

## ABSTRACTS

*More public companies has been indicted trying to influence their financial performance with some accounting magics. This phenomena can be explained in the frame of positive accounting theory, especially through the agency theory. By these theories, managers viewed as an agent that representated the principals (shareholders and or creditors) in order to maximizing principal's wealth. But, in the other side, They will try to get and maintain some benefits and privileges from the principals. In order to get or maintain these benefits, managers must represents a good stewardship for the principals. Accounting is an important tool for the principals in assesing the performance and stewardship of the managers. If the principals sure that the managers have good performances and stewardship, they will give compensations which are predefined by a contract. Facing this situation, managers have a strong motivation to give a nice report to the managers because compensations they will accept is depend on the principal's assesment about their performance. Because of the principal doesn't have direct control over the company, they will rely their assesment based on some tools but the most important is financial report. Furthermore, managers will have strong motivations to influence the numbers presented on financial reports.*

*When stakeholders expectations about campany's performance arise, the motivations for the managers to influence the financial report will arise too. Managers will try to present a good picture that pleased the stakeholders. This conditions can lead managers to some efforts in order to inflate the company's core earnings because core earnings represent operational performance and company's probability to generate earnings in the future. There are several ways to inflate core earnings include accrual management, classification shifting, and manipulations of economic activities. As stated by McVay (2005), classification shifting is the cheapest method.*

*Indonesian mining companies has boosted their financial performances within last five years. As their income boosted, the stakeholder's expectation also aroused. This condition lead to some questions about the relevance and reliability of financial reports, especially the income statements because the managers have a strong motivation to maintain the expectations high. Furthermore, there is a suspicion that managers of the mining companies execute earnings management in order to inflate core earnings so they can meet the expectations.*

*This research inquire whether the Indonesian mining companies do classification shifting and or accruals management to inflate their earnings. Beside that, this research also try to explain which method more preferred. By the model develpoed by McVay (2005), it is proofed that managers of indonesian mining companies use accrual mangement and shift the other revenues account to operating revenues. But, this research also strenghten the statement that Indonesian managers more prefer accrual management method to inflate core earnings in the frame of income smoothing.*

*Keywords: earnings management, classification shifting, accrual management, core earnings, mining companies, McVay's method.*