

## ABSTRACT

This study aims to examine the effect of financial distress on real earnings management and to investigate the moderating role of financial constraints in this relationship. Financial distress is measured using the Altman Z-Score, real earnings management is proxied by the Roychowdhury model, and financial constraints are measured using the SA Index. This study employs a quantitative approach using panel data regression and incorporates control variables, including leverage, sales growth, and year dummies, to account for firm-specific characteristics and inter-period economic conditions. The results indicate that financial distress significantly influences real earnings management, suggesting that firms experiencing financial pressure tend to increase earnings manipulation through real operating activities. Furthermore, financial constraints are found to strengthen the effect of financial distress on real earnings management, indicating that limited access to external financing encourages managers to rely more heavily on internal operational decisions to adjust reported earnings. These findings suggest a shift in earnings management strategies from accrual-based methods to real activities when firms simultaneously face financial distress and financial constraints. From a theoretical perspective, this study supports Positive Accounting Theory, particularly the debt covenant hypothesis, in explaining managerial opportunistic behavior. This study provides important implications for investors, creditors, and regulators in assessing earnings quality, especially for firms operating under financial pressure and financing constraints.

**Keywords:** financial distress, financial constraints, SA Index, real earnings management, Positive Accounting Theory.

