ABSTRACT

Ida Farida. 2013, THESIS. Title: “Factors Affecting Earnings Quality in Indonesian Islamic Banking”

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Key Words : Islamic Banking, Discretionary Accrual, Earnings Quality, Capital Structure, Earnings Growth, Company Size, Liquidity, Profitability

The financial statements produced by companies are employing accrual-based accounting because it is relevance to the measurement of company financial performance. The process of accrual basis makes possible to the existence of manager behavior in conducting earnings management in order to increase or decrease the accrual rate in the income statement. It is known that in Islamic banking there was an indication of earnings management practices. The practice of earnings management makes the earnings quality become bad. The objective of this study is to examine the effect of capital structure, earnings growth, company size, liquidity, profitability to the earnings quality in Indonesian Islamic banking.

This study uses secondary data from the annual financial statements of Islamic banking published by Central Bank of Republic Indonesia during 2011 and 2012. Earnings quality is measured by earnings management (discretionary accruals) which has been adapted to the characteristics of banking. The examination of the effect of capital structure, earnings growth, company size, liquidity, profitability to the earnings quality is done by multiple regressions.

The result of descriptive statistical analysis shows earnings management level in Islamic banking is low so earnings quality of Islamic banking is high. The result of simultaneously test shows independent variables have a significant influence on earnings quality. The result of partially test shows that capital structure and liquidity have a non-significant negative effect on earnings quality; earnings growth and firm size have a positive effect but non-significant on earnings quality, while profitability significantly and positively influences the earnings quality.