ABSTRACT

INFLUENCE OF INFORMATION ASYMMETRY ON THE PRACTICE OF EARNINGS MANAGEMENT IN MANUFACTURING COMPANY WHICH IS LISTED ON INDONESIA STOCK EXCHANGE

By

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The purpose of this research was to examine empirically the influence of independent variable information asymmetry, control variable firm size and leverage on the earnings management. Sample used in this research was the manufacture firms that are listed in Indonesia Stock Exchange which was collected through purposive judgement sampling method, for an observation period of 2004 up to 2008. Based on stated criterions, there were 53 companies becoming the research sample. In this research, hypotheses were examined by multiple regression analysis at degree of certainty 95% and degree of error 5%. Before analyze with multiple regression linear analysis, there was a discriminant test and classic assumption test.

The result of empirical examination using multiple regression analysis shows that, individually, independent variable information asymmetry, control variable firm size and leverage had influence significant on the earnings management. Simultaneously, independent variable information asymmetry, control variable firm size and leverage had influence significant on the earnings management.

Adjusted $R^2$ value is 0.339 that mean 33.90% dependent variable earnings management can be explained by independent variable information asymmetry, control variable firm size and leverage and then 66.10% explained by another factor outside in the regression model. But in the regression between dependent variable earnings management with independent variable information asymmetry resulted adjusted $R^2$ value 0.315 or 31.50% and then in the regression between dependent variable earnings management with control variable (firm size and leverage) resulted adjusted $R^2$ value 0.347 so control variable more explain dependent variable earnings management. Independent variable information asymmetry has significant effect and can explain dependent variable earnings management 31.50%.

Keywords: earnings management, information asymmetry, firm size and leverage