ABSTRACT

This study aims to determine whether there is any indication of earnings management around the events of managing director (CEO) turnover. CEO turnover in this study were classified into two types, namely the change of routine and non-routine which is based on information obtained from the General Shareholders Meeting (RUPS) and Extraordinary General Shareholders Meeting (RUPSLB).

Sampling method used in this research is purposive sampling. The samples are the companies with the following criteria: (1) Companies that perform CEO turnover in 2009 to 2012, (2) The Companies are group of industrial manufacturing, services, and trade, (3) The Companies issued financial statements completely and successively from 2009 to 2012. Based on these criteria, the final number of eligible observed samples are 60 companies. The occurrence of earnings management practices are measured using the Modified Jones Model and Roychowdhury of Real Earnings Management. The analysis technique used is one independent sample t-test.

The results of this study show that in the year before and after the change of routine and non-routine CEO happen earnings management to increase earnings. In non-routine CEO changes, the new CEO served perform earnings management using discretionary accruals and abnormal production costs to reduce earnings. However, this study failed to prove the occurrence of earnings management through discretionary accruals in the year before the routine and non-routine CEO turnover and abnormal discretionary expenses around the events of CEO turnover. In addition, there is no indication of earnings management in the year of routine CEO changes.

Keywords: Earnings management, Real earnings management Activities, discretionary accruals, routine and non-routine CEO changes.