

INFLUENCE FREE CASH FLOW, FIRM SIZE AND LEVERAGE ON PROFIT MANAGEMENT IN PHARMACY COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE IN THE 2018-2021 PERIOD

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Abstract

This research aims to determine the effect Free Cash Flow, Firm Size and Leverage on Profit Management in Pharmaceutical Companies Listed on the Indonesian Stock Exchange for the 2018-2021 Period. The population in this research are pharmaceutical companies listed on the Indonesia Stock Exchange for the 2018-2021 period. The sampling method used in this research is method purposive sampling In a 4 year period in 11 pharmaceutical companies, 44 company data samples were obtained. The analysis used in this research is quantitative analysis with the help of the SPSS analysis tool (Statistical Package Social Science). The results of the analysis in this study show that partially Free Cash Flow has an effect on Profit Management with a sig value of $0.041 < 0.05$, partially Firm Size has no effect on Profit Management with a sig value of $0.730 > 0.05$, partially Leverage has no effect on Profit Management with a sig value of $0.102 > 0.05$, and simultaneously obtained F count $2.062 < F$ table 2.839 with a significant level of $0.121 > 0.05$ indicating that Free Cash Flow, Firm Size and Leverage has no effect on earnings management. Coefficient of Determination (R^2) in this study Free Cash Flow, Firm Size and Leverage has an influence on earnings management of 13.4%, while the rest is given by other variables not examined in this research. It can be concluded that this shows the size of free cash flow, firm size and leverage will not have an impact on companies that carry out earnings management.

1. INTRODUCTION

Background problem

Pharmaceutical companies are manufacturing companies, namely processing industrial companies that process raw materials into semi-finished or finished goods. The pharmaceutical sub sector has a role in health and medicine problems and pharmaceutical companies are part of an industry that has been listed on the IDX for quite a long time, which is an industry that has very good prospects in the future and is an industry that has been able to develop to date, in its development the pharmaceutical industry has had many providing job opportunities to job seekers in Indonesia. Along with the ups and downs of growth in the pharmaceutical sector, companies must be able to improve company performance to achieve company success. The success of a company can be seen through the extent to which the company is able to generate profits (Sari. A, 2016). The performance of a company can be seen by knowing Free Cash Flow, Firm Size and Leverage within the company. To achieve maximum profits, the company will hand over the task to management to achieve it. And to achieve this, management will carry out earnings management as intended (Hapsoro & Annisa, 2017) which states that earnings management is management's attempt to manipulate financial reports in a company for its own benefit. To find out whether a company is carrying out earnings management or not is to carry out an audit. However, conducting an audit cannot guarantee whether management is carrying out earnings management because there are several factors that influence Earnings management in a company includes: Free Cash Flow, Firm Size and Leverage.

Free Cash Flow, Firm Size and Leverage has an influence on earnings management, which Free Cash Flow according to (Wiyogo et al., 2021) is the total cash paid by the company to external parties, especially investors, after deducting investment payments. Which means if the company has Free Cash Flow is large then the operating cash flow is also large and if the operating cash flow is large then it affects the earnings management of a company and vice versa if Free Cash Flow is small then the operating cash flow is also small and if the operating cash flow is small then it has an impact on a company's earnings management.

Further more Firm Size (company size) according to (AGUSTIN, 2021) company size is a scale where the size of the company can be classified in various ways, including: total assets, log size, sales and market capitalization. A larger company whose shares are spread very widely will be more willing to issue new shares to meet its needs to finance its sales growth compared to a smaller company. So the larger the company size, the greater the tendency to use external funds. Therefore Firm Size also influences management in carrying out earnings management, the bigger the company, the smaller the profit management because usually the information available to investors in making decisions regarding investment in the company's shares increases.

The last one is Leverage, namely debt used by a company to finance its assets in order to carry out its operational activities. According to (Putri & Putra, 2017) Leverage is a comparison between debt and capital in a company. The greater the company's debt, the greater the risk it faces and the company will be threatened with liquidation. If a company is threatened with liquidation, the company tends to carry out manipulation actions in the form of earnings management. By carrying out earnings management, the company's performance will look good in the eyes of shareholders and the public even though the company is in danger of being liquidated.

Influence Free Cash Flow, Firm Size and Leverage towards earnings management ever discussed previously by (Wiyogo et al., 2021) with the title Influence Leverage, Company Size, Free Cash Flow on Profit Management of Manufacturing Companies Registered on BEI where these variables show that leverage has a negative effect on earnings management, company size has a positive effect on earnings management and free cash flow negative effect on earnings management.

From the description above, the researcher is interested in conducting research again with the title **Influence Free Cash Flow, Firm Size and Leverage Regarding Profit Management in Pharmaceutical Companies Listed on the Indonesian Stock Exchange in the 2018-2021 Period.**

Problem Formulation

Based on the description of the background of the problem above, the problem formulation in this research is:

1. Is it free cash flow Does it have a partial effect on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period?
2. is firm size Does it have a partial effect on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period?
3. is leverage Does it have a partial effect on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period?
4. Is Free Cash Flow, Firm Size and Leverage simultaneous influence on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period?

Research purposes

Based on the previous background description and problem formulation, the objectives of this research are:

1. To find out whether free cash flow partial effect on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period
2. To find out whether firm size partial effect on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period
3. To find out whether average partial effect on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period
4. To find out whether Free Cash Flow, Firm Size and Leverage simultaneous influence on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the 2018-2021 period

2. LITERATURE REVIEW

Indonesia stock exchange

The Indonesian stock exchange or commonly abbreviated as BEI is an institution that organizes and provides facilities (access) to bring together offers to sell and buy securities (securities) from buyers (investors) and sellers (companies go public). The place where securities buying and selling transactions occur is called the capital market. So, IDX is the one that organizes activities in the Indonesian capital market. In the capital market mechanism, there are two systems for purchasing securities, namely through the primary market and the secondary market.

The capital market in Indonesia existed long before Indonesia declared independence, namely during the Dutch colonial period in 1912 in Batavia. The founder of the capital market at that time was the Dutch East Indies government. At that time, the capital market was only intended for the needs of the colonial government (VOC). However, due to one or several things, such as World War I and II, the transfer of the government of the Republic of Indonesia, and so on, the capital market became empty. In 1977, the capital market began to be reactivated by the Indonesian government and President Soeharto inaugurated it, with the name Bursa Jakarta Securities (BEJ).

Pharmaceutical Company

Pharmaceutical companies are drug companies and are commercial business companies with a focus on researching, developing and distributing drugs. Especially for the health category. Where this company will make branded or generic drugs. You could say that this pharmaceutical company is an industry that requires intellectual capital, so it's not just monetary capital. Types of pharmaceutical companies are divided based on what the company produces.

Financial statements

Financial reports are information that describes the financial condition of a company, where this information can be used as an illustration of a company's financial performance. According to Munawir, financial reports are a very important tool for obtaining information regarding the financial position and results that have been achieved by the company concerned, so that financial reports are expected to help users make economic decisions of a financial nature. Financial reports generally consist of: balance sheet, profit and loss report, capital changes report, cash flow report and notes to financial reports.

Based on financial concepts, financial reports are very necessary to measure business results and company development from time to time and to find out how far the company has achieved its goals. Financial reports are very useful for looking at the condition of a company, both current conditions and as a tool for predicting conditions in the future (forecast analyzing). The purpose of financial reports is to provide information to parties who need it about the condition of a company from the perspective of figures in monetary units.

Financial management

Financial management is a scientific discipline that aims to manage the financial resources of an entity or company in an effective and efficient manner. Financial management includes various activities such as budgeting, financial planning, cash management, investment management, financing, cost control, and financial performance analysis.

Financial management according to Sundjaja and Barlian (2003) in M. Fauzan and D. Rusdiyanti (2022) explains that financial management is "Management related to duties as a financial manager in a business company. Finance managers actively manage the financial affairs of various types of businesses, whether financial or non-financial, private or public, large or small, profit or non-profit. They carry out various activities, such as budgeting, financial planning, cash management, credit administration, investment analysis and efforts to obtain funds.[1]

The main objective of financial management is to ensure that a company has sufficient financial resources to finance its operations. As well as maximizing company value for stakeholders. In a business context, this management aims to maximize profits and reduce financial risks. This management is also related to investment and financing decision making. This includes making decisions regarding the right type of investment, optimal sources of financing, and effective financial risk management. Apart from that, financial management also involves monitoring and analyzing the company's financial performance, as well as developing long-term and short-term financial strategies.

The term financial management can be interpreted as good fund management related to allocating funds in various forms of investment effectively as well as efforts to collect funds for investment financing or spending efficiently according to Sartono (2012) in A. Lestari and M. Fauzan (2023) [2]. Although the function of a financial manager in every organization is not necessarily the same, in principle the main function of a financial manager is to plan, seek and utilize various ways to maximize the efficiency of company operations. Financial management is related to 3 activities, namely:

1. Activities using funds, namely activities to invest funds in various assets.
2. Fundraising activities, namely activities to obtain sources of funds, both from internal funding sources and external funding sources of the company.
3. Asset management activities, namely after the funds are obtained and allocated in the form of assets, the funds must be managed as efficiently as possible.

From the theories above, it can be concluded that financial management is an effort to manage funds that are collected and allocated to finance all company activities in order to achieve the goals of the company.

Profit management

Earnings management in the narrow sense is defined as the behavior of managers to "play" with components discretionary accrual (manipulating reasonable profit income and is a management policy choice in accordance with generally accepted accounting standards) in determining the amount of income. Meanwhile,

earnings management in a broad sense is defined as a manager's actions to increase (decrease) the current reported profit for a unit for which the manager is responsible, without resulting in an increase (decrease) profitability (the company's ability to generate profits during a certain period) the long-term economics of the unit (Sulistiyanto, 2014). There are several motivations that encourage managers to carry out earnings management, namely bonus motivation, politics, taxes, CEO changes, and Initial Public Offering (IPO).

Profit Management Measurement Models:

1. Model Healy

Healy Model (1985) tests earnings management by comparing the average total accruals across all earnings management distribution variables. Healy's study differs from most other earnings management studies because it predicts that systematic earnings management occurs in every period.

2. Model Deangelo

DeAngelo (1986) tests earnings management by calculating the first difference in total accruals, and by assuming that the first difference has the expected value of zero based on the null hypothesis that there is no earnings management. This model uses last period's total accruals (scaled by total assets $t-1$) as a measure of nondiscretionary accruals.

3. Model Jones

Jones (1991) proposed a model that simplifies the assumption that non-discretionary accruals are constant. The model tries to control the effect of changes in the company's economic environment on non-discretionary accruals.

4. Modified Jones Model

(Dechow, P. M., Sloan, R. G., & Sweeney, 1995) considers a modified version of the Jones Model in empirical analysis. This modification is designed to eliminate the possibility of the Jones Model predicting discretionary accruals measuring with error when management discretion is exercised on earnings.

Free Cash Flow

Free cash flow is the existence of excess funds available to be distributed to shareholders and this decision is influenced by the policies taken by management (Sri Oktaryani et al. 2016) free cash flow is very important for companies because it allows companies to take advantage of opportunities that can be used to increase the value of the company so that it is seen more by other parties. By knowing free cash flow we will be able to see the projected growth and health of a company. So it improves free cash flow is one way for management to increase other parties' assessment of the company so that it can attract other parties to invest capital in the company.

According to (Syafri, S., & Harahap, 2016), the elements in the free cash flow report consist of the company's operating activities, cash flow from financing activities and cash flow from investment activities. Free cash flow can be calculated using the formula:

$$\text{Free cash flow} = \text{Operating Cash Flow} - \text{Capital Expenditures}$$

Firm Size

Company size or company scale is the size of the company which is determined by the total amount of assets owned by the company. (Nurhayati, 2013) stated that company size is the size or size of the assets owned by the company, the greater the total assets, the more capital invested.

According to (Astriah et al., 2021) company size is a scale where the size of the company can be classified in various ways, including: total assets, log size, sales and market capitalization. A larger company whose shares are spread very widely will be more willing to issue new shares to meet its needs to finance its sales growth

compared to a smaller company. Firm size proxied by the natural logarithm of total company assets, firm size calculated using the formula:

$$\text{Firm size} = \ln \text{Total assets}$$

Leverage

Leverage is defined as the use of assets or funds, and as a result of the use of these funds, the company must incur fixed costs or pay fixed expenses. Mark Leverage intended to understand the level of debt on the total company assets. The difference between total debt and total assets is used as a measurement leverage. Leverage calculated using the formula:

$$\text{LEV} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

3. RESEARCH METHODS

Based on the problem formulation and research objectives to be achieved, the research method used is the associative method. According to (Sugiyono, 2017) associative research is research that aims to determine the influence or relationship between independent variables (variables that influence) and dependent variables (variables that are influenced). This type of research is quantitative, namely research by obtaining data in the form of data.

This research was conducted using a time series research design. Time series design is a research design that aims to determine the stability and clarity of a situation, which is not demanding and inconsistent (Sugiyono, 2017). This research will test the influence of Free Cash Flow (X1), Firm Size (X2), and Leverage (X3) (independent variables) on Earnings Management (Y) (dependent variable).

This research was conducted on pharmaceutical companies listed on the Indonesia Stock Exchange (BEI). Where the data can be retrieved or accessed via www.idx.co.id. The time used in the research starts from October 2022 to May 2023

In this research there are independent variables and dependent variables. (Sugiyono, 2017) defines independent variables which are often referred to as stimulus, predictor and antecedent variables. Meanwhile, the dependent variable is the output, criterion and consequent variable. The dependent variable in this research is Profit Management, while the independent variable in this research is Free Cash Flow, Firm Size and Leverage.

The data analysis method used in this research is quantitative analysis with the help of SPSS (Statistical Package For Social Science). The population in this study are pharmaceutical companies listed on the Indonesia Stock Exchange (BEI) during the 2018-2021 period. This research uses the method purposive sampling, purposive sampling is a sampling technique used when the researcher already has a target individual with the following criteria:

Table 1. Research Sample Selection Criteria

No	Criteria	Amount
1	Pharmaceutical companies listed on the Indonesia Stock Exchange for the 2018-2021 period	12
2	Pharmaceutical companies that publish complete audited financial reports as of December 31, 2018-2021	11
Number of companies used as samples		11

Data Source: Processed Data

Based on table 1 above, companies can be used as samples consisting of time series data samples for 4 years (2018-2021) and 11 company data, so the total sample is (4 x 11= 44).

Table 2 List of Sample Company Names

No	Issuer Code	Company Name
1	DVLA	PT. Darya-Varia Laboratoria Tbk
2	INAF	PT. Indofarma (Persero) Tbk
3	KAEF	PT. Kimia Farma Tbk
4	KLBF	PT. Kalbe Farma Tbk
5	PEHA	PT. Phapros Tbk
6	PYFA	PT. Pyridam Farma Tbk
7	SIDO	PT. Industri Jamu dan Farmasi Sido Muncul Tbk
8	TSPC	PT. Tempo Scan Pacific Tbk
9	MERK	PT. Merck Tbk
10	SCPI	PT. Merck Sharp Dhome Pharma Tbk
11	SDPC	PT. Millenium Pharmacon International Tbk

Data Source: BEI

In this research, earnings management is measured using the Modified Jones Model because this capital model is considered the best in detecting earnings management compared to other models and can provide strong results.

This is because this model has the smallest standard error from the regression error resulting from the estimation of the actual total value. The Modified Jones Model is designed to eliminate the error tendencies of the Jones Model for measuring discretionary accruals which are tested with revenue recognition.

The complete formula of the Modified John Model is as follows:

$$TAC_{it} = NI_{it} - CFO_{it}$$

4. RESULTS AND DISCUSSION

Results

Profit Management Calculations, Free Cash Flow, Firm Size and Leverage

Table 3. Profit Management Data, Free Cash Flow, Firm Size and Leverage

NO	Code	Year	Free Cash Flow	Free to You	Leverage	Profit Management
1	DVLA	2018	-368.48	21.24	0.29	174023540
		2019	143.63	21.33	0.29	-507555950
		2020	437.77	21.41	0.33	554898050
		2021	348.34	21.46	0.34	-288607802
2	INAF	2018	236.22	28.00	0.66	-376544136
		2019	181.94	27.6	0.64	128289563
		2020	327.71	28.17	0.75	-465178828
		2021	-235.05	28.33	0.75	-553282377
3	KAEF	2018	-141.63	23.15	0.63	363416222
		2019	-286.03	23.63	0.60	-183794420
		2020	470.40	23.59	0.60	-998548428
		2021	-435.33	23.6	0.59	659638110
4	KLBF	2018	134.84	30.53	0.16	-273513985
		2019	475.56	30.64	0.18	346330013

NO	Code	Year	Free Cash Flow	Free to You	Leverage	Profit Management
		2020	298.93	30.75	0.19	-142192730
		2021	151.10	30.88	0.17	406061407
5	THIGH	2018	-236.56	21.35	0.58	-674012900
		2019	-297.97	21.46	0.61	998283210
		2020	231.31	21.37	0.61	-210819410
		2021	176.61	21.33	0.60	-178626204
6	P.Y.F.A.	2018	-156.50	25.95	0.36	361797788
		2019	143.39	25.97	0.35	-828470837
		2020	-672.48	26.16	0.31	209921442
		2021	-332.80	27.42	0.79	-341074734
7	BEEN	2018	557.30	15.02	0.13	-182540000
		2019	698.77	15.08	0.13	-292250000
		2020	939.48	15.16	0.16	-101738000
		2021	107.41	15.22	0.15	615810000
8	TSPC	2018	-922.31	29.69	0.31	151290022
		2019	467.09	29.76	0.31	-294620357
		2020	490.16	29.84	0.30	-148329187
		2021	265.43	29.9	0.29	188165129
9	BRAND	2018	145.10	20.96	0.59	994359306
		2019	180.94	20.62	0.34	-132587090
		2020	405.59	20.65	0.34	-811950000
		2021	126.72	20.75	0.33	-381537570
10	SCPI	2018	104.31	21.22	0.69	-353747160
		2019	366.07	21.07	0.56	-281735967
		2020	239.65	21.19	0.48	-600112800
		2021	439.73	20.92	0.20	-342734499
11	SDPC	2018	694.83	27.62	0.59	356668493
		2019	-172.68	27.86	0.65	-202242575
		2020	678.80	27.78	0.80	-688883662
		2021	137.03	27.82	0.80	-860506853

Source: Processed Data (excel 2010)

Based on table 3 above, it shows the value of Profit Management, Free Cash Flow, Firm Size and Leverage Every year there is an increase or decrease, this is caused by the company's performance.

Descriptive Statistical Test

Table 4. Descriptive Statistical Test Results

Descriptive Statistics					
		Minimum	Maximum	Mean	Std. Deviation

Free cash flow	4	-922.31	939.48	148.7350	378.15293
Firm size	4	15.02	30.88	24.1775	4.59945
Leverage	4	.13	.80	.4436	.21297
Profit management	4	-998548428	998283210	-117926958	476971941.4
Valid N (listwise)	4				

Data source: processed data (SPSS 23 output)

Based on table 4 above, it shows the results of descriptive statistics for the variables that have been studied, namely: Results of descriptive statistics for variables Free Cash Flow with a minimum value of -922.31, a maximum value of 939.48, an average value of 148.7350 and a standard deviation value of 378.15293 which is greater than the average value, this indicates that Free Cash Flow has high variability in pharmaceutical companies listed on the Indonesian Stock Exchange in the 2018-2021 period.

Next are the descriptive results for the company size variable (firm size) with a minimum value of 15.02, a maximum value of 30.88, an average value of 24.1775 and a standard deviation value of 4.59945. This means that the total assets of pharmaceutical companies listed on the Indonesian Stock Exchange in 2018-2021 are 4,59945.

Descriptive results for variables leverage with a minimum value of 0.13, a maximum value of 0.80, an average value of 0.4436 and a standard deviation value of 0.21297 which is greater than the average value, this indicates that leverage has high variability in pharmaceutical companies listed on the Indonesian Stock Exchange in the 2018-2021 period.

And finally, the results of descriptive statistics for the earnings management variable obtained an average value of -117,926,958 and a standard deviation value of 476,971,941.4. The minimum value is -998,548,428 owned by PT. Kimia Farma Tbk in 2020 and a maximum value of 998,283,210 owned by PT. Phapros Tbk in 2019.

Classic assumption test

Table 5. Normality Test Results

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			44
Normal Parameters A ^b	Mean	.0000000	
	Std. Deviation	443875838.84937730	
Most Extreme Differences	Absolute	.161	
	Positive	.161	
	Negative	-.065	
Test Statistic			.161
Asymp. Sig. (2-tailed)			.006 ^c
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			

Data source: processed data (SPSS 23 output)

From statistical test Kolmogorov-Smirnov (KS) table 4.3 above, shows that value Test Statistic is 0.161 while the significance probability value or value p-value of 0.006^a smaller than the significance probability value $\alpha = 0.05$. This shows that the variable data is not normally distributed.

Table 6. Multicollinearity Test Results

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	free cash flow	.922	1.085
	firm size	.931	1.074
	Leverage	.922	1.084

a. Dependent Variable: management two

Data source: processed data (SPSS 23 output)

Based on table 6 above, it shows that the tolerance value is variable free cash flow of 0.922, firm size of 0.931 and leverage of 0.922, this means that these variables have a tolerance value greater than 0.1. Meanwhile value Variance Inflation Factor (VIF) indicates variables free cash flow has a value of 1,085, firm size amounting to 1,074 and leverage amounting to 1,084 values Variance Inflation Factor (VIF) for each variable is still smaller than 10. Thus it can be concluded that the independent variables used in this research are free from symptoms of multicollinearity.

Table 7. Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.366 ^a	.134	.069	460220265.023	2.430

a. Predictors: (Constant), Leverage, Firm size, Free cash flow

b. Dependent Variable: Earnings management

Data source: processed data (SPSS 23 output)

Table 7 above shows the results Durbin-Watson statistics (D stat) which is 2,430. Next, compare the D stat value with the D table which consists of two values, namely the lower limit (dL) and the upper limit (dU). With $k = 3$ (k is the number of independent variables) because the number of independent variables used is 3 and $n = 44$ (the number of sample data used), then it is obtained in the table Durbin Watson ($\alpha = 5\%$) the dL limit is 1.3749 and dU is 1.6647. So it can be stated that the results of statistical tests Durbin-Watson is in the area $dU \leq d \leq 4 - dU = 1.6647 \leq 2.430 \leq 2.3353$ so it can be decided that there is no positive or negative autocorrelation.

Table 8. Heteroscedasticity Test Results (Glejser test)

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Say.
		B	Std. Error	Beta	
1	(Constant)	450318047.091	254041727.138		1.773
	Free cash flow	-31284.997	122365.062	-.042	.800
	Firm size	-7480852.423	10007582.997	-.121	.459
	Leverage	162233275.933	217190329.479	.121	.459

a. Dependent Variable: Abs

Data source: processed data (SPSS 23 output)

Based on table 8 above, it shows that the significance value (sig) of the independent variable free cash flow equal to 0.800, variable firm size equal to 0.459 and variable leverage amounting to 0.459. Because the significance value (sig) of the three variables is greater than 0.05, it can be concluded that the regression model on the variables free cash flow, firm size and leverage is free from symptoms of heteroscedasticity.

Hypothesis testing

Table 9. Multiple Linear Regression Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	330392523.1	401383063.9		.823	.415
	Free cash flow	-408055.470	193335.418	-.324	-2.111	.041
	Firm size	-5490674.155	15811868.27	-.053	-.347	.730
	Leverage	-574516874	343158271.2	-.257	-1.674	.102

a. Dependent Variable: Management two

Data source: processed data (SPSS 23 output)

Based on table 9 above, it shows that the constant coefficient value is 330392523.1 and the variable coefficient value free cash flow amounting to -408,055,470, firm size amounting to -5,490,674,155 and the variable coefficient value leverage is -574516874, then the regression model for this research is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

$$\hat{Y} = 330,392,523.1 - 408,055,470X_1 - 5,490,674,155X_2 - 574516874X_3 + e$$

The above equation can be explained as follows:

1. The constant coefficient value (a) has a positive value of 330392.523.1. The positive sign indicates a unidirectional influence between the independent variable and the dependent variable.
2. Regression coefficient values for variables free cash flow (X1) is -408,055,470. This value shows a negative influence (in the opposite direction) between the variables free cash flow with earnings management.
3. Regression coefficient values for variables firm size amounting to -5,490,674,155. This value shows a negative influence (in the opposite direction) between the variables firm size with earnings management.
4. Regression coefficient values for variables leverage amounting to 574,516,874. This value shows a negative influence (in the opposite direction) between the variables leverage and earnings management.

Table 10 t test results (partial test)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	330392523.1	401383063.9		.823	.415
	Free cash flow	-408055.470	193335.418	-.324	-2.111	.041
	Firm size	-5490674.155	15811868.27	-.053	-.347	.730
	Leverage	-574516874	343158271.2	-.257	-1.674	.102

a. Dependent Variable: Management two

Data source: processed data (SPSS 23 output)

T tabel = $0.05;44-3-1=0.05;40=1.684$

The t table value obtained is 1.684, so:

H1: based on table 10 above, it shows that the independent variable free cash flow has a calculated t value of -2.111 and a significance value of 0.41, while the t table value obtained is 1.684. Because the calculated t value of -2.111 is smaller than the t table value of 1.684, H0 is accepted and H1 is rejected, meaning free cash flow has no partial effect on earnings management (**H1 is rejected**). Meanwhile, the significant value of 0.041 is smaller than 0.05, which means that free cash flow significant effect on earnings management (**H1 accepted**)

H2: based on table 10 above, it shows that the independent variable firm size has a calculated t value of -0.347 and a significance value of 0.730, while the t table value obtained is 1.684. Because the calculated t value -0.347 is smaller than the t table value of 1.684, H0 is accepted and H2 is rejected, meaning firm size does not have a partial influence on earnings management (**H2 is rejected**). Meanwhile, the significant value of 0.730 is greater than 0.05, which means that firm size has no significant effect on earnings management (**H2 is rejected**).

H3: based on table 10 above, it shows that the independent variable leverage has a calculated t value of -1.674 and a significance value of 0.102, while the t table value obtained is 1.684. Because the calculated t value of -1.674 is smaller than the t table value of 1.684, H0 is accepted and H3 is rejected, meaning leverage does not have a partial influence on earnings management (**H3 rejected**). Meanwhile, the significant value of 0.102 is greater than 0.05, which means that leverage has no significant effect on earnings management (**H3 rejected**).

Table 11. f test results (simultaneous test)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Say.
1	Regression	1310488319327377410.000	3	436829439775792450.000	2.062	.121 ^b
	Residual	8472107693512249300.000	40	211802692337806240.000		
	Total	9782596012839627000.000	43			
a. Dependent Variable: Management two						
b. Predictors: (Constant), Leverage, Firm size, Free cash flow						

Data source: processed data (SPSS 23 output)

F table = $f(\alpha = 0.05), (df1=3), (df2=40)$, the f table value is 2,839, so:

From table 11 above, it shows that the calculated f value is 2.062, the significant value (sig) is 0.121 and the f table value obtained is 2.839. Because the calculated f value of 2,062 is smaller than the table f value of 2,839 **Ho was rejected which** means that free cash flow, firm size and leverage simultaneously has no effect on earnings management. While the significant value (sig) of 0.121 is greater than 0.05, it can be said that simultaneously free cash flow, firm size and leverage has no significant effect on earnings management in other words **Ho was rejected**.

Table 12. Coefficient of Determination Test Results (R2)

Model Summary					
Model	R	R Square	Adjusted Square	Std. Error of the Estimate	Durbin-Watson
1	.366 ^a	.134	.069	460220265.023	2.430
a. Predictors: (Constant), Leverage, Firm size, Free cash flow					
b. Dependent Variable: Earnings management					

Data source: processed data (SPSS 23 output)

Based on table 12 above, it can be seen that the value obtained R square pharmaceutical companies registered on the IDX for the 2018-2021 period amounted to 0.134. Mark R square 0.134 comes from squaring the correlation coefficient or "R" value, namely $0.366 \times 0.366 = 0.134$, so the value R square of 0.134 or equal to 13.4%

means that the variable free cash flow, firm size and leverage The influence on earnings management is 13.4%, while the remaining 86.6% ($100\% - 13.4\% = 86.6\%$) is influenced by variables other than the variables used in this research.

Discussion

Influence Free cash Flow Regarding Earnings Management (H1), the first hypothesis in this research shows that Free Cash Flow has no partial effect on earnings management in pharmaceutical companies listed on the Indonesian stock exchange for the 2018 - 2021 period, this is proven by the calculated t value of -2,111 which is smaller than the t table value of 1,684, in other words H1 is rejected. Meanwhile, the significant value of 0.041 is smaller than 0.05, this shows that free cash flow has a significant effect on earnings management. Big small free cash flow owned by the company will have a significant impact on companies that carry out earnings management. Companies with high free cash flow will not necessarily carry out earnings management, because even without earnings management, the company can increase its share price. Direction of influence Free Cash Flow on earnings management is negative based on the coefficient value obtained of -408,055,470. This negative influence is due to free cash flow is an important determinant in determining company value, so that company managers focus more on efforts to increase it free cash flow. A company with value free cash flow those who are high tend not to manipulate profits, because in this case most investors are transient investors (temporary owners of the company) who focus more on the company's free cash flow information which shows the company's ability to distribute dividends, resulting in high free cash flow, without With earnings management, the company can increase its share price because investors see that the company has excess cash for dividend distribution (Nirwana and Wahidahwati 2017). The results of this research are not in line with research conducted by Nur'Aini (2020) which states that free cash flow has a positive effect on earnings management.

Influence Firm Size Regarding Earnings Management (H2), the second hypothesis in this research states that firm size has no partial effect on earnings management in pharmaceutical companies listed on the Indonesian stock exchange for the 2018-2021 period, this is proven by the calculated t value of -0.347 which is smaller than the t table value of 1.684 while the significant value of 0.730 is greater than 0.05. This shows that the larger the company size, the greater the possibility of the company carrying out earnings management. Company size will influence the company's funding structure. Companies tend to require larger funds than smaller companies. Additional funds can be obtained from the issuance of new shares or additional debt. The motivation to obtain these funds will encourage management to carry out earnings management practices, so that by reporting high profits, potential investors and creditors will be interested in investing their funds (Dian Agustia 2013). The results of this research are not in line with research conducted by Andrie Wiyogo, Ati Sumiati et al (2021) which states that firm size negatively influences earnings management. However, this is in line with research conducted by Nur Asyiroh and Ulil Hartono (2019) which states that firm size has no influence on earnings management.

The Effect of Leverage on Earnings Management (H3), the third hypothesis in this research states that leverage has no partial effect on earnings management in pharmaceutical companies listed on the Indonesian stock exchange for the 2018-2021 period, this is proven by the calculated t value of 1,647 which is smaller than the t table value of 1,684 while the significant value of 0.102 is greater than 0.05. The greater the ratio leverage, meaning the higher the value of the company's debt. According to theory (Harjono and Martono, 2014) in (Marlisa and Fuadati, 2016) explains that the use of leverage will increase shareholder profits if the profits obtained are greater than the cost of assets and sources of funds. On the other hand, leverage can increase the profit ratio if the profits obtained by the company are lower than its fixed costs, which will reduce shareholder profits. This is what can result in the implementation of earnings management practices. Meanwhile, the large leverage ratio in this study was unable to influence earnings management. This is in line with research conducted by Nur'Aini (2020) and Kodriyah and Anisah (2017) which states that leverage has no effect on earnings management. However, this is not in line with research conducted by Andrie Wiyogo, Ati Sumiati, et al (2021) which states that leverage has a negative effect on earnings management.

Influence Free Cash Flow, Firm Size and Leverage Regarding Earnings Management (H4), the fourth hypothesis in this research states that free cash flow, firm size and leverage does not have a simultaneous effect on earnings management in pharmaceutical companies listed on the Indonesian stock exchange for the 2018-2021 period, this is proven by the calculated f value of 2,062 which is smaller than the f table value of 2,839 while the significant value (sig) of 0.121 is greater than 0.05. This shows the size of free cash flow, firm size and leverage will not impact companies that carry out earnings management. The results of this research are not in line with research conducted by Nastiti Rizky Shiam Murthy (2020) which states free cash flow, firm size and leverage have a significant effect on earnings management.

5. CONCLUSION

1. free cash flow has no partial effect on the management of pharmaceutical companies listed on the Indonesian stock exchange for the 2018-2021 period. This shows the size of free cash flow owned by the company does not have an impact on companies that carry out earnings management. A company with value free cash flow those who are high tend not to carry out earnings management, because in this case most investors are transient investors (temporary owner of the company) who is more focused on the company's free cash flow information which shows the company's ability to distribute dividends, so that with high free cash flow, without earnings management, the company can increase its share price because investors see that the company has advantages cash for dividend distribution.
2. Firm size has no partial effect on the management of pharmaceutical companies listed on the Indonesian stock exchange for the 2018-2021 period. The larger the company size, the greater the possibility of the company carrying out earnings management. Company size will influence the company's funding structure. Companies tend to require larger funds than smaller companies. Additional funds can be obtained from the issuance of new shares or additional debt. The motivation to obtain these funds will encourage management to carry out earnings management, so that by reporting high profits, potential investors and creditors will be interested in investing their funds.
3. Influence Leverage on earnings management in pharmaceutical companies listed on the Indonesian stock exchange for the 2018-2021 period. Partially Leverage has no effect on earnings management. High debt will increase the risk of default for the company, but earnings management cannot be used as a mechanism to avoid default This is because fulfilling debt obligations cannot be avoided, which can result in earnings management. In addition, strict supervision within the company by third parties can reduce management's opportunities to carry out earnings management.
4. Simultaneously free cash flow, firm size and leverage has no effect on earnings management. This shows the size of free cash flow, firm size and leverage will not have an impact on companies that carry out earnings management.

6. SUGGESTION

Suggestions that can be given by researchers regarding this research are:

1. For companies: companies should be wise in managing finances, such as maintaining their free cash flow so that the company does not lack funds for the company's future sustainability so that the company does not carry out earnings management. If a company carries out earnings management, it should be within reasonable limits or within the scope of methods and procedures recognized by accounting principles.
2. For investors: before investing, it is best to analyze the company's performance because if the company's performance is good, it will produce good profits. Conversely, if the company's performance is bad, the profits obtained will also not be good.
3. Future researchers should add other variables not mentioned in this research in order to produce even better results and it is hoped that the object of this research will be expanded not only to pharmaceutical companies but to companies in other sectors. As well as developing the measurement tools used to obtain more accurate results.

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