THE INFLUENCE OF THE LEVERAGE AND THE SIZE OF THE COMPANY AGAINST INCOME SMOOTHING ON THE MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

Income Smoothing is one of the accounting methods used the management to reduce the fluctuations a significant profit. These practices have an effect that is beneficial for the performance evaluation of management. However, many of those who criticised this practice because it can cause a disclosure on the financial statements is not sufficient. As a result, the decline in the credibility of the financial statements so that it is no longer relevant and can mislead the users of the information in the decision. This research aims to examine and analyze the effect of leverage and the size of the company against income smoothing on the manufacturing companies listed on the Indonesia stock exchange for four years of observations from the year 2013 to 2016. Using the sample as much as 135 companies. This research uses the associative approach with the kind of quantitative data. Income smoothing forecast using formulas Index Eckel and testing method using analytical techniques logistic regression using SPSS version 23. Based on the test results and analysis of the data shows that there is a measure of leverage and influence of companies either partially or simultaneous against income smoothing on the manufacturing companies listed on the Indonesia stock exchange.

Keywords: Income Smoothing, Leverage, the Size Of The Company

INTRODUCTION

The financial statements are financial statements containing full information, where the information has the potential profit is very important for the company’s internal and external parties in decision-making. The importance of information management to push these spiders do disfunctional behavior (inappropriate behavior) is to do management actions. The financial statements are susceptible to cheating practices such as data manipulation i.e. by smoothing earnings, leverage and a decrease in profit as well as management practices of other spiders.

One of the management profit is often done by management is the income smoothing. Income smoothing is done an enterprise is inseparable from the conflict of interest between management with shareholders are intimately connected with the theory of Agency (agency theory) as to where in the Agency theory, management (agency) has more detailed information about the company than the known owner Party shares (principal) this is called information asymmetry (assymetry of Information). In case of misuse of this information by top management as well as its purpose only for the benefit of the management in taking financial gain, it is likely this will result in the occurrence of income smoothing practices.

Income smoothing is a part of the profits as management business management to reduce profit fluctuations from year to year by moving the revenue from years of high incomes to the period – a period that is less profitable (Riahi-Belkaoui, 2006 ;73). Here are the trends of the company that did the income smoothing on manufacturing companies registered in BEI years 2013 to 2016:
The graph above tells us that by the year 2013 to 2016, the manufacturing companies listed on the Indonesia stock exchange practice income smoothing has increased. According to Natalie & Astika (2016) income smoothing practices have an impact that is not good for the company's long-term viability, and lowers the credibility of the financial statements so that it is no longer relevant. In addition, income smoothing practices led to the users of the financial statements is not able to take economic decisions are right, because of the existence of information that deviates from that is supposed to be linked to the profits of the company. When external parties are not aware of the existence of practices of income smoothing, then profit results that engineering can lead to distortions in decision-making because the credibility of the financial statements. And for the management of income smoothing practices, will also give rise to the loss that is the company's share price was overvalued could be undervalued when the external party knowing untruth information reported on the financial statements (Wijoyo, 2014).

Factors – factors that affect management practise income smoothing an enterprise varies among others the company size, profitability, industry sectors, stock price bonus plan, leverage, and nationhood (Juniarti & Corolina, 2005). But in some ways, the results of such research are different even though the measure the same thing. Factors that will be examined regarding the income smoothing on this research is limited i.e. only using the leverage and the size of the company. Because manufacturing companies as an object of study, tend to have high debt levels with a value above the median leverage ratio – industry averages, and total assets increased each year, indicating the larger the size of an enterprise. According to Budiasih, (2009) the higher the level of leverage, the higher level of benefits requested by investors and creditors. Rahmawati & Muid (2012) stated that larger companies have the urge to do the income smoothing compared to companies that are small because larger companies examined and deemed more critical by the investors and the Government. Therefore large companies is expected to have a greater tendency to do praktik income smoothing (Juniarti and Corolina, 2005).

Financial report of listed manufacturing companies in BEI in 2015 – 2016 indicate that in some companies an increase in leverage and increase the value of the size of the company but is not followed with increasing practice income smoothing. In research Wijoyo (2014) States that the higher the leverage, then the probability of the company doing the income smoothing is getting bigger. However, research data can be seen the presence of leverage has increased but income smoothing is not fully inflated, so otherwise. So also with the increasing company size does not guarantee income smoothing practices also experienced an increase. Different in research Dewantari & Badera (2015) which States that the increase in the size of the company has a trend of income smoothing practices opportunities are great.

Much research has been done with respect to the influence of the leverage and the size of the company against income smoothing that give different results. One of them is research Alexandri & Anjani (2014) and endorsed by the Salim (2014) stated that the leverage effect on
the practice of income smoothing. However, research conducted by Marhamah (2016) and Susanti, et al (2017) stated that leverage does not affect income smoothing. Later research Gayatri and Wirakusuma (2013) and supported by Alexandri and Anjani (2014) stated that the size of the company's influence on income smoothing. However, this is in contrast to research Wijoyo (2014) and Salim (2014) stating that company does not affect the size of income smoothing.

Based on previous research results as well as the difference of conditions that occur on the company in the year of the observation described above, the authors feel interested in researching back on the influence of the leverage and the size of the company against income smoothing on the manufacturing companies listed on the Indonesia stock exchange (idx). With hope this research can help investors to assess the performance of a company. As well as helping the company management to take heart in the Act the practice of excessive smoothing income, because the information in the financial statements is very important and determining future decisions for the users of the information and the survival of the company.

LITERATURE REVIEW

Leverage ratio indicates the risk that will be experienced by the company in the future. The greater risks faced by the company then the uncertainty to generate profits in future will also be increasing. The large leverage ratio caused the fall in the interest of the investors to infuse capital in these companies, leverage itself shows how big the company is efficient in utilizing the shareholders in anticipation of long-term debt long and the short term of the company so that debt-debt that does not interfere with the operations of the company as a whole for a long period so as to trigger the action of existence of income smoothing (Simorangkir, 2016). In addition to utilizing the stakeholder, it has also impacted on the lender/debtholder. If debt or leverage is greater than the value of the equity of the company, then the company's dependence on the debtholder is greater than with the stakeholders. This shows that the companies having a high debt has the pressure of debt covenant (Covenant debt) higher (Utomo, 2013). The accounting policies that could raise revenue and profit were selected by management to be able to avoid the presence of agency problem between management and debtholdersalah them by doing the income smoothing, will thus give the position relatively better in negotiating or rescheduling the debts of the company. In addition, the greater the company's debt the greater risks faced by investors, so that investors will seek higher profit level.

Rahmawati & Muid (2012) stated that larger companies have the urge to do the income smoothing compared to companies that are smaller because the larger company researched and viewed with more critical by the investors and the Government. This is because generally companies with large size doing more disclosures (disclosure) of the company with a smaller size that is affected by the company's operational activities or sturktur reflected from total assets (asset) owned the company. The larger the asset of a company then the greater the size of the company, so the company of this type is considered to have greater ability to incur higher costs, such as the imposition of tax costs. For that big corporations are expected to avoid fluctuations in earnings is too significant. Otherwise a drastic drop in profits will give an image that is less good.

Therefore large companies is expected to have a greater propensity to commit acts of income smoothing (Juniarti and Corolina, 2005). Big nothingness of values thus leverage and Keju perusahaan menunjukkan large size also practice income smoothing rate that may be done to minimize the risks in the management will occur in the future.
RESEARCH METHODS

This research uses the associative approach which aims to find out whether there is influence between two or more variables. In this study the authors use the dependent Variables are Income Smoothing as measured by an index of eckel. The index measured using eckel's Variation (CV) change in a period of net profit and net sales change one period. Eckel can distinguish index smoother (company profit grader) and non-smoother (companies not spider grader).

The independent variable in this study are leveragedan of size of the company. Leverage measure how big corporate assets financed by debt is measured by comparing the Total Debt by Total Assets. The size of the company measured by the Large to the small company that judged from total assets owned by the company. Research done at the manufacturing companies listed on the Indonesia stock exchange (idx) of the year 2013 in the period up to the year 2016. The analysis of the data used is a Model of Logistic regression analysis. Analysis of logistic regression aims to predict the great influence of the variables are bound against each free variable with known value.

RESULTS AND DISCUSSION

This research uses data manufacturing companies listed on the Indonesia stock exchange during the years 2013 to 2016. The company is comprised of a wide range of industry sectors, both of which earn profits or losses as indicated by the company and doing practice income smoothing in the operation.

Data from the manufacturing company can note the ratio leveragenya. Leverage ratio is used to measure the company's ability in Fund liabilities short-term as well as long-term. Measuring instrument which is used to find out the ratio of leverage that is the ratio of totaldebts to total assets. Where this ratio measures the ability of the company's debt payments by using the total assets owned by the company. Here is leverage on manufacturing companies registered in BEI during 2013-2016 that is as follows:

![Average Leverage on manufacturing companies registered in BEI 2013-2016 year](image)

The graph above shows that the average leverage on manufacturing companies listed on the Indonesia stock exchange experienced an increase and is above average – industry averages in the years 2013 to 2015 but in 2016 decline being 55% but it still was above the industry average. It can illustrate that the company – the company has a high financial risk, where the total debt is greater than the total assets of the company. This allows companies experiencing Covenant breach debt when subjected to default because of financial difficulties.

Size large small pengkalsifikasian effort perusahaananmerupakan a company. In this study, the size of the company in terms of the structure of its operational activities and, in proksikan with the total assets. The greater the total assets of the company then indicates the greater the
size of the company anyway. The number of assets owned by the company to make operations more complex and will be able to maximize the number of production companies more efficiently. This will result in increased sales and will eventually increase the profits that accrue to the company. Here is the data size of the companies in the manufacturing companies listed on the Indonesia stock exchange for 2013-2016:

![The size of the manufacturing companies listed in BEI 2013-2016](image)

Figure IV. 2: The size of the manufacturing companies listed in BEI during 2013-2016

The graph above shows that the manufacturing companies listed on the Indonesia stock exchange was mostly large companies. It can be seen that the company is classified as a large company there are as many as 61 companies, and for the company is there as much as 42 companies, while small companies as much as 32 companies. So the big companies have the operational activities and structures that are either in running its operation as well as doing business development.

Here is a graph showing the number of companies that practice income smoothing on manufacturing companies registered in BEI 2013-2016 years namely as follows

![Companies that Do Practice Income Smoothing](image)

Figure IV. 3:

Companies that Do Practice Income Smoothing

<table>
<thead>
<tr>
<th>The company that did the income smoothing on manufacturing companies registered in BEI 2013-2016 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>83</td>
</tr>
<tr>
<td>74</td>
</tr>
<tr>
<td>65</td>
</tr>
<tr>
<td>68</td>
</tr>
</tbody>
</table>

The graph above shows that in the four years of observation, each year averages – average 53% of manufacturing companies that are registered in the BEImelakukan practice of income smoothing and the number is increasing from year to year. This shows that the company – the company has a large risk and trying to meminimalisirinya with practice income smoothing. However, this will have an impact is not good for the company's long-term survival and decreases the credibility of financial statements so that it is no longer relevant, and can mislead the user information in the Party took the decision early on that will come.
The following analysis is the analysis of the results of the testing performed and then customize it with theories, opinions as well as the results of previous research which has been put forward. From the test results the data obtained following data;

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEVERAGE</td>
<td>1.303</td>
<td>.332</td>
<td>15.410</td>
<td>1</td>
<td>.000</td>
<td>3.679</td>
</tr>
<tr>
<td>SIZE</td>
<td>-.141</td>
<td>.058</td>
<td>5.806</td>
<td>1</td>
<td>.016</td>
<td>.869</td>
</tr>
<tr>
<td>Constant</td>
<td>3.444</td>
<td>1.652</td>
<td>4.344</td>
<td>1</td>
<td>.037</td>
<td>31.318</td>
</tr>
</tbody>
</table>

Based on the results of hypothesis testing in table IV-1. Variable leverage as measured by total debts to total assets gain value of the coefficient of regression of 1.303. This shows that every percent increase in leverage, assuming that the variable size of firm is constant then it is likely the company practice income smoothing also increased by 1.303 percent, so the leverage effect positively to increased income smoothing practices. This was confirmed by test results wald (partial) shows that leverage has the value significance of 0.000 smaller than the limit of significance \( \alpha = 0.05 \) with a value of log odds \( (e^{0.000}) \) of 3.679. So that it can be interpreted that the variable leverage effect on income smoothing. Compared to the influence of the size of the company against income smoothing, leverage has a bigger influence level, it can be seen from the value of the wald of 15.410 far greater than the value of chi-square table that is of 3.84 (df = 1). The magnitude of the value of the wald showed that leverage has a very significant influence towards opportunities practice income smoothing is done by management. That way, it can be concluded that the results of this regression analysis in accepting a hypothesis (H1) stating that the leverage effect on income smoothing.

High leverage means owning a high risk because of the company's assets that are used can not cover the total debts so that companies have a responsibility to pay off or cover his debts. High number of leverage ratio signifies that the number the proportion of funding debt financed by external parties. This is likely to violate the agreement when subjected to debt default because of financial difficulties. So that management will try to avoid it by creating policies that can elevate the income or profit by doing the practice income smoothing. Because the greater the leverage, the greater the level of profits that prompted party investors and creditors. This causes that the leverage effect on the practice of income smoothing.

These results are consistent with research conducted by Dewantari & Badera (2015) and supported by the research of Salim (2014) stating that the leverage effect on income smoothing. However, these results are inconsistent with research conducted by Susanti et al (2017) and Natalie & Astika (2016) stating that leverage has no effect trerhadap income smoothing. The results of such research are not in accordance with the logic of the theory has been presented before, that the greater the leverage, the greater the probability of the company then practise income smoothing.

Variable size of the company diproksikan with a total asset value of the regression coefficients obtained registration-0.141. This shows that every percent increase in the size of the company, assuming that the variable leverage constant then it is likely the company practice income smoothing declined by 0.141 percent, so that it can be said that the size of the company has a negative effect against the practices of income smoothing. This was confirmed by test results wald (partial) which shows that the size of the company has the value significance of 0.016 smaller than the limit of significance \( \alpha = 0.05 \) with a value of log odds \( (e^{-0.141}) \) of 0.869.
So it can be concluded that the company's influence on the size of the variable income smoothing. Compared to leverage against the influence of income smoothing, the size of the company had a lower level of influence, because the value of company size 5.806 wald is not too great of a value of chi-square table that is of 3.84 (df = 1). However, the value of wald is still greater than the value of the chi-square table so that shows that the size of the companies have significant influence towards opportunities practice income smoothing is done by management. That way, it can be concluded that the results of this regression analysis in rejecting the zero hypothesis (H0) and accept the hypothesis (H1) stating that company size influence on income smoothing.

The larger the size of a company then semakinbesar also the responsibility and disclosure must be made, because big companies are viewed more thoroughly and critically by the investors and the Government, so that larger companies tend to avoid significant profit fluctuations. When companies get a significant profit increase in a huge tax burden then is paid will increase, otherwise when the company experienced a drastic decline in profits then it will lower the company's image and lower investor interest to make investments. The company will avoid the fluctuations a significant profit by doing the practice income smoothing.

But the theory is not in line with the results of this research to the effect that the size of the company's negative effect. In other words, that an increase in the size of the assets or the company will give a big responsibility to the company in presenting relevant information and neutral (impartial). Karna is viewed more critically and carefully by investors and the Government then companies tend to reduce the income smoothing practices in presenting the profit. As this will lower the value of the stock price if external parties know the top benaran information presented in the financial statements, and can lead to the intervention of the Government in the payment of the tax burden if it does not comply with the charged. This allows management reduces the income smoothing practices when the size of the firm increases.

These results are inconsistent with research conducted by Wijoyo (2014) and Marhamah (2016) stating that company does not affect the size of income smoothing. However, these results are consistent with research conducted by Gayatri & wirakusuma (2013) and supported by Handayani (2016) stating that company size influence on income smoothing.

This shows that there is an influence on the variables and the size of the company leverage against incomesmoothing or it can be concluded that there is at least one independent variable effect on the dependent variable (income smoothing). This regression analysis so that the zero hypothesis (H0) is rejected and one hypothesis (H1) is received. In addition, on testing the coefficient determination value denotes a Negalkerkē r. Square of 0.073. This indicates that the variable income smoothing variable explained by the leverage and the size of the companies only amounted to 7.3%. The small percentage of this, proving that there are still many other factors that can explain the variable income smoothing this research model that is outside of 92.7%. As explained in the previous chapter that States that the factors that may affect income smoothing namely profitability, industrial sector, stock prices, bonus plan, and other nationalities.

The results of this study supports the results of research conducted by Alexandri & Anjani (2014) and supported by Susanti et al (2017) stating that the company's size and leverage shared – the same effect on income smoothing. In addition, the results of this research also complies with the logic of the theory has been presented before, that leverage the company's size and can be used as consideration company melakukaan practice income smoothing.
CONCLUSIONS

Based on the research results then can be taken the following conclusion: the research results prove that there is an influence of leverage against the income smoothing on the manufacturing companies listed on the Indonesia stock exchange in the period 2013 to 2016. So too with the size of the company, the results of the research proves there is the influence of the size of the company against income smoothing on the manufacturing companies listed on the Indonesia stock exchange in the period 2013 to 2016. The simultaneous research results prove that leverage and influential company sizes together – the same against income smoothing on the manufacturing companies listed on the Indonesia stock exchange in the period 2013 to 2016.

Researchers realized that this research is still far from perfect, and here are some suggestions for the next researcher can be a material consideration for doing research with the same topic, namely: since the practice income smoothing not only carried out by the manufacturing companies and the research period is limited to IE only for 4 years of observation, then recommended for further research to expand research into the whole sample of companies listed on the stock exchange The effect of Indonesia and a period of research so that the results obtained can illustrate the real conditions that occur on the company's long-term survival.

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