

ABSTRACT

This study focuses on related party transactions and earnings management practices in Thailand. The objective of this study is to investigate the application of related party transactions in earnings management. The analyses use multiple regression to investigate the association between related party transactions and discretionary accruals in Thai listed companies that had related party transactions during year 2003 to 2005.

Results show that discretionary accruals are significantly associated with transactions with related parties. The results suggest that related party transactions are one of accounting procedures that managers use to manage earnings.

The findings from the full sample suggest that the larger of sales and services revenue from related parties are associated with greater earnings management. While the higher of purchase of materials and services as well as acquisition of assets from related parties are related to lower earnings management. The opposites are also true.

In listed companies with an attempt to manage earnings upward, they increase sales and services revenue from related parties to achieve their objective of increasing income. While the greater of long-term borrowing from related parties indicates lower earnings management incentive. Moreover, in listed firms with an attempt to manage earnings downward, the higher of assets acquisition from related parties show lower earnings management incentive.