# ABSTRACT

Wilson / 35150090 / 2019 / *The Impact of Good Corporate Governance Mechanism, Leverage, and Firm Size on Earnings Management* (*An Empirical Study on Companies in the Sri-Kehati Index Category Listed in Indonesia Stock Exchange from 2013 to 2017)* / Advisor : Ari Hadi Prasetyo, Drs., M.M., M.Ak.

*Income statement is one of financial statement important component because it has the profit information which is very useful for every investors or shareholders and creditors to find out how is the company financial condition right now. Thus, profit information which is part of financial statement, often become the target of engineering through opportunistic action by management to maximize their satisfaction without thinking about the losses that will be experienced by shareholders and investors. Opportunistic actions are carried out by choosing certain accounting policies, so that the company’s profit can be managed. The purpose of this research is to determine the effect of good corporate governance (institusional ownership, managerial ownership, audit committee), leverage, and firm size on earnings management.*

*The theory underlying this research are agency theory and positive accounting theory. Agency theory explains that there are differences of interests between the shareholders and the management. The interests of both sides are based on profits generated by the company. Positive accounting theory have 3 hypotheses related to earnings management, namely bonus plan hypothesis, debt convenant hypothesis, and political cost hypothesis.*

*The research sample consisted of 14 companies in the Sri-Kehati index category which are listed in the Indonesia Stock Exchange in 2013-2017, thus the total sample in this research are 70 samples. Sampling is measured by nonprobability sampling method and using purposive sampling method. The analytical methods used in this research are descriptive statistical test, pooling test, classic assumption test, and hypothesis test.*

*The results of the research indicate that the data in this research can be pooled and pass the classic assumption test because it meets the established criteria. The result of the F test indicate that all of the independent variables have a simultaenous effect on earnings management. The result of the t test indicate that the variables with sig < 5% are institusional ownership, audit committee, leverage, and firm size, therefore H0 rejected. While the variable with sig >5% is the managerial ownership therefore H0 accepted . The regression coefficient test result of this research indicates that all of the independent variables have a proportion influence on earnings management of 8.4%.*

*Based on the results of this research, it can be concluded that there is enough evidence that institutional ownership, audit committee, and firm size have a negative effect on earnings management. There is also sufficient evidence that leverage has a positive effect on earnings management. While the managerial ownership has not enough evidence to effect on earnings management.*

*Keywords: good corporate governance, leverage, firm size, and earning management*