ABSTRACT

Objectives
This paper aims to examine the evidence that managers of public listed company in Indonesia tend to engage in earnings management by rounding earning numbers to achieve key reference point.

Method
Using 4,731 firm-years observations obtained from the IDX. The author examined the net income/loss from year 1990 to 2008. The observed net income was compared with the expected proportion predicted by Benford (1938). By adopting this method, the author was able to investigate whether there was evidence that managers of public listed companies in Indonesia tend to round earnings number in positive annual earnings or negative annual earnings. Furthermore, the author also analyzed the relationship between managerial efforts to round earnings numbers and the distance to achieve key reference point.

Results and Conclusions
The study provides empirical evidence that managers of Indonesian public listed companies with positive earnings tend to round earnings upward. However companies which have negative earnings less prevalent engage in rounding numbers. Moreover, the managerial effort to round earnings number is negatively associated with the distance between earnings before manipulation and the reference points.

Keywords
Cosmetic earnings management, Benford’s law, rounding behavior, key cognitive reference point, limited memory, pricing phenomenon.