

ABSTRACT

This study aimed to examine the effect of managerial ownership, debt structure, the political costs, earnings volatility, and the changes in cash flows to earnings management practices on non-financial companies in Indonesia. Managerial ownership, debt structure, the political costs, earnings volatility, and the changes in cash flows are independent variables. While the earnings management is a dependent variable.

This research uses documentation method which collects data sources in financial statements and annual reports of companies sampled and analyzed by ordinary least square regression models (OLS). The Company used a sample of 122 non-financial companies listed on the Indonesia Stock Exchange in 2013-2014.

The result finds that managerial ownership, debt structure, and the political costs have no significant effect on earnings management practices. However, earnings volatility and the changes in cash flows have a significant negative effect on earnings management practices. Managers tend to smooth reported earnings by managing the accrual component in order to reduce the fluctuations in earnings by increasing or decreasing earnings when earnings are low or high and also to reduce the variance of reported earnings. Companies with low earnings volatility and low changes in cash flows have indication of earnings management practices.

Keywords : Discretionary accruals, leverage, earnings smoothing, Indonesia non-financial firms, managerial ownership, political costs.