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THE EFFECT OF FINANCIAL DESTRESS, FREE CASH FLOW, PROFITABILITY, AND LEVERAGE ON PROFIT MANAGEMENT WITH AUDIT QUALITY AS A MODERATED VARIABLE

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Abstract:

This study aims to analyze and obtain empirical evidence about the effect of financial difficulties, the flow of free money, profitability, and utilizing earnings management with audit quality as a moderating variable in the production company in the sales sector in Indonesia. The independent variable in this study financial distress, free cash flow, Profitability, and influence. A variable which depends in this study is earnings management. A Moderating variable in this study is the quality audit. The sample of this study is manufacturing companies in the sector of consumer products, which are listed in the Indonesia Stock Exchange (IDX) in the period 2014-2018. Data collected by method a try. In total, 130 data, a statement of annual financial specified as an observation. Method of analysis this study uses multiple regression analysis. The results of this study indicate that (1) the financial pressure has a significant effect on revenue management, (2) the flow of cash significantly has a huge impact on revenue management, (3) does not affect financial management, (4) does not have an impact on financial management, (5) financial have a significant effect on the financial pressure with the advantage of a huge financial as a financial advantage,, (7) profitability has quite a big effect on earnings management with audit quality as moderating variable, (8) leverage does not affect earnings management with audit quality as moderating variable.

INTRODUCTION

Earnings management can be viewed from several factors related to managers' motivation in managing earnings. One of these factors is Financial Distress. Companies that experience funding constraints (financial distress) tend to carry out earnings management always to provide the right signals in investors' eyes. Dahniar Dwi Ariesanti (2015) suggests that earnings management behavior increases with the increase in company financial distress. However, another study by Dewi Arum Sari (2012) states that economic distress has a negative and insignificant effect on earning management.

Other factors that affect earnings management, one of which is free cash flow. The government can utilize free cash flow to carry out the practice of earnings management. Free cash flow defined as cash flow available to be paid to creditors or shareholders after the company invests in fixed assets, new products, and working capital needed to sustain ongoing operations (Brigham and Houston, 2010: 109). Free cash flow (free cash flow) is the rest of the money from funding all the projects that generate the value of the net positive (NPV) (Jensen, 1986). Ross et al. (2000) defines free cash flow as the company's cash is distributed to creditors or shareholders, which are not used for working capital or investment in fixed assets. So, free cash flow can be concluded as the rest of the money of the company, after the company's financial all investment and working capital for the operational activities in the context of the construction business (Yogi and Damayi 2016). Free cash flow shows the picture for investors about the amount of dividends that will they be able to, and as a step to increase the company's value in the eyes of the head of school. For a company that develops capital, the flow of free money will reflect their ability to continue or do not survive in the future. Free cash flow shows the picture for investors about the amount of dividends that will they be able to, and as a step to increase the company's value in the eyes of the head of school. For a company that develops capital, the flow of free money will reflect their ability to continue or do not survive in the future. Free cash flow shows the picture for investors about the amount of dividends that will they be able to, and as a step to increase the company's value in the eyes of the head of school. For a company that develops capital, the flow of free money will reflect their ability to continue or do not survive in the future.

Another factor that influences earnings management practices can also be seen from Profitability, which is proxied by ROA (Return On Asset). ROA is usually used as a ratio to assess company performance. In research conducted by Rengga Ganang Anggoro Putro (2016), ROA positively influences earnings management. These results prove that if the company's performance is bad or good, it will trigger managers to act opportunistically by increasing or decreasing accounting profit. However, the results of research conducted by Aji and Mita (2010) view that ROA has a negative effect on earnings management.

Apart from financial distress, free cash flow, and Profitability,

Leverage is also associated with earnings management practices. Investors use the leverage ratio to see the company's ability and risk. Companies with a financial debt ratio are in normal conditions but have a chance of loss when the economy experiences a recession (Brigham and Houston, 2010: 143). In research conducted by Agustia (2013), it is stated that Leverage influences earnings management. Companies will tend to cover up a higher proportion of debt in ratio to assets by manipulating earnings management. However, Seri Murni (2017) research results reveal that Leverage does not affect earnings management.

Currently, many companies understand the importance of implementing corporate governance. One of the elements of corporate governance is audit quality. This aims to create the effectiveness of company control. The principles of corporate governance applied consistently can be an obstacle to performance engineering activities that result in financial statements, not describing their fundamental value (Chtourou et al., 2001). High audit quality can be seen from the company's financial information's reliability through the KAP audit opinion. The size of KAP will significantly affect the company's independence and ability to detect earnings management. The big four KAP can be said to be more capable of detecting earnings management than the non-big four KAP.

REVIEW OF THEORY

Agency theory

The explanation of the concept of revenue management according to Salno and Baridwan (2000: 19) using the theory of institutions, which states that "the practice of earnings management is influenced by a conflict of interest between management (agent) and owners (the principal) that arise because each party try to reach or consider the level of prosperity". In an agency relationship, managers have asymmetric information on external parties to the company, such as creditors and investors. Information asymmetry occurs when managers have relatively more internal company information and know it relatively quickly than external parties. In this condition, the manager can use the information he knows to make financial reports to maximize his prosperity. Management intervention contains moral hazard if it utilizes this asymmetric information with earnings management. The information gap between the two parties creates/triggers the emergence of earnings management. Each party in the agency relationship is motivated by different motivations according to their interests. The theory of institutions explains the company as the focal point (meeting point) of the agency relationship between the owner of the company (the principal) and the management company (agent). He seeks to understand the behavior of the organizers to reveal how the parties involved in the agency relationship within the company to maximize the benefits of their business. This effort to optimize the utility causes a conflict of interests between owners (principals) and management (the agency).

Proprietary Theory

Ownership is the net value of the business, which is represented by equity. The firm's relationship with owners is in the owner's equity account. The main objective of ownership theory to determine and analyze the owner's net worth (net worth). Vatter (1966) states that the income and expense accounts have the same algebraic characteristics as "net worth". Income and expenses are additional accounts (subsidiary) of ownership. Income increases the owner's wealth, and expenditures decrease the owner's wealth. That income greater than costs becomes net profit, giving the owner's wealth increase from business operations during a specific period.

When information that conveys a crucial aspect of the company's operations is disclosed to investors, it will also be known by competitors to feel competitive disadvantage (Verrecchia, 2006). The weakness that occurs when sensitive information is disclosed and which competitors can use to generate strategic advantage is called the cost of ownership. If a competitor produces this type of information, the cash flow will slow down in future performance and impact the competitor generating additional market share. (Beyer et al. 2014) Thus, the cost of ownership is closely related to competitors who produce private company information; for example, information about new product designs or research development plans. Also,

Signaling Theory

There is information asymmetry, which occurs when sellers know more about their products than buyers.The problem of information asymmetry is also a fundamental assumption of signal theory. This theory shows how information asymmetry can be reduced by the parties involved. The issue of reduced information asymmetry is indicated by the fact that companies send signals to investors to show that they are better than other companies in similar markets to get investment and improve their reputation (Verrecchia, 1983). As a result, disclosure can be used as a signaling tool. Companies will disclose more information so that the signal is better seen by investors (Shehata, 2014). Signal theory can be used in assessing segment information through disclosure (Hunzker, 2014). If the company discloses less information than others, the disclosure is interpreted as a signal that hides some relevant information. Abbas and Hamid (2015) state that a company might develop a disclosure strategy by considering internal (a disclosure that acts as monitoring) and external (a revelation that serves as a reasonable transparency effort). The company's performance can be a signal to investors in its investment activities.

Profit Management

The size of the company's performance that is often used as a basis for making business decisions is the profit of the company. As stated in the Statement of Financial concepts (SFAC) no. 2, Information on earnings is a significant element in the financial statement and is very important for those who use it because it has predictive value. This

makes the management tried to carry out the earnings management so that the performance of the company looks useful for external parties.

Healy and Wahlen (1999: 368) gives the definition of earnings management as seen from the setter of standards, earnings management-namely occurs when managers Use individual decisions in financial reporting and to change the financial statements to mislead the holders of the financial want to know the economic performance of the obtained. The company or to influence the outcome of the Contract using a number of accounting reported.

Financial Distress

According to Altman (2005) (Rahmy, 2014), financial difficulty is a broad concept consisting of several situations where companies face financial difficulties. The standard term to describe the problem is the failure, bankruptcy, and bankruptcy. If the company shows financial conditions are weak, it can make the shareholders and the shareholders, have lost their faith. By doing so, stakeholders will retreat to cooperate with the company. If the company fails to find a solution, it is a sign that the company is in a situation of financial crisis on the verge of bankruptcy.

According to Fachrudin (2008) in (Hidayat, 2014), there are several definitions of financial difficulties according to their types, including (1) Economic Failure, (2) Business Failure, (3) Technical Insolvency, (4) Insolvency in Bankruptcy, (5) Legal Bankruptcy. One way to measure bankruptcy rates is to use the method invented by Altman. Altman (1968) (Loman and Malelak, 2015) to apply Multiple Discriminant Analysis. Altman researched to develop a new model for predicting corporate bankruptcy. In its original form, the Z-score model is a linear model with financial ratios that are weighted to maximize the model's predictive ability.

Free Cash Flow

Free cash flow is cash that is distributed to creditors or shareholders, which are not needed for working capital or investment in the assets. This money usually creates a conflict of interest between managers and shareholders. Management usually prefer to collect back these funds in projects that can generate profits because this alternative would increase the incentive obtained. On the other hand, shareholders expect the remaining funds to be distributed to improve the welfare of shareholders. The company's growth is the expectation desired by the internal parties of the company, namely management, and outside parties, namely investors and creditors. Vogt (1997: 20) suggests that a growing company will be responded positively by the market. These findings show that companies with low growth should seek alternative funding, for example, through a policy of debt. The effect of free cash flow on the difference in debt between large companies and small companies. The problem of free cash flow will be more real for big companies because it would require a separate mechanism to monitor the managers in making

the best decision for shareholders.

Profitability

Sofyan Syafri Harahap (2008: 219) defines the profitability represents the ability of a company to get profits through all of the capabilities of existing resources such as sales, money, capital, number of employees, number of branches, and so on. Profitability is the net result of a series of policies and decisions. Profitability can be determined by calculating various relevant benchmarks. One of these benchmarks is the financial ratio as one of the analyzes in analyzing the financial condition, results of operations, and profitability of a company.

Kasmir (2014: 196) explains that the measurement results can be used as a management performance evaluation tool so far, whether they have worked effectively or not. Failure or success can be used as a reference for planning future earnings and replacing the new management, especially after the old government has failed. Therefore, this profitability ratio is often referred to as a measure of management performance.

Leverage

According to Harahap (2013), influence is the ratio that describes the relationship between company debt to the capital. This ratio indicates how much the company is financed by debt or outside parties with the ability as defined by wealth. Meanwhile, in the broadest sense, Kashmir (2012) stated that the leverage ratio is used to measure the ability of the company to pay all of his abilities, both long and short if it is liquidated.

The benefit of using Leverage in the company is that it allows the company to specify the Leverage in sales on profit to common shareholders. It will enable companies to show the relationship between operating and financial effects.

Audit Quality

The State Financial Audit Standards in Mustikawati (2013) reveal that the quality of audit results is an audit report that contains weaknesses in internal control, fraud, deviations from statutory provisions, inadequacy, must be accompanied by a response from the leadership or official responsible for the entity checked for findings and recommendations as well as planned corrective actions. The office of administration of the public sector (1986) in Badjuri (2011) defines audit quality as the fulfillment of professional standards and also the requirements that must be considered.

It can be concluded that audit quality is the auditor's ability to detect material misstatements in the financial statements and jointly report material misstatements (DeAngelo, 1981). Users of financial statements, especially shareholders, will make decisions based on financial reports that have been audited by auditors.

Hypothesis

In this study, four factors are considered to influence earnings management for a company. These factors are financial distress, free cash flow, Profitability, and Leverage that affect earnings management.

The four independent variables will be partially tested through multiple regression models to determine their effect on earnings management in a manufacturing company in the consumer goods industry listed on the IDX. The following is a schematic of a framework:

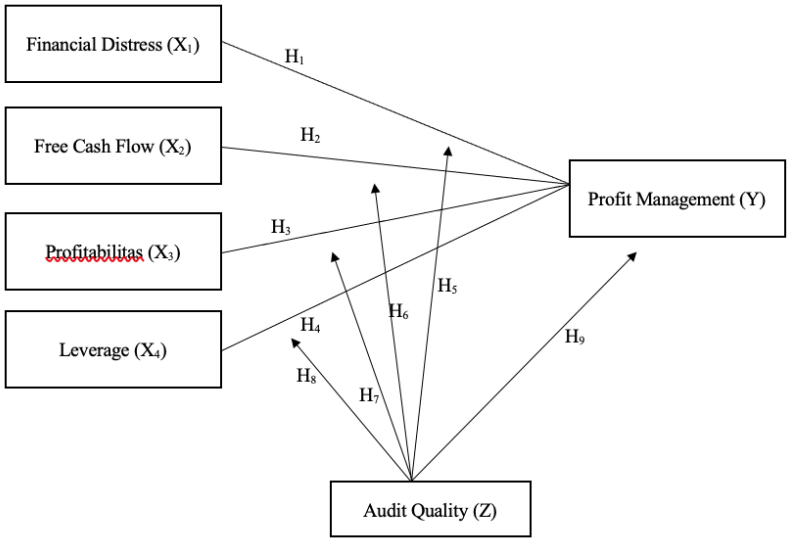

Figure 1. Schematic Conceptual Framework

Based on the formulation of the research problem, the following research hypothesis can be formulated:

- The Effect of Financial Distress on Earnings Management

  Ha1: There is an influence between financial distress on earnings management.

- Effect of Free Cash Flow on Earnings Management

  Ha2: There is an influence between free cash flow on earnings management.

- Effect of Profitability on Earnings Management.

  Ha3: There is an influence between Profitability on earnings management.

- The Effect of Leverage on Earnings Management.

  Ha4: There is an influence between the leverage ratio on earnings management.

- Effect of Audit Quality as Moderating Financial Distress on Earnings Management.

Ha5: There is an effect of Audit Quality as a Moderator of Financial Distress on

Earnings Management.

- Effect of Audit Quality as Moderation of Free Cash Flow on Earnings Management.

  Ha6: There is an effect of Audit Quality as a Moderator of Free Cash Flow on Earnings Management.

- Influence Quality Audit as Moderator Profitability to Profit management.

Ha7: There is an influence of Audit Quality as a Moderator of Profitability on Earnings Management.

- The Effect of Audit Quality as a Leverage Moderator on Earnings Management.

  Ha8: There is an effect of Audit Quality as a Leverage Moderator on Earnings Management.

- Impact of Audit Quality on Earnings Management.

  Ha9: There is an influence between audit quality on earnings management.

RESEARCH METHODS

Data were collected in the form of quantitative data, the data source of this research is the second data, in the form of annual reports of manufacturing companies in the industrial sector of consumer products for 2014-2018. The Data used is the data obtained from the information of annual obtained through the websites of the stock Exchange (BIE) of Indonesia. The population in this study is the 42 companies in the industrial sector. The determination of the sample in this study using a sample technique non-probability. This study used data or the data of panel A because of using the data time series and data between spaces.

RESULTS AND DISCUSSION

The Effect of Financial Distress on Earnings Management

The Financial Distress variable shows a positive regression coefficient of 0.026596. The probability offers a value smaller than 0.05, namely 0.0118. This means that the significance level is smaller than $\alpha = 5\%$ so that the 1st hypothesis is successfully supported or H0 is rejected. This study succeeded in proving that financial distress affects earnings management. This shows that when a company experiences funding problems (financial distress), managers tend to carry out earnings management to maintain a good signal by displaying short-term earnings performance, which always increases even though its condition is in trouble.

Table 1

Recap of Average Ratio Per 5 Years

No.	Company name	Variable				
		X1	X2	X3	X4	Y
1	PT TRI BANYAN TIRTA Tbk	0.31	4.11	0.16	151.80	0.29
2	PT WILMAR CAHAYA INDONESIA TBK	7.78	12.11	12.89	89.27	0.31
3	PT DELTA DJAKARTA TBK	2.81	24.45	22.31	21.73	0.33
4	PT INDOFOOD CBP SUKSES MAKMUR TBK	2.21	23.49	11.72	159.37	-0.01
5	PT INDOFOOD SUKSES MAKMUR TBK	1.29	15.04	5,51	99.03	-0.88
6	PT MULTI BINTANG INDONESIA TBK	3.15	56.50	39.50	819.85	-0.63
7	PT MAYORA INDAH TBK	2.41	11.64	9.34	116.87	-2.38
8	PT NIPPON INDOSARI CORPINDO TBK	1.48	23.57	6.85	93.11	0.84
9	PT SEKAR BUMI TBK	2.08	0.66	4.74	89.56	0.71
10	PT SEKAR LAUT TBK	2.10	7.74	4.37	122.49	-0.33
11	PT ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	2.85	23.02	13.55	23.10	-0.14
12	PT GUDANG GARAM TBK	2.39	14.76	10.58	62.55	0.09
13	PT HANJAYA MANDALA SAMPOERNA TBK	4.33	34.24	30.32	42.33	1.12
14	PT BENTOEL INTERNASIONAL INVESTAMA TBK	1.07	-5.53	-11.39	-231.55	-0.13
15	PT INDOFARMA (PERSERO) TBK	1.36	4.33	-1.21	158.13	0.34
16	PT KIMIA FARMA (PERSERO) TBK	1.82	15.06	6.26	110.56	-0.21
17	PT KALBE FARMA TBK	2.92	21.94	15.21	22.43	0.55
18	PT MERCK TBK	2.57	0.20	35.48	70.32	0.28
19	PT FYRIDAM TBK	2.27	9.32	3.11	59.82	-0.16
20	PT TEMPO SCAN PACIFIC TBK	2.49	13.53	8.30	42.70	-0.28
21	PT AKHASA WIRA INTERNATIONAL TBK	1.18	26.96	5.80	90.15	-0.66
22	PT MARTINA BERTO TBK	1.25	2.85	-4.25	70.35	0.00
23	PT MANDOM INDONESIA TBK	2.50	12.92	11.53	27.88	0.42
24	PY UNILEVER INDONESIA TBK	4.07	25.16	40.12	221.15	0.68
25	PT KEDAUNG INDAH CAN TBK	1.92	1.00	0.03	49.89	0.36
26	PT LANGENG MAKMUR INDUSTRI TBK	1.00	2.73	-1.61	112.10	-0.13
	Overall Average	2.37	14.68	10.74	103.65	0.01

Source: Data processed by the author

From the table above, it can be seen that the variable X1 Financial Distress from the 26 companies sampled, if averaged for the overall Financial Distress value, is 2.37, which means several companies require special attention.

Effect of Free Cash Flow on Earnings Management

The Free Cash Flow variable shows a positive regression coefficient of 0.004529. Probability offers a value smaller than 0.05, which is 0.0000. This means that the level of significance is smaller than α = 5% so that the second hypothesis is successfully supported or H0 is rejected. This study has proven that Free Cash Flow affects Earning Management.

This study's results support research from Kodriyah and Anisah Fitri (2017), where free cash flow has a significant effect on earnings management. This is because free cash flow is an essential determinant of company value, so company managers focus more on efforts to increase free cash flow. This study's results are consistent with the research of Bukit and Iskandar (2009) that companies with high free cash flow also tend to practice earnings management by increasing reported earnings to cover managerial actions that are not optimal in utilizing the company's wealth.

It can also be seen in table 4:18 of the average X2 variable, namely Free Cash Flow per 5 years, which is 14.68. With the criteria that a healthy company must have positive Free Cash Flow, it can be said that the company understudy has a healthy company category. Here is the Free Cash Flow Average per 5 Years for each company.

Table 4.18
***Free Cash Flow* Average per 5 years**

No.	Company name	Variable
		X2
1	PT.TRI BANYAN TIRTA Tbk	4.11
2	PT.WILMAR CAHAYA INDONESIA TBK	12.11
3	PT.DELTA DJAKARTA TBK	24.45
4	PT.INDOFOOD CBP SUKSES MAKMUR TBK	23.49
5	PT.INDOFOOD SUKSES MAKMUR TBK	15.04
6	PT.MULTI BINTANG INDONESIA TBK	56.50
7	PT.MAYORA INDAH TBK	11.64
8	PT.NIPPON INDOSARI CORPINDO TBK	23.57
9	PT.SEKAR BUMI TBK	0.66

10	PT.SEKAR LAUT TBK	7.74
11	PT.ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	23.02
12	PT.GUDANG GARAM TBK	14.76
13	PT.HANJAYA MANDALA SAMPOERNA TBK	34.24
14	PT.BENTOEL INTERNASIONAL INVESTAMA TBK	-5.53
15	PT.INDOFARMA (PERSERO) TBK	4.33
16	PT.KIMIA FARMA (PERSERO) TBK	15.06
17	PT.KALBE FARMA TBK	21.94
18	PT.MERCK TBK	0.20
19	PT.FYRIDAM TBK	9.32
20	PT.TEMPO SCAN PACIFIC TBK	13.53
21	PT.AKHASA WIRA INTERNATIONAL TBK	26.96
22	PT.MARTINA BERTO TBK	2.85
23	PT.MANDOM INDONESIA TBK	12.92
24	PY.UNILEVER INDONESIA TBK	25.16
25	PT.KEDAUNG INDAH CAN TBK	1.00
26	PT.LANGENG MAKMUR INDUSTRI TBK	2.73
	Overall Average	14.68

Effect of Profitability on Earnings Management

Variable profitability shows a positive regression coefficient of 0.003283. The probability of a value greater than 0.05,that is 0.0766. This means that the level of significance is more significant than 5% so the third hypothesis is not supported or H0 is accepted. This research managed to prove that Profitability does not affect the earnings management. This result supports the research of Gunawan 2015, which stated that Profitability does not affect the earnings management. A company with a high level of Profitability will not do earnings management. The results of this study support the results of the research conducted by Muhammad Irsyad (2008), which states that Profitability does not affect the earnings management.

It can also be seen in table 4:19 of the average X3 variable, namely Profitability per 5 years, which is 10.74. With the criteria that a healthy company must have positive Profitability, it can be said that the company understudy has a healthy company category. Here is the Average Profitability per 5 Years for each company.

Table 4.19
The profitability of Earnings Management

No.	Company name	Variable
		X3
1	PT.TRI BANYAN TIRTA Tbk	0.16
2	PT.WILMAR CAHAYA INDONESIA TBK	12.89
3	PT.DELTA DJAKARTA TBK	22.31
4	PT.INDOFOOD CBP SUKSES MAKMUR TBK	11.72
5	PT.INDOFOOD SUKSES MAKMUR TBK	5,51
6	PT.MULTI BINTANG INDONESIA TBK	39.50
7	PT.MAYORA INDAH TBK	9.34
8	PT.NIPPON INDOSARI CORPINDO TBK	6.85
9	PT.SEKAR BUMI TBK	4.74
10	PT.SEKAR LAUT TBK	4.37
11	PT.ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	13.55
12	PT.GUDANG GARAM TBK	10.58
13	PT.HANJAYA MANDALA SAMPOERNA TBK	30.32
14	PT.BENTOEL INTERNASIONAL INVESTAMA TBK	-11.39
15	PT.INDOFARMA (PERSERO) TBK	-1.21
16	PT.KIMIA FARMA (PERSERO) TBK	6.26
17	PT.KALBE FARMA TBK	15.21
18	PT.MERCK TBK	35.48
19	PT.FYRIDAM TBK	3.11
20	PT.TEMPO SCAN PACIFIC TBK	8.30
21	PT.AKHASA WIRA INTERNATIONAL TBK	5.80
22	PT.MARTINA BERTO TBK	-4.25
23	PT.MANDOM INDONESIA TBK	11.53
24	PY.UNILEVER INDONESIA TBK	40.12
25	PT.KEDAUNG INDAH CAN TBK	0.03
26	PT.LANGENG MAKMUR INDUSTRI TBK	-1.61
	Overall Average	10.74

Source: Data processed by the author

The Effect of Leverage on Earnings Management

The leverage variable shows a negative regression coefficient of 2.45E-05. Leverage offers a value greater than 0.05, namely 0.6991. This means that the significance level is more significant than α = 5%,

so that the fourth hypothesis is not supported or H0 is accepted. This study succeeded in proving that Leverage does not affect earnings management.

These results support Kodriyah's (2017) research that Leverage does not affect earnings management. The high level of debt will increase the risk of default for the company. Still, earnings management cannot avoid this default because the fulfillment of debt obligations cannot be avoided by earning power. Also, tight supervision in the company by third parties can reduce the opportunities for management to carry out earnings management. This research contradicts research conducted by Agnes Utari Widyaningdyah (2001), in which Agnes Utari stated that Leverage has a positive effect on earnings management.

It can also be seen in table 4:20 of the average X4 variable, namely Leverage per 5 years, namely 103.65. With the criteria, the lower the leverage ratio, the better the company's condition. This shows that there are still many companies in this study that are financed by debt. Here is the Average Leverage per 5 Years for each company.

Table 4.20

***Leverage* Average per 5 years**

No.	Company name	Variable
		X4
1	PT.TRI BANYAN TIRTA Tbk	151.80
2	PT.WILMAR CAHAYA INDONESIA TBK	89.27
3	PT.DELTA DJAKARTA TBK	21.73
4	PT.INDOFOOD CBP SUKSES MAKMUR TBK	159.37
5	PT.INDOFOOD SUKSES MAKMUR TBK	99.03
6	PT.MULTI BINTANG INDONESIA TBK	819.85
7	PT.MAYORA INDAH TBK	116.87
8	PT.NIPPON INDOSARI CORPINDO TBK	93.11
9	PT.SEKAR BUMI TBK	89.56
10	PT.SEKAR LAUT TBK	122.49
11	PT.ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	23.10
12	PT.GUDANG GARAM TBK	62.55
13	PT.HANJAYA MANDALA SAMPOERNA TBK	42.33

14	PT.BENTOEL INTERNASIONAL INVESTAMA TBK	-231.55
15	PT.INDOFARMA (PERSERO) TBK	158.13
16	PT.KIMIA FARMA (PERSERO) TBK	110.56
17	PT.KALBE FARMA TBK	22.43
18	PT.MERCK TBK	70.32
19	PT.FYRIDAM TBK	59.82
20	PT.TEMPO SCAN PACIFIC TBK	42.70
21	PT.AKHASA WIRA INTERNATIONAL TBK	90.15
22	PT.MARTINA BERTO TBK	70.35
23	PT.MANDOM INDONESIA TBK	27.88
24	PT.UNILEVER INDONESIA TBK	221.15
25	PT.KEDAUNG INDAH CAN TBK	49.89
26	PT.LANGENG MAKMUR INDUSTRI TBK	112.10
	Overall Average	103.65

Source: Data processed by the author

Effect of Financial Distress on Earnings Management with the moderating variable Audit Quality

The variable financial stress shows that the moderation Audit Quality has a positive coefficient 0,278047, with a significant level of 0.0119. The level of financial pressure that is high enough-Auditing interaction quality less than 0.05. The last moderating variable Audit affect and weaken the relationships between financial difficulties and management.

This research is by Fitdini's study (2009) wherein general financial distress is seen from company violations or debt agreements with creditors and reduction or write-off in paying dividends. Financial distress can trigger the emergence of earnings management practices carried out by managers, but selecting high-quality auditors can weaken

the relationship between financial distress and earnings management, which increases earnings.

This research is not in line with Fanny Honggo (2017) research, which states that audit quality cannot moderate the effect of financial distress on earnings management. This is because Big Four auditors' existence is not only focused on reducing earnings management but rather on increasing the credibility of financial reports by reducing the interference in them to produce more reliable financial statements. So that managers ignore Big Four auditors' existence when going to practice earnings management to cover the company's dire financial performance, both when the company experiences financial distress or does not experience financial distress.

Effect of Free Cash Flow on Earnings Management with the moderating variable Audit Quality

Variable free cash flow shows that the moderation Audit Quality has a positive coefficient 0.017399, with a significant level of 0.0260. Level a considerable flow of money cash free * Audit interaction quality less than 0.05. The moderating variable of Audit quality affect and weaken the relationship between the flow of free money and Earnings Management.

This study is in line with Rina Pusvita Dewi (2016) research that audit quality can moderate the relationship of free cash flow to earnings management. Companies that have high free cash flow, the healthier company, is. However, the high free cash flow causes the company to experience more increased agency conflicts, so that management tends to practice earnings management. A quality audit can detect the occurrence of agency conflicts to weaken the relationship of free cash flow to earnings management.

Effect of Profitability on Earnings Management with the moderating variable Audit Quality

The Profitability variable shows that Audit Quality moderation has a positive coefficient of 0.054902, with a significant level of 0.08629. The considerable level of the Profitability * Audit Quality interaction is more significant than 0.05. So the moderating variable Audit Quality does not affect and weakens the relationship between Profitability and Earning Management.

This research is in line with Rina Pusvita Dewi (2016) research that audit quality is not able to moderate the relationship between Profitability and earnings management. Profit is financial information that can be seen from the company's income statement, which reduces income with expenses. The accounting system currently applied is accruals, where income and expenses are recognized when the transactions are made, not when cash is received. In this case, a professional and qualified auditor cannot detect earnings management because there may be transactions that are difficult to detect by the

auditor, such as a consignment.

Effect of Leverage on Earnings Management with the moderating variable Audit Quality

The leverage variable shows that Audit Quality moderation has a positive coefficient of 0.000625, with a significant level of 0.7265. The considerable level of the Leverage * Audit Quality interaction is more significant than 0.05. So the moderating variable of Audit Quality does not affect and weakens the relationship between Leverage and Earnings Management.

This research is in line with research by Rina Pusvita Dewi (2016), where audit quality can weaken the relationship between leverage and earnings management. This is because qualified auditors have better and professional abilities in detecting fraud in selecting accounting procedures to manipulate lower earnings by the government so that earnings management practices can be reduced. Good audit quality also increases creditor confidence in the company because creditors believe that a company that is audited by a professional auditor will produce reliable and relevant financial report information.

Effect of Audit Quality on Earnings Management

The Audit Quality variable shows a positive regression coefficient of 0.426665. The probability offers a value smaller than 0.05, which is 0.0003. This means that the significance level is smaller than $\alpha = 5\%$, thus indicating that Audit Quality affects Earning Management.

This research is in line with Nico Radityo Boedhi (2015) study, where a higher quality of auditors can reduce the level of accrual earnings management (Maseleno et al., 2019). This will hamper the accounting flexibility of clients from qualified auditors.

This study is not in line with Antonius Herusetya (2012) research, where there is a negative effect of audit quality on accrual earnings management behavior as measured by absolute discretionary accruals. Testing using a single proxy of audit quality found a negative impact of KAP size (Big 4) on total discretionary accruals. The test results also found that, although KAP has a level of economic dependence on clients, KAP can still maintain its reputation (reputation protection), as evidenced by the negative effect of financial support (client importance) on absolute discretionary accruals.

CONCLUSION

Based on the discussion that has been described, it can be concluded:

1. *Financial Distress* influence and significant on Earnings Management. This shows that when a company experiences funding problems (financial distress), managers tend to carry out earnings management to maintain a good signal by displaying short-term earnings performance, which always increases even though its condition is in trouble.

2. *Free Cash Flow*influence and significant on Earnings Management. This shows that the greater the free cash flow in a company, the healthier the company is, so it tends to practice earnings management.
3. Profitability does not affect Earnings Management. This shows that companies with a high level of Profitability will not perform earnings management.
4. Leverage does not affect Earnings Management. . The high level of debt will increase the risk of default for the company. Still, earnings management cannot avoid this default because the fulfillment of debt obligations cannot be avoided by earning power.
5. Audit quality affects and weakens the relationship between financial distress and earnings management.
6. Audit quality affects and weakens the relationship between Free Cash Flow and Earnings Management.
7. Quality Audit not take effect and weaken the relationship between Profitability and Earnings Management.
8. Audit quality does not affect and weakens the relationship between leverage and earnings management.
9. Audit quality has a significant effect on earnings management.

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THE EFFECT OF FINANCIAL DESTRESS, FREE CASH FLOW, PROFITABILITY, AND LEVERAGE ON PROFIT MANAGEMENT WITH AUDIT QUALITY AS A MODERATED VARIABLE

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Abstract: This study aims to analyze and obtain empirical evidence about the effect of financial difficulties, the flow of free money, profitability, and utilizing earnings management with audit quality as a moderating variable in the production company in the sales sector in Indonesia. The independent variable in this study financial distress, free cash flow, Profitability, and influence. A variable which depends in this study is earnings management. A Moderating variable in this study is the quality audit. The sample of this study is manufacturing companies in the sector of consumer products, which are listed in the Indonesia Stock Exchange (IDX) in the period 2014-2018. Data collected by method a try. In total, 130 data, a statement of annual financial specified as an observation. Method of analysis this study uses multiple regression analysis. The results of this study indicate that (1) the financial pressure has a significant effect on revenue management, (2) the flow of cash significantly has a huge impact on revenue management, (3) does not affect financial management, (4) does not have an impact on financial management, (5) financial have a significant effect on the financial pressure with the advantage of a huge financial as a financial advantage,, (7) profitability has quite a big effect on earnings management with audit quality as moderating variable, (8) leverage does not affect earnings management with audit quality as moderating variable.

Keywords: *financial pressure, the flow of free money, Profitability, Leverage, earnings management,t, and audit quality*.

INTRODUCTION

Earnings management can be viewed from several factors related to managers' motivation in managing earnings. One of these factors is Financial Distress. Companies that experience funding constraints (financial distress) tend to carry out earnings management always to provide the right signals in investors' eyes. Dahniar Dwi Ariesanti (2015) suggests that earnings management behavior increases with the increase in company financial distress. However, another study by Dewi Arum Sari (2012) states that economic distress has a negative and insignificant effect on earning management.

Other factors that affect earnings management, one of which is free cash flow. The government can utilize free cash flow to carry out the practice of earnings management. Free cash flow defined as cash flow available to be paid to creditors or

shareholders after the company invests in fixed assets, new products, and working capital needed to sustain ongoing operations (Brigham and Houston, 2010: 109). Free cash flow (free cash flow) is the rest of the money from funding all the projects that generate the value of the net positive (NPV) (Jensen, 1986). Ross et al. (2000) defines free cash flow as the company's cash is distributed to creditors or shareholders, which are not used for working capital or investment in fixed assets. So, free cash flow can be concluded as the rest of the money of the company, after the company's financial all investment and working capital for the operational activities in the context of the construction business (Yogi and Damayi 2016). Free cash flow shows the picture for investors about the amount of dividends that will they be able to, and as a step to increase the company's value in the eyes of the head of school. For a company that develops capital, the flow of free money will reflect their ability to continue or do not survive in the future. Free cash flow shows the picture for investors about the amount of dividends that will they be able to, and as a step to increase the company's value in the eyes of the head of school. For a company that develops capital, the flow of free money will reflect their ability to continue or do not survive in the future. Free cash flow shows the picture for investors about the amount of dividends that will they be able to, and as a step to increase the company's value in the eyes of the head of school. For a company that develops capital, the flow of free money will reflect their ability to continue or do not survive in the future.

Another factor that influences earnings management practices can also be seen from Profitability, which is proxied by ROA (Return On Asset). ROA is usually used as a ratio to assess company performance. In research conducted by Rengga Ganang Anggoro Putro (2016), ROA positively influences earnings management. These results prove that if the company's performance is bad or good, it will trigger managers to act opportunistically by increasing or decreasing accounting profit. However, the results of research conducted by Aji and Mita (2010) view that ROA has a negative effect on earnings management.

Apart from financial distress, free cash flow, and Profitability, Leverage is also associated with earnings management practices. Investors use the leverage ratio to see the company's ability and risk. Companies with a financial debt ratio are in normal conditions but have a chance of loss when the economy experiences a recession (Brigham and Houston, 2010: 143). In research conducted by Agustia (2013), it is stated that Leverage influences earnings management. Companies will tend to cover up a higher proportion of debt in ratio to assets by manipulating earnings management. However, Seri Murni (2017) research results reveal that Leverage does not affect earnings management.

Currently, many companies understand the importance of implementing corporate governance. One of the elements of corporate governance is audit quality. This aims to create the effectiveness of company control. The principles of corporate governance applied consistently can be an obstacle to performance engineering activities that result in financial statements, not describing their fundamental value (Chtourou et al., 2001). High audit quality can be seen from the company's financial information's reliability through the KAP audit opinion. The size of KAP will significantly affect the company's independence and ability to detect earnings management. The big four KAP can be said to be more capable of detecting earnings management than the non-big four KAP.

REVIEW OF THEORY

Agency theory

The explanation of the concept of revenue management according to Salno and Baridwan (2000: 19) using the theory of institutions, which states that "the practice of earnings management is influenced by a conflict of interest between management (agent) and owners (the principal) that arise because each party try to reach or consider the level of prosperity". In an agency relationship, managers have asymmetric information on external parties to the company, such as creditors and investors. Information asymmetry occurs when managers have relatively more internal company information and know it relatively quickly than external parties. In this condition, the manager can use the information he knows to make financial reports to maximize his prosperity. Management intervention contains moral hazard if it utilizes this asymmetric information with earnings management. The information gap between the two parties creates/triggers the emergence of earnings management. Each party in the agency relationship is motivated by different motivations according to their interests. The theory of institutions explains the company as the focal point (meeting point) of the agency relationship between the owner of the company (the principal) and the management company (agent). He seeks to understand the behavior of the organizers to reveal how the parties involved in the agency relationship within the company to maximize the benefits of their business. This effort to optimize the utility causes a conflict of interests between owners (principals) and management (the agency).

Proprietary Theory

Ownership is the net value of the business, which is represented by equity. The firm's relationship with owners is in the owner's equity account. The main objective of ownership theory to determine and analyze the owner's net worth (net worth). Vatter (1966) states that the income and expense accounts have the same algebraic characteristics as "net worth". Income and expenses are additional accounts (subsidiary) of ownership. Income increases the owner's wealth, and expenditures decrease the owner's wealth. That income greater than costs becomes net profit, giving the owner's wealth increase from business operations during a specific period.

When information that conveys a crucial aspect of the company's operations is disclosed to investors, it will also be known by competitors to feel competitive disadvantage (Verrecchia, 2006). The weakness that occurs when sensitive information is disclosed and which competitors can use to generate strategic advantage is called the cost of ownership. If a competitor produces this type of information, the cash flow will slow down in future performance and impact the competitor generating additional market share. (Beyer et al. 2014) Thus, the cost of ownership is closely related to competitors who produce private company information; for example, information about new product designs or research development plans. Also,

Signaling Theory

There is information asymmetry, which occurs when sellers know more about their products than buyers.The problem of information asymmetry is also a fundamental assumption of signal theory. This theory shows how information asymmetry can be reduced by the parties involved. The issue of reduced information

asymmetry is indicated by the fact that companies send signals to investors to show that they are better than other companies in similar markets to get investment and improve their reputation (Verrecchia, 1983). As a result, disclosure can be used as a signaling tool. Companies will disclose more information so that the signal is better seen by investors (Shehata, 2014). Signal theory can be used in assessing segment information through disclosure (Hunzker, 2014). If the company discloses less information than others, the disclosure is interpreted as a signal that hides some relevant information. Abbas and Hamid (2015) state that a company might develop a disclosure strategy by considering internal (a disclosure that acts as monitoring) and external (a revelation that serves as a reasonable transparency effort). The company's performance can be a signal to investors in its investment activities.

Profit Management

The size of the company's performance that is often used as a basis for making business decisions is the profit of the company. As stated in the Statement of Financial concepts (SFAC) no. 2, Information on earnings is a significant element in the financial statement and is very important for those who use it because it has predictive value. This makes the management tried to carry out the earnings management so that the performance of the company looks useful for external parties.

Healy and Wahlen (1999: 368) gives the definition of earnings management as seen from the setter of standards, earnings management-namely occurs when managers Use individual decisions in financial reporting and to change the financial statements to mislead the holders of the financial want to know the economic performance of the obtained. The company or to influence the outcome of the Contract using a number of accounting reported.

Financial Distress

According to Altman (2005) (Rahmy, 2014), financial difficulty is a broad concept consisting of several situations where companies face financial difficulties. The standard term to describe the problem is the failure, bankruptcy, and bankruptcy. If the company shows financial conditions are weak, it can make the shareholders and the shareholders, have lost their faith. By doing so, stakeholders will retreat to cooperate with the company. If the company fails to find a solution, it is a sign that the company is in a situation of financial crisis on the verge of bankruptcy.

According to Fachrudin (2008) in (Hidayat, 2014), there are several definitions of financial difficulties according to their types, including (1) Economic Failure, (2) Business Failure, (3) Technical Insolvency, (4) Insolvency in Bankruptcy, (5) Legal Bankruptcy. One way to measure bankruptcy rates is to use the method invented by Altman. Altman (1968) (Loman and Malelak, 2015) to apply Multiple Discriminant Analysis. Altman researched to develop a new model for predicting corporate bankruptcy. In its original form, the Z-score model is a linear model with financial ratios that are weighted to maximize the model's predictive ability.

Free Cash Flow

Free cash flow is cash that is distributed to creditors or shareholders, which are not needed for working capital or investment in the assets. This money usually creates

a conflict of interest between managers and shareholders. Management usually prefer to collect back these funds in projects that can generate profits because this alternative would increase the incentive obtained. On the other hand, shareholders expect the remaining funds to be distributed to improve the welfare of shareholders. The company's growth is the expectation desired by the internal parties of the company, namely management, and outside parties, namely investors and creditors. Vogt (1997: 20) suggests that a growing company will be responded positively by the market. These findings show that companies with low growth should seek alternative funding, for example, through a policy of debt. The effect of free cash flow on the difference in debt between large companies and small companies. The problem of free cash flow will be more real for big companies because it would require a separate mechanism to monitor the managers in making the best decision for shareholders.

Profitability

Sofyan Syafri Harahap (2008: 219) defines the profitability represents the ability of a company to get profits through all of the capabilities of existing resources such as sales, money, capital, number of employees, number of branches, and so on. Profitability is the net result of a series of policies and decisions. Profitability can be determined by calculating various relevant benchmarks. One of these benchmarks is the financial ratio as one of the analyzes in analyzing the financial condition, results of operations, and profitability of a company.

Kasmir (2014: 196) explains that the measurement results can be used as a management performance evaluation tool so far, whether they have worked effectively or not. Failure or success can be used as a reference for planning future earnings and replacing the new management, especially after the old government has failed. Therefore, this profitability ratio is often referred to as a measure of management performance.

Leverage

According to Harahap (2013), influence is the ratio that describes the relationship between company debt to the capital. This ratio indicates how much the company is financed by debt or outside parties with the ability as defined by wealth. Meanwhile, in the broadest sense, Kashmir (2012) stated that the leverage ratio is used to measure the ability of the company to pay all of his abilities, both long and short if it is liquidated.

The benefit of using Leverage in the company is that it allows the company to specify the Leverage in sales on profit to common shareholders. It will enable companies to show the relationship between operating and financial effects.

Audit Quality

The State Financial Audit Standards in Mustikawati (2013) reveal that the quality of audit results is an audit report that contains weaknesses in internal control, fraud, deviations from statutory provisions, inadequacy, must be accompanied by a response from the leadership or official responsible for the entity checked for findings and recommendations as well as planned corrective actions. The office of administration of the public sector (1986) in Badjuri (2011) defines audit quality as the fulfillment of professional standards and also the requirements that must be

considered.

It can be concluded that audit quality is the auditor's ability to detect material misstatements in the financial statements and jointly report material misstatements (DeAngelo, 1981). Users of financial statements, especially shareholders, will make decisions based on financial reports that have been audited by auditors.

Hypothesis

In this study, four factors are considered to influence earnings management for a company. These factors are financial distress, free cash flow, Profitability, and Leverage that affect earnings management.

The four independent variables will be partially tested through multiple regression models to determine their effect on earnings management in a manufacturing company in the consumer goods industry listed on the IDX. The following is a schematic of a framework:

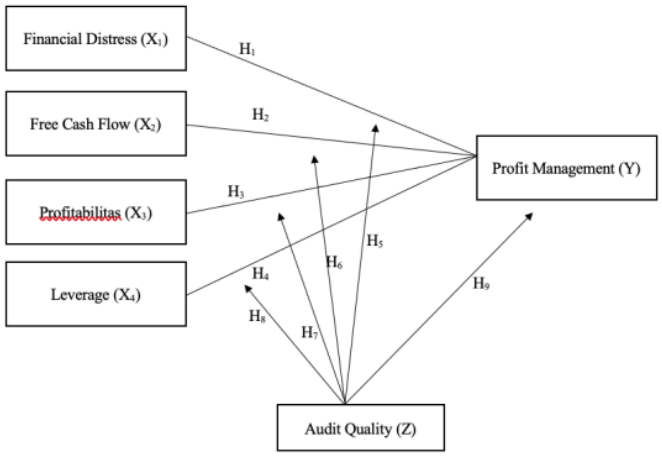

Figure 1. Schematic Conceptual Framework

Based on the formulation of the research problem, the following research hypothesis can be formulated:

- The Effect of Financial Distress on Earnings Management

  Ha1: There is an influence between financial distress on earnings management.

- Effect of Free Cash Flow on Earnings Management

  Ha2: There is an influence between free cash flow on earnings management.

- Effect of Profitability on Earnings Management.

  Ha3: There is an influence between Profitability on earnings management.

- The Effect of Leverage on Earnings Management.

Ha4: There is an influence between the leverage ratio on earnings management.

- Effect of Audit Quality as Moderating Financial Distress on Earnings Management.

  Ha5: There is an effect of Audit Quality as a Moderator of Financial Distress on Earnings Management.

- Effect of Audit Quality as Moderation of Free Cash Flow on Earnings Management.

  Ha6: There is an effect of Audit Quality as a Moderator of Free Cash Flow on Earnings Management.

- Influence Quality Audit as Moderator Profitability to Profit management.

  Ha7: There is an influence of Audit Quality as a Moderator of Profitability on Earnings Management.

- The Effect of Audit Quality as a Leverage Moderator on Earnings Management.

  Ha8: There is an effect of Audit Quality as a Leverage Moderator on Earnings Management.

- Impact of Audit Quality on Earnings Management.

  Ha9: There is an influence between audit quality on earnings management.

RESEARCH METHODS

Data were collected in the form of quantitative data, the data source of this research is the second data, in the form of annual reports of manufacturing companies in the industrial sector of consumer products for 2014-2018. The Data used is the data obtained from the information of annual obtained through the websites of the stock Exchange (BIE) of Indonesia. The population in this study is the 42 companies in the industrial sector. The determination of the sample in this study using a sample technique non-probability. This study used data or the data of panel A because of using the data time series and data between spaces.

RESULTS AND DISCUSSION

The Effect of Financial Distress on Earnings Management

The Financial Distress variable shows a positive regression coefficient of 0.026596. The probability offers a value smaller than 0.05, namely 0.0118. This means that the significance level is smaller than α = 5% so that the 1st hypothesis is successfully supported or H0 is rejected. This study succeeded in proving that financial distress affects earnings management. This shows that when a company experiences funding problems (financial distress), managers tend to carry out earnings management to maintain a good signal by displaying short-term earnings performance, which always increases even though its condition is in trouble.

Table 1

Recap of Average Ratio Per 5 Years

No.	Company name	Variable				
		X1	X2	X3	X4	Y
1	PT TRI BANYAN TIRTA Tbk	0.31	4.11	0.16	151.80	0.29
2	PT WILMAR CAHAYA INDONESIA TBK	7.78	12.11	12.89	89.27	0.31
3	PT DELTA DJAKARTA TBK	2.81	24.45	22.31	21.73	0.33
4	PT INDOFOOD CBP SUKSES MAKMUR TBK	2.21	23.49	11.72	159.37	-0.01
5	PT INDOFOOD SUKSES MAKMUR TBK	1.29	15.04	5,51	99.03	-0.88
6	PT MULTI BINTANG INDONESIA TBK	3.15	56.50	39.50	819.85	-0.63
7	PT MAYORA INDAH TBK	2.41	11.64	9.34	116.87	-2.38
8	PT NIPPON INDOSARI CORPINDO TBK	1.48	23.57	6.85	93.11	0.84
9	PT SEKAR BUMI TBK	2.08	0.66	4.74	89.56	0.71
10	PT SEKAR LAUT TBK	2.10	7.74	4.37	122.49	-0.33
11	PT ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	2.85	23.02	13.55	23.10	-0.14
12	PT GUDANG GARAM TBK	2.39	14.76	10.58	62.55	0.09
13	PT HANJAYA MANDALA SAMPOERNA TBK	4.33	34.24	30.32	42.33	1.12
14	PT BENTOEL INTERNASIONAL INVESTAMA TBK	1.07	-5.53	-11.39	-231.55	-0.13
15	PT INDOFARMA (PERSERO) TBK	1.36	4.33	-1.21	158.13	0.34
16	PT KIMIA FARMA (PERSERO) TBK	1.82	15.06	6.26	110.56	-0.21
17	PT KALBE FARMA TBK	2.92	21.94	15.21	22.43	0.55
18	PT MERCK TBK	2.57	0.20	35.48	70.32	0.28
19	PT FYRIDAM TBK	2.27	9.32	3.11	59.82	-0.16
20	PT TEMPO SCAN PACIFIC TBK	2.49	13.53	8.30	42.70	-0.28
21	PT AKHASA WIRA INTERNATIONAL TBK	1.18	26.96	5.80	90.15	-0.66
22	PT MARTINA BERTO TBK	1.25	2.85	-4.25	70.35	0.00
23	PT MANDOM INDONESIA TBK	2.50	12.92	11.53	27.88	0.42
24	PY UNILEVER INDONESIA TBK	4.07	25.16	40.12	221.15	0.68
25	PT KEDAUNG INDAH CAN TBK	1.92	1.00	0.03	49.89	0.36
26	PT LANGENG MAKMUR INDUSTRI TBK	1.00	2.73	-1.61	112.10	-0.13
	Overall Average	2.37	14.68	10.74	103.65	0.01

Source: Data processed by the author

From the table above, it can be seen that the variable X1 Financial Distress from the 26 companies sampled, if averaged for the overall Financial Distress value, is 2.37, which means several companies require special attention.

Effect of Free Cash Flow on Earnings Management

The Free Cash Flow variable shows a positive regression coefficient of 0.004529. Probability offers a value smaller than 0.05, which is 0.0000. This means that the level of significance is smaller than $\alpha = 5\%$ so that the second hypothesis is successfully supported or H0 is rejected. This study has proven that Free Cash Flow

affects Earning Management.

This study's results support research from Kodriyah and Anisah Fitri (2017), where free cash flow has a significant effect on earnings management. This is because free cash flow is an essential determinant of company value, so company managers focus more on efforts to increase free cash flow. This study's results are consistent with the research of Bukit and Iskandar (2009) that companies with high free cash flow also tend to practice earnings management by increasing reported earnings to cover managerial actions that are not optimal in utilizing the company's wealth.

It can also be seen in table 4:18 of the average X2 variable, namely Free Cash Flow per 5 years, which is 14.68. With the criteria that a healthy company must have positive Free Cash Flow, it can be said that the company understudy has a healthy company category. Here is the Free Cash Flow Average per 5 Years for each company.

Table 4.18
***Free Cash Flow* Average per 5 years**

No.	Company name	Variable
		X2
1	PT.TRI BANYAN TIRTA Tbk	4.11
2	PT.WILMAR CAHAYA INDONESIA TBK	12.11
3	PT.DELTA DJAKARTA TBK	24.45
4	PT.INDOFOOD CBP SUKSES MAKMUR TBK	23.49
5	PT.INDOFOOD SUKSES MAKMUR TBK	15.04
6	PT.MULTI BINTANG INDONESIA TBK	56.50
7	PT.MAYORA INDAH TBK	11.64
8	PT.NIPPON INDOSARI CORPINDO TBK	23.57
9	PT.SEKAR BUMI TBK	0.66
10	PT.SEKAR LAUT TBK	7.74
11	PT.ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	23.02
12	PT.GUDANG GARAM TBK	14.76
13	PT.HANJAYA MANDALA SAMPOERNA TBK	34.24
14	PT.BENTOEL INTERNASIONAL INVESTAMA TBK	-5.53
15	PT.INDOFARMA (PERSERO) TBK	4.33
16	PT.KIMIA FARMA (PERSERO) TBK	15.06
17	PT.KALBE FARMA TBK	21.94
18	PT.MERCK TBK	0.20
19	PT.FYRIDAM TBK	9.32
20	PT.TEMPO SCAN PACIFIC TBK	13.53
21	PT.AKHASA WIRA INTERNATIONAL TBK	26.96
22	PT.MARTINA BERTO TBK	2.85
23	PT.MANDOM INDONESIA TBK	12.92
24	PY.UNILEVER INDONESIA TBK	25.16
25	PT.KEDAUNG INDAH CAN TBK	1.00
26	PT.LANGENG MAKMUR INDUSTRI TBK	2.73
	Overall Average	14.68

Effect of Profitability on Earnings Management

Variable profitability shows a positive regression coefficient of 0.003283. The probability of a value greater than 0.05,that is 0.0766. This means that the level of significance is more significant than 5% so the third hypothesis is not supported or H0 is accepted. This research managed to prove that Profitability does not affect the earnings management. This result supports the research of Gunawan 2015, which stated that Profitability does not affect the earnings management. A company with a high level of Profitability will not do earnings management. The results of this study support the results of the research conducted by Muhammad Irsyad (2008), which states that Profitability does not affect the earnings management.

It can also be seen in table 4:19 of the average X3 variable, namely Profitability per 5 years, which is 10.74. With the criteria that a healthy company must have positive Profitability, it can be said that the company understudy has a healthy company category. Here is the Average Profitability per 5 Years for each company.

Table 4.19
The profitability of Earnings Management

No.	Company name	Variable
		X3
1	PT.TRI BANYAN TIRTA Tbk	0.16
2	PT.WILMAR CAHAYA INDONESIA TBK	12.89
3	PT.DELTA DJAKARTA TBK	22.31
4	PT.INDOFOOD CBP SUKSES MAKMUR TBK	11.72
5	PT.INDOFOOD SUKSES MAKMUR TBK	5,51
6	PT.MULTI BINTANG INDONESIA TBK	39.50
7	PT.MAYORA INDAH TBK	9.34
8	PT.NIPPON INDOSARI CORPINDO TBK	6.85
9	PT.SEKAR BUMI TBK	4.74
10	PT.SEKAR LAUT TBK	4.37
11	PT.ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	13.55
12	PT.GUDANG GARAM TBK	10.58
13	PT.HANJAYA MANDALA SAMPOERNA TBK	30.32
14	PT.BENTOEL INTERNASIONAL INVESTAMA TBK	-11.39
15	PT.INDOFARMA (PERSERO) TBK	-1.21
16	PT.KIMIA FARMA (PERSERO) TBK	6.26
17	PT.KALBE FARMA TBK	15.21
18	PT.MERCK TBK	35.48
19	PT.FYRIDAM TBK	3.11
20	PT.TEMPO SCAN PACIFIC TBK	8.30
21	PT.AKHASA WIRA INTERNATIONAL TBK	5.80

22	PT.MARTINA BERTO TBK	-4.25
23	PT.MANDOM INDONESIA TBK	11.53
24	PY.UNILEVER INDONESIA TBK	40.12
25	PT.KEDAUNG INDAH CAN TBK	0.03
26	PT.LANGENG MAKMUR INDUSTRI TBK	-1.61
	Overall Average	10.74

Source: Data processed by the author

The Effect of Leverage on Earnings Management

The leverage variable shows a negative regression coefficient of 2.45E-05. Leverage offers a value greater than 0.05, namely 0.6991. This means that the significance level is more significant than α = 5%, so that the fourth hypothesis is not supported or H0 is accepted. This study succeeded in proving that Leverage does not affect earnings management.

These results support Kodriyah's (2017) research that Leverage does not affect earnings management. The high level of debt will increase the risk of default for the company. Still, earnings management cannot avoid this default because the fulfillment of debt obligations cannot be avoided by earning power. Also, tight supervision in the company by third parties can reduce the opportunities for management to carry out earnings management. This research contradicts research conducted by Agnes Utari Widyaningdyah (2001), in which Agnes Utari stated that Leverage has a positive effect on earnings management.

It can also be seen in table 4:20 of the average X4 variable, namely Leverage per 5 years, namely 103.65. With the criteria, the lower the leverage ratio, the better the company's condition. This shows that there are still many companies in this study that are financed by debt. Here is the Average Leverage per 5 Years for each company.

Table 4.20

***Leverage* Average per 5 years**

No.	Company name	Variable
		X4
1	PT.TRI BANYAN TIRTA Tbk	151.80
2	PT.WILMAR CAHAYA INDONESIA TBK	89.27
3	PT.DELTA DJAKARTA TBK	21.73
4	PT.INDOFOOD CBP SUKSES MAKMUR TBK	159.37
5	PT.INDOFOOD SUKSES MAKMUR TBK	99.03
6	PT.MULTI BINTANG INDONESIA TBK	819.85
7	PT.MAYORA INDAH TBK	116.87
8	PT.NIPPON INDOSARI CORPINDO TBK	93.11
9	PT.SEKAR BUMI TBK	89.56
10	PT.SEKAR LAUT TBK	122.49
11	PT.ULTRAJAYA MILK INDUSTRY & TRADING COMPANY TBK	23.10
12	PT.GUDANG GARAM TBK	62.55

13	PT.HANJAYA MANDALA SAMPOERNA TBK	42.33
14	PT.BENTOEL INTERNASIONAL INVESTAMA TBK	-231.55
15	PT.INDOFARMA (PERSERO) TBK	158.13
16	PT.KIMIA FARMA (PERSERO) TBK	110.56
17	PT.KALBE FARMA TBK	22.43
18	PT.MERCK TBK	70.32
19	PT.FYRIDAM TBK	59.82
20	PT.TEMPO SCAN PACIFIC TBK	42.70
21	PT.AKHASA WIRA INTERNATIONAL TBK	90.15
22	PT.MARTINA BERTO TBK	70.35
23	PT.MANDOM INDONESIA TBK	27.88
24	PT.UNILEVER INDONESIA TBK	221.15
25	PT.KEDAUNG INDAH CAN TBK	49.89
26	PT.LANGENG MAKMUR INDUSTRI TBK	112.10
	Overall Average	103.65

Source: Data processed by the author

Effect of Financial Distress on Earnings Management with the moderating variable Audit Quality

The variable financial stress shows that the moderation Audit Quality has a positive coefficient 0,278047, with a significant level of 0.0119. The level of financial pressure that is high enough-Auditing interaction quality less than 0.05. The last moderating variable Audit affect and weaken the relationships between financial difficulties and management.

This research is by Fitdini's study (2009) wherein general financial distress is seen from company violations or debt agreements with creditors and reduction or write-off in paying dividends. Financial distress can trigger the emergence of earnings management practices carried out by managers, but selecting high-quality auditors can weaken the relationship between financial distress and earnings management,

which increases earnings.

This research is not in line with Fanny Honggo (2017) research, which states that audit quality cannot moderate the effect of financial distress on earnings management. This is because Big Four auditors' existence is not only focused on reducing earnings management but rather on increasing the credibility of financial reports by reducing the interference in them to produce more reliable financial statements. So that managers ignore Big Four auditors' existence when going to practice earnings management to cover the company's dire financial performance, both when the company experiences financial distress or does not experience financial distress.

Effect of Free Cash Flow on Earnings Management with the moderating variable Audit Quality

Variable free cash flow shows that the moderation Audit Quality has a positive coefficient 0.017399, with a significant level of 0.0260. Level a considerable flow of money cash free * Audit interaction quality less than 0.05. The moderating variable of Audit quality affect and weaken the relationship between the flow of free money and Earnings Management.

This study is in line with Rina Pusvita Dewi (2016) research that audit quality can moderate the relationship of free cash flow to earnings management. Companies that have high free cash flow, the healthier company, is. However, the high free cash flow causes the company to experience more increased agency conflicts, so that management tends to practice earnings management. A quality audit can detect the occurrence of agency conflicts to weaken the relationship of free cash flow to earnings management.

Effect of Profitability on Earnings Management with the moderating variable Audit Quality

The Profitability variable shows that Audit Quality moderation has a positive coefficient of 0.054902, with a significant level of 0.08629. The considerable level of the Profitability * Audit Quality interaction is more significant than 0.05. So the moderating variable Audit Quality does not affect and weakens the relationship between Profitability and Earning Management.

This research is in line with Rina Pusvita Dewi (2016) research that audit quality is not able to moderate the relationship between Profitability and earnings management. Profit is financial information that can be seen from the company's income statement, which reduces income with expenses. The accounting system currently applied is accruals, where income and expenses are recognized when the transactions are made, not when cash is received. In this case, a professional and qualified auditor cannot detect earnings management because there may be transactions that are difficult to detect by the auditor, such as a consignment.

Effect of Leverage on Earnings Management with the moderating variable Audit Quality

The leverage variable shows that Audit Quality moderation has a positive coefficient of 0.000625, with a significant level of 0.7265. The considerable level of the Leverage * Audit Quality interaction is more significant than 0.05. So the

moderating variable of Audit Quality does not affect and weakens the relationship between Leverage and Earnings Management.

This research is in line with research by Rina Pusvita Dewi (2016), where audit quality can weaken the relationship between leverage and earnings management. This is because qualified auditors have better and professional abilities in detecting fraud in selecting accounting procedures to manipulate lower earnings by the government so that earnings management practices can be reduced. Good audit quality also increases creditor confidence in the company because creditors believe that a company that is audited by a professional auditor will produce reliable and relevant financial report information.

Effect of Audit Quality on Earnings Management

The Audit Quality variable shows a positive regression coefficient of 0.426665. The probability offers a value smaller than 0.05, which is 0.0003. This means that the significance level is smaller than $\alpha = 5\%$, thus indicating that Audit Quality affects Earning Management.

This research is in line with Nico Radityo Boedhi (2015) study, where a higher quality of auditors can reduce the level of accrual earnings management. This will hamper the accounting flexibility of clients from qualified auditors.

This study is not in line with Antonius Herusetya (2012) research, where there is a negative effect of audit quality on accrual earnings management behavior as measured by absolute discretionary accruals. Testing using a single proxy of audit quality found a negative impact of KAP size (Big 4) on total discretionary accruals. The test results also found that, although KAP has a level of economic dependence on clients, KAP can still maintain its reputation (reputation protection), as evidenced by the negative effect of financial support (client importance) on absolute discretionary accruals.

CONCLUSION

Based on the discussion that has been described, it can be concluded:

1. *Financial Distress* influence and significant on Earnings Management. This shows that when a company experiences funding problems (financial distress), managers tend to carry out earnings management to maintain a good signal by displaying short-term earnings performance, which always increases even though its condition is in trouble.
2. *Free Cash Flow*influence and significant on Earnings Management. This shows that the greater the free cash flow in a company, the healthier the company is, so it tends to practice earnings management.
3. Profitability does not affect Earnings Management. This shows that companies with a high level of Profitability will not perform earnings management.
4. Leverage does not affect Earnings Management. . The high level of debt will increase the risk of default for the company. Still, earnings management cannot avoid this default because the fulfillment of debt obligations cannot be avoided by earning power.
5. Audit quality affects and weakens the relationship between financial distress and earnings management.

6. Audit quality affects and weakens the relationship between Free Cash Flow and Earnings Management.
7. Quality Audit not take effect and weaken the relationship between Profitability and Earnings Management.
8. Audit quality does not affect and weakens the relationship between leverage and earnings management.
9. Audit quality has a significant effect on earnings management.

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