

Effects of Profitability, Financial Leverage, and Dividend Policy on Income Smoothing Practice with Firm Size as a Moderator among Listed Manufacturing Companies in Indonesia

Hebert Kosasih¹, Nagian Toni², Enda Noviyanti Simorangkir³
^{1,2,3}(Universitas Prima Indonesia, Indonesia)

Abstract: *This study aims to determine income smoothing practice in manufacturing companies listed on Indonesia Stock Exchange (IDX). In addition, this study also looks at whether there is a difference between companies that do not perform income smoothing and companies that do income smoothing. Variables tested include profitability, financial leverage and dividend policy with firm size as the moderating variable. This study involves manufacturing companies listed on Indonesia Stock Exchange during the 2017-2019 period. Sample selection is done by using purposive sampling method. This research utilizes external data which is obtained from the website www.idx.co.id. The data analysis process is carried out by calculating PLS Algorithm using smartPLS and doing the hypothesis test. The results conclude that profitability has significant effect on income smoothing, financial leverage has no effect on income smoothing, dividend policy has no effect on income smoothing, and firm size is able to moderate profitability effect on income smoothing. However, firm size is unable to moderate the effect of financial leverage and dividend policy on income smoothing.*

Keywords: *income smoothing, profitability, financial leverage, dividend policy, firm size.*

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I. Introduction

Business has grown rapidly which has led to increasingly fierce competition among companies. This condition encourages management to provide the best performance when leading the company. The performance of a company is very influential on the market value which has a direct impact on the high or low value of the investment. The purpose of the financial statements is to provide information about the financial position, performance, and cash flows of an entity that is useful to various users of the report in making economic decisions. Financial statements are a form of accountability for the authority received by the company's management in managing the company's resources. The company's management certainly wants to give a good impression, reduce profit fluctuations and attract market attention even though the financial information presented in the financial statements is expected to be understandable, relevant, accurate, reliable, comparable and can describe the condition of the company in the past and future projections. Hutagaol et al (2012: 345) explain that management is encouraged to voluntarily disclose material information that can assist investors in making investment decisions. According to Martinez (2011: 714), investors will predict future earnings through a valuation model from the disclosure of this information to determine stock price targets with buy, sell, or hold recommendations. Yuliana and Alim (2017: 61) states that investors will invest in companies that provide high returns.

Kartikawati et al. (2019: 105) stated the importance of earnings information for investors because the profits obtained by the company can be used as the basis for assessing the company's performance. According to Muljono and Suk (2018: 223), during a condition where the company is experiencing financial difficulties, management will try to do earnings management to achieve the desired profit.

In practice, income smoothing practices include not reporting a share of earnings in good periods by creating reserves and then reporting these earnings in bad periods. The occurrence of income smoothing practices is based on the freedom to choose the accounting method or principles regulated in PSAK 25. Earnings management can be explained by using the agency theory approach which states that earnings management practices are influenced by conflicts of interest between management (agent) and owners (principals) that arise, when all parties seek to achieve or maintain the level of prosperity they desire. To minimize the emergence of agency conflicts within the company, a good corporate governance mechanism is needed in managing the company.

The practice of income smoothing is a common phenomenon as management attempts to reduce fluctuations in reported earnings. Income smoothing is one option that can be used by management to reduce fluctuations in earnings reporting and manipulate accounting variables or by conducting real transactions. In

other words, income smoothing can be defined as management's way of deliberately reducing fluctuations in company profits through accounting and transaction methods so that the company's performance looks good in the eyes of investors which has an impact on investor interest in investing in the company.

The phenomenon of income smoothing has actually been the subject of debate between practitioners and academics about whether or not this action is ethical. There are two views that give different assessments of the practice of income smoothing. The income smoothing action causes the disclosure of information about earnings to be inaccurate and has an impact on the occurrence of errors in decision making by parties with an interest in the company, especially external parties, so that investors are not able to evaluate with certainty the results and risks of their portfolios.

Research on income smoothing has been widely carried out both in Indonesia and abroad. Researchers are interested in researching this in manufacturing companies listed on the Indonesia Stock Exchange. The manufacturing industry was chosen because it experienced very rapid growth by contributing to almost a fifth of Indonesia's gross domestic product in 2019. This industry is considered the safest investment to make in Indonesia, considering that the manufacturing industry sector is believed to be the engine of economic growth, so it is hoped that the results of this research will be more accurate. .

This study aims to re-examine several factors that influence income smoothing practices, namely profitability, financial leverage, and dividend policy with firm size as the moderating variable. This study processes data on the manufacturing industry sector listed on the Indonesia Stock Exchange for the 2017-2019 period so that it is expected to contribute to testing whether there is a strengthening of consistency to existing theories and research or vice versa.

II. Literature Review

Earnings management

According to Simorangkir et al (2020: 1784), earnings management is the behavior of manipulating earnings in financial statements with generally accepted accounting methods. As for Scott (2009: 403) defines earnings management as accounting policies or actions chosen by managers to achieve some specific objectives in earnings reporting. Garanina et al. (2016: 2017) states that earnings management can be done through two methods, namely by manipulating pure accruals or by manipulating real activities.

Earnings management with pure accrual manipulation is earnings manipulation with discretionary accruals which has no direct effect on cash flow. Valuation in financial accounting involves "managerial discretion". However, many managers abuse this freedom to perform earnings management and beautify financial reports, so that earnings management has the potential to reduce the accuracy of the reporting process. According to Chang et al. (2015: 117), the practice of manipulation of real activities is more often used in earnings management after many scandals of manipulation of corporate financial reporting were revealed such as Enron and Worldcom.

According to Sulistyanto (2008) stated by Sumani et al. (2021: 123), earnings management is interference or intervention in the process of preparing external financial reporting, which aims to obtain personal gain. There are various models or techniques for carrying out earnings management, the most common of which is through accrual engineering. Another strategy is to manipulate real activities. Thus, both strategies require special expertise in accounting, management, and finance, so they are known as white-collar crimes. Thoharo et al (2021: 73) explains that earnings management behavior will increase along with the company's financial condition that is experiencing difficulties.

Income Smoothing

Income smoothing is one of the earnings management techniques that arises because of the permission of management to choose accounting methods in the company's financial reporting. In other words, income smoothing is an effort made by management with the aim that reported earnings look stable so that it will attract the attention of investors to invest in the company.

The assumption attached to agency theory is that between the agent and the principal there is a conflict of interest. A conflict of interest can occur between a manager who wants to maximize his own wealth and a shareholder who also wants to maximize his wealth. According to Siswantaya (2007) stated by Purwanti and Nugrahanti (2016: 62) that the practice of income smoothing should be avoided to overcome the emergence of information asymmetry so that investors feel safe in investing.

Profitability

Profitability is a measure used to assess the extent to which the company is able to generate profits at an acceptable level. Sumani et al (2021: 125) define the profitability ratio as the ratio used to assess the company in seeking profit in a certain period. Profitability can be calculated by financial ratios. Profitability ratios are used to measure the efficiency of the use of assets or sales results and as a measure of company

performance. Profitability is often used as a benchmark by investors and creditors in assessing a company and influencing investment decisions and lending.

Based on agency theory, the conflict between managers and shareholders causes management's desire to keep the company's profits stable. According to Scott (2000) stated by Rasinih and Munandar (2016: 42), the majority of companies do income minimization when they get a high level of profitability. A stable level of profitability will give investors confidence that the company has a good performance in generating profits. Companies with low profitability will tend to perform income smoothing compared to companies with high profitability. Income smoothing is done to maintain the company's image to make it look better. Profits that do not fluctuate indicate that the company has a good performance even though its profitability is low.

The profitability of the company shows the level of the company's ability to generate profits or profits. In this study, profitability is measured by the ratio of return on assets (ROA) by comparing profit after tax with total assets. Profitability is seen as one of the factors that can affect income smoothing because the level of profit is directly related to the object of income smoothing. If the profit generated is not as expected, it will trigger opportunistic actions taken by management so that the profit generated is as expected. This is because the higher level of profitability will result in high expectations from regulators and the public for the company to compensate them in the form of tax payments to regulators and social programs to the community.

Profits that are too high will increase the taxes to be paid, on the other hand, a decrease in profits that is too low will show that management's performance is not good so that it is possible that management makes reported earnings not fluctuate by smoothing income to avoid paying high taxes.

H₁: Profitability affects the practice of income smoothing

Financial Leverage

According to Watts and Zimmerman (1986) stated by Rasinih and Munandar (2016: 42), financial leverage can affect the occurrence of income smoothing, namely where the condition of a company's financial leverage becomes pressure for management because when the company has a large leverage ratio, management will use accounting method for understating the leverage ratio. Wisnu (2019: 205) states that companies that finance their business through debt tend to choose accounting standards by entering future profits into the current period to meet the requirements of loan debt agreements.

Financial leverage is measured by the ratio between total liabilities or debts with total assets known as Debt to Assets Ratio (DAR). There are indications that the company is doing income smoothing to avoid violating the debt agreement, which can be seen through the company's ability to pay off its debts by using its assets. The greater the company's debt, the greater the risk faced by investors so that investors will ask for a higher level of profit. Given these conditions, the company's management tends to practice income smoothing.

H₂: *Financial Leverage* affect the practice of income smoothing

Dividend Policy

According to Paramita and Isarofah (2016: 56), dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be held for investment financing in the future. The dividend payout ratio determines the percentage of the company's profit paid to shareholders in the form of dividends. Hermawan and Toni (2020: 78) state that the greater the dividends distributed by the company, the better the company's financial performance. This raises the tendency of the company's management to smooth out profits so that the dividends distributed by the company are more and more. If the company's retained earnings for the company's operational needs are large, it means that the dividends paid will be smaller.

Dividend policy is measured by the ratio between the dividends paid by a company (in one fiscal year) divided by the company's net income in that financial year or known as the dividend payout ratio (DPR). Companies that distribute large dividends show that the profits earned by the company are fairly large. The size of the dividends distributed depends on the size of the profits obtained so that it motivates management to carry out income smoothing practices. A company that implements a high dividend policy is more likely to practice income smoothing. The existence of a relationship between profit recognition and dividend distribution allows the dividend policy variable to be studied.

H₃: Dividend policy affect the practice of income smoothing

Firm Size

Firm size shows the size of the assets owned by a company. Firm size is generally assessed from the total assets owned by a company. Large companies tend to practice income smoothing compared to small companies because large companies receive greater attention from analysts, investors, and the government. For this reason, large companies are expected to avoid drastic profit fluctuations, because an increase in profit will

cause an increase in taxes. On the other hand, a drastic decrease in profit will give an unfavorable picture so that large companies are expected to have a greater tendency to practice income smoothing.

H₄: Firm size moderates the effect of profitability on income smoothing practices

Based on the debt covenant hypothesis, in entering into a debt agreement, the company is required to fulfill several requirements proposed by the debtor in order to apply for a loan, especially the healthy financial condition of the company. Creditors have the perception that a company that has a relatively high and stable profit value is one of the criteria for a healthy company so that it motivates management to carry out income smoothing practices. Large companies are more interested in doing income smoothing due to the leverage ratio of large companies, with a source of funding that mostly comes from debt. In addition, the company does not want to violate the debt agreement because high leverage reflects the company's unhealthy condition.

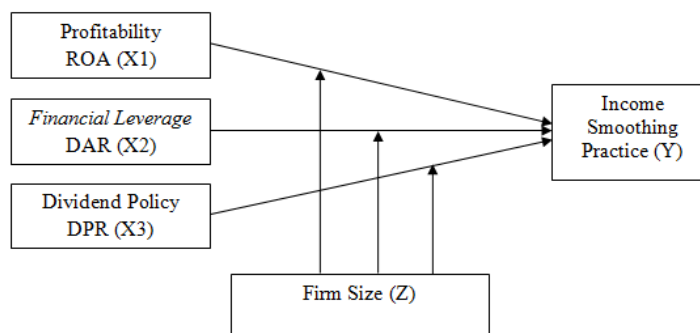
H₅: Firm size moderates the effect of financial leverage on income smoothing practices

Dividend policy is a decision to determine how much company profits will be distributed to shareholders and which will be reinvested in the form of retained earnings. Therefore, large companies with small profits tend to smooth out profits so that the company is able to distribute dividends to shareholders. The dividend distribution shows the company's financial condition is healthy and able to attract investors.

H₆: Firm size moderates the effect of dividend policy on income smoothing practices

Conceptual Framework

The conceptual framework is an image or chart that describes the overall variables and hypotheses of a study. Based on the theoretical concepts above, the conceptual framework of this research can be described as shown below.



III. Research Methods

Operational Definition

The operational definition of research can be summarized in the table presented as follows:

Table 1. Operational Definition

Research variable	Definition	Variable Concept	Indicator	Measurement Scale
Profitability (X1)	Profitability shows management's ability in generate net income after tax by utilizing company assets.	Measured by ROA	Comparison of net income after tax with total assets multiplied by one hundred percent	Ratio
Financial Leverage (X2)	Financial leverage show the company's ability to fulfill all obligations	Measured by DAR	Comparison of total liabilities with total assets multiplied by one hundred percent	Ratio
Dividend Policy (X3)	Dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings for investment financing in the future.	Measured by DPR	The amount of dividends per share divided by earnings per share multiplied by one hundred percent	Ratio
Income Smoothing Practice (Y)	The method used by managers to reduce fluctuations in reported earnings to match the desired target.	Measured by the Eckel index	Calculation of the coefficient of variation of the change in profit divided by the coefficient of variation of the change in sales	Nominal
Firm Size (Z)	Firm size shows the ability of a company to conduct operations and invest in seeking profits for the company.	Measured by the company's total assets	Calculation of the natural logarithm of total assets	Ratio

Population and Research Sample

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. The number of manufacturing companies that became the population in this study were 193 registered companies. Determination of the sample in this study using purposive sampling technique.

Table 2. Research Sample

No	Criteria	Sample
1.	Manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019	193
2.	Companies that do not/have not issued annual financial reports that have been audited regularly for the 2017-2019 period	(37)
3.	Companies that experience losses during the 2017-2019 period because this study aims to see income smoothing	(54)
4.	Companies that were delisted during the 2017-2019 period	(2)
5.	Companies that do not distribute dividends for four consecutive years for the 2017-2019 financial year	(59)
The total sample studied for the period 2017-2019		41
Total sample x 3 years		123

Method of collecting data

The data source used by the researcher is secondary data from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The data collection technique in this study is in the form of a documentation technique where the author conducts documentation studies and literature studies.

Technique Data analysis

In analyzing the data obtained in connection with the problem of income smoothing, the statistical method used by the researcher is descriptive statistics and Partial Least Square. According to Ghazali (2008:17), Partial Least Square is a very powerful analytical method with a distribution free approach (not based on many assumptions). Partial Least Square (PLS) uses bootstrapping method or random doubling so that the assumption of normality is not needed in the test. In addition, PLS does not require the minimum number of samples required.

IV. Result and Discussion

Research data

The object of this research is a manufacturing company listed on the Indonesia Stock Exchange. The sample selection was done by purposive sampling technique and obtained a sample of 41 companies. The research period starts from 2017 to 2019. The data analysis method used in this study is the PLS (Partial Least Square) statistical analysis method. Data analysis begins with collecting and processing the required data using Microsoft Excel. Furthermore, testing is carried out using the SmartPLS application software.

Smoothing Index Calculation

After the sample is obtained, the next step is to calculate the smoothing index for each company that is the sample. The calculation of the smoothing index is intended to determine the category of a company whether the company performs income smoothing or not in the period of this study. A company is categorized as not doing income smoothing if it gets a smoothing index value of more than one, while a company that gets a smoothing index smaller than one is categorized as a company that performs income smoothing.

The steps used to calculate the smoothing index are as follows:

1. Calculating means of sales and means of earnings.
2. Calculating the standard deviation of sales and standard deviation of earnings.
3. Calculating the Coefficient of variation of sales (CV sales) and Coefficient of variation of earnings (CV earnings) of the company under study.
4. By obtaining CV sales and CV earnings, the calculation of the smoothing index of the company under study can be done.

The results of the smoothing index calculation carried out on 41 companies can be seen in table 3 below:

Table 3. Smoothing Index Calculation

NO	CODE	CV EARNINGS	CV SALES	INDEX SMOOTHING	STATUS
1	ALDO	57,583	1460	0,0394	Smoothing
2	ARNA	43,799	51,895	0,8440	Smoothing
3	ASII	48,814	115,18	0,4238	Smoothing
4	AUTO	3,5052	720,60	0,0048	Smoothing
5	BATA	195,29	220,90	0,8840	Smoothing
6	BELL	62,758	248,06	0,2529	Smoothing
7	BRAM	2,2938	386,64	0,0059	Smoothing

NO	CODE	CV EARNINGS	CV SALES	INDEX SMOOTHING	STATUS
8	BUDI	1,1741	5,7194	0,2052	Smoothing
9	CINT	37,631	133,45	0,2819	Smoothing
10	CPIN	1611,9	16,439	98,053	Non-Smoothing
11	DLTA	232,87	469,60	0,4958	Smoothing
12	DPNS	113642	373969	0,3038	Smoothing
13	EKAD	91,550	131,71	0,6950	Smoothing
14	FASW	1177,9	2555,1	0,4610	Smoothing
15	HMSP	12,163	57,686	0,2108	Smoothing
16	HOKI	70179	586,34	119,68	Non-Smoothing
17	HRTA	39,134	151,11	0,2589	Smoothing
18	ICBP	5,6131	7,5986	0,7387	Smoothing
19	IKBI	327,19	4114,8	0,0795	Smoothing
20	INAI	70,506	76,290	0,9241	Smoothing
21	INCI	32,922	146,44	0,2248	Smoothing
22	INDS	32,798	1216,7	0,0269	Smoothing
23	KBLM	10,208	274,18	0,0372	Smoothing
24	KLBF	7,2975	245,95	0,0296	Smoothing
25	MARK	82,033	82,092	0,9992	Smoothing
26	MDKI	59,906	341,39	0,1754	Smoothing
27	MERK	4712,7	354,39	13,298	Non-Smoothing
28	MLBI	133,08	49,331	2,6977	Non-Smoothing
29	MYOR	135,04	641,03	0,2106	Smoothing
30	SIDO	15,213	94,249	0,1614	Smoothing
31	SKLT	0,4923	3,1644	0,1555	Smoothing
32	SMBR	26,778	380,03	0,0704	Smoothing
33	SMSM	4,6615	13,953	0,3340	Smoothing
34	SRIL	55,334	112,54	0,4916	Smoothing
35	TCID	68,353	393,39	0,1737	Smoothing
36	TPIA	23,186	619,70	0,0374	Smoothing
67	TRIS	105,58	130,55	0,8086	Smoothing
38	ULTJ	359,72	86,684	4,1497	Non-Smoothing
39	UNIC	278,56	852,69	0,3266	Smoothing
40	UNVR	110,32	7,2989	15,115	Non-Smoothing
41	WTON	170,85	622,98	0,2742	Smoothing

From table 3 above, there are thirty-five companies that practice income smoothing, it can be seen from the smoothing index whose value is less than one, and there are six companies that have a smoothing index value of greater than one which are classified as non-smoothing companies.

Analysis of Research Results

Descriptive Statistics

From the data of one dependent variable, three independent variables and one moderating variable, the descriptive analysis was tested and the following results were obtained. Based on Table 4, it shows the minimum value, maximum value, average value (*mean*), and the standard deviation of the variables of profitability (X1), financial leverage (X2), dividend policy (X3), firm size (Z) and income smoothing practices (Y).

Table 4. Descriptive Analysis

	No.	Missing	Mean	Median	Min	Max	Standard Deviation
ROA	1	0	0.109	0.071	0.005	0.921	0.123
DAR	2	0	0.350	0.299	0.090	0.783	0.182
DPR	3	0	0.501	0.399	0.017	3.521	0.425
Firm Size	4	0	14.325	14.066	6.455	27.467	3.741
Income Smoothing	5	0	0.854	1.000	0.000	1.000	0.353

PLS Algorithm Calculation Result Model

Table 5. R-Square

	R Square	R Square Adjusted
Income Smoothing	0.474	0.442

Based on Table 5, the R-Square Adjusted value on the income smoothing practice variable is 0.442. This value is interpreted as the ability of profitability, financial leverage, dividend policy and firm size in influencing income smoothing of 44.2%, the remaining 55.8% is explained by other variables or factors.

Path Coefficients

Table 6. Path Coefficients

	Original Sample (O)	Sample Mean...	Standard Deviation...	T Statistics ...	P Values
Dividend Policy -> Income Smoothing	0.110	0.128	0.091	1.212	0.226
Financial Leverage -> Income Smoothing	-0.084	-0.076	0.068	1.230	0.219
Firm Size -> Income Smoothing	-0.147	-0.150	0.113	1.305	0.192
Firm Size Moderate Dividend Policy -> Income Smoothing	0.169	0.162	0.095	1.778	0.076
Firm Size Moderate Financial Leverage -> Income Smoothing	0.489	0.509	0.291	1.684	0.093
Firm Size Moderate Profitability -> Income Smoothing	-0.452	-0.484	0.222	2.038	0.042
Profitability -> Income Smoothing	-0.661	-0.678	0.083	8.006	0.000

Research result

Based on the analysis of path coefficients in Table 6, it can be seen that the effect of profitability as measured by ROA on income smoothing practices have a parameter coefficient value of -0.661 with a t-statistics significance of 8.006 greater than 1.96 and a P Values 0.000 which is smaller than 0.05. This shows that profitability has an effect on income smoothing practices, so hypothesis H₁ is accepted.

Based on the results of the analysis of path coefficients in Table 6, it can be seen that the effect of financial leverage as measured by DAR on income smoothing practices have a parameter coefficient value of -0.084 with a significance value of t-statistics 1.230 smaller than 1.96 and P Values 0.219 which is greater than 0.05. This shows that financial leverage has no effect on income smoothing practices, so hypothesis H₂ is rejected.

The results of the Path Coefficients analysis in Table 6 show the effect of dividend policy measured by the DPR on income smoothing practices, which has a parameter coefficient value of 0.110 with a significance value of t-statistics 1.212 less than 1.96 and P Values of 0.226 greater than 0.05. This shows that dividend policy has no effect on income smoothing practices, so hypothesis H₃ is rejected.

The results of the Path Coefficients analysis in Table 6 show that the size of the company calculated by total assets in moderating the effect of profitability on income smoothing practices has a parameter coefficient value of -0.452 with a significance value of t-statistics 2.038 greater than 1.96 and P Values of 0.042 smaller than 0.05. This shows that the size of the company is able to moderate or weaken the profitability of income smoothing practices, meaning that the size of the company affects companies with a certain level of profitability that perform income smoothing, so hypothesis H₄ is accepted.

The results of the Path Coefficients analysis in Table 6 show that the size of the company calculated by total assets in moderating the influence of financial leverage on income smoothing practices has a parameter coefficient value of 0.489 with a significance value of t-statistics 1.684 smaller than 1.96 and P Values of 0.093 greater than 0.05. This shows that firm size is not able to moderate financial leverage on income smoothing practices, so hypothesis H₅ is rejected.

The results of the Path Coefficients analysis in Table 6 show that the size of the company calculated by total assets in moderating the effect of dividend policy on income smoothing practices has a parameter coefficient value of 0.169 with a significance value of t-statistics 1.778 which is smaller than 1.96 and P Values of 0.076 greater of 0.05. This shows that firm size is not able to moderate dividend policy on income smoothing practices, so hypothesis H₆ is rejected.

Discussion

The results of the study indicate that profitability has an effect on income smoothing practices. The influence of profitability on the practice of income smoothing is due to the increase or decrease in profit giving a real impact on the company. If the profit generated is not as expected, it will trigger opportunistic actions taken by management so that the profit generated is as expected. In this study, it was found that companies with low profitability are more likely to practice income smoothing. The results of this study are in line with the research of Sumani et al (2021), Putri and Budiasih (2018), Tsurroya and Astika (2017), Dewi and Latrini (2016), Natalie and Astika (2016), Rasinih and Munandar (2016), Peranasari and Dharmadiaksa (2014), Sherlita and Kurniawan (2013), Prabayanti and Yasa (2011), Kumaladewi (2010), and Ashari et al. (1994). However, the results of this study contradict the research of Dewi and Suryanawa (2019) in the consumer goods industry sector, Siagian (2015) in the banking sector, Manuari and Yasa (2014) in the period 2008 to 2012, and

Widhianningrum (2012) in the period range 1999-2003 which state that profitability has no effect on income smoothing practices.

The results showed that financial leverage had no effect on income smoothing practices. According to Widhianningrum (2012), when the proportion of debt is smaller, the debt agreement does not burden the company so that the company does not use income smoothing as a method to fulfill its debt agreement. Therefore, it can be concluded that there is no indication that the company is doing income smoothing to avoid violating the debt agreement. The results of this study are consistent with research conducted by Dewi and Suryanawa (2019), Tsurroya and Astika (2017), Natalie and Astika (2016), Manuari and Yasa (2014), and Sherlita and Kurniawan (2013) which prove that financial leverage does not effect on the practice of income smoothing. However, the results of this study are not in accordance with Putri and Budiasih (2018) research in the period 2012 to 2016, Rasinih and Munandar (2016) in the period 2011 to 2013, Peranasari and Dharmadiaksa (2014) in the period 2008 to 2012, and Prabayanti and Yasa (2011) in the period from 2004 to 2008 which state that financial leverage has an effect on income smoothing practices.

The results of this study indicate that dividend policy has no effect on income smoothing practices. These results also do not support the notion that companies that implement a high dividend policy are more likely to practice income smoothing. It can be concluded that the distribution of dividends has nothing to do with income smoothing, meaning that the dividend payment policy has been adjusted to the needs of retained earnings so that the company has sufficient cash to ensure the stability of business operations. According to Manuari and Yasa (2014: 626), dividend policy has no effect on income smoothing practices because dividend policy is determined based on the decision of the General Meeting of Shareholders, so the amount of profit is not necessarily a benchmark in determining dividends. If managers practice income smoothing, it is not necessarily that shareholders get stable dividends so that the distribution of dividends to shareholders is not influenced by the size of the profits generated by management. The results of this study are in line with research conducted by Manuari and Yasa (2014) which concluded that the dividend payout ratio variable has no effect on income smoothing practices.

The results of this study indicate that firm size is able to moderate or weaken the influence of profitability on income smoothing practices so that it can be concluded that large companies with low profitability tend not to practice income smoothing compared to small companies because large companies receive more attention and supervision from the public, analysts, investors, and the government so that large companies are expected to avoid income smoothing practices. The results of this study are in line with research conducted by Tsurroya and Astika (2017) which states that firm size moderates or weakens the effect of profitability on income smoothing practices. However, the results of this study contradict the research conducted by Paramita and Isarofah (2016) which states that firm size is not able to moderate the effect of profitability on income smoothing practices. The observation period for Paramita and Isarofah (2016) research is between 2010 and 2014.

The results of this study indicate that firm size does not moderate the effect of financial leverage on income smoothing practices. Large or small companies with a high level of leverage are not able to motivate the company's management to practice income smoothing because management does not want to harm the company and reduce the level of trust of debtors who are at risk of canceling loans to the company. The results of this study are in line with research conducted by Tsurroya and Astika (2017) which states that firm size does not moderate the effect of financial leverage on income smoothing practices. However, the results of this study contradict the research conducted by Paramita and Isarofah (2016) during the period 2010 to 2014 which states that firm size is able to moderate the effect of financial leverage on income smoothing practices.

The results of this study indicate that firm size does not moderate the effect of dividend policy on income smoothing practices. Companies that set a high percentage of profits paid to shareholders in the form of dividends will certainly attract investors. However, the level of the company's dividend policy is not able to motivate management to carry out income smoothing practices so that the size of the company also does not affect the dividend policy on income smoothing because management does not want to harm the company and make the value of the company bad in the eyes of investors in the long term. This result is in line with research conducted by Paramita and Isarofah (2016) which states that firm size does not moderate the effect of dividend policy on income smoothing practices.

V. Conclusions and Suggestions

Conclusion

The results conclude that profitability has significant effect on income smoothing, financial leverage has no effect on income smoothing, dividend policy has no effect on income smoothing, and firm size is able to moderate profitability effect on income smoothing. However, firm size is unable to moderate the effect of financial leverage and dividend policy on income smoothing.

Suggestion

The researcher proposes several suggestions for further research. It is recommended to expand the field of companies, adding to the period of year to be studied in order to provide maximum data variation in the study, and is also expected to be able to examine several other factors that are thought to have an influence on income smoothing. Investors who want to invest in manufacturing companies are advised to be more careful in making decisions by considering the factors that allow income smoothing practices to arise. Manufacturing companies listed on the Indonesia Stock Exchange are advised to pay attention to profitability by considering the company's cost efficiency and increasing the company's turnover/sales, for example by managing the Debt to Asset Ratio ratio because a high Debt to Asset Ratio value indicates the risk of paying off liabilities is also getting higher. High debt is followed by high interest expense. The profit generated can only be used to pay off debt and not to increase the inventory turnover ratio.

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