

ABSTRACT

This study aims to investigate the influence of surplus free cash flow on earnings management, as well as the interaction between audit quality and surplus free cash flow. The dependent variable of this study is earnings management, with surplus free cash flow and audit quality as the independent variables. Audit quality is measured using two measurements, audit firm size and auditor's industry specialization. This study also uses a control variable which is cash flows from operations.

The data used in this study is secondary data obtained from financial statements of 500 manufacturing companies listed on the Indonesia Stock Exchange from 2013-2016 as the sample. This study uses purposive sampling as the sampling method. The method used in this study to examine the interactions between the variables is multiple regression analysis.

The findings in this study indicate that surplus free cash flow has positive significant influence on earnings management. Audit firm size is found to have positive significant effect on earnings management, while auditor's industry specialization do not have a significant effect on earnings management. However, the interactions between both audit quality measurements and surplus free cash flow have significant effect on earnings management.

Keywords: earnings management, surplus free cash flow, audit quality, audit firm size, auditor's industry specialization