

ABSTRACT

Danti, Raya Ardani Reswara. 2013, *THESIS*. Title: "*The Effect of Company Size, Financial Leverage, Audit Quality and Auditor Independence on Earnings Management (Empirical Study on Pharmaceutical Companies Listed on Indonesia Stock Exchange In 2010-2012)*"

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The purpose of this study is to determine the effect of company size, financial leverage, audit quality, and auditor independence on earnings management at the pharmaceutical companies listed on the Indonesia Stock Exchange.

This study uses secondary data that is the pharmaceutical companies' annual financial statements in 2010-2012 which are obtained from the Indonesia Stock Exchange. Purposive sampling method is used to obtain 9 pharmaceutical companies listed on the Indonesia Stock Exchange during 2010-2012. Earnings management is calculated using accrual discretionary. Multiple regression is employed to test the effect of the company size, financial leverage, audit quality, and auditor independence on earnings management.

Statistical analysis simultaneously states that the independent variables have a significant effect on earnings management, while partially it indicates that company size, audit quality and auditor independence have no significant effect. It occurs since a company cannot always be measured by total assets. Moreover, audit quality, because the magnitude of the company size does not necessarily prove to overcome the practice of earnings management, and auditor independence with the length of the auditor's tenure do not have a significant effect on earnings management. Financial leverage is the only variable that significantly affects earnings management because a company with a high level financial leverage tends to engage in the practice of manipulation through earnings management in order to avoid debt covenant violations.