

ABSTRACT

Financial statements, a crucial tool for assessing company performance, plays a pivotal role in guiding shareholders and potential investors in their decision-making process. Among the various financial indicators, profit stands out as a key output, serving as a reliable gauge for estimating a company's future prospects. However, not all profits are created equal. The concept of 'quality profit' emerges, denoting a sustainable and persistent form of profit. To ensure high-quality profits, management strategically employs accounting policies that offer flexibility in financial report preparation.

The purpose of this dissertation research is to examine the effect of managerial ability and ownership on earnings quality in public companies in Indonesia by placing accrual earnings management and real earnings management as mediating variables between the variables of managerial ability and ownership and earnings quality.

This dissertation research sampled manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2021, with a total sample of 401 companies. The analytical tool used to test the research hypothesis for this dissertation is the Statistical Package for Social Sciences (SPSS) test tool using the IBM SPSS version 25 program.

The results reveal significant insights. Out of the twelve hypotheses proposed, eight were found to be acceptable, underscoring the robustness of the research. Notably, managerial ownership and ability both demonstrated a positive and significant effect on earnings quality. Furthermore, both managerial ability and ownership were found to have a positive and significant effect on accrual earnings management and real earnings management. These findings suggest that both managerial ability and ownership play a crucial role in shaping earnings quality. Interestingly, while managerial ownership was found to have a positive effect on accrual earnings management and real earnings management, this finding deviated from the initial hypothesis. Similarly, the positive effect of accrual earnings management and real earnings management on earnings quality was not in line with the initial hypothesis.

Keywords: managerial ability, managerial ownership, accrual earnings management, real earnings management, earnings quality