

**THE REAL EARNINGS MANAGEMENT PRACTICES  
(The comparative studies between shariah index (JII) and conventional  
index (LQ-45) in Indonesian stock exchange during 2004-2010 period)\***

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**ABSTRACT**

Earnings management is a phenomenon that is difficult to avoid because the impact of using the accrual basis for preparation of financial statements. The previous studies of earning management focus on accrual-based earnings management (Cohen and Zarowin, 2010; Gul and Tsui, 2001; Louis and Robinson, 2005; Aljifri, 2007; Hastuti dan Hutama, 2010). The recent studies of earning management indicate the important of manipulate real activities more than accrual basis (Roychowdhury, 2006; Gunny, 2005; Cohen et al., 2008; Cohen dan Zarowin, 2010). The survey by Graham, Harvey dan Rajgopal (2005) found the top managements more involve in earning management than accrual to reach earning target. The purpose of this study is to analyze the difference of real earnings management between the shariah index (JII) and conventional index (LQ-45). These samples are 130 and 165 companies listed in Indonesian stocks exchange from 2004-2010 periods. The analysis used Mann Whitney U test. The result shows the mean value of real management on the companies listed in the LQ 45 is -0.000000006921 with average value of CFO is 0.1575, Discr is 0.1306, Prod is 0.5718. The mean value of real management on the companies in the JII index is 0.0000000001538 with average value of CFO is 0.1763, Discr is 0.1461, Prod is 0.6220. Statistical test shows that there is not significant differences in real earnings management between companies in the shariah index and conventional index (prob.value = 0.558). It means that earnings management practices which tend to decrease the profit made by the companies in the conventional index and to increase the profit made by the companies in the shariah index.

*Keywords: Real Earnings management, LQ 45 index, JII index,*

**INTRODUCTION**

Earnings management (*earnings management*) is manipulating profits made by the managers. The phenomenon of earnings management is very interesting to the researchers. Earnings management is closely linked to the rate of profit (earnings) or the achievement of a company, so managers often try to achieve their accomplishments

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over the level of profit achieved. The Company will conduct a pattern of increasing earnings management earnings (*Increasing income*) when the performance of the company down. In contrast, when the company will report the tax, company will do manage earning with the lower income (*income decreasing*) for the tax paid.

Scott (2000:296) in his book "*Theory of Financial Accounting*" said the accounting policy choices made by managers of certain specific purposes called earnings management. Earnings management (*earnings management*) is a phenomenon that is hard to avoid because this phenomenon is the impact of the use of accrual basis in the preparation of financial statements. Earnings management occurs when managers use judgment in financial reporting and the recording of transactions to alter financial reports either to mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Subekti, Kee and Ahmad, 2010).

Research on earnings management has been done previously with various alternative methods. There are several methods in the earning management practical, that are accrual approach and real approach. Most previous studies of earnings management only focus on accrual-based earnings management techniques (*accrual-based earnings management*) (Roychowdhury, 2006; Cohen and Zarowin, 2010). Accrual method of research has been done by researchers, such as Gul and Tsui, (2001); Louis and Robinson, (2005); Avianti, (2006); Aljifri Khaled, (2007); Ujijantho and Boy Scouts, (2007); Baharuddin and Satyanugraha, (2008); Hastuti and Hutama, (2010); Fauziyah, (2011); Prasnowo, (2011).

Accounting research that draw conclusions about earnings management by based on the accrual settings may be invalid (Roychowdhury, 2006). Several recent studies of earnings management stated that the importance of understanding how companies conduct earnings management through real activities manipulation than accrual-based earnings management (Roychowdhury, 2006; Gunny, 2005;; Cohen *et al.*, 2008; Cohen and Zarowin, 2010).

The survey by Graham, Harvey and Rajgopal (2005) found evidence that top management as the respondents are much more willing to engage in real earnings management (*real earnings management*) rather than accrual management to achieve earnings targets. Zang (2006) shows that firms using various earnings management techniques, not only one technique to achieve the profit. Accrual earnings management measurement modelis considered by some researchers still cannot reveal the complete of the practice of earnings management because this model ignores the relationship between cash flow and accrual transactions. The various criticisms against accrual method (Dechow *et al.*, 1995, Guay *et al.*, 1996, Kothari *et al.*, 2005, Subramanyam 1996, Kothari 2001, Subekti, and Akhmad Wijayanti 2010)..

Real earnings management is manipulating the daily company activities by the management during the accounting period. The studies of real earnings management methods have been conducted previously researchers, such as Januarsi, (2008); Ferdawati (2008); Subekti, Kee and Akhmad, (2010) ; Ratmono, (2010);Subekti, Wijayanti and Akhmad, (2010); Hastuti, (2011).

Research on earnings management has been done on the conventional index (LQ 45). The launching of Shariah index (JII) in the Indonesian capital market, the authors are interested in study of the earnings management practice at shariah index(JII) and in the conventional index (LQ 45). Research conducted by Nugroho, (2011) examined the practice of earnings management at shariah index (JII) and conventional index (LQ45) with the accrual basis.

This study uses the real earnings management approach. Proxies of real earnings management are measured by abnormal operating cash flow (*abnormalCFO*), abnormal production costs (*abnormal PROD*), and abnormal discretionary expenses (*abnormal DISC*). The purpose of this study is measuring the real earnings management practices at the listed companies in Indonesian capital market and compare it between Shariah Index (JII) and the conventional index (LQ 45) during 2004-2010 period. This study continue the previous study conducted by Nugroho (2011), which compared accrual management practices between Shariah Index (JII) and the conventional index (LQ 45). It is a part of post graduate research grant from DIKTI during 2011-2013.

## REVIEW OF LITERATURE

### A. Agency Theory

Incidence of earnings management can be explained by agency theory. According to agency theory, the separation between ownership and management companies can rise the *agency problem*, which are non-linear interests between *principals* (owners / shareholders) and *agent* (manager) (Avianti, 2006). Jensen and Meckling (1997) states that the agency relationship is a contract between the manager (*agent*) to the investor (*principal*). Both of them want to maximize their *utility* based on the information held

The interest difference between the manager (*agent*) as the manager of the company and the owner (*principal*) as the owner of the company would cause *agency conflict*. At such conditions, the owner (*principal*) can overcome this agency problem by providing proper incentives to the manager (*agent*) and must be willing to pay the supervision that called agency costs.

Eisenhardt (1989) stated that there are three assumptions of agency theory namely: (1) generally, human makes a man in self-serving (*self interest*), (2) human has a limited thought regarding the perception on the future (*bounded Rationality*) and (3) human always avoids risk (*risk averse*). Based on the assumptions, manager will act as *opportunist* and puts his personal interests.

The relationship between principal and agent can lead to asymmetrical information. It is occurs because the manager (*agent*) is a position that has more information and internal information on the company's prospects for the future than the owner (*principal*). With the assumption, that individuals act to maximize self-interest, then the asymmetry of information will encourage its *agents* to hide some information not known to *the principal*.

Managers more aware of internal information and corporate prospects in the future than the owners (shareholders). Manager shall provide the disclosure of accounting information such as financial statements. Financial reports earnings information in particular is one parameter which is used as the basis for investment. Financial reports are used by various parties, including the management of the company. However, the most concerned with the actual financial statements are the external users (excluding management). The financial statements are important to external users mainly because this group is in the greatest uncertainty (Ali, 2002).

This conditions can affect the management presented in the financial statements by earnings management. The owners of capital will be difficult to control the actions of management effectively. Richardson (1998) showed a positive relationship between the asymmetry information with earnings management practice. Earnings management can be viewed from two different perspectives, that is as wrong actions (negative) and

management actions should be doing (positive). Wahlen and Healy (1998) consider earnings management as an act of misleading and deceiving shareholders.

## B. EARNING MANAGEMENT

Healy and Wahlen (1999) stated that some aspects of earnings management. The first intervention of earnings management over financial reporting can be done with the use of judgment. This judgment is required in estimating the number of economic events in the future, such as the estimated economic life and residual value of fixed assets, the responsibility for pensions, deferred taxes, the loss receivables and asset impairment. Besides it, the manager has the option of accounting methods, such as the depreciation method and cost method. Second, the purpose of earnings management is misleading stakeholders about the economic performance of companies. This occurs when management has access to information that is not accessible by outsiders.

According to Scott (1997: 296-306), the motivation of managers perform earnings management are: (1) Bonus Plan (*Bonus scheme*). Managers working in companies with a bonus plan will try to reported earnings in order to maximize the bonus to be received. (2). Contract Term Debt (*Debt covenants*). The *debt covenant* hypothesis stated that a company that is closer to debt covenant violations, then the manager will tend to choose accounting methods that can "move" the next earnings period to period so as to reduce the possibility of the company suffered a breach of contract. (3) Politicalmotivation. Large companies and strategic industries tend to reduce profits especially during periods of high prosperity. This measure is intended to acquire ease and facility of government subsidies. (4)Taxation motivation. Taxation is one of the main reasons why firms reduce reported earnings. By reducing reported earnings, firms can minimize the tax payable to the government. (5) *CEO*turnover. *CEO* who will run out the assignment or retirement will make the profit-maximizing strategy to increase the bonus. Similarly, the *CEO* is performing poorly, it will tend to maximize the return to avoid or cancel the dismissal. (6) Initial Public Offering. When the company go public (IPO), the financial information contained in the prospectus is an important source of information. This information can be used as a signal to prospective investors about the value of the company. The managers will try to increase reported earnings to influence the decisions of potential investors.

## C. Real Earnings Management

Roychowdhury (2006) defines earnings management as follows "*That management actions deviate from normal business practice, undertaken with the primary objective of meetings certain earnings thresholds.*". In other words the manager intervene in the financial reporting process not only through the methods or the estimation accounting estimates, but also through the decisions related to operational activities. Further, the manager also has an incentive to manipulate real activities during the year to meet profit targets. Manipulation of real activities called real earnings management. The real earnings management is the management actions that deviate from normal business practice with the main objective to achieve a target profit (Roychowdhury, 2006; Cohen and Zarowin, 2010). Real earnings management can be performed with 3 (three) ways:

### a. Sales manipulation

Sales manipulation is an attempt to increase sales on a temporary basis within a specified period by offering discounted prices to excess product or provide more lenient credit requirements. This strategy could increase sales volume and profit of

the current period. However, the discount rates and more lenient credit terms will reduce the cash flow of the current period.

b. Decrease the discretionary expenditures

Companies can reduce discretionary expenditures such as research and development expenses, advertising, and sales expenses, administration in the period in which the expenditure is not directly lead to revenue and profit. This strategy can increase profits and cash flows of the current period but with a lower risk of future cash flow period.

c. Excessive production (*overproduction*)

To increase profits, corporate managers can produce more than necessary with the assumption that higher levels of production will lead to lower fixed cost per unit product. This strategy can reduce the cost of goods sold and increasing operating profit.

These way of the real activities manipulation is usually performed by firms with poor performance by manipulating the real activity is primarily to achieve a return slightly above zero. Companies are expected (*suspect*) to manipulate real activities will have the *abnormal cash flow operations (CFO)* and the *abnormal production cost* is higher than other firms, and *abnormal discretionary expenses* smaller than other firms.

The survey by Graham, Harvey and Rajgopal (2005) found evidence that 78% of the 401 managers as respondents are much more willing to engage in real earnings management rather than accrual management to achieve earnings targets. Based on the survey, Roychowdhury (2006) demonstrate financial executives prefer to manipulate earnings through real activities rather than accrual activity. This is caused by:

1. Accrual manipulation tends to make the auditor or regulatory examination quickly than if the decisions on real activity or the production was made. This suggests that either the auditor or regulator gives less attention to the real activities manipulation by management, so management has the opportunity to capitalize on this opportunity to achieve earnings targets.
2. The company relies on accrual manipulation alone will bring the risk for earnings management , because the relying on discretionary accruals can only be done by the end of the year. However, this strategy raises the risk that if the income that needs to be manipulated is greater than the discretionary accruals can be used. So, ability of managers to manipulate earnings in a limited, resulting in profit targets cannot be achieved if the only use discretionary accruals at end year. Manager may reduce this risk by manipulating real activities during the year (Wei Yu, 2008)

Subekti, Kee and Ahmad (2010) describes the use of real earnings management measures: (1) *Abnormal cash flow operations (CFO)*, that is the manipulation of earnings made by the company's operating cash flow is lower than normal level. The estimated residual value of the CFO is a CFO abnormal values. (2) *Abnormal production cost (PROD)* is the real earnings management is made through the manipulation of production costs, which the company will have production costs higher than normal level. The estimated residual value of the cost of production is abnormal value PROD. (3) *Abnormal discretionary expenses (DISC)* is the manipulation of earnings made through research and development expenses, advertising expenses, cost of sales, administration expenses. The estimated residual value is the value of abnormal discretionary expenses (DISC).

Real activity is considered better than accrual-based activities only. The indicator of the involvement corporate management to real activities manipulation can be indicated by the abnormal activity. Abnormal value of the activity measurement is the deviation between the actual and the expected value of the activity of the activity. Roychowdhury (2006) provide empirical evidence that the company did real earnings management to avoid reporting losses.

## METHODS

### A.Population and Sample

The research population is manufacturing companies listed in the shariah index (JII) and Conventional Index (LQ 45) during 2004-2010 period. Sampling conducted by *purposive sampling* (Table 1). The sample per year (table 2). The data used are annual financial reports during the 2004-2010 period which obtained from the Indonesia Stock Exchange ( [www.idx.co.id](http://www.idx.co.id) ).

**Table 1**  
**The research sample**

<b>JII sample</b>	
The companies listed on the JII during the period 2004-2010	<b>210</b>
The companies which does not publish financial statements	(10)
The companies which data are incomplete	(70)
<b>The companies as sample in JIIindex</b>	<b>130</b>
<b>Conventional index (LQ 45)sample</b>	
The companies listed in the LQ-45 during 2004-2010 period	<b>360</b>
The companies which does not publish financial statements	(124)
The companies which data are incomplete	(71)
<b>The companies as sample in LQ-45 index</b>	<b>165</b>

Sources: [www.idx.co.id](http://www.idx.co.id)

**Table 2**  
**The sample per year**

<b>Shariah index (JII)</b>	
The companies listed in JII on 2004	12
The companies listed in JII on 2005	23
The companies listed in JII on 2006	21
The companies listed in JII on 2007	20
The companies listed in JII on 2008	16
The companies listed in JII on 2009	18
The companies listed in JII on 2010	20
<b>The total sample in JII during 2004-2010 period</b>	<b>130</b>
<b>Conventional (LQ-45) index</b>	
The companies listed inLQ 45on 2004	24
The companies listed inLQ 45on 2004	27
The companies listed inLQ 45on 2004	26
The companies listed inLQ 45on 2004	21
The companies listed inLQ 45on 2004	20
The companies listed inLQ 45on 2004	21
The companies listed inLQ 45on 2004	26
<b>The total sample in LQ45 during 2004-2010 period</b>	<b>165</b>

## B. Variable measurement

The variable is real earnings management. Its measurement uses three real earnings management proxies, that are is *abnormal cash flow operations (CFO)*, *abnormal production costs (PROD)*, and *abnormal discretionary expenses (DISCR)*. It refers to Roychowdhury (2006). Variables measurements were made by each industry to estimate the proxies. Residuals from the estimation results are *abnormal cashflow (CFO)*, *abnormal production costs (PROD)* and *abnormal discretionary expenses of the companies as sample*. Measurement of abnormal value each activity refers to the deviation between the actual value of the activity and the activity is expected. So the abnormal values obtained from the estimated residual value of each proxy.

This calculates as follows:

The first step is to calculate real earnings management.

### a. Abnormal Cash Flow Operation (*Abnormal CFO*)

$$CFO_t / A_{t-1} = \alpha_0 + \alpha_1(1/\log.A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2 (\Delta S_t/A_{t-1}) + \varepsilon_t$$

### b. Abnormal Production Costs

$$PRODt / A_{t-1} = \alpha_0 + \alpha_1(1/\text{Log. } A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2 (\Delta S_t/A_{t-1}) + \beta_3 (\Delta S_{t-1}/ A_{t-1}) + \varepsilon_t$$

### c. Abnormal Discretionary Expenses

$$DISC_t / A_{t-1} = \alpha_0 + \alpha_1(1/\text{Log. } A_{t-1}) + \beta (\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

where:

$CFO_t$  = operating cash flow firm i in year t

$PRODt$  = cost of goods sold + change in inventories.

$DISC_t$  = research and development expenses + advertising expenses + the cost of sales, administration, miscellaneous expense.

$A_{t-1}$  = total assets at end of year  $t-1$

$S_t$  = Sales of the company in the end of t

$\Delta S_t$  = Changes in the company's sales in year t compared to sales at the end of the year  $t-1$

$\Delta S_{t-1}$  = change the company's sales in year  $t-1$  as compared with sales at the end of year  $t-2$

$\alpha_0 \alpha_1 \beta_1 \beta_2 \beta_3$  = regression coefficient

$\varepsilon_t$  = error

To analyze the difference of real earnings management value on Shariah index (JII) and the conventional index (LQ 45) during the period 2004-2010 conducted by the *Independent sample t-test* (if data is normally distributed), but if data is not normal, so, it will be tested using the *Mann Whitney U test Test*.

## RESULT

Descriptive statistics explain each variable involved in this study. Descriptive statistics on Shariah index (JII) and conventional index (LQ45) is presented in table 3.

**Table 3**  
**Descriptive Statistics**

Variables	N	Mean JII	N	Mean LQ 45
CFO Res 2004	13	-0.0353846	24	-0.0163554
PROD Res 2004	13	<b>0.0736269</b>	24	-0.0083571
DISCR Res 2004	13	0.0213323	24	<b>0.0212108</b>
<b>Real EM 2004</b>	<b>13</b>	<b>0.0198592</b>	<b>24</b>	<b>-0.0011658</b>
CFO Res 2005	23	-0.0344291	27	<b>-0.0523381</b>
PROD Res 2005	23	<b>0.0741057</b>	27	0.0519107
DISC Res 2005	23	0.0177391	27	0.0337270
<b>Real EM 2005</b>	<b>23</b>	<b>0.0191391</b>	<b>27</b>	<b>0.0110996</b>
CFO Res 2006	21	-0.0192252	26	-0.0070604
PROD Res 2006	21	<b>-0.0609843</b>	<b>26</b>	<b>-0.0190042</b>
DISC Res 2006	21	-0.0238586	26	0.0014427
<b>Real EM 2006</b>	<b>21</b>	<b>-0.0346886</b>	<b>26</b>	<b>-0.0082088</b>
CFO Res 2007	20	0.0346755	21	0.0149581
PROD Res 2007	20	<b>-0.0684245</b>	21	0.0030910
DISC Res 2007	20	-0.0043165	21	<b>-0.0157095</b>
<b>Real EM 2007</b>	<b>20</b>	<b>-0.0126875</b>	<b>21</b>	<b>0.0007795</b>
CFO Res 2008	16	-0.0129700	20	-0.0095695
PROD Res 2008	16	0.0073369	20	<b>0.0435790</b>
DISC Res 2008	16	<b>0.0263769</b>	20	0.0076170
<b>Real EM 2008</b>	<b>16</b>	<b>0.0006914</b>	<b>20</b>	<b>0.0138760</b>
CFO Res 2009	18	<b>0.0350917</b>	<b>21</b>	<b>0.0730867</b>
PROD Res 2009	18	-0.0289278	21	-0.0366957
DISC Res 2009	18	-0.0295511	21	-0.00361267
<b>Real EM 2009</b>	<b>18</b>	<b>-0.0077950</b>	<b>21</b>	<b>0.0000881</b>
CFO Res 2010	20	0.0153970	26	0.0127577
PROD Res 2010	20	<b>0.0434735</b>	<b>26</b>	<b>-0.0335696</b>
DISC Res 2010	20	0.0075305	26	-0.0200362
<b>Real EM 2010</b>	<b>20</b>	<b>0.0221335</b>	<b>26</b>	<b>-0.0136150</b>

Based on the table 3, during the 2004-2010 periods, the companies listed in JII and LQ 45 do real earnings management with varying patterns. This study measures the real earnings management using three proxies. They are abnormal CFO (CFO Res), abnormal production costs (**Res PROD**) and abnormal discretionary expenses (Res DISC). The real earning management practices describe below.

**In 2004.**

Table 3 describes that the real earnings management practices in the JII index by manipulating the cost of production because the Res PROD had the highest mean value (0.0736269). The average value of real earnings management is 0.019859. It indicates the pattern of earning management increases profits. One of strategy undertaken by the manager for increasing profits is producing more goods than required by the assumption that the level of production will lead to higher fixed costs per unit of product is lower. This strategy can reduce the cost of goods sold and that will directly enhance the company's operating profit.

Based on the description of LQ45 index, average value of real earnings management is negative(-0.0011658). By looking at the value, this means that the pattern of real earnings management to reduce corporate profits. Earnings management practices in 2004 carried out by manipulating the cost of discretionary with the highest mean value of 0.0212108. Manipulation on discretionary expenses can be done by raising the cost of advertising or R & D costs so, with the increased costs would reduce the discretionary income of the company.

The analysis of real earnings management in 2004 tended to be higher by companies listed in the JII index compared with the companies listed in the conventional index. The average value of 0.0198592 in JII index while the highest average value of the conventional indices is. -0.0011658.

**in 2005**

The average value of real earnings on JII and LQ45 index have positive values, so it indicates the raising earnings pattern. In the JII index, Res PROD has the highest mean is equal to 0.0741057, The patterns are raising profits by manipulating the cost of production. In the LQ45 index, the highest mean is -0.0523381 at CFO Res. It means the practice of earnings management in 2005 conducted by manipulating the company's operating cash flow. Company's operating cash flows, include cash receipts from customers, payments to suppliers, payment of interest and corporate expenses, receipts and payments of income tax. One of strategy the manager is trying to raise revenue from the customer by providing attractive discounts and thereby increasing sales. An increase in sales will result in increasing the profits of the company. The average value of real earnings management in the JII index is 0.0191391 higher than the average value of real management in the conventional index is 0.0110996.

**In 2006**

Real earnings management practices in 2006 in the index JII and LQ45 index had an average negative value with lower earnings management pattern of earnings figures. The highest mean value is either PROD Res on the index or index JII LQ45. The mean value in the JII Res PROD is -0.0609843 and the mean value res PROD is -0.0190042 at LQ45 index, both have a negative pattern. Shariah index management firms in the conventional index manipulation by increasing the cost. It does by increasing the number of purchases of goods. with rising purchasing it will raise the cost of production, with the high cost of food production will result in decreased profits.

**In 2007**

The average value of real earnings management in the JII index is (-0.0126875) and in LQ45 index is 0.0007795. Based on value proxies used in the measurement of real earnings management, the Res PROD has the highest mean value (-.0684245) in

JII index. Its pattern is raising production costs. But on the LQ 45 index, the highest mean is Res DISC (- 0.0157095). Managers manipulate earnings by reducing discretionary costs. Manipulation can be performed by one or more discretionary expenses consist of research and development expenses, advertising expenses, selling expenses, general and administrative costs, so profit will be seen high

**In 2008**

The real earnings management value is higher in LQ 45 index with the average value of real management 0.0138760 compared with in the JII index is 0.0006914. Patterns used in conducting earnings management is increasing corporate profits

In the JII index, management performed by the cost of discretionary income. It is evidenced from the results of the analysis are indicated the mean value of DISC Res 0.0263769. One of the strategies undertaken by managers is raising the cost of advertising, research and development costs, marketing costs or general and administrative expenses. The rising one or more discretionary costs cause the company's earnings will be down. At the LQ45 index, the cost of production (PROD RES) was highest value with a mean value 0.0435790. Managers will manipulate earnings with lower production costs by providing discount sales or reduce the production of goods.

**In 2009**

The average value of the CFO proxy in companies in JII index is 0.0350917, but in LQ 45 index, the highest value also in CFO proxy. It is 0.0730867. It means earning management practices in both indexes manipulated operating cash flows in their companies. The operating cash flows consisting receipt from customers, payment to supplier, payment interest and company expenses and tax payment. Manipulated operating cash flows done by receipt from customer with increasing cash sale from discount given.

**In 2010**

The average value of real earnings in the JII index is 0.0221335 and LQ45 is (-0.0136150). It shows that the tendencies of real earnings management on earnings raise in the JII index and lower earnings in LQ 45 index. The descriptive statistical analysis shows the highest average value is the proxy PROD either in the JII index and LQ45 index with their values are 0.0434735 and 0.0335696. The both indexes have manipulation costs by raising prices of goods sold. The statistical test uses the Mann-Whitney Test because the data did not normal distribution.

Table 4

*Mann-Whitney U Test*

Variabel	Rank Mean	Sig	Description
JII	144.72		
LQ45	150.58		
		0.558	not signifikan

Based on Mann-Whitney test, it showed that the significance value is 0.558. The hypothesis was rejected because the significance value is greater than 0.05. This suggests that the absence of differences in real earnings management practices at the go public companies in Indonesia, both in the Islamic indexes and conventional indexes. Real earnings management practices during 2004-2010 period tended to be higher by a

company incorporated in the conventional index compared with companies in the Islamic Indices. The mean rank in the LQ45 index (150.58) is greater than the mean rank values of JII (144.72). This suggests that the impact of crisis economic and economic competition becomes more intense encourage companies to manipulate earning management in its financial statements with a profit increase trend pattern. Thus the results of this study support the previous researches such as Nugroho (2011); Sweeney (1994); Djakman (2003); Rosner (2003); Sham (2004) Kusumawati, and Sasongko (2005), and Dechow et. al. (2010).

### **Conclusions**

During 2004 – 2010 period, the company listed in the JII index and LQ45 index is proved to have real earnings management by increasing earnings patterns, with the strategy of manipulating the cost of production. This is evidenced from the highest average value of the proxy cost of production (PROD Res). The results of hypothesis testing with Mann Whitney U test showed that there is no difference in real earnings management practices in companies listed in the JII index and LQ45 index. The tendency of increasing earning is higher in LQ45 index compared with companies in the index JII index with the average value of 144.72 and 150.58. The results are consistent with previous studies (Nugroho, 2011) which examined the differences in accrual earnings management practices between companies in the JII and LQ 45 index.

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