ABSTRACT

THE EFFECT OF FREE CASH FLOW, FINANCIAL LEVERAGE AND COMPANY GROWTH ON EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE (IDX)

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This research is determine how the effect of free cash flow, growth (investment opportunities set), and financial laverage on earnings management in manufacturing companies which go public and was listed on the Indonesian Stock Exchange (BEI). Earnings management is an attempt to change, conceal, and delaying financial information, so that the financial statements are can not able to function to tell what actually has been done and experienced by the company during the period and earnings management is impact of the manager's freedom to choose and use a particular accounting method when record and organize the information in the financial statements. this case is because there are a variety of methods and accounting procedures are recognized and accepted in the generally accepted accounting principles (GAAP).

The results from this research showed a significant influence between free cash flow, company growth or investment opportunities set and financial laverage to earnings management, many managers do not want free cash flow in a large value because it would not maximize the profits, managers prefer to use the funds for investment or expansion to makes profits of the company can be maximum, because earnings are often used as indicators to evaluate the managers company performance. The company with low growth opportunities will have high assets in place, in the other side the company with high growth opportunities have low assets in place is, the company with high growth opportunities containing high asymmetry information between the managers and shareholders. Leverage ratio with big amount is indicates relatively large of the corporate debt, so there are big risk of the agreement debt violation by the company (debt convenent hypothesis).

This study is expected to provide input for the company in order to further strengthen the internal control and make the rules and hold internal audit process for managers to reduce earnings management activities that only give benefit to certain parties.