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THE INFLUENCE OF PROFITABILITY, FIRM SIZE, AND FINANCIAL LEVERAGE ON INCOME SMOOTHING PRACTICES IN MANUFACTURING COMPANIES LISTED ON THE STOCK EXCHANGE DURING 2020-2024 FROM THE PERSPECTIVE OF ISLAMIC FINANCIAL MANAGEMENT

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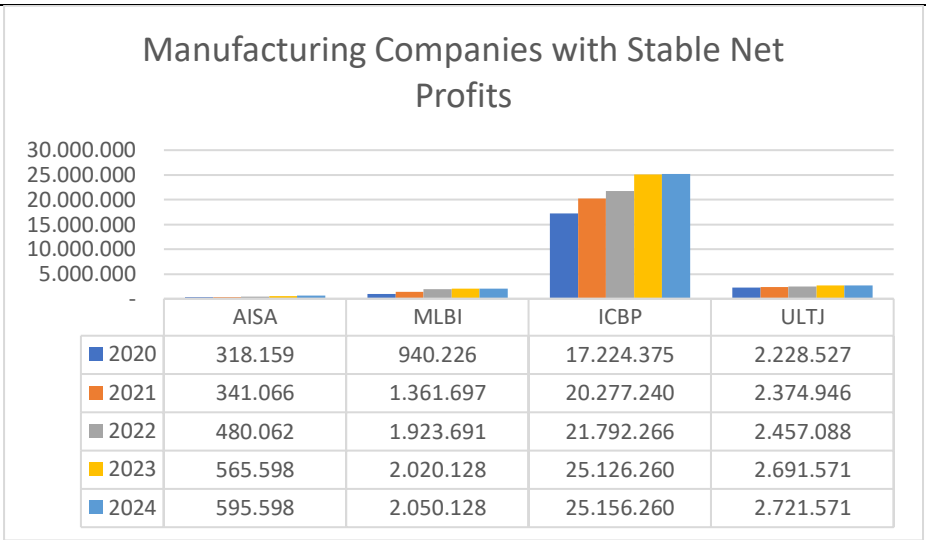
Abstract

This study aims to analyze the influence of profitability, firm size, and financial leverage on the practice of income smoothing in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024 from the perspective of Islamic financial management. The background of this research is based on the importance of financial statement quality in investment decision-making, as well as the phenomenon of income smoothing practices that continue to attract attention from academics and practitioners. The research method employs a quantitative approach with a descriptive research design. The population includes all manufacturing companies listed on the IDX, with a sample of 21 companies selected through purposive sampling. Secondary data in the form of financial statements were analyzed using multiple linear regression with the assistance of SPSS 24 software. The results indicate that profitability has a positive and significant effect on income smoothing, while firm size has a significant negative effect. Meanwhile, financial leverage does not have a significant effect on income smoothing. Simultaneously, profitability, firm size, and financial leverage significantly influence income smoothing. These findings suggest that internal company factors are important determinants in the practice of earnings management. From the perspective of Islamic financial management, income smoothing needs to be carefully examined to ensure alignment with the principles of transparency, accountability, and fairness. Thus, this study contributes to understanding the dynamics of financial factors affecting income smoothing and their implications for investors and company management.

Keywords: ***Financial Leverage, Firm Size, Income Smoothing, Profitability***

INTRODUCTION

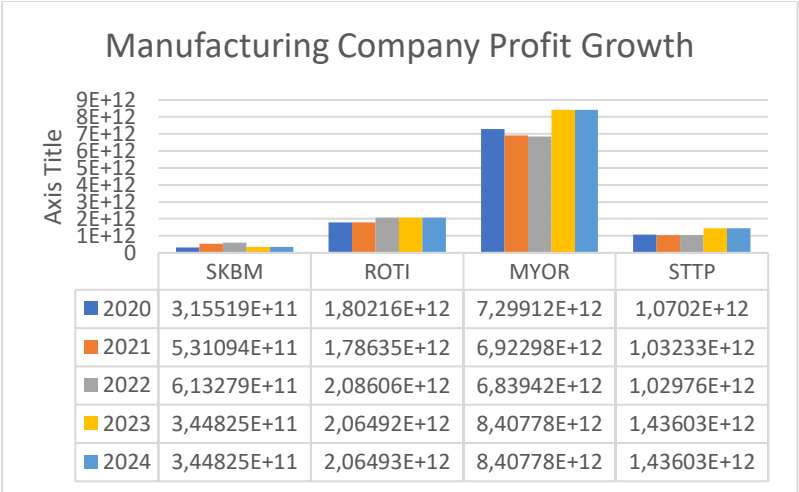
In today's era of globalization, the capital market plays a strategic role in Indonesia's economy as one of the sources of financing for businesses and as an investment platform for the public (Sartono, 2020). The Indonesia Stock Exchange (IDX), as the country's capital market, has experienced significant development, especially in the manufacturing sector, which is one of the main pillars of the national economy (Tandelilin, 2021). The IDX serves as a marketplace for trading shares of various types of companies in Indonesia. Several types of companies are listed on the IDX, including those in agriculture, mining, basic and chemical industries, miscellaneous industries, consumer goods industries, property, infrastructure, finance, and investment services (Rosilawati, Noviarita, & Ningsih, 2021). In this context, the quality of financial statements presented by manufacturing companies is crucial for stakeholders in making investment decisions (Hartono, 2019). However, the phenomenon of earnings management practices, particularly income smoothing, remains an issue of interest in both business and academic circles (Subramanyam, 2022). Income smoothing is an effort by management to reduce fluctuations in earnings from year to year by shifting income from high-earning years to less profitable periods (Scott, 2019). Although this practice is legal within certain limits, it can affect the quality of financial information presented to the public (Belkaoui, 2018). Although this practice is legal within certain limits, it can affect the quality of financial information presented to the public:



	AISA	MLBI	ICBP	ULTJ
2020	318.159	940.226	17.224.375	2.228.527
2021	341.066	1.361.697	20.277.240	2.374.946
2022	480.062	1.923.691	21.792.266	2.457.088
2023	565.598	2.020.128	25.126.260	2.691.571
2024	595.598	2.050.128	25.156.260	2.721.571

Figure 1. Manufacturing Company with Stable Profits
Sumber : Olah Data BEI

The graph above shows that the four companies exhibited a positive and stable net profit growth trend year after year. AISA saw a net profit increase from 318 million in 2020 to 595 million in 2024. Although relatively small, the consistent growth indicates good performance. MLBI also showed significant improvement, with its net profit rising from 940 million to 2 billion in five years. The company with the highest net profit was ICBP, which consistently recorded growth from 17 billion in 2020 to 25 billion in 2024. This reflects the company's financial strength and stability in the food manufacturing industry. Meanwhile, ULTJ showed steady growth from 2.2 billion to 2.7 billion, although the increase was not as significant as MLBI or ICBP. Thus, all four companies demonstrated strong and stable net profit performance, reflecting effective management in maintaining long-term profitability. Significant increases and decreases in profits in a short time also occurred in manufacturing companies listed on the Indonesia Stock Exchange (IDX) as shown in the graph in Figure 2. The following is an illustration of the graph:

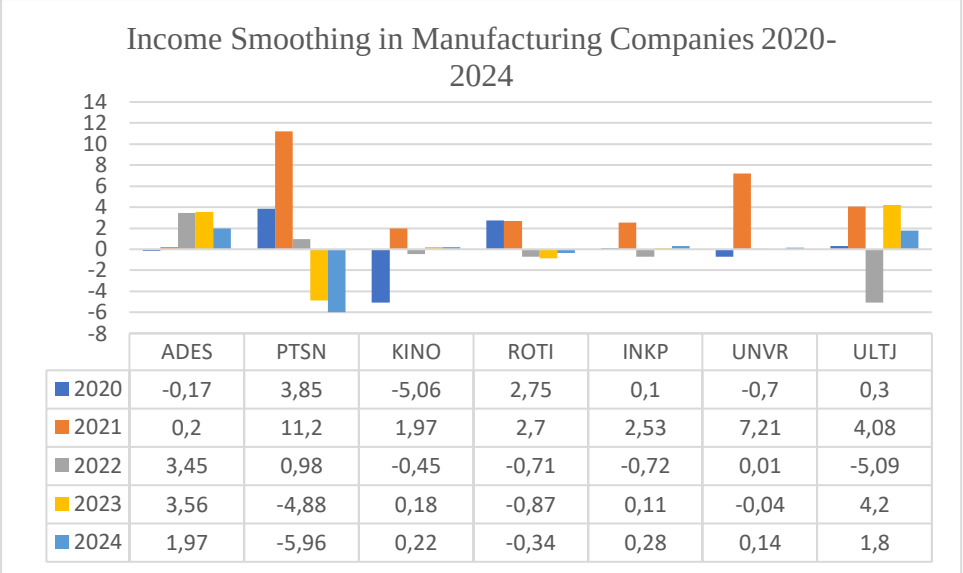


	SKBM	ROTI	MYOR	STTP
2020	3,15519E+11	1,80216E+12	7,29912E+12	1,0702E+12
2021	5,31094E+11	1,78635E+12	6,92298E+12	1,03233E+12
2022	6,13279E+11	2,08606E+12	6,83942E+12	1,02976E+12
2023	3,44825E+11	2,06492E+12	8,40778E+12	1,43603E+12
2024	3,44825E+11	2,06493E+12	8,40778E+12	1,43603E+12

Figure 2. Manufacturing Company Profit Growth

The graph illustrates the earnings growth of four manufacturing companies: PT Sekar Bumi Tbk (SKBM), PT Nippon Indosari Corporindo Tbk (ROTI), PT Mayora Indah Tbk (MYOR), and PT Siantar Top Tbk (STTP) from 2020 to 2024. PT Mayora Indah Tbk (MYOR) recorded the highest earnings with a declining trend until 2022, followed by a significant increase in 2023–2024. PT Siantar Top Tbk (STTP) also showed positive growth, especially in the last two years. PT Nippon Indosari Corporindo Tbk (ROTI) maintained stable earnings without major fluctuations, while PT Sekar Bumi Tbk (SKBM) experienced an increase early in the period but stagnated towards the end. MYOR and STTP showed the most positive performance towards the end of the period.

Some companies exhibited fluctuating Eckel indices from 2017 to 2020, indicating earnings volatility each year during that period. These companies are suspected of practicing income smoothing. Figure 3 presents seven manufacturing companies suspected of income smoothing: PT Akasha Wira International Tbk (ADES), PT Sat Nusapersada Tbk (PTSN), PT Kino Indonesia Tbk (KINO), PT Nippon Indosari Corporindo Tbk (ROTI), PT Indah Kiat Pulp and Paper Tbk (INKP), PT Unilever Indonesia Tbk (UNVR), and PT Ultra Jaya Milk Industry & Trading Comp Tbk (ULTJ). The following explains some of these companies suspected of income smoothing:



	ADES	PTSN	KINO	ROTI	INKP	UNVR	ULTJ
2020	-0,17	3,85	-5,06	2,75	0,1	-0,7	0,3
2021	0,2	11,2	1,97	2,7	2,53	7,21	4,08
2022	3,45	0,98	-0,45	-0,71	-0,72	0,01	-5,09
2023	3,56	-4,88	0,18	-0,87	0,11	-0,04	4,2
2024	1,97	-5,96	0,22	-0,34	0,28	0,14	1,8

Figure 3. Income Smoothing of Manufacturing Companies
Sumber : Olah Data BEI

Based on the income smoothing graph for manufacturing companies from 2020 to 2024, most companies experienced notable fluctuations in income smoothing, which may indicate strategies to stabilize earnings across periods. Differences in these patterns can also be influenced by external factors such as market and economic conditions, as well as internal factors like managerial strategies and accounting policies. The fluctuations in income smoothing practices among seven Indonesian manufacturing companies during 2020–2024 are evident. ADES shows a fairly consistent positive trend year over year, with significant increases since 2021, peaking in 2023. Conversely, PTSN experienced sharp fluctuations, especially in 2021, reaching a high of 11.2, then drastically dropping to -5.96 in 2024. KINO improved from a negative value of -5.06 in 2020 to more stable values in subsequent years, though not entirely consistent. ROTI and INKP tend to show values close to zero, indicating earnings stability and likely low income smoothing practices. Meanwhile, UNVR experienced a sharp spike only in 2021 at 7.21 and stabilized afterward, possibly reflecting special conditions that year. ULTJ also showed a fluctuating pattern, shifting from positive to negative and back to positive over five years.

Various factors can influence a company's tendency to engage in income smoothing, one of which is profitability. Profitability is a metric used to measure business performance, reflecting the level of effectiveness achieved through company operations. Investors use profitability to assess how well management performs by looking at earnings during the current period. A profitable company reflects good performance, which can increase investor confidence in management. Therefore, this can enhance management's flexibility in conducting income smoothing (Lestari, 2018). Besides profitability, firm size also affects income smoothing practices. Firm size measures the scale of a company, with indicators such as total assets, market value, and log size. Large companies tend to engage in income smoothing to avoid excessive earnings spikes or sharp declines. A drastic drop in earnings can damage a company's image in the eyes of investors, prompting companies to smooth earnings to maintain a stable appearance and preserve their reputation. In this regard, firm size is considered an indicator that can influence income smoothing practices, as large companies tend to smooth earnings to reduce fluctuations (Chabachib, 2019). Ramadhani et al. (2022) found that firm size positively affects earnings smoothing, while Jaya & Dillak (2019) found a significant negative effect of firm size on earnings smoothing. Financial leverage is also a factor that can lead to income smoothing practices. Financial leverage provides information about the proportion of debt in a company's investment. Companies with high leverage face greater risks related to asset financing because they use more debt than equity to finance assets, which can reduce company value and increase the debt portion of assets. Income

smoothing may occur in highly leveraged companies to avoid losses. Companies with high leverage have a large debt-to-equity ratio, increasing risk for investors and prompting companies to smooth earnings. High leverage increases the likelihood of default or inability to repay debt, motivating companies to smooth earnings to prepare stable profits when negotiating new debt due to difficulties in obtaining loans. Additionally, high leverage raises investment risk. Assuming investors and creditors avoid investing or lending to risky companies, this leads to reduced capital investment in the company (Said, 2022). From the perspective of Islamic financial management, income smoothing is an issue that requires in-depth study, as Islam emphasizes responsibility, transparency, and adherence to Sharia principles in all business transactions and financial reporting. Allah SWT states in the Qur'an, Surah Al-Hasyr, verse 18:

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوا اتَّقُوا اللّٰهَ وَلْتَنْظُرْ نَفْسٌ مَّا قَدَّمَتْ لِغَدٍۚ وَاتَّقُوا اللّٰهَۗ اِنَّ اللّٰهَ خَبِيْرٌۢ ۢبِمَا تَعْمَلُوْنَ

Meaning: "O you who have believed, fear Allah. Let every soul look to what it has put forth for tomorrow (the Hereafter). And fear Allah; indeed, Allah is Acquainted with what you do."

This verse emphasizes the importance of transparency and accountability, which align with the principles of Islamic financial management. Every financial action, including income management, must be conducted with good intentions and without harming others. Moreover, the awareness that Allah is fully aware of all actions reminds us to avoid manipulative or unethical practices. Therefore, income smoothing practices must reflect integrity and fairness, considering the long-term impact on all stakeholders (Harahap, 2020). Research by Kamla (2021) shows that transparency and accountability in Sharia financial reporting have a broader spiritual dimension beyond mere compliance with accounting standards. Research on the influence of profitability, firm size, and financial leverage on income smoothing is relevant due to existing research gaps in previous studies. Some studies show inconsistent results regarding the effects of these three variables on income smoothing practices (Mualifah, 2024). Furthermore, the continuously changing business dynamics and increasing complexity of the capital market require a deeper understanding of factors influencing earnings management practices in Indonesian manufacturing companies. Therefore, the author is interested in selecting manufacturing companies as the research object. Based on the background described above, the author decided to conduct a study entitled "The Influence of Profitability, Firm Size, and Financial Leverage on Income Smoothing Practices in Manufacturing Companies Listed on the Stock Exchange during 2020–2024 from the Perspective of Islamic Financial Management."

LITERATURE REVIEW

1. Profitability

Profitability is a company's ability to generate profits. This profit is derived from its capital. Profitability theory, as a benchmark for measuring profit, is crucial for determining whether a company is operating efficiently. A business's efficiency can only be determined by comparing the profits earned with the assets or capital generating them. The ultimate goal of a company is to maximize profits. Profitability is the net result of a series of policies and decisions. To maintain a company's survival, it must be profitable. Company owners, and especially management, strive to increase these profits, recognizing their importance to the company's future. For the company itself, profitability can be used to evaluate the effectiveness of its management (Triyuwono, 2019).

In a company's operational activities, profit is a crucial element in ensuring its sustainability. The ability to generate profits by utilizing all company resources enables the company's goals to be achieved. Utilizing all these resources enables the company to achieve high profits. Profit is the result of sales revenue minus cost of goods sold and other expenses (Arisandy, 2023). ROA provides a comprehensive picture of operational performance because it considers the final result (profit) against all company resources. Compared to ROE (Return on Equity), ROA is considered more neutral because it is not affected by capital structure (debt to equity). ROA better reflects the internal efficiency underlying a company's value and is often used in empirical studies as a general indicator of financial performance. The ROA formula is as follows:

$$\text{ROA} = \frac{\text{Laba Bersih}}{\text{Total Asset}} \text{ X } 100\%$$

Description:

Net Profit: The net profit earned by a company in a period (usually one year), after deducting taxes and other expenses.

Total Assets: The sum of all company assets, both current and non-current, as stated in the financial statements.

2. *Firm Size*

Firm Size is a determination of the size of a company. If the company's total assets are higher, it indicates that the company is classified as large-scale, conversely, if the total assets are lower, it indicates that the company is

classified as small-scale (Arisandy, 2023). According to Hery, company size is a scale that classifies the size of a company in question, obtained through the total stock market value, total assets, and so on (Hery, 2021). Company size is a scale used to measure the smallness or size of a company that can be seen based on total assets, sales and market capitalization (Sholihah, 2020). Based on the several definitions above, it can be concluded that company size is the scale of a company's size that can be seen through the number of assets, the number of sales, stock market valuation, where company size can be measured using natural logarithms or total assets. The purpose of using natural logarithms is to minimize deviations in total asset data that vary, such as in billions or even trillions of rupiah. In this study, company size is defined by naturalizing the logarithm of the company's total assets, which is formulated as follows:

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

3. Financial Leverage

Financial leverage refers to financing a portion of a company's assets with securities that bear a fixed (limited) rate of return in the hope of increasing returns for shareholders (Keown, 2021). Financial leverage is the use of funds with fixed charges in the hope that they will generate additional returns greater than the fixed charges, thereby increasing the profits available to shareholders. Therefore, a strong rationale for using funds with fixed charges is to increase the income available to shareholders (Sartono, 2020). Financial leverage is measured using the debt-to-asset ratio (DAR). The debt-to-asset ratio (DAR) is a debt ratio used to measure the ratio of total debt to total assets. This ratio measures how much of a company's assets are financed by debt, or how much debt it holds. A high ratio indicates greater debt financing, making it more difficult for the company to obtain additional loans due to concerns about the company's inability to cover its debts with its assets. Conversely, a low ratio indicates a smaller amount of debt financing for the company. The measurement standard for assessing whether a company's ratio is good or not is the average ratio of a similar industry (Maki'wan, 2018). The formula for the Debt to asset ratio (DAR):

$$\text{Debt to asset ratio (DAR)} = \frac{Total\ Debt}{Total\ Asset}$$

4. Income Smoothing

The planned effort to smooth out profit levels is the definition of income smoothing. Income smoothing describes a company's management's ability to reduce abnormal variations in earnings within the limits permitted by accounting practices and sound management principles. Income smoothing is a planned action to reduce the variability of reported earnings in order to mitigate market risk for shares and increase the company's share price. Income smoothing is a process or effort undertaken by managers to ensure reported earnings appear stable from year to year, meaning they do not experience rapid increases, but also do not experience drastic decreases. The implementation of income smoothing by company managers is intended to make reported earnings appear stable from year to year, thus benefiting the company and the managers themselves. Smoothing earnings, investors will see that the company's stability reduces the risk of investing in their shares, thus ensuring more promising and profitable future prospects, both now and in the future (Milaedy, 2022).

This explanation clearly demonstrates that income smoothing is a means of reducing year-to-year profit fluctuations, either through specific accounting methods or through real transactions by company management to make profits appear more stable, thus attracting external parties to collaborate with the company. Agency theory underpins income smoothing, driven by the divergence of interests between management and investors, both of whom desire high profits. When implementing income smoothing, financial managers modify financial reporting to maximize profits. For example, by reducing reported profits, even though the company is achieving high profitability, this practice is intended to gain political attention. This practice is not permitted as it lacks honesty. Although earnings management practices are regulated by Generally Accepted Accounting Principles (GAAP), income smoothing is calculated using the Eckel index. The Eckel index compares sales variability to control for the effects of real smoothing and inherently flat profit flows. The following formula is used to determine the Income Smoothing Index, also known as the Eckel Index: (Thoharo, 2018)

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

Where:

ΔI = change in net profit in one period

ΔS = change in sales or revenue in one period
CV = coefficient of variation of the variable, i.e., the standard deviation of the change in profit and sales divided by the expected value of the change in profit (I) and sales (S).

METHOD

The research approach and method used in this study is quantitative, aiming to determine the significance of the relationship between the variables studied (Darwin, 2021). This quantitative approach was chosen because the data analyzed are numerical, and data collection uses research instruments to test the proposed hypotheses (Sugiyono, 2018). This research is descriptive, aiming to systematically and accurately describe the influence of profitability, firm size, financial leverage, and audit committees on income smoothing practices in manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period from a sharia financial management perspective. The population in this study was all manufacturing companies listed on the Indonesia Stock Exchange during 2020-2024, totaling 150 companies. The sample was drawn using a purposive sampling technique, with the criteria being manufacturing companies that had complete financial reports and did not experience losses during the period. This resulted in 21 companies as the research sample. The data used were secondary data obtained through documentation methods from financial reports and official company publications accessed through the official Indonesia Stock Exchange website and related company websites (Sugiyono, 2018). The research instrument in the form of secondary data was analyzed using Microsoft Excel 2016 and SPSS 24 software. Data analysis was carried out using descriptive analysis, normality test, multicollinearity test, heteroscedasticity test, multiple linear regression analysis, and hypothesis test.

RESULTS AND DISCUSSION

Results

A. Descriptive Analysis

Descriptive analysis itself provides an overview through minimum, maximum, average, and standard deviation values. The following is a discussion of descriptive analysis, presented in Table 1.

Table 1. Descriptive Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	21	1.00	53.00	12.00	10.74731
Firm Size	21	13.00	31.00	22.00	6.228427
Financial Leverage	21	2.00	31.00	15.00	7.531679
Income Smoothing	21	-22.53	14.23	-0.03	2.939967

Source : Output Excel, 2025.

Table 1 shows that the profitability variable has a minimum value of 1.00 and a maximum of 53.00 with an average of 12.00 and a standard deviation of 10.74731. This indicates a significant variation between companies with the lowest and highest profitability levels. The company size variable has a minimum value of 13.00 and a maximum of 31.00 with an average of 22.00 and a standard deviation of 6.228427. This means that there is a significant difference in company size in the research sample. Furthermore, the financial leverage variable shows a minimum value of 2.00 and a maximum of 31.00 with an average of 15.00 and a standard deviation of 7.531679, which illustrates the variation in the level of company dependence on debt. Finally, the income smoothing variable has a minimum value of -22.53 and a maximum of 14.23 with an average of -0.03 and a standard deviation of 2.939967. This indicates that most companies tend not to engage in extreme income smoothing practices, although there are companies that show income smoothing values that are quite low or quite high.

B. Classical Assumption Test

1. Normality Test

   A normality test was conducted to determine whether the regression model contained confounding variables or whether the residuals were normally distributed. The study used the non-parametric Kolmogorov-Smirnov (K-S) statistical test. The following are the results of the normality test analysis using the One Sample Kolmogorov-Smirnov (K-S) test.

Table 1. Results of Normality Test

		Unstandardized Residual
N		21
Normal Parameters	Mean	.0000000
	Std. Deviation	5.51061195
Most Extreme Differences	Absolute	.172
	Positive	.148
	Negative	-.172
Test Statistic		.172
Asymp. Sig. (2-tailed)		.106

Table 2 shows that the results of the normality test using the One-Sample Kolmogorov-Smirnov Test in the table above show a significance value (Asymp. Sig. 2-tailed) of 0.106. Based on the provisions of the normality test, data can be said to be normally distributed if the significance value is greater than 0.05. Since the significance value of 0.106 > 0.05, it can be concluded that the residual data in this study is normally distributed. This means that the regression model used has met one of the classical assumptions, namely the assumption of normality, so that further statistical analysis can be carried out more validly.

2. Multikolinierity Test

The purpose of this study was to determine whether there was a correlation between the independent and dependent variables. To detect this phenomenon, the Variance Inflation Factor (VIF) and Tolerance can be used. The tolerance limit is >0.10, and the VIF value is <0.10.

Table 3. Result of Multikolinierity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Profitabilitas	.719	1.391
	Ukuran Perusahaan	.887	1.127
	Financial Leverage	.798	1.254

a. Dependent Variable: Income Smoothing

Source : Output SPSS, 2025.

Based on Table 3, it can be seen that all independent variables have a tolerance value greater than 0.10 and a VIF (Variance Inflation Factor) value less than 10. The profitability variable has a tolerance value of 0.719 and a VIF of 1.391; company size has a tolerance value of 0.887 and a VIF of 1.127; while financial leverage has a tolerance value of 0.798 and a VIF of 1.254. These values indicate that there are no symptoms of multicollinearity among the independent variables in the regression model. Thus, the regression model used can be stated to meet the classical assumptions regarding multicollinearity, so that the independent variables are suitable for use in further analysis to explain their influence on the dependent variable.

3. Heterokedaktisity Test

The heteroscedasticity test is designed to examine the variance in residuals from one observation to another in a regression model. If the residual variance from one observation to another still exists, it is called homoscedasticity, and if it differs, it is called heteroscedasticity. In this study, the Breusch Pagan heteroscedasticity test was used with the criteria that if the sig. value > 0.05, then there is no symptom of heteroscedasticity, and if the sig. value < 0.05, then there is a symptom of heteroscedasticity. The following are the results of the heteroscedasticity test.

Table 4. Result of Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.690	6.114		.931	.365
	Profitabilitas	-.063	.037	-.438	-1.699	.107
	Ukuran Perusahaan	-.014	.044	-.076	-.328	.747
	Financial Leverage	-.005	.041	-.033	-.135	.894

a. Dependent Variable: Income Smoothing

Source: Output SPSS, 2025.

Based on Table 4, it is known that all independent variables have a significance value (Sig.) greater than 0.05. The profitability variable has a sig. value of 0.107, company size of 0.747, and financial leverage of 0.894. Since all significance values are above 0.05, it can be concluded that this regression model does not experience symptoms of heteroscedasticity. Thus, the residual variance between observations in the model is constant or homogeneous (homoscedasticity), so the classical assumption of heteroscedasticity has been met. This indicates that the regression model is suitable for further analysis because it is free from heteroscedasticity problems.

C. Multiple Liniear Regression Test

Multiple linear regression analysis was used to test the effect of profitability, company size, and financial leverage on income smoothing. The following is the multiple linear regression analysis data:

Table 5. Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.690	6.114		2.931	.037
	Profitabilitas	31.163	11.037	.438	2.799	.011
	Ukuran Perusahaan	-.447	.442	-.076	-1.328	.047
	Financial Leverage	-.005	.041	-.033	-.135	.894

a. Dependent Variable: Income Smoothing

Source: Output SPSS, 2025.

Based on Table 5, the multiple regression equation can be described as follows:

$$IC_{i,t} = \beta_0 + \beta_1 PR_{i,t} + \beta_2 UP_{i,t} + \beta_3 FL_{i,t} + \epsilon$$

$$NP = (15.690) + 31.163X1 - 0.447X2 - 0{,}005X3 + e$$

From the multiple linear regression equation, it can be explained that:

1. The constant (a) has a positive value of 15.690. A positive sign indicates a unidirectional influence between the independent and dependent variables. This indicates that if all independent variables, including Profitability (X1), Company Size (X2), and Financial Leverage (X3), have a value of 0 percent or no change, then the company's value is 15.690.
2. The regression coefficient for the Profitability variable (X1) is 31.163. This value indicates a positive or unidirectional effect between the Profitability variable and income smoothing. This means that if the Profitability variable increases by 1%, the income smoothing variable will also increase by 31.163.
3. The regression coefficient for the GCG variable (X2) is -0.447. This value indicates a negative or inverse effect between the company size variable and income smoothing. This means that if the company size variable increases by 1%, the income smoothing variable decreases by 0.447.
4. The regression coefficient for the Financial Leverage variable (X3) is -0.005. This value indicates a negative or inverse effect between the financial leverage variable and income smoothing. This means that if the financial leverage variable increases by 1%, the income smoothing variable decreases by 0.005.
5.

D. Hypothesis Test

Hypothesis testing is used to determine the relationship between the independent and dependent variables. The hypothesis test used is the T-test, with the criterion being if the significance value is greater than 0.005. < 0.05, it can be concluded that there is a significant influence between the independent and dependent variables. Conversely, if the sig. value is > 0.05, it can be concluded that there is no influence between the two independent and dependent variables. The following are the results of the hypothesis test calculations:

Table 6. Hypothesis Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	15.690	6.114		2.931	.037
	Profitabilitas	31.163	11.037	.438	2.799	.011
	Ukuran Perusahaan	-.447	.442	-.076	-1.328	.047
	Financial Leverage	-.005	.041	-.033	-.135	.894

a. Dependent Variable: Income Smoothing

b.

Table 6 shows that the profitability variable has a positive and significant effect on income smoothing, as indicated by a regression coefficient of 31.163 with a significance level of 0.011 < 0.05. This means that the higher the profitability, the greater the tendency for a company to engage in income smoothing. The firm size variable has a regression coefficient of -0.447 with a significance level of 0.047 < 0.05, thus having a negative and significant effect on income smoothing. This means that the larger the company size, the lower the tendency to engage in income smoothing. Meanwhile, the financial leverage variable has a regression coefficient of -0.005 with a significance level of 0.894 > 0.05, thus having no significant effect on income smoothing. Therefore, it can be concluded that only profitability and firm size are proven to significantly influence income smoothing, while financial leverage has no significant effect.

E. Simultaneous Test (F Test)

This test examines whether the independent variables simultaneously have a significant effect on the dependent variable.

Table 7. Simultaneous Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.235	3	7.078	3.318	.003[b]
	Residual	7.337	17	5.726		
	Total	11.571	20			

a. Dependent Variable: Income_Smoothing

b. Predictors: (Constant), Financial_Leverage, Ukuran_Perusahaan, Profitabilitas

Table 7 shows that the simultaneous test (F test) yielded a calculated F value of 3.318 with a significance level of 0.003 <0.05. This indicates that the independent variables, consisting of profitability, company size, and financial leverage, simultaneously have a significant effect on the dependent variable, income smoothing.

Discussion

A. The Effect of Profitability on Income Smoothing

Based on the results of the t-test, with a regression coefficient of 31.163 and a significance level of 0.011 < 0.05, it can be concluded that the profitability variable has a significant positive effect on income smoothing. This indicates that the profitability variable has a positive and significant influence on income smoothing practices in manufacturing companies. In other words, the higher a company's return on assets (ROA), the greater the likelihood that the company will engage in income smoothing. This phenomenon can be explained by the fact that the management of companies with high profitability typically has a better understanding of the company's ability to

generate future profits. This knowledge allows them to manage the timing of profit recognition, either by delaying or accelerating profit recording, to create more stable and predictable financial statements. This finding aligns with previous research conducted by Yanti & Dwirandra (2019), Adiwidjaja & Tundjung (2019), and Rakahenda & Mahardika (2019), which also showed that profitability has a positive effect on income smoothing. These similar results support the argument that companies with higher profitability tend to use income smoothing as an earnings management strategy. However, this study differs from the findings of Kusumawati & Kusuma (2022), who stated that profitability had no significant effect on income smoothing. This discrepancy may be due to differences in research samples, analytical methods, or the industry context studied, suggesting that the relationship between profitability and income smoothing can vary depending on the conditions and characteristics of the company in question.

B. The Effect of Firm Size on Income Smoothing

Based on the results of the t-test, the regression coefficient was -0.447 with a significance level of 0.047 <0.05. This indicates that firm size has a negative and significant effect on income smoothing practices. In other words, the larger the company, the less likely it is to engage in income smoothing. This phenomenon can be explained by the fact that large companies typically receive greater scrutiny from various parties, such as the general public, investors, and the government. This tight oversight and high level of attention from stakeholders further limits management's ability to manipulate earnings through income smoothing. Therefore, large companies tend to be more careful in presenting their financial reports to maintain transparency and accountability, thus reducing the tendency to engage in income smoothing practices. This finding is supported by several previous studies, such as those by Ibrahim (2022), Susmitha & Zulaikha (2021), and Mahendra & Jati (2020), which also found that company size negatively influences income smoothing practices. This similarity in results strengthens the argument that larger companies have less incentive to engage in aggressive earnings management due to the higher risk of scrutiny and public exposure. However, these results differ from those of Safitri et al. (2020), who found that company size had no significant effect on income smoothing. These differences may be due to variations in sample characteristics, research methods, or the industry context studied, suggesting that the relationship between company size and income smoothing may vary depending on the specific conditions faced by the company.

C. The Effect of Financial Leverage on Income Smoothing

Based on the results of a t-test with a regression coefficient of -0.005 and a significance level of 0.894 > 0.05, this indicates that financial leverage does not significantly influence income smoothing practices in the companies studied. In other words, a company's debt level does not influence management's tendency to engage in earnings management to create more stable financial statements. This finding is quite interesting because, in theory, high debt levels are often assumed to encourage companies to engage in income smoothing to reduce the risk of default and maintain creditor confidence. However, in this study, the relatively low debt level indicates that the company is expected to adequately meet its debt repayment obligations and interest expenses, thus lowering the financial risk faced by the company. This condition makes investors feel more confident in investing their capital without worrying about excessive risk, thus minimizing the need for management to engage in income smoothing practices to attract attention or appease stakeholders. The results of this study align with several previous studies, such as those conducted by Wulandari & Situmorang (2020) and Utami & Ananda (2023), which found that financial leverage had no significant effect on income smoothing. This similarity in findings reinforces the view that in certain contexts, particularly in companies with controlled debt structures, financial leverage is not a primary factor driving earnings management practices. However, the results of this study differ from those obtained by Putri Agustin (2019), who concluded that financial leverage had a significant effect on income smoothing. This difference in results may be due to variations in sample characteristics, industry differences, or the analytical methods used in the studies. Therefore, the relationship between financial leverage and income smoothing appears to be contextual and can be influenced by various external and internal company factors.

D. The Effect of Profitability, Firm Size, and Financial Leverage on Income Smoothing

Based on the results of the simultaneous F-test, it can be concluded that profitability, firm size, and financial leverage together have a significant effect on income smoothing practices. These findings indicate that these three variables not only play a role individually but also interact to influence management decisions to manage earnings to create more stable and predictable financial statements. These research findings align with the implications of agency theory, which explains that management, as an agent, is motivated to engage in income smoothing to attract

more investors. This is because profitability, company size, and financial leverage are important indicators used by investors to assess a company's performance and risk before making an investment. High profitability indicates a company's ability to generate profits, a large company size reflects greater stability and resource capacity, while financial leverage provides insight into the company's capital structure and financial risk. These three factors collectively help investors make more informed investment decisions and reduce uncertainty. Furthermore, the principal, as the owner of capital, desires optimal returns from their investment. Therefore, management strives to meet this expectation by engaging in income smoothing to make financial statements appear more consistent and credible. This approach can increase investor confidence and strengthen the company's position in the capital market. This finding is also supported by previous studies, such as those by Adiwidjaja & Tundjung (2019) and Setyaningsih (2021), which showed that profitability, firm size, and financial leverage simultaneously influence income smoothing. This similarity in results reinforces the argument that earnings management is a complex and multidimensional strategy, influenced by various interrelated financial factors within the context of managerial decision-making.

CONCLUSION

Based on the research results, it can be concluded that profitability and firm size variables have a positive and significant influence on the practice of income smoothing in companies. This indicates that both variables play a significant role in influencing companies' decisions to adjust earnings to create more stable and consistent financial statements over time. Conversely, financial leverage has been shown to have no significant influence on income smoothing, meaning that the level of debt used in a company's capital structure does not directly encourage or hinder the practice. Furthermore, simultaneous analysis shows that all independent variables studied collectively have a significant influence on the dependent variable, namely income smoothing.

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