ABSTRACT

The objectives of this study are to examine whether islamic banks in Indonesia do earning management with income smoothing through manipulating the amount of loan loss provisions along with influenced factors. Dependent variable used in this study is the loan loss provisions (LLP). Independent variables used in this study the total of islamic credit/financing, profitability (the amount of earning before taxes and provisions/EBTP) and credit risk (non performing financing/NPF) ratio.

Object studied in this research is islamic banks which is the Sharia Commercial Banks registered in the Central bank of Republic Indonesia year 2009-2011. The Sample was selected using purposive sampling method and obtained nine banks being sampled. Eckel's koefficient was used as a tool to identify income smoothing practice. Subsequently performed descriptive statistics and regression analysis to test each hypothesis.

The result showed that islamic banks do earning management with income smoothing practice. Furthermore, three independent variables significantly and positively affected the dependent variables. These can be concluded that all the Hypothesize (H_1, H_2, H_3 and H_4) was accepted.

Key words: earning management, income smoothing, islamic banks, islamic accounting, index Eckel's