# ABSTRACT

Ignatia Alda/32150248/2019/The Effect of Profitability, Component of Good Corporate Governance, Audit Quality, and Company Size on Earnings Management in Manufacturing Companies Listed in Indonesia Stock Exchange in 2014-2017 / Advisor: Yustina Triyani, Dra., M.M., M.Ak.

Financial statements are important for investors in decision making. In the financial statements there is profit that gain attention from investors, causing managers become motivated to do earnings management. However, the presence of good corporate governance is expected to increase supervision, so that it can prevent earnings management. Investors also want a good quality financial reporting, so that good audit quality is needed. Large companies can conduct earnings management to avoid public spotlight and high regulatory costs. This study aims to examine the effect of profitability, component of good corporate governance, audit quality, and firm size on earnings management.

The theory underlying this research is agency theory and positive accounting theory. Profitability is the company's ability to generate profits as measured by Return on Assets (ROA) ratio, which is a comparison between net income after tax on total assets. The component of good corporate governance consists of institutional ownership and managerial ownership. Audit quality is measured by public accountant firm size. Company size is measured from the amount of total assets owned by the company. Meanwhile, earnings management as the dependent variable uses discretionary accruals measured using the Modified Jones Model.

The object in this study is a manufacturing company listed on the Indonesia Stock Exchange in 2014-2017. Samples were taken by using non-probability sampling with purposive sampling method and there are 41 companies that met the criteria during 2014-2017 therefore there are 164 observation data. The first data analysis process is the pooling test, then proceed with the classic assumption test, F test, t test, and coefficient of determination. The data analysis technique used is multiple linear regression analysis.

Based on the results of the pooling test, testing research data can be carried out at the same time. This research has fulfilled all classical assumption tests. Furthermore, based on the F test (α = 0.05) the significance value is 0,005 so that the model can be said to be feasible. Based on the t test, the significance value of ROA=0,0115; KI=0,087; KM=0,3615 KA=0,0835; and UP=0,3665.

This research concludes that profitability proved to have a negative influence on earnings management. Meanwhile, institutional ownership, managerial ownership, audit quality, and company size are not proved to have influence on earnings management.

*Keywords: earnings management, profitability, good corporate governance, audit quality, company size*