

The Influence of Leverage and Its Size on the Earnings Management

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Abstract

This study aimed to determine the effect of leverage and firm size on earnings management. Sampling was done by purposive sampling method with the criteria listed in the Indonesia Stock Exchange and has a complete set of financial statements. The study sample consisted of 30 manufacturing companies, used multiple regression analysis techniques and to test the research hypothesis, F test and t test. From the results of calculations using SPSS for Windows version 20, showed that: 1) The value of operating leverage coefficient of 0.215, significant operating leverage affect earnings management by 21.5%; 2) financial leverage coefficient of 0.505, meaning financial leverage affect earnings management by 50.5%; 3) The size of the company coefficient of 0.417, meaning the size of the company affect earnings management of 41.7%. Rated R square (R²) of 0.603, illustrates that earnings management (Y), can be explained by the operating leverage, financial leverage, and the size of the company amounted to 60.3%, while the remaining 39.7%, can be explained by other factors, which are not included in this study. From the results of hypothesis testing F, obtained value of F (2,082) < F table (2.769), this means that there is no effect of operating leverage, financial leverage, and the size of the companies jointly to earnings management. While the results of hypothesis testing t, obtained the following results: 1) tcount (-0.537) < t table (1.672) which means that there is no effect of operating leverage on earnings management; 2) tcount (-0.153) < t table (1.672) which means that there is no financial leverage effect on earnings management; 3) tcount (0.686) < t table (1.672) which means that there is no effect of firm size on earnings management.

Keywords: operating leverage, financial leverage, firm size, earnings management

1. Introduction

The financial statements are the source of information used to assess the financial position and performance of the company consisting of balance sheet, income statement, statement of changes in equity and cash flow statement (IAS No.1,2015). Managers may modify the financial statements prepared to produce the desired amount of profit. The management of a company's financial statements prepared using different ways with the aim of their respective companies. The financial statements must comply with financial accounting standards when it published for others, such as shareholders creditors, employees and the general public so as to give managers the flexibility to choose the method of accounting in preparing the financial statements.

Earnings management is to intervene in the management of external financial reporting process in order to favor a particular party destination. Add to earnings management bias in the financial statements and may interfere with the statement users trust the figures modified as earnings figures without engineering. (Setiawati and Naim, 2000).

Earnings management is also a controversial and important area in financial accounting. Earnings management is not always interpreted as a negative action since it does not profit-oriented management of earnings manipulation. Earnings management is not always associated with an attempt to manipulate the data or accounting information, but more inclined to be associated with the selection of accounting methods that are deliberately chosen by the management for specific purposes within the limits of the General Accepted Accounting Principles (GAAP).

If in a condition where the management did not reach the profit target is specified, then the management will take advantage of the flexibility allowed under the accounting standards in preparing financial statements to modify the reported earnings. Management motivated to show good performance in generating value or the maximum profit for the company so that management tends to select and apply accounting methods that can provide better income information. According to Scott (2003), the motivation of earnings management includes a bonus plan, debt covenants, and political costs.

The detection of the possibility of earnings management in the financial statements examined using the estimated total accruals. According to Scott (2003) total accruals are reflected in the calculation of income which consists of discretionary accrual and non-discretionary accrual. Non-discretionary accrual is an accrual components that occur naturally in line with the change of the activity of the company. Instead discretionary accrual is derived from the accrual component of earnings engineering managers do.

Leverage can be defined as the ability of the company to use the assets or funds that have a fixed load to increase the level of income for the owner of the company (Syamsudin, 2001). Leverage is used to determine the amount of financial resources needed to consider the composition of the financial company that

aims to increase profits. There are two kinds of leverage that operating leverage and financial leverage. Operating leverage demonstrate the use of fixed operating costs by the company in respect of company investment activities, while financial leverage over the use of funds from debt or issue preferred stock. The use of these funds raises fixed costs are interest or dividends.

Variable size of the company is a value that indicates the size of a company. In this study proxies used to measure the size of the company is the total assets. Large companies have a greater amount of assets, other than that the company has the amount of capital invested more, resulting in more parties involved in the company, so the company will be more careful in presenting the financial statements conditions.

Companies that have large total assets indicates that the company has reached a stage of maturity where at this stage the company has a positive cash flow and is considered to have good prospects in a relatively long period of time. In addition, companies with large total assets also reflects that the company is relatively stable and better able to generate profits than companies with total assets were small. For that size company is deemed to have an influence on earnings (Daniati and Suhairi, 2003).

Firm size is only divided into three categories: large companies, medium and small. Determination of the size of this company is based on the total assets of the company (Mardiyah, 2001). In addition, the size of the company based on the total assets owned by a company governed by the provisions of Securities and Exchange Commission 11 / PM / 1997 that replaces Kep-55 / PM / 1996, which states that the medium or small company is a company that has a net worth (total assets) not more than one hundred billion dollars.

Goddess (2007), Suwito and Herawaty (2006) examined the effect of leverage, size of company and corporate governance on earnings management in manufacturing companies listed on the Stock Exchange in 2003-2005. The results show that companies with high operating leverage more motivated to increase earnings management by implementing policies increasing accrual income, but do not affect the manager's financial leverage in earnings management action. The size of the company encourages managers to manipulate earnings by lowering discretionary accrual to reduce the demands of external parties. While corporate governance proxy for the size of the firm does not directly impact on earnings management actions.

From several previous studies, the authors simply take leverage and firm size alone. Where leverage and firm size is the independent variable and earnings management is the dependent variable. Variables can leverage the company profitable if used properly resulting in greater revenue from fixed costs incurred, leverage can be used to increase the value of the company, however, leverage can also be detrimental to, the results obtained by the company is not greater than the cost of fixed and when to use to interests of creditors, then the leverage will bring profit management action.

From the explanation above background, the purpose of this paper is to examine the effect of leverage and firm size on earnings management in manufacturing companies in Indonesia Stock Exchange (IDX).

2. Theoretical Basis

2.1. Profit Management

The emergence of earnings management can be explained by the agency theory. Managers as corporate managers more aware of internal information and future prospects of the company compared with the owner of the company (Richardson, 2000). The manager shall provide signals about the state of the company to the owner. Given signal can be done through the disclosure of accounting information such as financial reports imbalance mastery of information will lead to the emergence of a condition known as information asymmetry. Asymmetry of information manager with the owner can provide an opportunity for managers to manage earnings in order to mislead the owner of the economic performance of companies.

Scott (2003) divided the way the understanding of earnings management into two. First, see it as an opportunistic behavior of managers to maximize their utility in the face of the compensation contract, contract debts and political costs (opportunistic earnings management). Secondly, with regard earnings management from the perspective of efficient contracting (efficient earnings management), where earnings management gives managers a flexibility to protect themselves and the company in anticipation of events unexpected to benefit the parties involved in the contract. Thus, managers can affect the value of its stock market through earnings management, for example by making the income smoothing (income smoothing) and profit growth over time.

Scott (2003) suggests some motivation causes of earnings management are as follows: 1) Bonus Plan (bonus scheme); 2) Contracts Long-Term Debt (debt covenant), 3) Motivation Political (political motivations); 4) Motivation Taxation (Taxation motivations); 5) Change of CEO; 6) Initial Public Offering (initial public offering); 7) The Importance of Providing Information to Investors.

The pattern of earnings management according to Scott (2003) in Fendy (2008) can be done by:

- a) Taking a Bath, in this pattern, if the management had to report a loss, then the management will be reported in large numbers. With this action the management expects to increase its future earnings and losses errors receivables management companies may be delegated to the old, if a change of manager.
- b) Income Minimization, in this pattern, the manager will reduce earnings for specific purposes, eg for the

purpose of saving tax liability to be paid by the company to the government. Because the lower the company reported earnings lower the taxes to be paid.

- c) Income Maximization, in this pattern, the manager will seek to raise income for a particular purpose, for example: before the IPO managers will increase profits in the hope of getting a positive reaction from the market.
- d) Income Smoothing, leveling is done with reported earnings, with external reporting purposes, especially for investors, because most investors prefer relatively stable earnings.

2.2. Leverage Company

Leverage can be defined as the ability of the company to use the assets or funds that have a fixed load to increase the level of income for the owner of the company (Syamsudin, 2001). Leverage is used to determine the amount of financial resources needed to consider the composition of the financial company that aims to increase profits. There are two kinds of leverage, namely:

2.2.1. Operating Leverage (operating leverage)

Operating leverage demonstrate the use of fixed operating costs by the company in respect of the company perform investment activities. Therefore, the operating leverage is used to measure how much the use of fixed operating costs in a company. Related operating leverage when the company issued a fixed charge on certain sales levels.

The cost structure of a company affects operating leverage if the company has a higher fixed costs, the greater the operating leverage. This causes the sensitivity of net income to changes in sales. In the long run all costs incurred by the company into variable costs. The consequences of operating leverage analysis concerning short-term analysis. Fixed costs are costs that do not change even though the overall production volume change (Brigham and Louis, 2007). The costs are included in fixed costs include salaries, depreciation of buildings and equipment, insurance and others.

2.2.2 Leverage Finance (financial leverage)

Financial leverage over the use of funds from debt or issue preferred stock. The use of these funds raises fixed costs are interest or dividends. If all the money comes from their own capital, the company is not associated with a fixed obligation to pay cash on a periodic basis.

Interest and dividend preference shares is fixed financial costs to be paid regardless of the level of corporate profits. In addition of fixed financial costs will increase the uncertainty level of net returns received by the holders of common stock. Common stock is the owner of the company is limited to paid-in capital and risk companies.

Financial leverage profitable or not can be seen the effect on earnings per share. Taxes, interest and dividends are the factors that cause a reduction in shareholders ordinary income, but the tax is not a fixed financial obligations due to the amount of taxes in accordance with the level of income of the company. If the financial leverage is used properly, it will increase revenue for the owner of the company. We recommend that if the use of financial leverage is not successful, it will lead to bankruptcy.

2.3. The size of the company

Company size is a scale in which the size of the company can be classified according to various ways, among others: the log total assets (Marihot and Doddy, 2007), log total sales (Nuryaman, 2008), market capitalization (Halim, et al., 2005). Mardiyah (2001) explains that basically only the size of the company is divided into three categories: large companies (large firms), the company is (medium firms), small firms (small firms). Determination of the size of this company is based on the total assets of the company.

The size of the company can be measured by several variables. Brigham and Louis (2007: 119) defines: "Size or size of the company as the average total net sales for the year in question until a few years, the size of the company is a characteristic of a company in relation to the structure of the company."

According to Law 20 of 2008 Article 6, company size is measured by wealth (assets) excluding land and buildings, and the proceeds were divided into three, namely, small, medium and large. In addition, the size of the company based on the total assets owned by a company governed by the provisions of Securities and Exchange Commission 11 / PM / 1997 that replaces Kep-55 / PM / 1996, which states that:

- a) Medium or small company is a company that has a net worth (total assets) is not more than one hundred billion dollars.
- b) It is not affiliated or controlled by a company which is not a small or medium-sized companies.
- c) It is not a mutual fund.

While Schiffer and Weder (2007) to measure the scale of the company of the many employees who are categorized as follows: small companies are companies that have 5-50 employees, medium-sized companies are companies with 51-500 employees, while large companies are companies with more than 500 employees.

Additionally seen from the number of employees and total assets of the company there is also a measure the size

of the company is derived from the total sales of which more and more sales then it will be the more turnover. The larger the company, the more of the information can be presented.

From the above description it can be concluded that the company size measured by the amount of assets owned by the company, the company's revenue and the amount of labor that exist in the company.

3. Research Methods

The population is the total number of whole units or elements in which investigators interested (Silalahi, 2010). The population in this study Integration of manufacturing in Indonesia Stock Exchange in 2009-2013. The samples in this study is done by using purposive sampling, with the following criteria: a) Companies that are listed on the Indonesia Stock Exchange during the years 2009-2013; b) Available financial statement data for the period of study (years 2009-2013); c) There is delisted in the period 2009-2013. Thus, based on the above criteria, the sample size of the banking industry that meet the criteria of 30 companies.

Analytical techniques used include: (1) descriptive statistics; (2) the classical assumption; and (3) statistical test. To support data analysis used SPSS for windows a version 20.

4. Results and Discussion

4.1. Descriptive Statistics

Descriptive statistics provide a picture or a description of the data that is visible from the average value (mean), standard deviation, maximum and minimum. Based on the results of the descriptive statistics in Table 1 of the earnings management proxies for the value of discretionary accruals (DA) showed the smallest DA (minimum) is -1.76 and the largest DA (maximum) is 0.036, the average value (mean) of -0.348 with a standard DA deviation of 0.2908 which means the data is very small variance of 0.085. Against Degree of Operating Leverage (DOL) DOL indicates the smallest (minimum) is 2,737 and the largest DOL (maximum) is 4946, the average value (mean) DOL for 0686 with a standard deviation of 1,524 which means the data is very large variance of 2,326. Degree of Financial Leverage (DFL) showed the smallest DFL (minimum) -5241 and the DFL is the largest (maximum) is 3737, the average value (mean) DFL of -0.0041 with a standard deviation of 1.415 which means the data is very large variance of 2.004. Company size (size) shows the smallest size (minimum) is 25 192 and the largest size (maximum) is 31 612, the average value (mean) size of the company amounted to 28 254 with a standard deviation of 1,566, which means a very large variance of data for 2454.

Table 1

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation | Variance |
|--------------------|----|---------|---------|--------|----------------|----------|
| DOL | 60 | -2.737 | 4.946 | .686 | 1.524 | 2.326 |
| DFL | 60 | -5.241 | 3.737 | -.0041 | 1.415 | 2.004 |
| SIZE | 60 | 25.192 | 31.612 | 28.254 | 1.566 | 2.454 |
| DA | 60 | -1.760 | .036 | -.3489 | .2908 | .085 |
| Valid N (listwise) | 60 | | | | | |

Source: Data processing by using SPSS 20

4.2. Classical Assumption Test

Before regressed the data, first performed classical assumption in order for the regression model used is not biased or contain errors. This test consists of data normality test, test and test multikolinieritas heteroscedasticity.

1. Test Normality

Table 2
Test of Normalitas

| | | DOL | DFL | SIZE | DA |
|-------------------------|----------------|-------------------|-------------------|-------------------|------------------|
| N | | 60 | 60 | 60 | 60 |
| Normal Parameters(a,b) | Mean | .68651660138470 | -.00415229202019 | 28.25414483283999 | -.34897489882502 |
| | Std. Deviation | 1.524989666166299 | 1.415749441843784 | 1.566661242444862 | .290888832559593 |
| MostExtreme Differences | Absolute | .100 | .157 | .082 | .149 |
| | Positive | .100 | .114 | .082 | .138 |
| | Negative | -.046 | -.157 | -.062 | -.149 |
| Kolmogorov-Smirnov Z | | .774 | 1.214 | .637 | 1.154 |
| Asymp. Sig. (2-tailed) | | .587 | .105 | .811 | .139 |

a Test distribution is Normal.

b Calculated from data.

Source: Data processing by using SPSS 20

DOL 0587 Asymp sig value > 0.05, Sig 0105 DFL > 0.05, Sig 0811 SIZE > 0.05 and DA Sig 0139 this means that the data are normally distributed.

2. Test Multicollinearity

Table 3

Multicollinearity Test Results

Coefficient Correlations(a)

| Model | | Collinearity Statistics | | Keterangan |
|-------|------------|-------------------------|-------|---------------------------------|
| | | Tolerance | VIF | |
| 1 | (Constant) | | | |
| | DOL | .804 | 1.243 | Tidak terjadi multikolinearitas |
| | DFL | .790 | 1.267 | Tidak terjadi multikolinearitas |
| | SIZE | .944 | 1.059 | Tidak terjadi multikolinearitas |

a Dependent Variable: DA

Source: Data processing by using SPSS 20

The test results in Table 3 show that there is no independent variable that has a value of less than 0.10 Tolerance means that there is no correlation between the independent variable whose value is more than 95%. The result of the calculation of Variance Inflation Factor (VIF) also showed the same thing no one independent variable that has a value of VIF more than 10. So it can be concluded that there is no multicollinearity between the independent variables in the regression model.

3. Test Heteroskedasticity

Table 4

Heteroskedasticity Test Result

Coefficients(a)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.829 | .720 | | -1.152 | .254 |
| | DOL | .215 | .028 | -.079 | -.537 | .594 |
| | DFL | .505 | .031 | -.023 | -.153 | .879 |
| | SIZE | .417 | .025 | .094 | .686 | .496 |
| | | | | | | |

Source: Data processing by using SPSS 20

The test results in Table 4 show that all variable values exceeding 0.05 significance this means not happen heteroscedasticity in regression models. The calculation of the value of $n * R^2$, where n is the number of observations and R^2 is an R-square. In this study the number of observations is 60, so $n = 60$ and $R^2 = 0.016$, while the value of X^2 (chi square table with a significant level of 0.05 and $df = 3$). Test calculations White can be seen in the following table:

Table 5
 White Test Result

| | |
|---|--|
| nR ² | Tabel X ² |
| Nilai n*R ² = 60 x 0.016 = 0.96 | Dari Tabel X ² diperoleh nilai bahwa X ² _{(3,0.05) = 7.81} |

From Table 5, it can be concluded that 0.96 < 7.81 does not happen heteroscedasticity.

4.3. Statistics Test

Regression analysis is a form coefficient for each independent variable. This coefficient is obtained by predicting the value of the dependent variable with an equation regression equation in this study is shown by the regression coefficient that indicates the direction of change in the dependent variable on the independent variable. The results of multiple regression test can be seen in Table 6.

Table 6
 Multiple Regression Test

Coefficients(a)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.829 | .720 | | -1.152 | .254 |
| | DOL | .215 | .028 | -.079 | -.537 | .594 |
| | DFL | .505 | .031 | -.023 | -.153 | .879 |
| | SIZE | .417 | .025 | .094 | .686 | .496 |

a Dependent Variable: DA

Source: Data processing by using SPSS 20

From the results of multiple linear regression equation in Table 6, it can be analyzed as follows:

$$DA_{it} = 1829 + 0.215 DOL + 0.505 DFL + 0.417 SIZE$$

1. The constants obtained for 1829. This means that discretionary accruals (DA) has a value of 1,829 by not affected by the independent variable.
2. DOL regression coefficients obtained for 0.215. The results showed a positive value means the direction of the dependent variable that shows the greater operating leverage, the greater discretionary accrual.
3. DFL regression coefficients obtained for 0.505. The results indicate a positive value means the direction of the dependent variable that shows the greater financial leverage, the greater discretionary accrual.
4. SIZE regression coefficients obtained for 0.417. These results indicate a positive value means the direction of the dependent variable that indicates the size of the company (size), the greater discretionary accrual.

1. Test F

Table 7

Anova Test

ANOVA(b)

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|---------|
| 1 | Regression | .080 | 3 | .027 | 2.082 | .000(a) |
| | Residual | 4.912 | 56 | .088 | | |
| | Total | 4.992 | 59 | | | |

a Predictors: (Constant), SIZE, DOL, DFL

b Dependent Variable: DA

Source: Data processing by using SPSS 20

From the results of the ANOVA test or Ftest obtained value of F for 2.082 with 0.000 significance. Because of F (2,082) < F table (2.769), it can be said that the DOL, DFL, and SIZE together no effect on DA. This means that the operating leverage, financial leverage and firm size (size) simultaneously has no effect on earnings management. This does not support previous research conducted by Fendy (2008) that there is a positive effect of operating leverage on earnings management and financial leverage is not proven effect on earnings management, whereas the size of the company does not affect the management of the company's profit.

2. T test

Table 8

T Test

Coefficients (a)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.829 | .720 | | -1.152 | .254 |
| | DOL | .215 | .028 | -.079 | -.537 | .594 |
| | DFL | .505 | .031 | -.023 | -.153 | .879 |
| | SIZE | .417 | .025 | .094 | .686 | .496 |

a Dependent Variable: DA

Source: Data processing by using SPSS 20

Operating leverage effect on earnings management

Operating leverage can be interpreted as how large companies using operational fixed load. Operational fixed load comes from the cost of depreciation, cost of production, and marketing are fixed. The second hypothesis states that the DOL (degree of operating leverage) effect on earnings management. Table 8 shows that the rate of 0.537 t count for DOL < t table (1.672) which means that the second hypothesis is rejected. This shows that the DOL has no effect on earnings management, because the state of the Indonesian economy is not stable at the high interest rates that followed high interest rates, so that companies will be more cautious in taking credit for avoiding the occurrence of earnings management. These results are supported by previous studies conducted by Murbaranti (2009) that leverage is not shown to have a significant effect on earnings management because of its significance value greater than 0.05.

This is not consistent with agency theory but according to the theory of the debt covenant hypothesis which states that managers of companies that have various debt agreements will tend to use accounting methods that can move the reporting of earnings in the future into the present earnings. It aims to reduce the possibility of technical default and meet credit requirements made by creditors. In addition, companies with a high degree of leverage due to the amount of total debt to total capital will face a high risk of default that threatened the company is unable to meet its obligations. Earnings management measures can not be used as a mechanism to avoid the default. Fulfillment of the obligation must still be done and can not be avoided with earnings management.

Financial Leverage Influential Against Profit Management

Financial leverage can be interpreted as a permanent financial burden that is used by the company. The third hypothesis states that the DFL (degree of financial leverage) effect on earnings management. Table 8 shows that the number tcount for DFL (0823) < t table (1.672) which means that the third hypothesis is rejected. It shows that the DFL has no effect on earnings management, because the financial leverage of the company management does not make earnings management because there are other ways to cover that managers can choose the method of accounting is used to overcome the problem of financial leverage. These results are supported by previous studies conducted by the Goddess (2007) that the financial leverage does not affect the actions of managers in earnings management.

This is in line with the trade off theory of capital structure refers to how a company determines how much financing with debt and capital (equity) which is used to balance the costs and benefits. This theory states that the company balance the benefits of financing with debt, with interest rates and the high cost of bankruptcy and debt or leverage of a company does not affect the company perform earnings management, for the greater use of debt the greater the risk and the mean cost of capital itself will increase. It is inversely proportional to the theory that the greater the leverage, the greater the profit management as well. But after all this happened because at the time the company to profit / benefit shareholders prefer to reinvest profits in the form of the share of assets invested maximum profit if they can have a maximum leverage and the company into profit.

Company Size Influential Against Profit Management

The size of the company related to the internal control system. Large companies have a complex system of internal control and more competent than small firms. In addition, the system of corporate governance reduces the level of earnings management and improve the quality of financial reporting. The fourth hypothesis states that the size of the company (size) effect on earnings management. Table 8 shows the number thitung for firm size (size) of (0.094) < t table (1.672) which means that the fourth hypothesis is rejected. It shows that the size of the company (size) has no effect on earnings management, because the larger the size of the company, earnings management decreases. Large companies have a complex system of internal control and more competent than

the smaller companies. These results are supported by previous studies conducted by the Empress (2011) that the size of the company (size) has no effect on earnings management.

From the test results it can be concluded that both large companies and small companies do not affect the management company to manage earnings. This may be due to the strict supervision of the investors as their audit team to examine the financial statements of the company, so that management is more cautious in doing earnings management.

c. Coefficient of Determination

The strength of the effect of independent variables on the dependent variable variation can be seen from the value of the determinant coefficient (R²), which is between zero and one.

Table 9

Model Summary^b

| Model | | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|----------|----------|-------------------|----------------------------|
| 1 | .127 (a) | .016 | .603 | .296166825014117 |

a Predictors: (Constant), SIZE, DOL, DFL

Source: Data processing by using SPSS 20

From the results of Table 9, the model summary magnitude adjusted R² is 0.603, which means 60.3% of the variance can be explained by the variance DA of the three independent variables DOL, DFL and SIZE. While the rest is explained by other causes outside the model. The standard error of estimate (SEE) of 0.29616. The smaller the value of SEE will make more precise regression models to predict the independent variable. The relationship between variables X and Y in the category of strong because the variable X here is a variable derived from the company's internal and external variables that affect Y.

Conclusions and Recommendations

1. Operating Leverage (DOL), financial leverage (DFL) and firm size (SIZE) together (simultaneously) the effect on the dependent variable is earnings management
2. Operating Leverage (DOL) has no effect on earnings management. This is because the state of the Indonesian economy are not stable at the high interest rates that followed high interest rates, so that companies will be more cautious in taking credit for avoiding the occurrence of earnings management.
3. Financial Leverage (DFL) has no effect on earnings management. This is because the financial leverage of the company management does not make earnings management because there are other ways to cover that managers can choose the method of accounting is used to overcome the problem of financial leverage.
4. Testing firm size (SIZE) had no effect on earnings management. This is because the larger the size of the company, earnings management decreases. Large companies have a complex system of internal control and more competent than the smaller companies.

This study has limitations, it should be expected that the study will come fix the following:

- a. Further studies are expected to perform testing discretionary accrual models are most appropriate for the conditions in Indonesia, in measuring the size of the company using the stock price because the size of the company can be seen from the level of prosperity that is reflected in the value of the stock market.
- b. Future studies could use another method of sample selection and are also expected to expand the study sample, as well as the period of observation in this study was conducted over two years compared to previous studies. The author takes the period of observation for two years due to financial reporting data is incomplete. Therefore, it is expected to further research can perform a maximum observation period of five years in order to study more accurate test results.
- c. This study only uses three variables, ie operating leverage, financial leverage, and firm size than previous studies because the authors are motivated to contribute to the importance of monitoring the performance of management. Therefore, further research is expected to use other variables such as corporate governance, profitability which is an important indicator to assess and measure a company's ability to generate profits.

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