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THE EFFECT OF PROFITABILITY AND COMPANY SIZE ON INCOME SMOOTHING
(Study on Banking Sector Companies Listed on the Indonesia Stock Exchange for the 2019-2021 Period)

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ABSTRACT

Thistinfluence aims toedetermine whether profitabilitytand companyssize have partial and simultant on the possibility of income smoothing practices in bankingtsector companies-listedton the Indonesia StockrExchange for thetperiod 2019-2021. Thetfactors-testedtin this-study weresprofitability and-company sizetas-independenttvariables,-whileiincome smoothing as theidependenttvariable. The researchrmethod used intthis study was aniquantitative descriptive analysisrmethod. Theipopulation-in thisjstudy are banking sectortcompanies-listed ontthe IndonesiajStock Exchange for thetperiod 2019-2021, totalingt46 companies. Samplingjtechnique-used injthis-study was nonbprobability samplingrwith-purposiversampling method, thernumber-of samplestwas 29 companies. Datatanalysis usedtin this-study was panel datarregressionranalysis at a significancellevel of 5%. Thetprogram used inranalyzing data was SPSS. Therresults of thetstudy showed-thattprofitability hadta influence on incomersmoothing. Company size had a influence on income smoothing. Company size and profitability simultaneously hadca influence ontincome-smoothing.

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1. INTRODUCTION

Technological advances and developments in the business world in pursuing the free market have resulted in a high level of competition between companies. This creates its own challenges for each company to be able to maintain its position and maintain the survival of the company. In addition, the uncertain economic situation motivated company management to work more effectively and efficiently so that the company was able to maintain the stability of its operating activities while at the same time advancing management performance to obtain optimal results for the company. Especially for go public companies that are required to account for financial reports based on the activities of the shareholders. Shareholders will assess the company's performance by looking at the available balance sheets including reported profits [1]. This is closely related to income smoothing in a company.

Income smoothing is a phenomenon that has been widely implemented in various countries [2]. Many question whether income smoothing is good or bad, as well as why there are so many income smoothing and can be implemented. Income smoothing as a method used by management to reduce reported profit fluctuations so that they match the desired target either through accounting methods or transactions [3]. Income smoothing is a special practice of earnings management that involves internal reporting of temporary income smoothing, which makes earnings look stable without too high fluctuations [4]. Income smoothing does not pose a problem to be worked on during its implementation if it does not contain fraud. However, income smoothing can be detrimental to the parties concerned for the company, such as investors and users of financial statements. Announcement of information regarding profits becomes distorted and causes incidents of errors in decision making.

The purpose of income smoothing is to meet the expectations of the company, such as investors and creditors [5]. These external parties have an interest in the company's performance, where they want the company to continue to operate with good results. In addition, the motivation for income smoothing is

to reduce the total tax payable, improve the relationship between managers and employees, and change investors' perceptions of company value [6]. The practice of income smoothing has been known as a rational and logical practice and is carried out by management to reduce fluctuations in reported earnings and improve investors' ability to forecast future cash flows. Profit measurement measures are a means that management can use to reduce income reporting fluctuations and manipulate accounting variables by making real transactions [7].

Decision making by shareholders is largely determined by the quality of the financial reports presented by management. Aside from being a reflection of the financial condition of a company, financial statements are often used by interested parties as a tool to bring the company to achieve its goals, both long-term goals and short-term goals. As a part of financial information, financial reports play an important role in conveying information that is communicated periodically to internal and external parties of the company so that there is no conflict of interest between the two. What is meant by internal parties is company management, while external parties are shareholders, creditors, government, tax collectors, and other stakeholders outside the company. Income smoothing carried out by management will greatly influence shareholder decisions.

Profitability is the net result of a series of company policies and decisions [8]. Profitability can be determined by calculating various relevant benchmarks. One of these benchmarks is the financial ratios as one of the analyzes in analyzing the financial condition, operating results and level of profitability of a company. The profitability ratio is a ratio that describes a company's ability to generate profits through all its capabilities and resources, which come from sales activities, use of assets, and use of capital [9], [10].

Profitability ratios are intended to measure the efficiency of the use of assets or sales proceeds. Profitability can be used as a measure of company performance. Profitability is often used as a benchmark by investors and creditors in assessing whether a company is healthy or not. Profitability will affect investment decisions and granting credit. Companies with low profitability will tend to do income smoothing compared to companies with high profitability. Income smoothing is done so that the company's image looks better. Income smoothing are expected to show that the company has good performance even though its profitability is low. To find out how much influence these factors have on the profitability of a company, financial ratios can be used.

The higher the profitability value, the company will tend to do income smoothing because companies that have high profitability reflect good company performance so that investors are interested in investing in the company. Profitability has a positive effect on income smoothing practices [11]–[13]. Profitability also has an effect on income smoothing practices [14]. The hypothesis put forward is that profitability has a positive effect on income smoothing practices.

Company size is one of the factors that affect income smoothing. Company size is one of the factors that affect income smoothing. Firm size is a scale where the size of the company can be classified according to various ways, where the size of the company is only divided into 3 categories, namely large companies, medium companies, and small companies [15]. Company size (firm size) is the size of the company can be measured by the total assets or the size of the company's assets by using the calculation of the logarithmic value of total assets [16].

Companies that have a larger size tend to have a greater incentive to carry out income smoothing because large companies are usually the subject of stricter supervision from the government and the general public. Large companies are expected to avoid drastic profit fluctuations because they will cause corporate taxes to increase and vice versa [17]. Company size has a positive effect on income smoothing practices [11]. Company size also has a significant effect on income smoothing practices [18]. The hypothesis put forward is that company size has a positive effect on income smoothing.

The reason the researchers chose banking companies was because during the pandemic these companies had a major influence on the development and growth of the country's economy. Which, if poor banking performance can lead to banking failures and crises that have a negative impact on economic growth. So that it can make it easier for managers and give managers the opportunity to do income smoothing in the banking company's financial statements in accordance with the wishes needed by the manager. In addition, researchers use the banking sector industry to obtain results that can later be generalized whether there are income smoothing practices by companies listed on the Indonesia Stock Exchange (IDX).

One example of a banking company experiencing income smoothing is PT Bank Bukopin Indonesia Tbk, which is suspected of having overstated profits in its financial statements. Changes in Bukopin's performance can be seen in the company's 2017 published financial report. In the company's 2016 financial report, it was written that Bukopin recorded an individual profit of IDR 1.06 trillion, an increase compared to 2015 of IDR 886 billion. However, in the company's financial statements last year, Bukopin's profit was recorded at only IDR 183.53 billion. Changes in profit were mainly due to changes in other fee and commission income. If in the 2016 financial report book, other fee and commission income reached IDR 1.06 trillion or higher than the 2015 position of IDR 886 billion. In the 2017 report, the revenue was only IDR 317.88 billion.

The years 2019 to 2021 were chosen because in that year the world was hit by the Covid-19 pandemic, in which almost all countries in the world were affected by the virus, including Indonesia. The government continues to make efforts to prevent and deal with this pandemic. Because the Covid-19 pandemic has had a negative impact which not only has an impact on public health, but has also affected the economic conditions, education and social life of the Indonesian people. The Covid-19 pandemic, which was responded to with social restriction policies, had an impact on weakening economic activity. As a result, the demand from the community (households), which has been the backbone of the national GDP, has been depressed. Furthermore, business actors reduce their business activities or even close their businesses, thereby reducing the demand for credit. Even credit facilities that have been received are paid off as soon as possible to make their finances healthy. Meanwhile, the bank's source of income is loan interest income. Thus, this has a negative impact on banking companies.

2. METHOD

2.1 Types and Data Source

This study uses a quantitative descriptive analysis model, namely by collecting, classifying, analyzing, and interpreting secondary data in the form of financial statements of banking sector companies on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.

The type of data in this study uses quantitative secondary data. Secondary data itself is a source of data that is already available including statistical data, government publications, information published within/outside the company, research data, or library document data, online data. Based on the explanation of secondary data sources, this study uses financial report data for banking sector companies liste on the Indonesia Stock Exchange (IDX) obtained from the official website. www.idx.co.id. The data in this study uses the company's annual financial report data for 2019-2021. This data includes secondary data that has been processed by banking sector companies listed on the Indonesia Stock Exchange and has been published.

2.2 Population and Sample

Population is a field of generalization, objects/subjects that have certain attributes or characteristics set by the researcher to be studied and then drawn conclusions [19]. Banking companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period totaling 46 companies are the total population in this study.

Samples are part of the number and characteristics possessed by the population [19]. The sampling technique used is purposive sampling, namely sampling using certain restrictions (according to certain criteria), the goal is to obtain a representative sample according to the criteria needed by the researcher.

Table 1 representative sample

Description	Total
Banking sector companies listed on the IDX for the 2019-2021 period	46
Banking sector companies that suffered losses during the 2019-2021 period	(12)
Banking sector companies that do not report financial statements in the 2019-2021 period	(5)
Companies selected as samples	29

Years of observation	3
Number of data observations for the period 2019-2021	87

The table above shows that out of a total of 46 banking sector companies listed on the Indonesia Stock Exchange, after being set several criteria and processed, a sample of 29 companies was obtained. So that the number of data observations that will be tested in this study is 87 data.

2.3 Operationalization of Variable

Operational variable is an attribute or trait or value of an object or activity that has certain variations that have been determined by the researcher to be studied and then drawn conclusions [20]. A research variable is basically something in the form of anything that is set by the researcher to be studied so as to obtain information about it, then draw conclusions. Based on this, in this study using independent variables and dependent variables.

1. Independent Variable

An independent variable is a variable that is not bound by another variable. The independent variables used in this study are as follows:

1) Profitability

Profitability is an indicator of the performance carried out by management in managing the company's wealth indicated by the profit generated. Broadly speaking, the profit generated by the company comes from sales and investments made by the company. In this study, it uses return on assets (ROA) as the measurement ratio. ROA is measured by comparing net profit with total assets.

$$\text{ROA} = \frac{Net\ Income}{Total\ Asset}$$

2) Company Size

Company size is a scale, that is, it can be classified as large as a company according to various ways, including total assets, log size, stock market value, and others [21]. In this study, the size of the company was measured by the amount of wealth value owned by a company (total assets). Where the size of the company is calculated by the natural logarithm of the total assets.

$$\text{Company Size} = \text{Ln x Total Asset}$$

2. Dependent Variable

Dependent variables are variables bound by other variables. The dependent variable in this study is the action of income smoothing. The measurement scale used is the nominal scale. Companies that carry out income smoothing or do not carry out income smoothing can be detected through the Eckel index by seeing if the Eckel index value is greater than 1 (one), the company does not carry out income smoothing, but if the Eckel index is smaller than 1 (one), then the company does a income smoothing.

Income smoothing measures are tested with Eckel's index (1981). Eckel uses the Coefficient Variation (CV) income variable and net income variable. The income smoothing index is calculated as follows:

$$\text{Income Smoothing Index} = \frac{CV\ \Delta I}{CV\ \Delta S}$$

Description :

ΔI : Profit change in a period
ΔS : Sales change in a period
CV : The coefficient of variation of the variable, namely the standard deviation divided by the expected value.

2.4 Analysis Method

This study uses quantitative methods, namely analyzing data and matters relating to numbers or calculation formulas used to analyze the problem being studied. Data analysis using multiple linear regression. In regression analysis, the dependent variable is often influenced not only by quantitative variables according to the scale, but also by qualitative variables.

3. RESULT AND DISSCUSSION

3.1 Test of Normality

Normality test is a normality test regarding the distribution of research data. The step taken before the statistical test, namely knowing whether independent variables and dependent variables or both in the study have a normal distribution or not. If the data is not distributed normally, then the results of statistical testing will decrease in value.

In this study, using the Kolmogrov-Smirnov test analysis technique to detect normality and with the Kolmogrov-Smirnov test, it did not cause differences in perception between one observer and another. Kolmogrov-Smirnov test to find out whether the data is normally distributed or not based on the significance value and probability set at 5%, so that it becomes the basis for making decisions as follows:

a. If Asymp. Sig. > 0.05 then the data is normally distributed.
b. If Asymp. Sig. < 0.05 then the data is not normally distributed.

Test of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Profitability	0,083	87	0,192	0,98	87	0,188
Company Size	0,093	87	0,058	0,961	87	0,010

a. Lilliefors Significance Correction

Based on the normality test results table above, it is known that the Asym value. Sig. (2-tailed) profitability of 0.192 which is greater than α 5% or 0.05, it can be concluded that the profitability variable data is normally distributed, the Asymp value. Sig. (2-tailed) company size of 0.058 which is greater than α 5% or 0.05, it can be concluded that the company size variable data is normally distributed.

3.2 Test Multicollinearity

Multicollinearity test to test whether in the regression model there is a correlation between independent variables. The problem of multicollinearity can be identified in case of correlation. A good regression model should not have a correlation between independent variables. Testing on the presence or absence of multicholinearity is carried out using the VIF (Variance Inflation Factor) method with the following conditions:

VIF > 10 there is a multicollinearity problem
VIF ≤ 10 there is no multicollinearity problem

Table 2. Test Multicollinearity

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3,402	1,115		3,052	0,003		
Profitability	0,849	0,836	0,107	3,015	0,013	0,914	1,094
Company Size	0,185	0,060	0,328	3,102	0,003	0,923	1,083

a. DependentoVariable: Income Smoothing

Based on the table above, it can be seen that the profitability variable has a tolerance value of 0.914 with a VIF value of 1.094, the company size variable has a tolerance value of 0.923 with a VIF value of 1.083, it is known that all the above variables have a tolerance value and VIF is more than 0.1 and the VIF is less than 10 which can be concluded that the data in this study did not have linearity problems.

3.3 Test Autocorrelation

The autocorrelation test aims to test whether in a multiple regression model there is a correlation between the confounding errors in the t period and the confounding errors in the t-1 period. Diagnosing the existence of autocorrelation in a regression model can be done by testing the

Durbin Watson test value for level one autocorrelation and requires an intercept in the regression model and no lag variables between the independent variables. If there is a correlation, then there will be autocorrelation problems that arise due to observations that are all the time and sequential to one another.

Table 3. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,789[a]	0,622	0,606	0,472	1,723

a. Predictors: (Constant), Company Size, Profitability

b. Dependent Variable: Income Smoothing

The Durbin-Watson test results show a value of 1.723 with a total of 2 variables and (n) 87, so the dL is 1.6046 and the dU is 1.6985 (dU and dL results from the Durbin-Watson table) the 4-dU value is 2 .3015 and a 4-dL value of 2.3954. This shows that the value of 1.723 is between dL≤ d ≤ 4dU where 1.6046 ≤ 1.723 ≤ 2.3015. So from these results it can be concluded that there is no autocorrelation symptom in this research model.

3.4 Test Heteroscedasticity

Heteroskedasity aims to test whether in the regression model there is a variance dissimilarity from the residual of one observation to another. A good regression model is to experience homoskedasticity or not heteroskedasticity. Independent variables statistically significant affect dependent variables can be interpreted to mean that heteroskedasticity occurs. The way to detect heteroskedasticity in this study is to test glejser through the significance values of all variables. The glejser test is carried out by removing the dependent variable, then regressing it against the independent variable. If a heterochedasticity test uses the glejser test, the basic reference includes:

a. If the result is smaller than a significant level (confidence level 0.05), then it can be said that heterochedasticity occurs in the regression model
b. If the result is greater than the significant level (confidence level 0.05), then it can be said that heterochedasticity does not occur in the regression model.

Table 4. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,305	0,418		0,730	0,467
	Profitability	-180,136	313,393	-0,065	-0,575	0,567
	Company Size	0,010	0,022	0,050	0,435	0,664

a. Dependent Variable: Ln_Res

Based on the table above, it shows that the coefficient of each independent variablel is not significant (significance level > 0.05), which is 0.567 for the profitability variable and 0.664 for the company size variable, so it can be concluded that heteroscedasticity is not a problem in this study.

3.5 ANOVA Test

The ANOVA test is used to show whether all the independent variables included in the model have a joint effect on the dependent variable [22]. Testing is carried out using a significant degree (α) of 5% or 0.05. The test method is as follows:

Ho: means that the profitability and company size variables simultaneously do not have a significant effect on income smoothing.

Ha : meaning that the variables of profitability and company size simultaneously have a significant influence on income smoothing.

The test criteria is carried out by comparing F count with F table with the following guidelines:

1) If F: F Count < F table with Sig. > 0.05 then Ho is accepted
2) If F. F Count > F table with Sig. < 0.05 then Ha is accepted

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,042	2	1,521	6,839	,002[b]
	Residual	18,682	84	0,222		
	Total	21,724	86			

a. Dependent Variable: Income Smoothing

b. Predictors: (Constant), Company Size, Profitability

Based on the table above, the f statistic value is 6.839 with a significance of 0.002 which means less than alpha 0.05 or α 5%, thus the regression equation model based on research data is significant,meaning that the linear regression model meets the linearity criteria, or it can be interpreted that variable profitability and firm size influence simultaneously or jointly on income smoothing.

3.6 T Test (Partial)

The T statistical test basically shows how far one independent variable affects individually in describing the dependent variable. The test was carried out using a significant degree (α) of 5% or 0.05 and a degree of freedom (degree of freedom) or df = (n – k). The test method is as follows:
Ho: meaning that the variables of profitability and the size of the company partially do not have a significant effect on income smoothing.
Ha: means that the variables of profitability and company size partially have a significant influence on income smoothing.

The test criteria are carried out by comparing between t count with t table with the following guidelines:

1) If t count < t table or Sig. > 0.05 then Ho is accepted
2) If t calculate > t table or Sig. < 0.05 then Ha is accepted.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3,402	1,115		3,052	0,003		
	Profitability	0,849	0,836	0,107	3,015	0,013	0,914	1,094
	Company Size	0,185	0,060	0,328	3,102	0,003	0,923	1,083

a. Dependent Variable: Income Smoothing

The profitability t-statistic probability value of 0.013 is less than α 5% with a t-statistic value of 3.015. This means that the profitability variable has a partial effect on income smoothing. The probability value of the t-statistic for firm size is 0.003 which is less than α 5% with a t-statistic value of 3.102. This means that the variable firm size has a partial effect on income smoothing.

3.7 Coefficient Determination

The coefficient of determination indicates the variation in the rise and fall of Y described by the linear influence X. Coefficient of determination ranges from zero to one ($0 \leq R^2 \leq 1$). If R^2 is equal to 0, it means that there is no relationship between the independent variable (X) and the dependent variable (Y). If R^2 is equal to 1, it means that the regression line formed can perfectly foresee Y. The closer the R^2 value is to the 1 value, it means that the influence of the independent variable on the dependent variable it can explain is stronger. The coefficient of determination in this study was used to measure how much the free variable ability is in explaining bound variables. The coefficient of determination can be seen from the value of Adjusted R Square

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,789[a]	0,622	0,606	0,472	1,723

a. Predictors: (Constant), Company Size, Profitability

b. Dependent Variable: Income Smoothing

Based on the table above, it is known that the coefficient of determination or R-Square is 0.622. This R-Square value comes from squaring the correlation coefficient value or "R". The R-Square value obtained is 0.622 or 62.2% which can be interpreted that the variable profitability and company size have a contribution effect of 62.2% on income smoothing, and the other 37.8% is influenced by other factors outside the variable profitability and company size.

3.8 Multiple Linear Regressions Model

Based on the table beow, the results of the multiple regression model above, the multiple regression equation is as follows:

$$Y = 3{,}402 + 0{,}849X1 + 0{,}185X2 + e$$

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	3,402	1,115	
	Profitability	0,849	0,836	0,107
	Company Size	0,185	0,060	0,328

A constant value of 3.402 states that if the profitability and company size variables have a value equal to zero (0), then the probability of income smoothing is 340.2%. The regression coefficient value of the profitability variable is 0.849 and is positive, which means that if the profitability variable increases by 1 unit, then the possibility of income smoothing will also increase by 84.9%. The regression coefficient value of the company size variable is 0.185 and is positive, which means that if the company size variable increases by 1 unit, the probability of income smoothing will also increase by 18.5%.

3.9 The Effect of Profitability on Income Smoothing

The test results showed that the profitability variable had a significant effect on the income smoothing. Profitability, is a ratio used to determine the company's ability to utilize assets to generate profits. In this study, the positive effect of profitability on income smoothing can be proved or Hypothesis 1 is accepted. The results of the multiple linear regression analysis that has been carried out, show that profitability affects the income smoothing in a positive direction.

The results of this research are supported by research conducted by Oktyawati and Agustia [23], Zuhriya and Wahidahwati [24], and Iskandar and Suardana [25]. The three studies stated that profitability has a positive effect on income smoothing. Because with a high level of profitability, the company has more opportunities to income smoothing.

3.10 The Effect of Company Size on Income Smoothing

The test results showed that the variable size of the company had a significant positive effect on the action of l income smoothing or Hypotesis 2 received. So it can be concluded that there is a significant influence between the size of the company on the action of income smoothing.

The results of this study supporttprevious research conductedbby Linda Kurniasih, the resultsiof the studyishowtthat the variable company size has a significant effect on the action of income smoothing, this means that the size of the company will affect the income smoothing [26]. Companies with large sizes have a large incentive to income smoothing compared to small companies, because companies that have large amounts of assets will be paid more attention to by the public and the government. Therefore, large companies will avoid a drastic increase in profits in order to avoid an increase in costs by the government.

Another study also stated that the proxied Company Size with ln of total assets partially had a significantqeffect on the practice of-incomeismoothing [27]. Thellarger the size of thercompany, the bigger thescompany income-smoothing because large companiessare more likely toqhave high assets so that when the company experiences a drastic increase in total assets, it will make the company even out its profits so that the assets in the company remain normal or considered good for the company and this is done in order to get good value from investors or stakeholders. The conclusion in the results of this study is that the size of the company affects the action of income smoothing.

4. CONCLUSION

Based on the results of the study, it shows that profitability proxied by return on assets affects income smoothing at Banking Sector Companies listed on the Indonesia Stock Exchange for the 2019-2021 period. This means that the higher the level of company profitability, the company will tend to carry out income smoothing actions because the company will be in the public spotlight, so the company is likely to try to take actions that endanger the company's credibility.

Based on the results of the study, it shows that company size proxied by Ln total assets has an effect on income smoothing at Banking Sector Companies listed on the Indonesia Stock Exchange for the 2019-2021 period. This means that companies with large sizes have a large number of assets compared to small companies. So that large companies are paid more attention by investors and the government.

Based on the results of the study, it shows that company size proxied by Ln total assets has an effect on income smoothing at Banking Sector Companies listed on the Indonesia Stock Exchange for the 2019-2021 period. This means that companies with large sizes have a large number of assets compared to small companies. So that large companies are paid more attention by investors and the government. Companies with large company sizes will avoid drastic increases in profits in order to avoid increased cost burdens by the government.

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