

ABSTRACT

Earnings management is an intervention performed by company management in compiling financial reports by manipulating company performance with the aim of benefiting the company. Management's motivation to practice earnings management is to attract external parties to the company, one of which is investors by increasing profits (income increasing) and tax motivation by decreasing profits (income decreasing).

Earnings management can be influenced by several factors, namely earning power, free cash flow and investment opportunity set. Thus, this study aims to find out how earning power, free cash flow and investment opportunity sets influence earnings management in manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period.

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The sampling technique used was purposive sampling and obtained 49 companies in the 3-year research period, resulting in a total of 147 research samples. Tests in this study using descriptive statistical tests with panel data regression analysis method.

The results of the study show that earning power, free cash flow and investment opportunity sets have a simultaneous effect on earnings management. Partially, earning power has a positive effect on earnings management, while free cash flow and investment opportunity sets have no effect on earnings management.

The suggestions obtained in this study are divided into three, namely, for further research it is suggested to add variables that are suspected to be the determinants of earnings management, use other companies as research objects and increase the research period. For companies, it is advisable to pay more attention to earning power so as to minimize earnings management actions. For investors, it is suggested that investors be more selective in choosing a company and not only focus on profit information but seek more detailed information on the condition of the company.

Keywords: *earning power, free cash flow, investment opportunity set, earnings management.*