

RELATED PARTIES' TRANSACTION AND EARNINGS MANAGEMENT: A CASE IN INDONESIA¹

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ABSTRACT

This study investigates the association between related parties' transactions and earnings management in Indonesia. Firm's executives officers accompanied by board of director members usually engage in related parties' transactions to expropriate the firm's resources. Therefore, they have incentives to manage earnings either to increase their perquisites or possibly to mask such expropriation.

This study presents evidence that earnings management is positively associated with certain types of related parties' transactions. Overall, this study concludes that concerns about related parties' transactions as a factor associated with earnings management are warranted, especially for certain related parties' transactions. There are purchase costs from subsidiary or parent companies and expenses incurred from the firm's related parties' transactions.

Keywords: *related parties' transactions, perquisite, earnings management*

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