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The Size and Growth of the Firm, Free Cash Flow, Good Corporate Governance and Earning Management

Riris Marintan Purba[1]
Student of Accounting Master Program Mercu Buana University, Indonesia

Dwi Asih Surjandari[2]
Lecturer of Accounting Master Program Mercu Buana University, Indonesia

Abstract:- This study aims to examine and analyze the effect of firm size and firm growth on earnings management with free cash flow as an intervening variable and the good corporate governance mechanism as a moderating variable. The companies studied were automotive companies listed on the IDX for the period 2014 - 2018.In this study the sample was taken using purposive sampling non-probability sampling technique. Data analysis was performed using the SPSS 25 program. Our research found that: 1) Firm size has no effect on earnings management; 2) Firm growth has a positive and significant effect on earnings management; 3) Firm size through free cash flow has no effect on earnings management; 4) Firm growth through free cash flow has a positive and significant effect on earnings management; 5) Good corporate governance mechanisms have succeeded in controlling the effect of free cash flow on earnings management.

Keywords:- *Firm Size, Firm Growth, Earning Management, Free Cash Flow, Good Corporate Governance Mechanisms.*

I. INTRODUCTION

Salvatore, 2005 (in Wijaya Sunarna Putra, 2017) states that the main objective of a company is to maximize the wealth or value of the company. Firm value is the investor's perception of the company's success; high company value will make the market believe in the company's performance and management's performance in managing the company and the company's future prospects.

One form of corporate responsibility to stakeholders at the end of the period is making financial reports. In addition to functioning as a form of responsibility, financial statements are also the company's communication media to interested parties. Usually what concerns users of financial statements is management performance, profit related to company profits. Management realizes this tendency to pay attention to profits, so managers usually make how the revenue or profits in the financial statements are used to benefit the company. This method is known as earnings management.

Earnings management is intervenes in the external financial reporting process on a self-serving basis. Earnings management is one of the factors that can reduce the credibility of financial reports, earnings management adds bias in financial reports and can interfere with financial statement users who believe that these engineered profit figures are unengaged (Setiawati and Na'im 2000 in Rahmawati et al., 2006).

Earnings management is a controversial and important area in financial accounting. Earnings management is not always interpreted as a negative, detrimental effort because earnings management is not always oriented to earnings manipulation. Earnings management is not always associated with attempts to manipulate accounting data or information.

There are many factors that trigger earnings management within the company. According to Brigham and Houston (2008), factors that influence it are sales stability, asset structure, growth rate, taxes, company size, company age, leverage, management attitudes, financial flexibility and profitability. The size of the company is indicated by total assets, total sales, and market capitalization. Companies that are classified as large ones will generally be more transparent in carrying out their operational activities because those companies will become the attention of external parties, such as the government, investors and creditors, so as to minimize earnings management actions.

Firm size is basically the grouping of companies into several groups, including large, medium and small companies. Company scale is a measure used to reflect the size of the company based on the company's total assets (Suwito and Herawaty, 2005). Company scale is also seen from the company's total assets at the end of the year. Total sales can also be used to measure the size of the company (Veronica and Siddharta, 2005).

Firm growth is highly expected by internal and external parties of the company, because good growth signals the company's development. From an investor's point of view, the growth of a company is a sign that the company has a profitable aspect, and investors will expect the rate of return of the investment made to show good development.

In this study, free cash flow was used as an intervening variable. Free cash flow is cash that is distributed to creditors or shareholders that are no longer needed as working capital (Jensen, 1986). The existence of free cash flow can create a conflict of interest between shareholders and company management. This conflict occurs as a result of the

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management's desire to invest these funds into profitable projects, so that the management will receive incentives from the investment. On the other hand, shareholders want the free cash flow to be distributed to shareholders as dividends (Dethy, 2016).

Furthermore, Moh'd et al (1998) stated that free cash flow is an internal fund whose use depends on manager policy. Thus, the use of free cash flow has two possibilities, namely whether it is appropriate or not in accordance with the interests of shareholders. If it is in accordance with the interests of the shareholders, there will be no problems. Conversely, if it is not in accordance with the interests of shareholders, it will create a conflict of interest between shareholders and managers. This conflict is known as agency conflict.

To mediate the problem and some of the research results, the researcher used the good corporate governance mechanism as a moderating variable. The good corporate governance mechanism is a procedure that is packaged as rules and mechanisms that control an organization or a company in achieving its goals, namely to maximize the long-term benefits of shareholders (Tapanjeh, 2009). Good corporate governance mechanisms are used to control companies that act for other internal and external interests related to their rights and obligations. The good corporate governance mechanism is divided into two parts, namely internal and external.

II. LITERATURE REVIEW

Agency Theory

Forum for Corporate Governance in Indonesia (FCGI) states that corporate governance is a set of regulations governing the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders relating to their rights and obligations. Corporate governance used in this study is the size of the company.

A Scott (2000) state that the essence of Agency Theory is the proper design of contracts to align the interests of principals and agents in the event of a conflict of interest occurs. The application of agency theory can be realized in a work contract that will regulate the proportion of rights and obligations of each party while still taking into account the overall benefits. The work contract is a set of rules governing the profit sharing mechanism, both in the form of profits, returns and risks that are approved by the principal and agent. The work contract will be optimal if the contract can be fairness, that is, it is able to balance between the principal and the agent which mathematically shows optimal implementation of obligations by the agent and the provision of satisfactory incentives / special rewards from the principal to the agent.

Good Corporate Governance

Organization for Economic Co-operation and Development (OECD), defines that Good Corporate Governance is the way a company management is accountable to its shareholders. Decision makers in the company must be accountable and these decisions can provide added value to other shareholders.

Forum of Corporate Governance in Indonesia (FCGI) defines Good Corporate Governance as a set of rules governing the relationship among shareholders, company managers, creditors, government, employees and other internal and external stakeholders relating to their rights or obligations.

Good Corporate Governance measurement proxy namely the Board of Commissioners, Dual Role of the Board of Directors, the Audit Committee.

Earning Management

Earnings management plays an important role in predicting that large companies have a sufficiently large incentive to perform earnings management, for one reason is that large companies must be able to meet the expectations of their investors or shareholders. In addition, the bigger the company, the more estimates and judgments need to be applied to each type of activity of the company that is increasing.

William R. Scott explains the tendency of managers to use earnings management to maximize their bonuses. Another motive for poor earnings management arises when a manager intends to raise new share capital and wants to maximize the outcome of new problems. Various discretionary accruals can be used to increase reported net income in the short term, such as accelerating revenue recognition, extending the useful lives of capital assets, underprovision of environmental and restoration costs.

Free Cash Flow

Cash flow is one of the most important aspects in free cash flow or it is cash flow that is actually available for distribution to shareholders and creditors after the company has invested in fixed assets and working capital needed to maintain the company's operations (Brigham and Daves, 2003). Ross et al. (2003) stated that free cash flow is company cash that can be distributed to shareholders or creditors, which is not required for working capital or to be invested in fixed assets.

Firm Size

Firm size directly reflects how high and low the company's operating activities are. Fidyati (2003) states, in general, the bigger the company, the bigger the activities or operational activities. Thus, firm size can also be related to the amount of wealth owned by the company. Moh'd et al (1998) state that company size describes the size of a company which can be expressed by total assets or total net sales.

Firm Growth

Growth is the impact of cash flow on company funds from operational changes caused by growth or decrease in business volume (Helfert, 1997: 333). Firm growth is highly expected by internal and external parties of the company,

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because good growth signals the company's development. From an investor's point of view, the growth of a company is a sign that the company has a profitable aspect, and investors will expect the rate of return of the investment made to show good development.

Framework

The influence of firm size on earnings management

Basically, firm size is a scale in which the company is classified as large scale and small scale. Large companies can identify that the company has good prospects in the future. According to research conducted by RR Sri Handayani and Yofi Prima Agustia and Elly Suryani, firm size has a negative effect on earnings management. While the results of research conducted by Dita Astuti Dyah, Linda Kurniasih Butar Butar and Sri Sudarsi, firm size has a positive effect on income smoothing.

The influence of firm growth on earnings management

Firm growth is highly expected by internal and external parties of the company, because good growth signals the company's development. From an investor's point of view, the growth of a company is a sign that the company has a profitable aspect, and investors will expect the rate of return of the investment made to show good development. According to Kasmir (2012: 107), the growth ratio is a ratio that describes a company's ability to maintain its economic position amidst economic growth and its business sector.

The effect of firm size on earnings management if it is intervened by the free cash flow variable

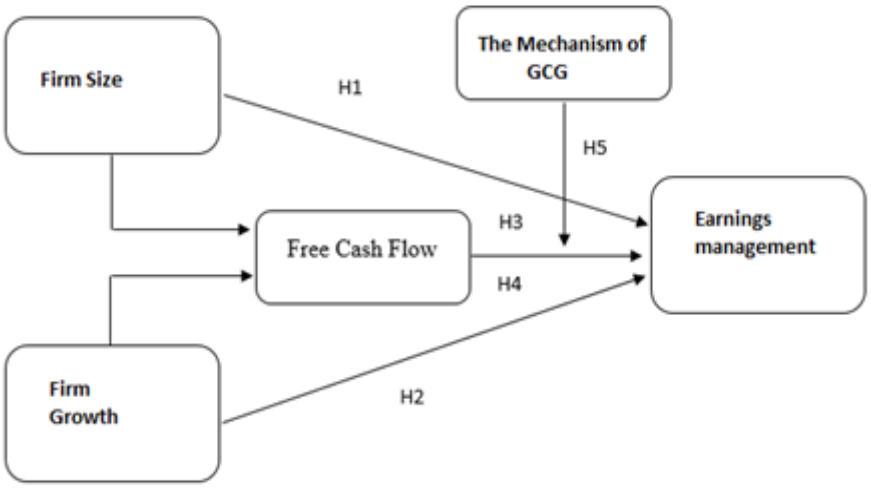
Based on the research results of several researchers above, there is a gab research which states that firm size has a positive effect on earnings management, but there are also research results that do not support this statement. At this point, free cash flow serves as an intervening variable where in the research conducted by Ratna Mappanyukki, et al, free cash flow has a significant negative effect on earnings management. This research is supported by research conducted by Dian Agustia which states that free cash flow has a negative effect on earnings management. Meanwhile, the results of research conducted by Kathleen and Benjamin show that free cash flow affects earnings management where management realizes that incentive compatibility is influenced by free cash flow.

The influence of firm growth on earnings management if it is intervened by the free cash flow variable

Free cash flow is the excess cash needed to finance all projects that have a positive net present value after dividing dividends. Jensen (1986) regarding free cash flow states that market pressure will encourage managers to distribute free cash flow to shareholders or risk losing control of the company. If it is related to firm growth, will free cash flow grow along with firm growth and will it affect earnings management activities? According to research conducted by Erma Setiawati, et al (2010), free cash flow has an effect on earnings management. Rahma Widyaningrum, et al (2018) stated that partially free cash flow has a positive effect on earnings management.

The effect of free cash flow on earnings management if moderated by the good corporate governance variable

From the previous explanation regarding the effect of free cash flow as an intervening variable on earnings management, in this case it is how good corporate governance mediates the difference in results. Research conducted by Ratna Mappanyukki et al, states that good corporate governance has an influence on earnings management. Research conducted by Darcy et al. stated that good corporate governance has an influence on earnings management.



Hypothesis

H1: Firm size has a significant effect on earnings management
H2: Firm growth has a significant effect on earnings management
H3: Firm size has a significant effect on earnings management if it is intervened by free cash flow
H4: Firm growth has a significant effect on earnings management if it is intervened by free cash flow
H5: Free cash flow has a significant effect on earnings management if it is moderated by good corporate governance mechanisms

III. RESEARCH DESIGN AND METHOD

Types of research

This type of research is a causal research which aims to test the hypothesis about the effect of one or more variables (independent variables) on other variables (dependent variables).

Operational Definition of Variables and Variable Measurement

The dependent variable - earnings management

For the independent variable accrual earnings management is measured using the Jones model which is described in the following stages:

Determine the total accrual value with the formulation:
$TAit = NIit - CFOit$

Determine the parameter values of α1, α2, α3 using the Jones Model (1991), with the formulation:
$Tait = \alpha1 + \alpha2\ \Delta Revit + \alpha3\ PPEit + \epsilon_{it}$

Then to scale the data, all these variables are divided by the previous year's assets (Ait - 1) so that the formula changes to:
$Tait / Ait - 1 = \alpha1\ (1 / Ait - 1) + \alpha2\ (\Delta Revit / Ait - 1) + \alpha3\ (PPEit / Ait - 1) + \epsilon_{it}$

Calculating the NDA value with the formulation:
$NDAit / Ait - 1 = \alpha1\ (1 / Ait - 1) + \alpha2\ (\Delta Revit / Ait - 1 - \Delta ARevit / Ait - 1 -) + \alpha3\ (PPEit / Ait - 1) + \epsilon_{it}$
Parameter values α1, α2, α3 are the results of the calculation in step 2.

Determine the value of discretionary accruals, which is an indicator of accrual earnings management by reducing total accruals with non-discretionary accruals, with the formula:
$DAit = TAit - NDAit$
Information:
Tait = Total accruals of company i in period t
NIit = net profit of company i in period t
CFOit = Company i's operating cash flow in period t
NDAit = Non-discretionary accrual of company i in period t
DAit = discretionary accrual of company i in period t
Ait - 1 = total assets of company i in period t-1
ΔRevit = Change in net sales of company i in period t
ΔARevit = Change in the receivables of company i in period t
PPEit = Property, Plant and Equipment company i in period t
α1, α2, α3 = Parameters obtained from the regression equation
ϵ_{it} = Error term for company i in period t

Independent variable - Firm Size and Firm Growth

Firm Size

Firm size is measured by the formula:
Size = Ln Total Asset
and
Size = The log value of the company's total sales at the end of the year

Firm Growth

The firm growth is calculated by the formula:

$$\text{Growth} = \frac{\text{This year's sales - Last year's sales}}{\text{Last year's sales}}$$

Intervening Variable - Free Cash Flow

Free cash flow calculated using the following formula:
FCF = CFO - NCE - NWC
With information:
- FCF is Free Cash Flow
- CFO (Cash Flow from Operation) is the net value of the increase or decrease in cash flow from the company's operating activities.
- NCE (Net Capital Expenditure) is the acquisition cost of the final fixed assets less the initial acquisition cost of the assets.
- NWC (Net Working Capital) is the difference between total current assets and current liabilities of the company in the current year.

Variable Moderating - Good Corporate Governance Mechanism
- Board of Commissioners Size
- Dual Role of Directors
- Audit Committee Size

Population and Research Sample

In this study, the population is automotive companies listed on the Indonesia Stock Exchange, namely as many as 13 companies. The research sample was 11 companies with a research period of 5 years, so the number of research data was 55.

Method of Analysis

Data analysis was performed using the SPSS 25 program with the following stages: 1) descriptive statistical analysis; 2) classic assumption test: normality, multicollinearity, heteroscedasticity and autocorrelation; 3) hypothesis testing: multiple linear regression test, determination coefficient test, F test (goodness of fit models), t test, with firm size (X1) and firm growth (X2), earnings management (Y), free cash flow (Z1) as intervening variables and good corporate governance mechanisms as moderating variable (Z2).

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IV. RESULTS AND DISCUSSION

Descriptive Analysis

Table 1. Descriptive Analysis

Descriptive Statistics					
Variable	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Firm Size	55	17.39	28.61	23,9355	2.81716
Firm Growth	55	.69	27.29	23.9119	3,65468
Free cash flow	55	.69	27.34	24.3448	3,61653
GCG Board of Directors Size	55	9.50	36.50	19.7636	6,79519
GCG The size of the Board of Commissioners	55	7.00	36.50	18,4182	8,25057
GCG Audit Committee Size	55	7.00	19.00	11,4364	2.22788
Earning management	55	.69	28.78	26.8390	3.61953

Source: SPSS Version 25 output

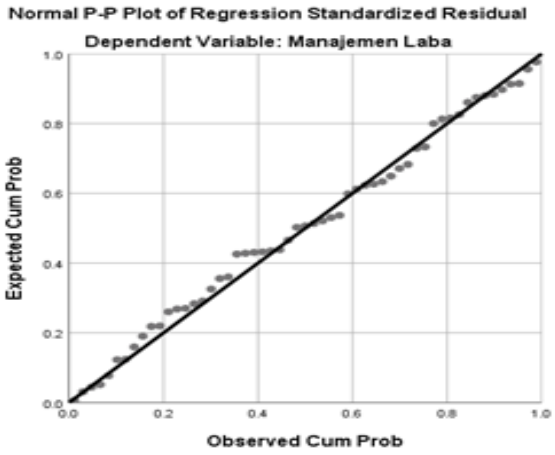
The explanation of each of these variables is as follows:

1. Firm size as an independent variable has a minimum value at the 2014 Astra Otoparts Tbk Company with a value of IDR 14,380,926,000 and the maximum value lies in Gajah Tunggal Tbk in 2018 with a value of IDR 19,711,478,000. The average company size value is 23.9355 with a standard deviation of 2.81716.
2. The firm growth as an independent variable has a minimum value located in Astra Otoparts Tbk in 2015 with a value of –Rp 531,640,000, the maximum value lies in the company Indomobil Sukses International Tbk in 2018 with a value of IDR 2,185,272,233,728. The average value of the company's growth variable is 23.9119 with a standard deviation of 3.654468.
3. FCF or Free Cash Flow as an intervening variable has a minimum value located at Astra Otoparts Tbk in 2015 with a value of Rp 1,170,863,000. The maximum value lies in the company Multistrada Arah Sarana Tbk in 2014 with a value of Rp 916,934,124,866. The mean value of the FCF was 24.3448 with a standard deviation of 3.61653
4. GCG (Good Corporate Governance) in this study is measured by 3 mechanisms, namely the size of the Board of Directors, the size of the Board of Commissioners, and the size of the Audit Committee. The minimum value for the Size of the Board of Directors lies on the company Astra International Tbk in 2014 with a total of 9 people. The minimum value for the Board of Commissioners lies on the company Astra Otoparts Tbk in 2014 with a total of 10 people. The minimum value for the size of the Audit Committee lies on the company Astra Otoparts Tbk in 2014 with a total of 3 people. The maximum value of the size of the Board of Directors lies on the Gajah Tunggal Company in 2014 with a total of 13 people. The maximum value of the size of the Board of Commissioners lies on the company Indo Kordsa Tbk d.h Branta Mulia in 2014 with a total of 13 people. The maximum value of the size of the Audit Committee lies on the company Indo Kordsa Tbk d.h Branta Mulia in 2016 with a total of 6 people. The mean for board size is 19.7636, board size for commissioners is 18.4182 and audit committee size is 11.4364. The standard deviation of the size of the board of directors is 6,79519, the size of the board of commissioners is 8,25057 and the size of the audit committee is 3,61953.
5. Earning management as the dependent variable has a maximum value of 0.69 in the Astra Otoparts Tbk Company in 2015, a maximum value of 28.78 for the Indomobil Sukses International Tbk Company in 2018. The mean earnings management is 26.8390 with a standard deviation of 3.61953.

CLASSIC ASSUMPTION TEST

Normality test
Chart

Graph 1. Graph of Normal P-Plot or Standardized Regression

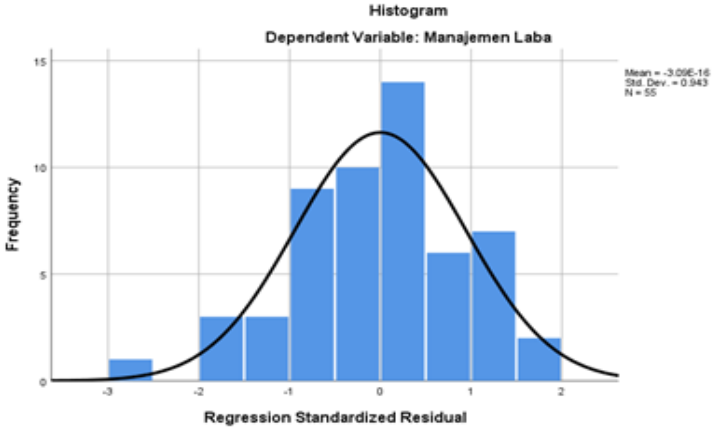


Source: SPSS version 25 output

From the analysis (graph), it is known that the data spreads around the diagonal line or follows the direction of the diagonal line; this shows that the regression model fulfills the assumption of normality.

In addition, it can also be seen on the histogram graph, the graph shows that the data distribution has a bell-shaped curve where the data distribution is evenly distributed, neither leaning to the right nor to the left. Here is a histogram graph:

Graph 2. Histogram Graph



Source: SPSS version 25 output

Statistics

Table 2. Kolmogorov-Smirnov Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		**55**
Normal Parametersa, b	Mean	.0000000
	Std. Deviation	1.29750219
Most Extreme Differences	Absolute	.076
	Positive	.043
	Negative	-.076
Statistical Test		.076
Asymp. Sig. (2-tailed)		.200c, d

Source: SPSS Version 25 output

Based on the results of the normality test in the table above, it is known that the Asymp value. Sig. (2-tailed) is 0.200 and is greater than the value of α = 5% (0.05). This shows that the data has been normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Coefficientsa							
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3,956	2,669		1,482	0.145		
Firm Size	-0.05	0.109	-0.039	-0.463	0.645	0.374	2,671
Firm Growth	0.423	0.105	0.427	4,015	0	0.236	4,229
Free Cash Flow	0.529	0.099	0.529	5,349	0	0.274	3,652
GCG Board of Directors Size	0.047	0.075	0.089	0.634	0.529	0.136	7,357
GCG The size of the Board of Commissioners	0.027	0.067	0.06	0.395	0.694	0.114	8,741
GCG Audit Committee Size	-0.03	0.11	-0.018	-0.273	0.786	0.589	1,698

Source: SPSS Version 25 output

The multicollinearity test results above show that the results of the tolerance and VIF value calculation of all independent variables have a tolerance value of more than 0.1 and a VIF value of less than 10, which means that there is no multicollinearity problem between the independent variables.

Autocorrelation Test

Table 4. Autocorrelation Test Results

Model Summary b				
R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
.934a	.871	.855	1.37621	1,581

Source: SPSS Version 25 output

The table above shows that the DW value obtained is 1.581. Based on the DW table with α = 5% k = 6 and n = 55, the dL value is 1.2709, dU is 1.8265. It can be concluded that there is no autocorrelation, because the DW value of 1.581 is greater than the dL value and less than the dU value.

Heteroscedasticity Test

Table 5.Heteroscedasticity Test Results

Coefficientsa							
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	3,956	2,669		1,482	0.145		
Firm Size	-0.05	0.109	-0.039	-0.463	0.645	0.374	2,671
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Source: SPSS Version 25 output

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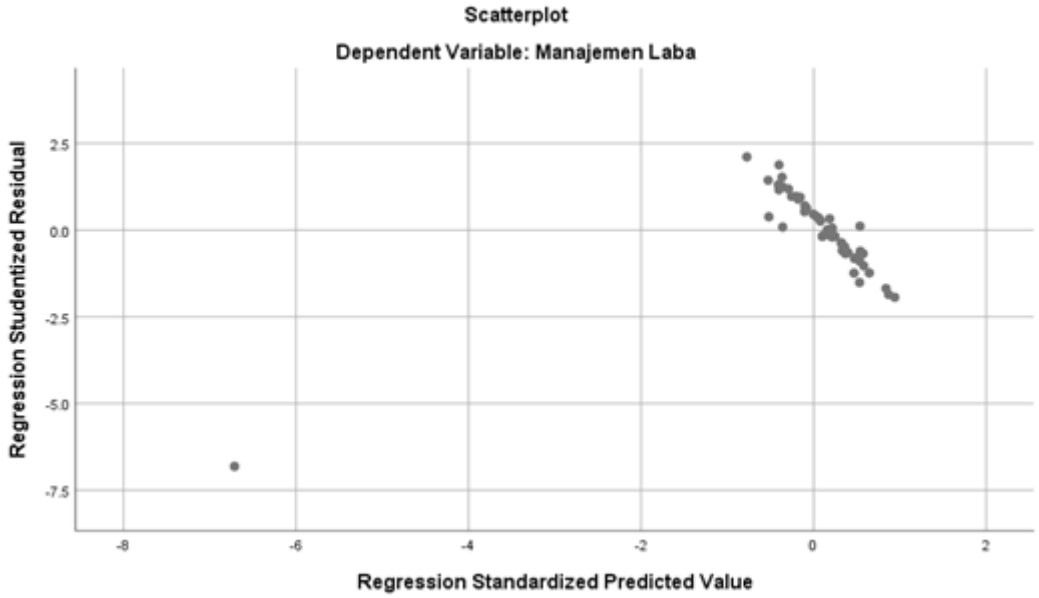
Based on the results of the heteroscedasticity test, the sig value was obtained on company growth of 0,000, company size of 0.645, free cash flow of 0,000, directors of 0.529, board of commissioners of 0.694 and audit committee of 0.786. The test results show that the variable significance value is above and below 0.05, so it can be concluded that there is homoscedasticity. This can be seen from the following test results:

Graph 3. Heteroscedasticity Test - Scatterplot



Source: SPSS Version 25 output

From the table, it can be seen that the data forms a pattern that does not spread above the number 0 on the Y axis. So it can be concluded that there is a homocedasticity problem.

HYPOTHESIS TESTING

Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Results

Coefficientsa							
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	3,956	2,669		1,482	0.145		
Firm Size	-0.05	0.109	-0.039	-0.463	0.645	0.374	2,671
Firm Growth	0.423	0.105	0.427	4,015	0	0.236	4,229
Free Cash Flow	0.529	0.099	0.529	5,349	0	0.274	3,652
GCG Board of Directors Size	0.047	0.075	0.089	0.634	0.529	0.136	7,357
GCG The size of the Board of Commissioners	0.027	0.067	0.06	0.395	0.694	0.114	8,741
GCG Audit Committee Size	-0.03	0.11	-0.018	-0.273	0.786	0.589	1,698

Source: SPSS Version 25 output

From the results of this test, it is known that the value of the coefficient constant is so that the equation can be formed as follows:

$Y = \alpha + \beta1X1 + \beta2X2 + \beta3Z1 + \beta3Z2$

$Y = 3.956 + (- 0.050)\ X1 + 0.423X2 + 0.529Z1 + 0.047Z2a + 0.027Z2b + (-0.030)\ Z2c$

Where:
Y = Earnings Management
α = Constant
β = Coefficient
X1 = Company Size
X2 = Company Growth
Z1 = Free Cash Flow
Z2a = GCG Board of Directors Size

Z2b = GCG The size of the Board of Commissioners
Z2c = GCG Audit Committee Size

The explanation of the regression equation is as follows:

1. A constant of 3.956 indicates the value of Earnings Management if the value of Firm Size, Firm Growth, FCF, GCG does not exist or is 0 (zero).
2. The regression coefficient for the firm size variable of -0.050 explains that if the other independent variables are fixed and the size of the company has increased by 1%, then earnings management will be changed of -0.050. This coefficient is negative, which means that firm size will reduce the value of Earnings Management.
3. The regression coefficient for the firm growth variable of 0.423 explains that if the other independent variables are constant and the firm growth has increased by 1%, then the earnings management will be changed of 0.423. This coefficient is positive, which means that firm growth has a direct relationship with the value of earnings management. If the firm growth increases, the value of earnings management will also increase.
4. The regression coefficient of the free cash flow variable is 0.529, which explains that if the other independent variables are constant and free cash flow has increased by 1%, then earnings management will be changed of 0.529. This coefficient is positive, which means that free cash flow has a direct relationship with the value of Earnings Management. If free cash flow increases, the value of Earnings Management will also increase.
5. The regression coefficient of the moderating variable (good corporate governance mechanism) is 0.047 for the Directors Size variable, 0.027 for the Board of Commissioners Size variable and -0.030 for the Audit Committee Size, explaining that if the other independent variables remain and good corporate governance has increased by 1%, then Earnings Management will be changed worth that figure. The coefficient on the size of the board of directors and the size of the board of commissioners is positive, which means that company growth has a direct relationship with the value of earnings management. If the Company's growth increases, the value of Earnings Management will also increase. Meanwhile, the coefficient of Audit Committee Size is negative, which means it reduces the value of Earnings Management.

Determination Coefficient Test

Table 7. Results of the Coefficient of Determination

Model Summary b			
R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
.934a	0871	0.855	1.37621

Source: SPSS Version 25 output

From these results, the R2 value can be obtained *(R-squared)* amounting to 0.871. Thus, it can be seen that the variable firm size, firm growth, *free cash flow*, and the good corporate governance mechanism (board of commissioners, directors, and audit committee) can explain earnings management by 87.1% while the remaining 12.9% is influenced by other variables outside of these variables.

F test (goodness of fit models)

Table 8. F test results (goodness of fit models)

ANOVAa					
Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Regression	616,546	6	102,758	54,256	.000b
Residual	90.91	48	1,894		
Total	707,455	54			

Source: SPSS Version 25 output

The ANOVA test results in the table above show a probability value of 0.000, which means that the model is feasible and able to interpret the influence of company size, company growth, free cash flow and good corporate governance mechanisms on earnings management.

T test

Table 9. Partial Significance Test Results

Coefficientsa					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	3,956	2,669		1,482	0.145
Firm Size	-0.05	0.109	-0.039	-0.463	0.645
Firm Growth	0.423	0.105	0.427	4,015	0
FCF	0.529	0.099	0.529	5,349	0
GCG Board of Directors Size	0.047	0.075	0.089	0.634	0.529
GCG The size of the Board of Commissioners	0.027	0.067	0.06	0.395	0.694
GCG Audit Committee Size	-0.03	0.11	-0.018	-0.273	0.786

Variable Firm Size (X1)

Based on the test results as shown in table 4.10, it is known that the variable firm size (X1) has a t-count value of -0.463, while the t-table is 1.67591 with a significance value of 0.645 (greater than 0.05). The t-value is smaller than the t-table and the probability is greater than 0.05, so H1 is rejected. This shows that firm size has no effect on earnings management.

Firm Growth Variable (X2)

The t-value for the firm growth variable in the table above is 4.015, while the t-table value is 1.67591 with a significance value of 0. With a positive number, the t-count is greater than the t-table value and the probability is smaller than 0.005 which means H2 is accepted. This shows that firm growth has a positive and significant effect on earnings management.

Intervening Variable (Z1)

Table 10. Intervening Model 1

Coefficientsa					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	32,457	4,599		7,057	0
Firm Size	-0.34	0.182	-0.264	-1,868	0.067
Firm Growth	0.105	0.14	0.106	0.749	0.457

Source: SPSS Version 25 output

Table 11. Intervening Model 2

Coefficientsa					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	34,312	4,855		7,067	0
Firm Size	-0.37	0.183	-0.288	-2,021	0.049
Firm Growth	0.35	0.253	0.353	1,382	0.173
Free Cash Flow	-0.286	0.247	-0.286	-1.16	0.252

Source: SPSS Version 25 output

Based on the test results above, it can be explained as follows:

a. The variable of firm size on earnings management with intervening free cash flow.

It is known that the direct effect of firm size on earnings management is -0.288. Meanwhile, the indirect effect of firm size on earnings management through free cash flow is 0.529 x -0.286 (beta X1 x Z1), namely -0.1512. From these calculations, the indirect effect is greater than the direct effect. This shows that firm size through intervening free cash flow has no effect on earnings management, so H3 is rejected.

b. The variable of firm growth on earnings management with intervening free cash flow.

It is known that the direct effect of firm growth on earnings management is 0.353. Meanwhile, the indirect effect of firm growth on earnings management through free cash flow is 0.529 x -0.286 (beta X2 x Z1), namely -0.1512. From these calculations, the direct effect is greater than the indirect effect. This shows that firm growth through intervening free cash flow has a positive and significant effect on earnings management, so that H4 is accepted.

Moderated Variable (Z2)

Table 12. Result of Moderation Determination Coefficient Analysis

Model Summary b				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.907a	0.822	0.815	1.55657

Source: SPSS Version 25 output

The results above can be seen that the moderation R Square value is 0.822 or 82.2%. The magnitude of this figure implies that good corporate governance as a moderating variable will be able to influence the relationship of free cash flow to earnings management. While the rest (100% - 82.2% = 17.8%) is influenced by other variables that are not studied. An overview of the results of moderation regression testing can be seen as in the following table:

Table 13. Results of Moderation Regression

Coefficientsa					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	3,853	1,508		2,555	0.014
Intervening FCF	0.874	0.059	0.873	14,833	0
GCG moderation	0.041	0.014	0.17	2,888	0.006

Source: SPSS Version 25 output

From the regression results, it was found that the value of ρ-value was 0.014 with a significance level (α = 5%). Because the value of ρ-value> 0.05, it can be concluded that the variable good corporate governance mechanism strengthens the influence of the free cash flow variable on earnings management variables, so that H5 is accepted.

V. DISCUSSION

1. The Effect of Firm Size on Earnings Management

Firm size has no effect on earnings management. Small, medium or large companies are not proven to have taken earnings management actions to avoid earning losses or earning decreases.

These results are in line with the RR study. Sri Handayani (2009) and Yofi Prima Agustia and Elly Suryani (2018), firm size has a negative effect on earnings management. In their research found that all company sizes have a tendency to perform earnings management. So it cannot be ascertained that only large sizes will carry out earnings management or vice versa.

2. The Effect of Firm Growth on Earnings Management

Firm growth has a positive and significant effect on earnings management. The higher the company's growth is, the higher the probability of earnings management action. Firm growth includes growth in sales, profits and company assets. If there is an increase in sales, there will be an increase in profits. This will influence management to determine policies within the company, both for financing policies, paying dividends and compensation.

The results of this study are in line with research conducted by Alwan Sri Kristono (2015) that firm growth affects income smoothing practices. The results of this study also update the results of research by Dita Astuti Dyah Anggraini and Wihindari (2012) which state that firm growth has a negative effect on earnings management.

3. The Influence of Firm Size on Earnings Management If Intervening By Free Cash Flow

The size of the company through direct free cash flow is smaller than the indirect effect. This shows that firm size through intervening free cash flow has no effect on earnings management. If it is related to the size of the company, the free cash flow condition does not affect or require management to take actions that can increase company value. This may be done to repay company debts or to improve company performance so that it can improve low investment opportunities.

The size of the company is also a factor that needs to be considered in determining the level of company debt. Large companies tend to find it easier to obtain loans from third parties, because of the ability to access other parties or collateral in the form of assets of large value compared to small companies. The research finding of Syukriy Abdullah (2002) states that free cash flow is used by management as a signal of the market about the company's prospects in the future.

4. The Influence of Firm Growth on Earnings Management If Intervening by Free Cash Flow

The value of the direct effect of firm growth on earnings management is greater than the indirect effect. This shows that firm growth through intervening free cash flow has a positive and significant effect on earnings

management. The higher the firm growth, the higher the income it will get and free cash flow is expected to grow along with this growth.

Firm growth and free cash flow influence managers to take earnings management actions. This is because good firm growth will reflect good company performance, thus encouraging managers to distribute the existence of the free cash flow. This statement is inversely proportional to the findings of Bella Nabilla Lukita Putri and Sistya Rachmawati (2018) which state that free cash flow has no effect on lab management where managers are more focused on increasing company growth than on earnings management actions.

5. The Influence of Firm Size and Growth on Earnings Management If Intervening by Free Cash Flow and Moderated by the Good Corporate Governance Mechanism

Good corporate governance mechanism strengthens the effect of free cash flow on earnings management. This proves that the good corporate governance mechanism has a positive and significant effect on the effect of free cash flow on earnings management. The higher the components of the good corporate governance mechanism implemented in the company, the higher the supervision of management performance to manage the availability of free cash flow.

Kathleen Fuller (2010) states that free cash flow affects earnings management where management realizes that incentive compatibility is influenced by free cash flow. Ratna Mappanyukki, et al, stated that free cash flow has a negative effect on earnings management, but good corporate governance affects managers to manage free cash flow. This is also in line with Istianingsih's research (2016), where good corporate governance positively affects managers through real earnings management activities.

VI. CONCLUSION

Based on the analysis and hypothesis testing, as well as the discussion that has been presented above, the following conclusions can be drawn:

1. Firm size has no effect on earnings management. Small, medium or large companies are not proven to have taken earnings management actions to avoid earning losses or earning decreases.
2. Firm growth has a positive and significant effect on earnings management. The higher the company's growth, the higher the probability of earnings management action.
3. Firm size through free cash flow has no effect on earnings management.
4. Firm growth through free cash flow has a positive and significant effect on earnings management. The higher the company's growth, the higher the income it will get and free cash flow is expected to grow along with this growth. Management will be affected by the availability of free cash flow to distribute it.
5. The good corporate governance mechanism has succeeded in controlling the effect of free cash flow on earnings management.

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