

THE INFLUENCE OF COMPANY SIZE AND FINANCIAL PERFORMANCE TOWARDS INCOME SMOOTHING

Simon Andreas

Alumni Fakultas Ekonomi Universitas Pelita Harapan
Simonnandreas@outlook.com

Hanna

Program Studi Akuntansi Universitas Pelita Harapan
hanna.wijaya@uph.edu

ABSTRACT

The main objective in this research is to test whether Company Size, Return on Assets, and Earnings per Share influence the practice of Income Smoothing. The data in this research is collected from 86 companies listed in manufacturing industry in Indonesia Stock Exchange. The period of the data collected is 3 years from 2013 – 2016. The research model used in this research is multiple regression where the classical assumption tests are conducted prior to find the result of the model by using SPSS 22. Quantitative approach is used in this research to test the raised hypotheses and solve the issues. In conclusion, the results of this research show that variable SIZE does have positive significant influence on Income Smoothing and variable ROA & EPS do not have significant influence on Income Smoothing.

Keywords: *Company Size (SIZE), Return on Assets (ROA), Earnings per share (EPS), Financial Leverage (LEV), Income Smoothing.*

INTRODUCTION

The most important thing in doing business is to serve the customers high-quality products with an affordable price in order to be competitive in the markets, especially for the manufacturing companies. It is important for every manufacturing company to implement cost efficiency concept in producing the goods as it is directly affect their product's price. Cost efficiency indicates that the company is profitable due to their management of costs and performing well as the company's performance is very good.

According to Schipper (1989), earnings management is an intentional interference by the management in the process of determining the earnings in order to fulfill their own goals. Window-dressing financial statements, particularly the bottom line earnings number is usually included in this act. Earnings management can be real or corrective, it depends on the managers' act. The managers can choose to manage the earnings with cash flow consequences (real) or manipulate the accruals without the cash flow consequences (corrective). Scott (2009) defined earnings management as the choice of policies in accounting made by the management in order to accomplish a few objectives. The choice of the policies is inspired from the effectiveness and opportunistic purposes. Profit's transparency in relating the firm's internal information needs to be increased by the company's management in order to achieve efficiency in earnings management.

In some past researches, Masodah (2007) recommended to measure the size of a company by looking at the buy and- sell their shares in the company on the stock exchange, if the firm has issued shares in the stock trade, the firm can be recognized as a big firm. The objective of providing the satisfaction to both internal and external parties that achieved by earnings management is influenced by the size of the company. The existence of earnings management activities within the company is related to the firm's size because the higher resources such as human capital in the company, the higher risk

of manipulation that will be faced by the company. Essentially, good internal control from the management would be needed in this size of firm.

Company's financial performance illustrates the capability of the firm to manage all their resources, especially things that related to financial section, and develop their own competitive advantage among the competitors. Indicators that bring benefit for the investors relating to investment activities are profitability and financial leverage ratio. Profitability ratio is used to measure rate of return on capital and this rate influences the investors decision towards profit growth of a company. Financial performance is one of the factors that commonly affecting the income smoothing. This activity is a common form of earnings management. Income smoothing strategy is done by the managers and the act is increasing or decreasing reported income to reduce its volatility. The process of income smoothing is creating reserves or earnings from unreported amount of earnings in good years to cover the bad financial performance years. The indication of solid firm is the company's smooth revenue in the financial statement for every period and this is the factor that preferred by the investors and management as it shows a good performance in the firm.

Agency theory is used by income smoothing concept, which it is why income smoothing is closely related to earnings management concept as both concept using the same theory approach. It states that conflict of interest between the management (agent) with the owner (principal) impacts the earnings management as both interests are incompatible in the organization such as their way to accomplish or keep up a level of success. According to Masodah (2007), income smoothing cannot be isolated from influencing components.

There are researches that have been done before for these issues. However, some studies have shown conflicting results. This research focuses on discretionary accrual models testing to improve the accuracy of getting the best reflecting result. There will be a detailed comparison between the models to achieve the objective which is to get the best reflecting result.

LITERATURE REVIEW

Positive Accounting Theory

Watts and Zimmerman (1978) established Positive Accounting Theory and this theory is intended to analyze what kind of factors influencing the management's opinion on accounting standard. Furthermore, these factors also have an impact on the lobbying of behavior of management. There is a fundamental factor influencing the behavior of the management, which is the individuals act to maximize their own needs. Thus, the accounting standards are influenced according to the management's self-interest.

According to Watts and Zimmerman (1986), there are three hypotheses that have been used for the most researches related to the positive accounting. The hypotheses are the debt-equity, bonus plan, and political cost. These tests have been popular because of the resourceful behavior of management. It is essential for a company to understand the meaning of each hypothesis and difference between the hypotheses as it can be used by the management as motives to conduct an earnings management. The most important point on positive accounting research is to keep developing the connection between the theory and empirical tests. As stated by Watts and Zimmerman (1990), the debt-equity hypothesis states that the ratio will affect the decision made by the management about the appliance of the accounting procedures. The debt-equity ratio is also mentioned as the leverage of the firm. If the company has a high debt-equity ratio, the firm will choose an accounting standard that boosts the firm's current period earnings. The bonus plan hypothesis relates to the incentives arrangements of the management. In this hypothesis, the current period earnings of the company need to be increased by applying a certain accounting standard that chosen by the management when there is a direct inducements schemes from the company. The chosen accounting standard is expected to increase the management's bonus as there is no changes from the company in its management's

incentives schemes. Lastly, the political cost hypothesis has a relation with the responses derived from the external parties such as competitors and environmental groups about our firm. This hypothesis illustrates that most of the bigger firms tend to choose accounting principles that decrease the earnings of the company rather than the smaller firms.

Agency Theory

Jensen and Meckling (1976) published agency theory and this theory has been a primary fundamental of the economic theory of the company since the establishment of the theory. Agency theory gives us knowledge about contractual relationship between principals and agents and potential problems that might occur in this event. Furthermore, it illustrates framework for us to learn how to solve issues that may be happening in the future related to conflict of interest.

According to Jensen and Meckling (1976), agency theory illustrates the existence of incompatible interests between investor (principal) and manager (agent) in a contractual relationship. The issues between the investor and manager occurs when the asymmetric information falls into management's hands and that information contains undisclosed action and information. The concealed action will cause restricted actions and moral hazard. The undisclosed information can give a bad influence on management's decision about regulation or policy implementation.

The owner of the firm knows less than the managers about the company's information and its future prospects. Management has a responsibility to report about the firm's performance and it is usually presented in financial statement form. Financial statement is crucial to external parties as it provides the information about the condition of the company and shows the profitability of the firm for investors. There is a potential that there is a financial statement fraud that the external parties do not know. A gap information between the owner of the firm and the management gives a chance for managers to manipulate the earnings in order to provide good financial performance of the company.

Earnings Management

According to Wiyadi et al. (2015), the term of earnings management exists because there is an intention from the managers to provide a good financial performance by conducting a financial statement management for the purpose of firm's or individual's profit. Earnings management does not always mean manipulating earnings and it is not always seen as a bad thing. It could be the preparers of the financial statement are forced to manipulate earnings due to the firm's performance.

There are four approaches that can be used by the management in doing earnings management, which are income maximization, income minimization, taking a bath, and income smoothing (Scott, 2009). Maximization of income is a method that make a firm become favorable by increasing a period's revenue. Taking a bath technique means the managers will write-off transactions as many as possible in periods that noticeably as bad performance periods. Minimization of income is similar with the second method, which is taking a bath strategy. However, this strategy does less impact rather than taking a bath method. Lastly, income smoothing method which represents as the dependent variable in this research is a common form of earnings management and this strategy is related with reducing a firm's volatility as the management may increase or decrease the reported income.

Income Smoothing

The definition of income smoothing is a manipulation action that used to reduce the revenue fluctuations from period to period by managing the income proportion between the years of high and less earnings (Belkaoui, 2006). It means that the some of the income from a high earnings year will be transferred to the less one in order to make the profit become less varied. Income smoothing is used to influence the investors' perspective on our company by providing a manipulated financial report.

According to Stolowy and Breton (2004), there are three main motives of income smoothing. The motives are job and bonus contracting, debt contracting, and regulatory motives. Job and bonus contracting means the income smoothing is related to self-interest of the management. It means that the managers want to enrich their personal welfare by conducting income smoothing activity. Debt contracting and regulatory motives are beneficial for the firm's behalf and not based on self-interests.

Income smoothing has a relation with the capability of management to choose accounting principles in creating income statement. According to Sugiarto (2003) in Tampubolon and Mukodim (2012), there are three ways to conduct income smoothing. Those three ways are by determining the time of transaction through management regulation such as research and development cost which is accruals, allocate revenues or expenses for certain period, and classify accounts that is related to gain or loss in many different categories.

Discretionary Accrual as A Measure of Income Smoothing

Discretionary Accrual Method is a method that will be the main focus in this research. Some of previous researches state that earnings contain information rather than illustrating cash flows from operating activities. Accruals have been used to improve the information content. According to Dechow (1994), the issues of timing in measuring cash flows over short gap are reduced by the accruals. The content of accruals are essential adjustments of accounting to stop variations connected to the operating cash cycle. However, there is an opportunity for the management to manipulate the information because the Generally Accepted Accounting Principles (GAAP) allows certain discretion in reporting accounting numbers.

Management's expectation about cash flows in the future is also included in accruals content. It is important to discover the relation between accruals and cash flows as the main goal of accruals is to decrease matching and timing issues. In this research, the discretionary accrual method will be based on the accounting process such as operating profit, cash flows from operation, total assets, total debt, and account receivable.

Company Size

Size is an essential factor of company's performance debating that bigger companies are usually more expanded with many diversification, well-managed and have bigger tolerance risk. Besides that, the information asymmetry issue is harder to be solved by the smaller firms. Therefore, the small companies tend to perform worse than the bigger ones. As stated by Capon et al. (2011) in Milikan and Mukti (2015), there is an essential role of company size in the performance of the company. The company's resources can be proxied by the size as it is related with organizational resources. It means that the bigger the company, the tools provided to accomplish their goals are better than the small firms.

Financial Performance

The objective of performance measurement is to compare between the business performance with the objectives of the firm. Operating performance of a company is also influenced by the financial situation. In order to analyze the financial performance of the company, the management uses a financial statement as their financial tool. The financial statement demonstrates the financial performance periodically, which is resulted from all related transactions and operating activities of a company. Financial statement consists of balance sheet, income statement, statement of owner's equity, and statement of cash flow.

According to Milikan and Mukti (2015), financial ratio is a tool that illustrated in arithmetical terms to explain the relationship between two kinds of financial data. In this research, the two ratios that are going to be used and related with the financial statement analysis of the company's performance are: (1) ROA (Return on Assets), This ratio measures the management's ability in generating profit from the firm's existing assets

(Gitman, 2009). If the company could control the assets efficiently, it will increase the ROA. Furthermore, the higher the ROA in a company, the better performance shown to related parties such as stockholders. (2) EPS (Earnings per Share), Ang (1997) defined EPS as the portion of a firm's profit allocated to each outstanding share of common stock. Company's profitability is indicated by EPS as it is measure the efficiency of firm's performance. It means that the external party such as investor can know the company's capability in paying the dividends to the stockholders.

Leverage

As stated by Pachori and Totala (2012), financial leverage illustrates the total amount of debt in the capital structure of the company. If the company has a big amount of debt, then it will influence the financial performance and the investors will face a high risk of investment (Kustono and Sari, 2012). Consequently, the potential of doing income smoothing by the company is also increase.

Financial leverage gives a glimpse for the investors about the worth and risk of investing in the company. If the company does not have a big amount of debt and does have a big amount of assets, then the company may be worth for investment and sounds profitable. However, the financial report of a company cannot be trusted fully as the authenticity of the information may be not as good as that. Thus, investors should be aware of the indication of income smoothing within the company.

Hypotheses Development

According to Moses (1987), there is a positive relation between company size and income smoothing practices. Smaller companies have been determined get less public inspection rather than the bigger firms. The reason for that conclusion is the influence of big firm's performance to the related parties such as investors, employees, tax authority, creditors, and bankers at large. Based on that research, the first hypothesis that going to be tested is:

Ha: Company Size has a positive significant influence on income smoothing of the companies in manufacturing industry listed on IDX from 2013 - 2016.

Return on Assets (ROA) as a profitability ratio has an impact on income smoothing (Ratnaningrum, 2016). One of the motives to do income smoothing is a high profitability ratio as it shows the firm's skill in generating profit in the future and the management could manage the earnings by having that information. Based on that research, the second hypothesis that going to be tested is:

Hb: ROA has a positive significant influence on income smoothing of the companies in manufacturing industry listed on IDX from 2013 - 2016.

Earnings per Share (EPS) is one of the financial ratios that usually used as a performance measurement. According to the previous researches, this ratio has been used and is the most appropriate ratio to measure the efficiency and performance of firms. Based on that research, the third hypothesis that going to be tested is:

Hc: EPS has a positive significant influence on income smoothing of the companies in manufacturing industry listed on IDX from 2013 - 2016.

RESEARCH METHOD

Population and Samples

The population of this study is all companies in manufacturing industry listed on IDX during period 2013-2016 in total of 149 companies. Samples are taken by using purposive sampling method that have active stocks and published audited financial statement using IDR consistently for ending period on 31 December 2013-2016. Based on the above criteria, 86 companies are eligible or equal to 344 firm years. There are 63 companies eliminated that did not meet the criteria.

Empirical Research Model

In this study, multiple linear regression analysis is used as the empirical research model. The common form of regression analysis that has been used by previous researches is multiple linear regression. This analysis defines the data and clarifies the connection between the dependent variable and the independent variables. Moreover, this is a predictive analysis.

In this study, the estimated regression equation for all models is defined as:

$$IS_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 ROA_{it} + \beta_3 EPS_{it} + \beta_4 LEV_{it} + \epsilon_{it}$$

Whereas,

- α = a constant
- $\beta_1, \beta_2, \beta_3,$ and β_4 = regression coefficient, these estimated values measure the effectiveness of the predictor variable in influencing the standard variable.
- IS = Income Smoothing measured by Discretionary Accruals.
- SIZE = Size of the company measured by Ln TA (Total Assets)
- ROA = Return on Asset
- EPS = Earnings per Share
- LEV = Financial Leverage
- E = Error Term

Definition Of Operational Variables

Dependent Variable

In this study, the dependent variable is income smoothing and it is measured by discretionary accruals. Furthermore, there are three discretionary accrual models going to be tested in this research and those models will be used to reflect the income smoothing. The discretionary accrual models used in this research are:

Kothari et al. (2005)

$$(TA_{it}/ASSETS_{it-1}) = \alpha + \beta_1(1/ASSETS_{it-1}) + \beta_2((\Delta SALES_{it} - \Delta AR_{it})/ASSETS_{it-1}) + \beta_3(PPE_{it}/ASSETS_{it-1}) + \beta_4(ROA_{it} \text{ or } ROA_{it-1})/ASSETS_{it-1} + \epsilon_{it} \dots \dots \dots (1)$$

Dechow et al. (1995)

$$(TA_{it}/ASSETS_{it-1}) = \alpha + \beta_1(1/ASSETS_{it-1}) + \beta_2((\Delta SALES_{it} - \Delta AR_{it})/ASSETS_{it-1}) + \beta_3(PPE_{it}/ASSETS_{it-1}) + \epsilon_{it} \dots \dots \dots (2)$$

Jones (1991)

$$(TA_{it}/ASSETS_{it-1}) = \alpha + \beta_1(1/ASSETS_{it-1}) + \beta_2(\Delta SALES_{it}/ASSETS_{it-1}) + \beta_3(PPE_{it}/ASSETS_{it-1}) + \epsilon_{it} \dots \dots \dots (3)$$

Whereas,

- Tait = Total Accruals measured by Net Income deducted by Net Cash Flow from operating activities of company i in period t.
- ASSETS_{it-1} = Lagged Total Assets of company i in period t-1.
- ROA = Return on Assets
- $\Delta SALES_{it}$ = Changes in Sales of company i in period t.
- ΔAR_{it} = Changes in Accounts Receivable of company i in period t.
- PPE_{it} = Gross Property, Plant, and Equipment of company i in period t.

Independent Variable

Independent variable is a variable that is going to be tested in order to know the influence on the dependent variable. In this research, the variables used are **SIZE (X1)**, the formula used to measure the company size in this variable is Ln TA (Total Asset).; **ROA (X2)**, ROA is a tool to measure the company's ability to generate profit by managing total asset. The formula is Net Income divided by Total Assets.; **EPS (X3)**, EPS generally considered to be single most important variable in determining a share's price. The formula is Net Income divided by Weighted Avg. Outstanding shares of common stock.; **LEV (X4)**, Financial leverage reflects the debt amount used in the capital structure of the firm. The formula is total debt divided by total assets.

ANALYSIS AND DISCUSSION

Descriptive Statistic

Table 1 - 3 below present descriptive statistics of each income smoothing model samples. The descriptive statistic in this research elaborates minimum, maximum, mean, median, and standard deviation value of the total sample in each income smoothing model for the period 2013 – 2016. The aim of these table below is to give snapshot about distribution condition and distribution from the data which is used in research model.:

Table 1. Descriptive Statistics (Kothari et al. model)

	N	Minimum	Maximum	Mean	Median	Std. Deviation
ISK	343	-.88	8.63	.53	.47	.64729
SIZE	343	22.76	33.20	28.17	27.92	1.67934
ROA	343	-.22	.66	.06	.04	.10507
EPS	343	-2394.00	17647.00	476.01	33.1	2212.20565
LEV	343	.04	3.03	.4947	.48	.32515
Valid N (listwise)	343					

Source: Researcher Analysis, 2017

Table 2. Descriptive Statistics (Dechow et al. model)

	N	Minimum	Maximum	Mean	Median	Std. Deviation
ISD	339	-.48	2.40	.56	.52	.36928
SIZE	339	22.76	33.20	28.18	27.92	1.66288
ROA	339	-.22	.66	.06	.04	.10550
EPS	339	-2394.00	17647.00	474.95	33.6	2222.71986
LEV	339	.04	3.03	.49	.48	.32567
Valid N (listwise)	339					

Source: Researcher Analysis, 2017

Table 3. Descriptive Statistics (Jones model)

	N	Minimum	Maximum	Mean	Median	Std. Deviation
ISJ	339	-.46	2.41	.57	.53	.36784
SIZE	339	22.76	33.20	28.18	27.92	1.66288
ROA	339	-.22	.66	.06	.04	.10550
EPS	339	-2394.00	17647.00	474.95	33.6	2222.71986
LEV	339	.04	3.03	.49	.48	.32567
Valid N (listwise)	339					

Source: Researcher Analysis, 2017

Hypotheses Testing

In this study, multiple linear regression analysis method is used for hypotheses testing. Before conducting hypotheses testing, classical assumption tests were used to test whether the regression model already fulfil normality test, heteroscedasticity test, autocorrelation test, and multicollinearity test.

F-Statistic Tests

The probability of F value shows that all of the income smoothing models used in this research proved the significant level 5%. Table 4 illustrates the result of F-Test on each income smoothing model. Independent variables used in this research models are SIZE, ROA, EPS, and LEV. Dependent variable used in this research is Income Smoothing (IS).

Table 4 F-Tests ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Kothari Regression	7.081	4	1.770	4.393	.002 ^b
et al. Residual	136.211	338	.403		
Total	143.292	342			
Dechow Regression	2.675	4	.669	5.145	.000 ^b
et al. Residual	43.417	334	.130		
Total	46.093	338			
Jones Regression	2.576	4	.644	4.983	.001 ^b
Residual	43.158	334	.129		
Total	45.734	338			

a. Dependent Variable: IS

b. Predictors: (Constant), LEV, SIZE, EPS, ROA

Source: Researcher Analysis, 2017

Based on Table 4. F- Test, the significance value in every model are .002, .000, .001 respectively. It means the independent variables used in these research models have significant influence on dependent variable simultaneously and show that the all models are fit.

Determination of Coefficient Test (Adjusted R Square)

Adjusted R-square is slightly modified version of R-square and design to penalize the excess number of regressors which do not add to the explanatory power of the regression. The determination of coefficient test results is shown on below table (Table 5).

Table 5. Adjusted R² results

Model Summary^b

Model	Adjusted R Square
Kothari et al. model	.038
Dechow et al. model	.047
Jones model	.045

a. Predictors: (Constant), LEV, SIZE, EPS, ROA

b. Dependent Variable: IS

Source: Researcher Analysis, 2017

The adjusted R-square value of Kothari et al. model is .038. It means the independent variables used in this model have an influence on dependent variable and the variation in income smoothing can be explained by the regression on SIZE, ROA, EPS, and LEV variables by 3.8%. On the other hand, the proportion of the unexplained variation is 96.2%. Secondly, the adjusted R-square value of Dechow et al. model is .047. It means the independent variables used in this model only have small influence on dependent

variable which is 4.7%. On the other hand, the proportion of the unexplained variation is 95.3%. Lastly, the adjusted R-square value of Jones model is .045. It means the independent variables used in this model only can explain the dependent variable by 4.5% and the rest of it could be explained by the other factors (95.5%).

T-Statistic Test

Table 6. Multiple Linear Regression results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
Kothari et al. model	(Constant)	-1.363	.590		-2.312	.021
	SIZE	.068	.021	.177	3.258	.001
	ROA	-.785	.381	-.127	-2.062	.040
	EPS	-1.513E-5	.000	-.052	-.872	.384
	LEV	.040	.109	.020	.366	.715
Dechow et al. model	(Constant)	-.717	.340		-2.107	.036
	SIZE	.042	.012	.196	3.602	.000
	ROA	.018	.216	.005	.083	.934
	EPS	-1.333E-5	.000	-.080	-1.350	.178
	LEV	.115	.062	.102	1.852	.065
Jones model	(Constant)	-.678	.339		-2.000	.046
	SIZE	.042	.012	.191	3.500	.001
	ROA	.018	.216	.005	.084	.933
	EPS	-1.341E-5	.000	-.081	-1.362	.174
	LEV	.116	.062	.103	1.869	.062

Table Description: Dependent variable used in this research is Income Smoothing (IS) and the independent variables are SIZE, ROA, and EPS. The control variable used in this research is LEV. There are three income smoothing models used in this research, which are ISK, ISD, and ISJ. Operational definition of each variable are as follows: (1) **ISK:** Income Smoothing (Kothari et al. model), (2) **ISD:** Income Smoothing (Dechow et al. model), (3) **ISJ:** Income Smoothing (Jones model), (4) **SIZE:** Company Size, is Ln. Total Asset, (5) **ROA:** Return on Assets, is net income divided by total assets, (6) **EPS:** Earnings per shares, is net income divided by weighted avg. outstanding shares of common stock, (7) **LEV:** Financial Leverage, is total debt divided by total asset. All operational variable is for 4 years observation (from 2013 – 2016).

Source: Researcher Analysis, 2017

Table 6 shows the t-test results of the regression models which are beneficial for doing further hypotheses testing. The explanations regarding empirical evidence for main variable and control variable in this research models are:

Main Variables

1. In 5% significant level, Hypotheses a has been accepted. It means that variable Company Size (SIZE) in each model has significant influence on Income Smoothing (IS). This evidence is consistent with the research result of Alexandri and Anjani (2014) which found out that company size does have significant influence on income smoothing. These significant results are caused by Company Size because the bigger the firm is, the higher the possibility of conducting Income Smoothing in the company as bigger firm has more power in managing financial report.
2. In 5% significant level, Hypotheses b has been rejected. The result shows that in these research models, variable Return on Assets (ROA) does not have significant influence on Income Smoothing (IS). It means the higher the Return on Assets, the lesser motivation for management to conduct Income Smoothing in the company. This evidence is consistent with the research result of Santoso and Salim (2012) which found out that ROA does not have significant influence towards Income Smoothing. It means these insignificant result show that a high profitability ratio does not motivate the management of manufacturing firms to conduct Income Smoothing.
3. In 5% significant level, Hypothesis c has been rejected. It means that Earnings per Share (EPS) has no significant influence on Income Smoothing (IS). This evidence is consistent with the research result of Milikan and Mukti (2015) which found out that Earnings per Share does not have significant influence on Income Smoothing. Furthermore, these insignificant results proved that the value of Earnings per Share does not motivate the management of manufacturing companies to conduct Income Smoothing.

Control Variable

In 5% significant level, variable leverage (LEV) does not have significant influence on income smoothing. These results are consistent with previous result conducted by Milikan and Mukti (2015) which found out that leverage has no significant influence on income smoothing. According to them, this insignificant result was due to the strict debt policy, as a result the company was hard to get credit and managers do not tend to conduct income smoothing.

CONCLUSION

The literature on Income Smoothing has evolved considerably over several years. According to Santoso and Salim (2012), they had proved that company size (SIZE) does have positive significant influence on income smoothing. Moreover, they also had proved that Return on Asset (ROA), earnings per share (EPS), and leverage (LEV) do not have significant influence on income smoothing. Subsequent researches have argued that mostly there were significant influence of financial performance ratio such as ROA and Leverage (debt to assets) on income smoothing. This research analyzed the influence of company size and financial performance toward income smoothing and used leverage as a control variable in manufacturing companies listed on IDX based on one financial performance ratio, which is ROA. Multiple linear regression analysis is used in this research to check the significance level of company size and financial performance ratios. In summary, SIZE value has positive significant influence on Income Smoothing. It means that the bigger the firm, the higher probability of the company to conduct income smoothing.

On the other hand, ROA and EPS values have no significant influence on income smoothing. The higher the ratio does not motivate the management of the company to conduct income smoothing. The higher the value of EPS does not affect income smoothing. It means EPS is not relevant as a tool for management to smooth the profit.

The value of leverage as control variable has no significant influence on income smoothing. The insignificance of leverage against income soothing might be due to difficulty of firm to get credit.

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