Financial Distress Analysis and Its Relationship towards Earnings Management of Cosmetic Companies Listed at Indonesian Stock Exchange

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Abstract: Earning Management has been an interesting topic to discuss and studied. The discussion mainly on the practice of earning management which considered to manipulate the financial data and is the practice is happening in Indonesia or not. Research shows that in Indonesia, study on Earnings Management are considered significant since it contribute of about 18% of all accounting papers. Earning Management is an action of managers to adjust financial reports using their judgment in order to influence contractual outcomes that based upon reported accounting data or to mislead stakeholder about firm's performance. This study interested to look on the debt covenant hypothesis where Debt covenant hypothesis propose that the bigger the debt the bigger the management intention to manage earnings because management is liable to keep particular ratios in certain range to avoid breaching debt covenantsThe study used descriptive method and the data used were secondary data derived from the financial report of Manufacturing Companies of Cosmetic Sub-Sector companies of year 2009 to 2015. The variable used in this study is Financial Distress model of Springate and Basic Earning Power and Earning Management model of total accrual.

Keywords: Financial distress, earning management, basic earning power