ABSTRACT

This research is carried out to investigate the influence of firm characteristics and good governance characteristics to earnings management behavior. Furthermore, the research is expanded to determine the predictive discretionary accruals models in Indonesia. The author utilizing firm listed in Indonesia Stock Exchange during 2014 – 2018 as research object.

The research samples is selected by utilizing the purposive sampling method. In addition, the data analyze is conducted through E-Views statistics program version 10. Three discretionary accruals models are used to define earnings management behavior. The research assumed firm characteristics factors such as financial performance, firm size, leverage, and share issuance activity and good governance characteristics such as board of directors’ size and auditor’s size as predictor variables that affect earnings management behavior. The spearman correlation analyze is conducted to determine the predictive discretionary accruals.

The research discovers that financial performance, firm size, and share issuance activity can accentuate the earnings management behavior significantly on firms listed in Indonesia Stock Exchange (IDX). In other hand, big four auditor, leverage, and board of directors can attenuate the earnings management behavior, however only big four auditor is significant. The research also find that discretionary accruals model of Jones, Dechow, and Kothari are predictive in Indonesia. The discoveries of this research provide novel understanding for investors that firm valuation should not only emphasize on financial performance but also qualitative measure. Moreover, enforcement on both governance and monitoring mechanism are essential approach to reduce earnings management behavior. The originality value of the research posits on investigation of three models of discretionary accruals’ capability in predicting earnings management behavior.

Keywords : earnings management, firm characteristics, good governance, discretionary accruals