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# Real Earnings Management in the Indonesian Sharia Capital Market

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#### Abstract

This study investigates whether the firms in The Indonesian Sharia Capital Market conduct real earnings management (RM). By using Earning Distribution Analysis, we find that there is abnormal distribution of earning growth which is found high frequency of firms with around zero earnings. It shows that those firms have high intention of conducting earnings management because they want to avoid small losses by converting into small profit, so that firms are called suspect firm. Further, this study investigates whether any differences of RM between suspect firms and non suspect firms. The result shows that the suspect firm conduct RM aggressively than non suspect firm.

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### 1. Introduction

Earnings management is the popular and interested research issue. Managers' concerns over current performance, motivate them to engage in earnings management by manipulating current period earnings at the expense of future period earnings (e.g., Stein, 1989; Fudenburg and Tirole, 1995; Pauwels et al., 2004; Graham et al., 2005; and Rodriguez-Perez and van Hemmen, 2010). This managerial myopia arises because outside investors and analysts typically rely on current period earnings when forming their expectations of future earnings, and a variety of contractual obligations (e.g., earnings-based bonus contracts and debt covenants) are linked in most cases to current period reported earnings.

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