The Effect of Firm Size, Profitability, Financial Leverage, and Stock Value on Income Smoothing in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) in 2018-2021

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Abstract: In an effort to maintain company performance, profit is an inseparable part. At every year, of course, the company will not get the same profit, therefore profit smoothing needs to be done to reduce profit fluctuations. Therefore, the author is interested in testing and knowing what factors affect income smoothing. So this study aims to determine the effect of Firm Size, Profitability, Financial Leverage, and Stock Value. This research is a type of quantitative research that uses secondary data. The object of this study is a manufacturing company in the Industrial and Consumer Goods subsector listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. The sampling technique uses the purposive sampling method and obtained 25 companies that have met the criteria. The data analysis method uses descriptive statistical analysis and uses logistic regression. The results of this study show that Firm Size affects income smoothing, while Profitability, Financial Leverage and Stock Value do not affect income smoothing.
Keywords: Income Smoothing, Firm Size, Profitability, Financial Leverage and Stock Value.

1. Introduction

Financial statements are a source of information on the financial condition of a company needed to meet the needs of various parties, both internal and external to the company. Financial statements provide information needed by users of financial statements, namely about liquidity, solvency, profitability, and others. The thing that needs to be considered by users of financial statements is profit, because profit contains potential issues that are very important. The benefit of profit information is to assess potential changes in the origin of economic power that may be controlled in the future. This is what causes financial statements to play a significant role in the decision-making process by users of financial statements.

This condition encourages managers to choose accounting policies that are aligned with their interests in order to maximize their function and welfare. Whether we realize it or not, it encourages managers to do earnings management or even to do data manipulations. Profit smoothing is one of the ways managers use to level profits.

Income smoothing includes certain techniques to reduce or enlarge the amount of profit of a period to match the previous period. This income smoothing is not to make the profit of a period equal to the number of previous periods, because in reducing fluctuations in profit it also considers the normal profit growth rate needed in that period. Income smoothing will not occur if the profit generated is in accordance with the required profit. Companies that practice income smoothing will be able to control the actual excess return against normal returns when the company announces its profits. If the earnings information collected is good news for investors, then the stock price will be higher so that it will attract the attention of other investors to invest in the company. If the earnings information is bad news, then the stock price will fall and cause investors to release or withdraw their investments from the company. By displaying relatively stable profits, it is expected to increase the perception of external parties about the performance of the company's management.

What underlies this study is the correlation between profit and firm size, profitability, financial leverage, and stock value. If profits are manipulated, the financial ratios on the financial statements will also be manipulated. In the end, if users of financial statements use information that has been manipulated for decision-making purposes, then the decision has been indirectly manipulated. On the other hand, financial statements are used by investors in making economic decisions.

Firm size is a scale that can be classified in various ways such as total assets and stock market value, and others. The determination of company size in this study is based on the company's total assets. Because total assets are considered more stable and can describe the size of the company. Basically, the size of the company is only divided into three categories, namely large, medium, and small. Companies that are larger in size are expected to have a greater tendency to flatten profits.

Profitability is a ratio used to assess a company's ability to make a profit and measure the level of management effectiveness in a company. In this study, profitability is measured by the ROA (Return On Assets) ratio by comparing profit after tax using total assets. ROA describes the effectiveness of the company in managing assets both from its own capital and borrowed capital, so investors will see how effective a company is in managing its assets, the higher the ROA level, it will provide volume to stock sales. Where the high and low ROA will affect investor interest in investing so that it will affect the sale of company shares.

Financial leverage shows the extent to which a company's assets have been financed by the use of debt. Financial leverage is proxied by debt to tottal assets obtained by total debt divided by total assets. There is a sign that the company is leveling profits to avoid violations of debt agreements which can be reviewed through the company's ability to pay off its debts with its assets. Companies that have high debt are suspected of leveling profits because the company is threatened with bankruptcy, as a result of which management issues policies that can increase revenue. A high level of leverage illustrates the company's high risk, so creditors often pay attention to the magnitude of this risk. However, with a high level of profit (stable), the company's risk will be smaller, this is what makes management try to reduce company risk by trying to stabilize the company's profit level in various ways, for example through income smoothing. In addition, stock value can also trigger the practice of profit leveling. Because stable earnings will trigger investor interest in company shares and will later affect the value of company shares.

A high stock price will illustrate a positive response from the financial statements that have been prepared by management, so that management performance will be considered good. A fairly high share price will provide benefits in the form of a better image for the company so that it will make it easier for management to get funds from outside the company in order to improve the company's operating activities. Stock movements are influenced by the volume of stock movements. The volume of stock sales is the sum of every transaction that occurs on the exchange at a certain time to find out the liquidity of shares that tend to fluctuate showing fast trading, this is influenced by information entering the exchange and high investor interest in the stock, investor interest in buying and selling shares will be easily affected by the high level of low level of profit.

This research is a replication of the research entitled "The Effect of Company Size, Profitability, Financial Leverage, and Stock Value on Income Smoothing Practices in Manufacturing, Finance and Mining Companies Listed on the Indonesia Stock Exchange". by discarding empirical studies of financial and mining enterprises. Researchers used more recent data , namely in 2018-2021.So the title of ini research is"The Effect of Firm Size, Profitability, Financial Leverage, and Stock Value on Income Smoothing Practices in Manufacturing Companies Listed on the IDX in 2018-2021 Based on these factors, researchers use firm size (company size), profitability, financial leverage, and stock value factors as factors that are thought to explain variations profit leveling practices. Because according to researchers, these factors have more impact on the implementation of profit leveling practices in a company. This research was conducted on the manufacturing company sector listed on the Indonesia Stock Exchange (IDX)

2. Theoretical Basis

Agency Theory

Agency theory is a concept that describes the correlation between the principal (contractor) and the agent (contractee), the principal contracts the agent to work for the interests or goals of the principal so as to give decision-making authority to the agent to achieve these goals. One of the most important things in agency theory is the decentralization or delegation of decision-making authority from the principal to the agent. The relationship of longing is expected to create goals between the principal and the agent. According to Nugroho (2017), the theory of angenity explains that agency relationships occur when the principal hires another person (agent) to provide a service and then delegates decision-making authority to the agent. Thus agents can manipulate reporting about the company to be conveyed to principals, this is because every manager has great economic needs.

Hypotesis Development.
1. The effect of firm size on income smoothing

The variable used to measure the size of a company is total assets. Sartono (2004) said that the size of the company or the scale of the company is determined by the total number of assets owned by the company. This is consistent with research conducted by Sulistyo Wahyuni (2010), Ratih Kartika Dewi (2011), and Muhammad Ary Irsyad (2009) which states that company size affects profit leveling practices carried out by management.

The reasons for involving the size of the company as one of the factors that allegedly affect the practice of profit leveling also vary from one researcher to another. from Ashari, et al (1994) in Noor (2004) 6 companies that are small in size will be more likely to practice profit leveling compared to large companies, because large companies tend to receive greater attention from analysts and investors than small companies.

H1: The larger the firm size, the company chooses to carry out on income smoothing practices

2. The effect of profitabilityon income smoothing

Profitability is defined as the ratio of measuring management effectiveness based on reported profits (Weston and Copeland 1995) in Muchammad (2001). Profitability is a component of the company's financial statements that aims to assess management performance, help estimate representative profit capabilities in the long term and assess risks on investments or lending funds (Dwiatmini and Nurkholis 2001). Using another term, profitability becomes a benchmark of performance for external parties. According to the description of profitability above, it can be suspected that low or decreased profitability fluctuations have a tendency for the company to take profit leveling actions, especially if the company decides on a bonus compensation scheme based on the amount of profit generated.

Profitability can be used as a benchmark by investors and creditors in assessing whether or not the company is healthy. Company profitability can also be used to measure the company's ability to earn profits and find out the effectiveness of the company in managing its resources. The profitability factor is proxied using the Return on Total Assets ratio. ROA analysis is a form of profitability ratio used to measure the company's ability with the overall funds invested in assets used for company operations to generate profits.

H2: The lower the level of profitability, the company chooses to carry out income smoothing practices

3. The effect of financial leverage on income smoothing

Financial leverage is important in determining a company's capital structure. According to Watson and Copeland (1996) in Dewi (2011) explained that financial leverage is the ratio of the book value of all debt to total assets. Financial leverage is advantageous if the revenue received from the use of funds is greater than the fixed burden of using the funds. Meanwhile, financial leverage is detrimental if the company cannot obtain income from the use of funds amounting to a fixed expense that must be paid.

Weston and Copeland (1996) in Dewi (2011) stated that the use of debt will determine the level of financial leverage of the company. Because by using more debt than own capital, the fixed burden borne by the company is high which will eventually cause profitability to decrease. The use of debt will increase the value of the company, but at a certain point, namely in the optimal capital structure, the value of the company will decrease with the greater proportion of debt in its capital structure.

This is because the benefits obtained in the use of debt become smaller than the costs that arise from the use of debt earlier. according to Sartono (2004) financial leverage provides a proportion of the use of debt to finance its investment. The greater the company's debt, the greater the risk faced by investors so that investors will ask for a higher level of profit. As a result of these conditions, companies tend to carry out profit leveling practices.

H3: The higher the level of financial leverage, the company chooses to carry out income practices

4. The effect of stock value on income smoothing

The value of a stock is a reflection of the value of the company. A high stock value will reflect a high company value. One of the company's goals is to increase the value of the company, the increase in the value of the company is related to the stock price, while the pattern of origin of the rise and fall of shares is determined by the response of investors to profits (financial information). Ilmainir's (1994) research in Dewi (2011) found evidence that profit smoothing is driven by stock prices, the difference between actual profit and normal profit and the influence of changes in accounting policies chosen by management lead to the emergence of income smoothing practices.

H4: The lower the value of the shares, the company chooses to carry out income smoothing practices

3. Methodology

This research is a quantitative research. The data used is secondary data in the form of financial statements obtained from manufacturing companies in the industrial and consumer goods subsector listed on the Indonesia Stock Exchange in 2018-2021. The data analysis technique used in this study is logistic regression analysis. The sampling of this study used purposive sampling method with certain criteria; (1) Companies that consistently report consecutive financial statements during the research period, namely 2018-2021 (2) Manufacturing companies of the consumer goods industry subsector listed on the Indonesia Stock Exchange that publish and display company data through the required annual reports. (3) Manufacturing companies in the sub-sector of the consumer goods industry that have complete data needed in calculating variables in the study. (4) Manufacturing companies in the consumer goods industry sub-sector that do not experience losses. The population of this study was 47 data and based on these criteria, 25 samples of company data were obtained. So that in four years of observation, namely 2018-2021, a total sample of 100 companies can be used in research.

Table 1
Research Sampling Criteria

Description	Amount
Population: Manufacturing Companies Industrial and consumption subsectors	47
(purposive sampling)	
1. registered 2018-2021	-4
2. Companies that do not report financial statements	-6
3. The company does not make a profit	-12
Research Sample	25
Total Sample (n x study period) (25 x 4)	100
Outlier Data	1
Total Samples Used in the Study	99

Source: Processed Secondary Data, 2023

In this study the independent variables used are firm size, profitability, financial leverage, and stock value while the dependent variable used is the practice of income smoothing. Based on the description above, the researcher's framework can be structured as presented in Figure 1.1.
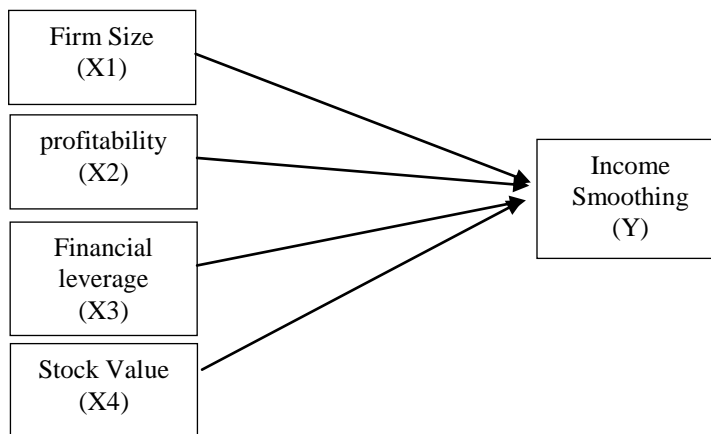

Figure 1.1 Framework of Thought

Variable Operational Definitions
Income Smoothing

Income Smoothing is measured using the Eckel index because the Eckel index can be distinguished between companies that carry out profit leveling actions and companies that do not carry out profit leveling actions (Budiasih, 2009). Eckel uses the Coefficient Variation (CV) of the income variable and the net sales variable.

To distinguish between companies that practice profit leveling and those that do not do profit leveling can be measured using the Eckel Index (1981). Eckel uses the Coefficient Variation (CV) variable of net income and sales. The profit smoothing index is calculated as follows (Eckel, 1981 in Herawaty, 2005):

$$Indeks\ Eckel = \frac{CV\ \Delta I}{CV\ \Delta S}$$

Firm Size

Firm size or company size is a scale that can be classified based on the size of the company in several ways such as log size, total assets, stock value and sales. In this study I used total assets as a comparison. Total assets reflect the wealth owned by the company, so it can be assumed that the greater the total value of assets owned by the company, the larger the size of the company. The amount of the company's ignorance will affect its ability to bear risks that may arise due to various situations faced by the company related to its operations (Supriastuti, 2015). Then the size of the company can be measured using the following formula:

International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
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$$\text{Firm Size} = \text{Ln (Total Aset)}$$

Profitabillity

According to Kasmir (2011: 196) profitability is a ratio to assess the company's ability to seek profit and measure the level of effectiveness of a company's management. The profitability ratio can be used to determine the performance of a company in getting profits, through the profitability ratio investors can find out the level of taking from their investment. The ratio that is often used is Return On Assets (ROA). Return On Equity (ROE), Net Profit Margin, and Gross Profit Margin. The ratio used in this study is Return On Assets (ROA), because this ratio can show the failure and success of the company in getting profits in the previous period and then predicted for the future.

The high ROA level owned by the company allows the company to carry out profit leveling practices because management knows the ability to get profits in the future, making it easier for management to accelerate profits. The higher the ROA, the company has a good performance in generating net profits for the return on total assets owned. So it can be concluded that the high and low ROA will affect investor interest in investing so that it will affect the volume of stock sales of a company (Yuniar and Deanes, 2019). The higher the ratio obtained, the more efficient the company's asset management. The formula often used in calculating Return On Assets (ROA) is:

$$ROA = \frac{\text{Net Profit For The Year}}{\text{Total Assets}} \text{x } 100\%$$

Financial leverage

Financial leverage is important in determining a company's capital structure. By Riyanto (1995) in Diastiti (2010) it is stated that financial leverage is the use of funds accompanied by fixed costs. According to Wetson (2009) in Dwi (2009) states that financial leverage is the ratio of book value of all debt to total assets. According to Kasmir (2016: 151) the leverage ratio is a ratio used to measure the extent to which a company's assets are financed using debt. In this study, leverage is proxied using the Debt to Equity Ratio (DER). DER describes the company's ability to meet all its obligations as indicated by some part of its own capital used to pay all debts. The use of debt will determine the level of debt to equity ratio of the company (Alifia, et al: 2016). The formula used to calculate the debt to equity ratio is:

$$DER = \frac{\text{Total Debt}}{\text{Total Assets}} \text{x } 100\%$$

Stock Value

The value of a stock is a reflection of the value of the company. According to Tandellin (2001: 18) shares are the value of proof of ownership of the assets of the company that issued the shares. Shares are securities that indicate company ownership so that shareholders have the right to claim dividends or other distributions made by the company to its shareholders. Including the right of claim on company assets, using the claim rights of holders of other securities is fulfilled if liquidity has occurred (2001: 191).

The relationship between market price and book value per share can be used as an alternative approach to determining stock value (Tandellin, 2001: 194). The results of research from Rosenberg et al (1985) in Tandellin (2001: 196) found that stocks with a low price or book value ratio will produce significantly higher returns. compared to those stocks that have a high book value price ratio. The stock value ratio can be formulated using the means:

$$\text{Stock Value} = \frac{\text{Stock Market Price}}{\text{Price Book Value}}$$

Data Analysis Techniques

This study used data analysis techniques that included descriptive statistics, logistic regression tests and hypothesis tests. According to (Ghozali, 2018) Descriptive statistics provide an overview of a data seen from the mean value, standard deviation variance, maximum, minimum, sum, range, kurtosis and skewness. The logistic regression tests used in this study are the overall model test, regression model feasibility test, and coefficient of determination. Hypothesis testing examines the effect of two or more independent variables on the dependent variable. This study uses a logistic regression equation described by the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \text{ ....(1)}$$

Information:

Y   = Income Smoothing
α   = Constant

β1 - _β 5	= Regression coefficient
X_1	= Firm Size
X_2	= Profitability
X_3	= Financial Leverage
X_4	= Stock Value

4. Result and Discussions

Statistik deskriptif

Table 2
Descriptive Analysis Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Income Smoothing	99	,00	1,00	,7576	,43073
Firm Size	99	25,95	32,82	29,2140	1,57499
Profitability	99	,00	,94	,1228	,12287
Financial Leverage	99	,00	3,82	,7519	,66097
Stock Value	99	,58	60,67	4,3060	7,29831
Valid N (listwise)	99				

Source: Secondary Data obtained, 2023

From the table above, it can be seen that the amount of data used in this study was 99 companies. From the results of the data above, it can be seen that the stock value has the highest standard deviation, which is 7.29831, meaning that the stock value has the highest data diversity, while profitability has the smallest standard deviation, which is 0.12287, meaning that profitability has low data diversity.

Logistic regression test.
Overall Fit Model Test

Table 3`
Overall Model Test Results

With a comparison of the values of -2LL beginning and -2 LL ending

-2LL beginning (Block Number = 0)	109,664
-2LL ending (Block Number = 1)	102,615

Source: Processed Secondary Data, 2023

From the table above, it can be seen that the value of -2 Log Likelihood has decreased from step 0 (109.664) to step 1 (102.615). This means that the regression model formed is good.

Goodness of Fit Test

Table 4
Goodness of Fit Test Results

Using the results of the Hosmer and Lomsehow test

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	11,554	8	,172

Source: Processed Secondary Data, 2023

From the results of model testing shows that a significant number of 0.172 > 0.05 was obtained. So the research data model of the influence of Firm Size, Profitability, Financial Leverage, and Stock Value on Income Smoothing can be said to be fit and good so that it is worthy of further testing. This means that the regression model is feasible for future analysis because in this method there is no real difference between the independent variable and the dependent variable.

Negelkerke R Square Test

Tabbl 5
Negelkerke R Square Test Results

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	101,078[a]	,083	,124
a. Estimation terminated at iteration number 5 because parameter estimates changed by less than ,001.			

Source: Processed Secondary Data, 2023

Based on the results of the analysis in the table above, it is obtained that the value of Negelkerke R Square is 0.124 or equal to 12.4%, which means the variability of the dependent variable described by the independent variable is 12.4%, while the remaining 87.6% is explained from other variables that are not included or outside this research model.

Hypotesis Testing

Table 7
Table of Variables in the Equation

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Firm Size	,417	,184	5,109	1	,024	1,517
	Profitability	-1,644	2,200	,558	1	,455	,193
	Financial Leverage	-,482	,385	1,564	1	,211	,618
	Stock Value	,071	,066	1,168	1	,280	1,074
	Constant	-10,640	5,251	4,105	1	,043	,000
a. Variable(s) entered on step 1: Firm Size, Profitabilitas, Financial Leverage, Nilai Saham.							

Source: Processed Secondary Data, 2023

Based on the results of the table analysis above, it was obtained that the regression model testing formed was as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$
$$PA = -10,640 + 0,417 \, FS + (-1,644) \, P + (-0,482) \, FL + 0,071 \, NS$$

Based on the test results, the following results were obtained:

1. Firm Size (X1)

The results of research on the first hypothesis using logistic regression resulted in that Firm Size has a positive coefficient value of 0.417 with a significance level of 0.024 smaller than α 0.05. By meaning that Firm Size has a positive influence on income smoothing practices in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2021 period, with a level of significance on profit smoothing practices, it can be concluded that the results of the H1 hypothesis are accepted.

This reflects that the Firm Size proxied by the Natural Total Assets Log which shows that the larger the Company Size, the more good attention and good impressions will be to influence interest for investors to invest because there is all information on financial statements or developments of a company to assess the sustainability of the company in the future. Therefore, a company that has a large company size will have a greater incentive to carry out income smoothing practices. The results of this study are in line with research conducted by Oktaviasai et. al (2018) and Maotama &; Astika (2020).

2. Profitability (X2)

The results of testing the second hypothesis using logistic regression show that profitability has a negative coefficient value of 1.644 with a significance level of 0.455 greater than α 0.05. By meaning that profitability has a negative influence on income smoothing practices in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2021 period, with a level of significance to profit smoothing practices, it can be concluded that the results of the H2 hypothesis are rejected.

This reflects that Profitability is proxied by Return On Asset (ROA) which shows that the lower the Return On Asset (ROA) level owned by the company, the higher the tendency of management to carry out income smoothing practices, the relationship between profitability and profit smoothing practices is when the profitability obtained by small companies in a certain period of time will trigger the company to do The practice

International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 06 - Issue 05, 2023
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of flattening profits by increasing the income earned so that it will show shares by retaining existing investors. With a high level of profitability or Return On Assets (ROA) will provide confidence for the inestor to make decisions in investing. The results of this study are in line with the research of Pradyandari & Astika (2019) and Maotama &Astika (2020), which states that profitability as measured by Return On Assets (ROA) shows a positive influence on income smoothing practices.

3. Financiale Leverage (X3)

The results of testing the third hypothesis using logistic regression show that Financial Leverage has a negative coefficient value of 0.482 with a significance level of 0.211 greater than α 0.05. By meaning that Financial Leverage has a negative influence on income smoothing practices in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2021 period, with a level of significance to profit smoothing practices, it can be concluded that the results of the H3 hypothesis are rejected.

This reflects that Financial Leverage is proxied by the Debt to Equity Ratio (DER). The direction of the Financial Leverage coefficient has a positive direction because it shows that if the company has a high level of debt, the greater the risk faced by investors so that investors will ask for a higher level of profit and investors will be more afraid to invest their capital in the company because of the high risk. This is in line with Yunika &; Yudnyana's (2020) research.

4. Stock Value (X4)

The results of testing the fourth hypothesis using logistic regression show that the Stock Value has a negative coefficient value of 0.071 with a significance level of 0.280 greater than α 0.05. By meaning that the Stock Value has a negative influence on the practice of income smoothing in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2021 period, with the level of significance on the practice of profit smoothing, it can be concluded that the results of the H4 hypothesis are rejected.

This reflects that the decline in the value of shares in the company triggers the company to carry out income smoothing practices. The average stock valuation results in companies that practice profit smoothing tend to decrease compared to companies that do not do profit leveling. Companies with low stock values will carry out profit leveling practices, with the hope that the profits presented can trigger a positive response from investors so that the value of shares increases and the value of the company increases. This is consistent with research conducted by Dwi Dewantiana (2009) and Mona Yulia (2013).

5. Conclusion

The conclusions of this study are as follows:
1. Firm Size shows a significance value of 0.024 < 0.05 so that it can be concluded that H1 is accepted, then Firm Size affects the practice of income smoothing.
2. Profitability shows a significance value of 0.455 > 0.05 so that it can be concluded that H1 is rejected, then Profitability has no effect on income smoothing practices.
3. Financial Leverage shows a significance value of 0.211 > 0.05 so that it can be concluded that H1 is rejected, then Financial Leverage has no effect on income smoothing practices.
4. The Stock Value shows a significance value of 0.280 > 0.05 so that it can be concluded that H1 is rejected, then the Stock Value has no effect on the practice of income smoothing.

5. Suggestions

Suggestions for future research are as follows:
1. For researchers can further expand the research sample such as mining, finance and banking sector companies or use the latest manufacturing classifications on the exchange, so that the research results are more generalized.
2. For future research, you can replace or add variables in this study that can affect income smoothing practices, such as Corpoorate Social Responsibility (CSR), auditor quality, and Good Corpoorate Governonce (GCG). So that it can increase the value of Negelkerke R Square and provide new research results for academics.
3. Further research is also expected to use more research sources.

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