adopt_AQ</i>	Dummy variable: Audit quality; value = 1 if the company is audited by one of Big4 firms; and value = 0 if the company is audited by non-Big4 firms	Teguh and Kristanto (2020), Kuan et al. (2010); El-Helaly et al. (2018)

Source: Authors' compilation.

3.3. Data collection

The objective of this study is to investigate the impact of RPTs on profit manipulation behavior in non-financial enterprises listed on the Vietnamese stock exchange. The research spans a period of four years, from 2018 to 2021. Accordingly, the selected companies for the research sample must satisfy the following criteria: 1) they are non-financial enterprises (excluding financial sector companies such as banks, securities firms, insurance companies, non-life insurance companies, real estate companies, service companies, and general finance companies); 2) they have been continuously operating and listed on either the HOSE or Hanoi Stock Exchange (HNX) (excluding unlisted public company market) during the 2018–2021 period; and 3) they have an average capital size ranging from VND 2,000 billion to 10,000 billion, as prior studies by Nuryaman and Rusmin (2025) and Siregar and Utama (2006) suggest that large enterprises with strong internal control systems are more capable of preventing profit manipulation, though they may also engage more frequently in RPTs, potentially reducing the model's effectiveness. Conversely, small-cap companies typically have less incentive and ability to manipulate earnings. Therefore, this study focuses on companies with average capitalization to best evaluate the coefficient representing earnings manipulation behavior. Additionally, enterprises must have sufficient data available, especially regarding RPTs, to support the research. These selection criteria significantly narrowed the research sample to a total of 56 enterprises for the 2018–2021 period. Data for these companies were sourced from S&P Global and the companies' published financial reports. After data collection, the dataset was

processed and cleaned using Excel, and regression analysis was performed with Stata software.

4. RESULTS

For the panel data series of 56 non-financial companies for the period 2018–2021, independent variables were built for the model. The authors check for multicollinearity to ensure the reliability of the sample data size and the appropriateness of the selected variables. The test results showed that the variance magnification factors were all less than five, and the model did not suffer from multicollinearity.

Table 3. Multicollinearity test of the model impacting RPTs on AEM

<i>Variables</i>	<i>VIF</i>	<i>1/VIF</i>
<i>ROA</i>	2.29	0.436568
<i>PB</i>	1.94	0.516551
<i>lnA</i>	1.53	0.654452
<i>DE</i>	1.30	0.766497
<i>RPT</i>	1.20	0.831469
<i>adopt_AQ</i>	1.09	0.918520
<i>CFO</i>	1.05	0.953558
<i>Grow</i>	1.04	0.963137
Mean VIF	1.43	

Note: VIF: variance inflation factor.

Source: Results obtained from Stata software.

To select the optimal model between the FEM regression model and the REM regression model, the authors used the Hausman test and obtained results of $Pro > \chi^2 > 0.05$, thus rejecting the null hypothesis that there is no correlation between the explanatory variables and random components. Thus, the REM regression model was selected as the optimal model.

Table 4. Hausman test of the RPTs impact model on AEM

Variables	Coefficients			
	(b)	(B)	(b - B)	sqrt (diag (V_b - V_B))
	REM	FEM	Difference	Standard error
RPT	0.0183287	0.0142898	0.0040389	
lnA	-0.0938305	0.0457958	-0.1396263	
Grow	0.0001996	0.0000187	0.0001809	
CFO	-0.0026708	-0.0015032	-0.0011675	
DE	0.000178	0.0000897	0.0000883	
PB	-0.0376088	-0.0441783	0.0065695	
ROA	0.0046169	0.003925	0.000692	
adopt_AQ	0.055858	0.0164059	0.0394522	

Note: *b* = consistent under null proposition and alternative proposition; obtained from xtreg (Stata command used to estimate panel data regression models, including FEM and REM); *B* = inconsistent under alternative proposition, efficient under null proposition; obtained from xtreg; Test: null proposition: difference in coefficients not systematic; $\chi^2(8) = (b - B) (V_b - V_B)^{-1} (b - B) = 6.62$; Prob. > $\chi^2 = 0.5784$ ($V_b - V_B$ is not positive definite). sqrt (diag (V_b - V_B)): the square root of the diagonal elements of the matrix (V_b - V_B); it represents the standard errors of the coefficient differences between FEM and REM. V_b - V_B is the difference between the covariance matrices of the two estimators (FEM and REM). Null proposition: there is no systematic difference between FEM and REM coefficients → the REM model is preferred. Alternative proposition: there is a systematic difference between FEM and REM coefficients → the FEM model is preferred.

Source: Obtained from Stata software.

Breusch and Pagan Lagrangian multiplier (LM) tests were performed by choosing between REM and OLS and checking the model for heteroskedasticity. The test results for prob. > $\chi^2_{bar} < 0.05$, indicate that the model encounters heteroscedasticity, and the OLS model is the optimal model.

Breusch and Pagan LM test for random effects is as follows:

$$AEM_{name_{1,t}} = Xb + u_{name_1} + e_{name_{1,t}} \quad (4)$$

Table 5. Breusch and Pagan LM tests for the impact model of RPTs to AEM

	Var	sd = sqrt (Var)
AEM	0.0850983	0.2917162
e	0.036779	0.1917786
u	0.0082347	0.0907451

Note: Test: $Var(u) = 0$; $\chi^2_{bar}(01) = 18.58$; prob. > $\chi^2_{bar} = 0.0000$. Var stands for variance, representing the degree of dispersion of a variable around its mean. In this table, it indicates the estimated variances of the dependent variable, the idiosyncratic error (e), and the individual effect (u). sd = sqrt (Var) is the standard deviation, obtained by taking the square root of the variance. It shows the average variability of the data, expressed in the same unit as the original variable. Var(u) is the variance of the individual-specific error component (u) in the REM. In the Breusch-Pagan LM test, the null proposition ($Var(u) = 0$) means no significant individual effects → use pooled OLS; rejecting null proposition implies significant individual effects → use the REM.

Source: Obtained from Stata software.

To test the autocorrelation phenomenon, the Wooldridge test is used, and the result p-value > 0.05, accepts the null hypothesis that there is no autocorrelation phenomenon. To overcome the heteroscedasticity defect, a feasible generalized least squares (FGLS) random effects estimation regression is proposed with the panel option.

Then, the study conducted the Wooldridge test to model the impact of RPTs on AEM (Table 6).

Table 6. Wooldridge test for the impact model of RPTs to AEM

F (1, 55)	0.002
Prob. > F	0.9632

Note: Null hypothesis = no first-order autocorrelation.

Table 7. Regression results modeling the impact of RPTs on AEM

Variables	AEM		
	(1)	(2)	(3)
RPT	0.0183***	0.0209***	0.0264**
lnA	-0.0938***	-0.0913***	-0.0396***
Grow	0.000200	0.000286	0.0000179
CFO	-0.00267*	-0.00315**	-0.000457
DE	0.000178	0.000145	0.000101*
PB	-0.0376*	-0.0355*	-0.0177**
ROA	0.00462	0.00464	0.00116
adopt_AQ	0.0559	0.0536*	0.0413***
_cons	2.841***	2.770***	1.231***
N	224	224	224

Source: Results obtained from Stata software.

5. DISCUSSION

First, the regression results show that RPTs have a positive impact on earnings manipulation on an accrual basis at the 1% significance level. This means that the larger the balance with related parties, the higher the level of earnings manipulation by managers. The study results further support

the studies of El-Helaly et al. (2018), Marchini et al. (2018), Kohlbeck and Mayhew (2017), Thomas et al. (2004), Jian and Wong (2010), and Aharony et al. (2006).

Second, the size of total assets has a negative impact on earnings manipulation on an accrual basis at the 1% significance level, indicating that larger companies have a lower level of earnings manipulation. This result is similar to that of

Handayani et al. (2021), Gordon and Henry (2005), and Sari et al. (2021). Watts and Zimmerman (1990) suggested that large firms should reduce earnings more actively to minimize political scrutiny. According to Nuryaman and Rusmin (2025) and Siregar and Utama (2006), large firms perceive themselves to be subject to closer scrutiny from government regulators and investors, thus being more cautious in manipulating accrued earnings. However, the findings of previous studies by Reynolds and Francis (2000) and Chung and Kallapur (2003) show that there is no significant difference in means between large and small firms.

Third, financial leverage has a positive impact on earnings manipulation on an accrual basis at the 10% significance level, indicating that companies with a large ratio of total debt to total assets have a higher level of earnings manipulation. The results of the study are similar to the view of Wahyuni et al. (2022). DeFond and Jiambalvo (1994) found that leverage is positively related to EM. The leverage ratio is incorporated as a sub-variable because this variable may partly reflect the value of the corporate tax shield (Jian & Wong, 2010).

Fourth, audit quality has a negative impact at the 1% significance level, indicating that companies audited by Big4 (Deloitte, PricewaterhouseCoopers, Ernst & Young, and KPMG) have a lower level of earnings manipulation than companies not audited by Big4. The results of the study are similar to those of Handayani et al. (2021) and Mayhew and Wilkins (2003). Some studies, such as Krishnan (2003) and Francis et al. (2005), show that higher-quality Big4 audit programs provide greater confidence in clients' financial statements than non-Big4 auditors. Krishnan (2003) demonstrates that Big4 auditors are better at limiting clients' EM than non-Big4 auditors, finding that clients of non-Big4 auditors have higher levels of discretionary accruals. In a similar context, Habib (2011) finds that Big4 auditors are associated with less EM in firms.

6. CONCLUSION

Firstly, according to the regression results, managers use the RPTs to manipulate profits. According to agency theory, shareholders should pay more attention to the company's operating activities, and the company's governance mechanism needs to be identified and enhanced to ensure the rights of owners. Company owners avoid self-interested managers for personal gain.

Accounting and tax regimes in Vietnam have differences, creating loopholes for businesses to

manipulate data, so it is necessary to be cautious in financial reports for tax purposes and strengthen inspection and review.

Investors and parties using financial statements must pay attention to disclosing information about transactions with related parties to make the right decisions. Some identifying signs also help investors consider whether a business is manipulating profits, such as company size and debt ratio.

Secondly, managers prefer and have a higher level of manipulation of actual profits than the level of manipulation of accumulated profits. This raises the issue of auditor responsibilities. Auditors must identify and assess the risk of material misstatements by understanding an audited entity and its environment. The auditor also needs to understand the relationship, nature, and purpose of transactions with related parties. During the audit process, the auditor must maintain a vigilant attitude towards agreements and documents, proving the existence of relationships or transactions with related parties.

Thirdly, the role of regulatory agencies play an important role in preventing profit manipulation. In the context of Vietnam's roadmap to applying IFRS, an increasing number of businesses tend to switch to actual profit management. Therefore, the author recommends that the Ministry of Finance accelerate the implementation of Project 345/QĐ-BTC on the roadmap for applying IFRS in Vietnam to decide on mandatory application for businesses in Vietnam. In addition, large enterprises with financial capacity should pioneer IFRS application before mandatory decisions are made by the Ministry of Finance.

The research results have contributed in theory and practice, specifically supplementing the theoretical model and providing empirical evidence on profit manipulation behavior through transactions with related parties in Vietnam, thereby creating trust for investors and investors can use this information to make the right investment decisions.

However, the research paper uses a research sample of non-financial enterprises with an average capitalization of VND 2,000 to 10,000 billion, so the sample size is still limited and there is no accurate assessment of the group of large and small capitalization enterprises to compare these groups with each other.

Therefore, future studies should increase the number of survey samples, expand to include all groups of large and small capitalization enterprises to analyze, compare the differences between these groups of enterprises to expand the scope of research.

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