

ABSTRACT

This research aims to examine the effect of political connection on earnings management. In this research, earnings management is measured by using discretionary accruals. The first model use the value of discretionary accruals as a measurement of earnings management, while the second model use dummy variable to observe income-decreasing earnings management behavior.

The population of this research was all companies listed in Indonesian Stock Exchange (IDX) in the year of 2014-2015. The samples of this research were listed non-financial company which publishes annual report consecutively from 2014-2015. Multivariate regression analysis and logistic regression analysis are used to analyze data.

This research finds that politically-connected companies have a negative effect on earnings management, indicating that company with political connection tend to report lower income. However, state-controlled firms have no significant effect on income-decreasing earnings management behavior. It can be concluded that politically-connected firms in the form of state control not associated with income-decreasing behavior.

Keywords: Political connection, earnings management, political connection, state-controlled firms