

The Effect of Company Size, Profitability, Liquidity, and Financial Leverage on Income Evaluation Action

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis dan menguji Pengaruh Ukuran Perusahaan, Profitabilitas, Likuiditas, dan Leverage Keuangan terhadap Tindakan Perataan Laba. Penelitian ini menggunakan empat variabel independen yaitu Ukuran Perusahaan, Profitabilitas, Likuiditas, dan Leverage Keuangan serta variabel dependennya yaitu tindakan perataan laba. Index Excel digunakan untuk menentukan praktik perataan laba. Jenis datanya adalah data sekunder dan metode analisisnya menggunakan regresi linier berganda. Berdasarkan hasil analisis regresi linier berganda hasil penelitian menyimpulkan ukuran perusahaan dan profitabilitas tidak berpengaruh terhadap perataan laba. Sedangkan likuiditas dan leverage keuangan mempengaruhi perataan laba. Untuk penelitian selanjutnya, disarankan untuk menambahkan variabel yang relevan dalam mempengaruhi tindakan perataan laba, mempertimbangkan periode penelitian, dan menambah sampel penelitian.

Kata Kunci: *Ukuran Perusahaan, Profitabilitas, Likuiditas, Financial Leverage dan Tindakan Perataan Laba*

ABSTRACT

This study aims to analyze and examine the Influence of Company Size, Profitability, Liquidity, and Financial Leverage on Income Smoothing Actions. This study uses four independent variables such as Company Size, Profitability, Liquidity, and Financial Leverage and the dependent variable that is income smoothing actions. Index Excel is used to determine the income smoothing practice. Types of data are secondary data and the method of analysis used multiple linear regression. Based on the results of multiple linear regression analysis the results of the study concluded company size and profitability don't affect income smoothing. While liquidity and financial leverage affect income smoothing. For further research, it is recommended to add relevant variables in influencing income smoothing actions, consider the research period, and add to the research sample.

Keywords: *Company Size, Profitability, Liquidity, Financial Leverage and Income Smoothing Actions*

INTRODUCTION

The financial report according to the Indonesian Institute of Accountants (2013: 1) is a record of an entity's financial information in a certain accounting period that can help users of financial statements such as investors to make decisions in determining investment. Information about earnings that management realizes has a strong influence on making

management tend to perform dysfunctional behaviour or inappropriate behaviour that occurs and is influenced by differences in desires originating from the principal as shareholder and agent as company management to force the manager to commit fraud. through earnings manipulation (Arum et al, 2017). The practice of income smoothing is

something that is considered rational which originates from the concept of agency theory which assumes that all parties have an impulse to be selfish. Information imbalances arise when internal information and future conditions of the company will be known in advance by managers compared to shareholders and other stakeholders. The income smoothing action is considered a reasonable action because it does not violate accounting standards even though this action can reduce the reliability of financial statements. After all, users of financial statements do not know the true earnings information (Heriyanto, 2012).

The practice of income smoothing is influenced by several factors. Company size in several previous studies influences income smoothing action. The results of research conducted by Lahaya (2017) state that company size has a significant effect on income smoothing action. This is in line with research conducted by Arum, et al. (2017). Arum, et al (2017) stated that profitability is one of the factors that can influence managers to take income smoothing actions. The next factor is liquidity, if the company's liquidity is too high then the company is unable to manage its current assets as much as possible so that it will cause poor financial performance and there is the possibility of profit manipulation to beautify the earnings information. Therefore, investor response is negative towards high levels of liquidity. The results of research conducted by Astika (2014) state that liquidity does not affect income smoothing action. Financial leverage in previous studies affects income smoothing action. Research conducted by Dewi (2010) concluded that financial leverage has an effect on income smoothing action, where companies with high levels of ratios have a high risk as well.

Based on the above background, the researcher is interested in conducting research that aims to re-examine and seek answers to differences in previous research results, with the title "The Effect of Company Size,

Profitability, Liquidity, and Financial Leverage on Income Smoothing Actions".

LITERATURE REVIEW

Theory Agency (Agency Theory)

Agency Theory or Agency Theory is a branch of Game Theory which explains the role of humans in social interaction (Jensen and Meckling, 1976). According to Jensen and Meckling (1976) in the context of business organizations, there is an interaction between the parties in the company that can be categorized into two major groups, namely principals and agents. In the context of a business organization, the principal represents the agent's interest to manage its resources in such away. This relationship results in a bond between the principal and the agent which is called an agency contract.

Definition of Profit

Profit is information that contains a summary of the company's performance which consists of the difference between total revenues and total expenses. According to Subramanyam (2010: 109) profit is a summary of the net results of business activities in a certain period which is part of company information and is of interest in the money market. Profitability information that describes the company's performance is needed for decision making by a company.

Income Smoothing Action

The act of smoothing income is a phenomenon that often occurs as a management effort to reduce fluctuations in reported earnings. The income smoothing action will cause information regarding previously reported earnings to be misleading. Misleading information regarding earnings will result in errors in decision making by external parties.

Company Size

The size of the company is the size of the company which can be seen from the total

assets, the company's total sales and the average sales (Riyanto 2008: 313).

Profitability

Profitability is the company's ability to make a profit from its business activities (Sartono 2012: 122). Profitability includes all income and expenses incurred by the company as the use of assets and liabilities in one period (Brigham and Houston 2011: 188). Profitability is expected to be a factor affecting income smoothing because it is directly related to the income smoothing object. If the profitability is stable, then the benefits obtained by management in the form of position and management position in the company will be safe.

Liquidity

According to Kasmir (2014: 106), liquidity is a ratio to measure the company's ability to pay its short-term debts that are due and liquidity is used to determine the company's ability to finance and fulfil its short-term obligations when they are collected. The ratio used in calculating the level of liquidity in this study is the current ratio.

Financial Leverage

Financial Leverage according to Kasmir (2014: 112) is a company's ability to use its funds in the form of debt to increase company assets. Financial leverage in this study is measured by the debt to equity ratio obtained through total debt divided by total capital. Financial leverage in this study is measured with a debt to equity ratio obtained through total debt divided by total capital.

Hypothesis Development

Company Size against Income Smoothing Actions

The relationship between firm size and income smoothing action in agency theory explains that in an organization there can be agency conflicts between the principal and the agent. Based on agency theory which assumes

that humans have selfishness so that management will try to keep the company looking good and attractive to investors through management which will make stable profits, while investors will expect immediate returns because they think that the size of the company is large so that the return on investment fast.

Research conducted by Arum, et al (2017) states that there is a positive influence between company size and income smoothing action. Large companies tend to act carefully in their financial reporting because large companies will get a lot of attention. So that large companies will avoid drastic fluctuations in profit. Based on the explanation above, the hypothesis that can be formulated is:

H1: Firm size affects income smoothing action

Profitability against Alignment Measures Earnings

Agency theory has a relationship with profitability, that is, the principal enters into a contract to prosper himself by expecting ever-increasing profitability. Meanwhile, agents are motivated to meet their own needs such as obtaining compensation, loans and obtaining investments. Conflicts of interest will increase because the principal cannot directly supervise the daily activities of the agent to ensure that the manager is working according to the wishes of the shareholders.

Research in doing by Oktaviasari (2018) stated that the profitability of a significant effect on the income smoothing which means higher profitability then able to influence managers to do the income smoothing. Based on the explanation above, the hypothesis that can be formulated is:

H2: Profitability affects income smoothing action

Liquidity against Income Smoothing Measures

Based on the concept of agency theory, managers acting as agents will try to prioritize their interests such as increasing company

value and maintaining the continuity of company operations by maintaining liquidity so that the company looks good. However, liquidity that is too high reflects that the company cannot manage liquidity sources properly, but if the liquidity value is low, it will reflect that the company's managers are unable to pay off their short-term obligations. So that in this case, the manager will choose the middle path by taking income smoothing actions in the hope that there will be no excess funds.

In Rahardjo's research (2013), the conclusion is that liquidity has a positive effect on income smoothing action. Based on the explanation above, the hypothesis that can be formulated is:

H3: Liquidity affects income smoothing actions

Financial Leverage on Income Smoothing Measures

Agency theory states that financial leverage can be used to reduce agency problems, this is because financial leverage can convince shareholders that managers finance their business activities using their debts. The risk faced by the principal is very large if the company's debt is getting bigger. The principal party will ask for a higher level of profit so that it will make managers tend to take income smoothing actions.

Lahaya (2017) concluded that if the higher the level of corporate leverage, the company will tend to take income smoothing action. Based on the explanation above, the hypothesis that can be formulated is:

H4: Financial Leverage affects income smoothing action

METHODE

Research Type and Description of the Research Population (Object)

This research is research using a quantitative approach, namely research that analyzes data in the form of numbers, either directly from the results of research or the

results of qualitative processing. This study used a population sample size in this study is much Company manufacturing at the Stock Exchange in 2014-2017.

Sampling Techniques

The population in this study are manufacturing companies listed on the IDX from 2014 to 2017. The sampling technique used was the purposive sampling technique. The sampling method used was purposive sampling method, which is a non-probability sampling method by determining the research sample with several criteria and adjusted to the research objectives.

Data Collection Techniques

The data collection technique used is documentary data, namely the financial statements of the sample companies. Researchers took some of the data contained in the report financial companies sample of 2014-2017. The data is then further processed until it is ready to be tested.

Operational Definition and Measurement of Variables

Bound Variables (Dependent Variable)

The income smoothing action in this study is measured by the Eckel Index (1981) using a dummy variable where the group of companies that do income smoothing is given a value of 1, while the group of companies that do not do income smoothing is given a value of 0 (Belkaoui, 2007: 192).

Independent Variable

In this study, there are four independent variables, namely:

Company size

Company size is calculated using the natural logarithm of total assets (Hartono, 2008: 82). This variable can be measured by the following formula:

Company Capacity = \ln Total Assets

Profitability

Profitability in this study will be measured using a measuring instrument ROA (Return On Assets). Where ROA shows the company's overall ability to generate profits with the total number of assets in the company (Hanafi, 2016: 81). This variable can be measured by the following formula:

$$\text{Return On Assets} = \frac{\text{Profit After Tax (EAT)}}{\text{Total Assets}}$$

Liquidity

Liquidity in this study will be measured using a current ratio measuring instrument. The current ratio (Current Ratio) is a ratio to measure the company's ability to pay its short-term obligations that are due. The calculation of the current ratio is done by comparing total current assets with total current debt (Kasmir, 2016: 134). This variable can be measured by the following formula:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Debt}}$$

Financial leverage

Financial leverage in this study is measured by the debt to equity ratio (DER) obtained from total debt divided by total equity. This ratio for the company will be better if the ratio is getting bigger. This ratio will also provide general guidance regarding the feasibility and financial risk of the company. The formula for finding debt to equity ratio is as follows (Kasmir, 2014: 155):

$$\text{Debt To Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Own Capital}}$$

Data Analysis Techniques

The data obtained during the research process are then analyzed and interpreted to obtain more detailed results. The analysis techniques used in this research are:

Descriptive Statistics

Descriptive statistics are used to describe information from the data in the

study. Based on data from SPSS processed it will be known to the average value (the mean), standard deviation (standard deviation), and the maximum-minimum of each variable. This needs to be done to see the overall picture of the samples that have been collected and meet the requirements to be used as research samples.

Logistic Regression Test

Logistic regression analysis test was used to predict the dependent variable with a dichotomy scale. The dichotomy scale is a nominal data scale using two categories. The reason for using logistic regression analysis is because the data used in this study are non-metric in the dependent variable while the data used in the independent variable are metric. This causes a mix of scales between the dependent and independent variables so that the assumption of the multivariate normal distribution cannot be fulfilled. As a result, there is a change in function to logistics and does not require normality assumptions on the independent variable. Logit analysis is used to analyze quantitative data that reflects two choices or what is commonly called binary logistic regression (Ghozali, 2011).

Logistic regression analysis techniques no longer require a normality test (Ghozali, 2011). The analysis model is as follows:

$$\text{Ln} \frac{P}{1 - P} = \text{Profit Alignment Status}$$

1 for companies that do income smoothing and 0 for companies that do not perform income accounting.

Where:

Ln P = Income Smoothing Status

1 - P

LnTA = Company Size

ROA = Profitability

CR = *Current Ratio*

DER = *Debt to Equity Ratio*

a = Constant

b1 = regression coefficient for firm size b2 = regression coefficient for profitability

b3 = Regression coefficient for liquidity

b4 = Regression coefficient for Financial Leverage

Feasibility Test of Regression Model

The first step to finding out that a logistic regression model is a right model is to first look at the feasibility of the overall model. The eligibility of the regression model is determined based on the value of the Hosmer & Lemeshow's Goodness of Fit Test. If the statistical value of Hosmer & Lemeshow's Goodness of Fit Test shows a result greater than 0.05, it can be concluded that the model can predict the value of the observation and it can be said that the model is acceptable because of its conformity with the observation data. The basis for decision making is as follows

- If the probability > 0.05 H0 is accepted
- If the probability < 0.05, H0 is rejected.

Test total Model

The next step is to determine whether the independent variables added to the model can significantly improve the regression model used. By looking at the -2 log-likelihood value at block number = 0 (beginning block), which is the first model with only constants without any independent variables, the value of -2 log-likelihood is obtained, and the statistical value - 2 log-likelihood number 1 is decreasing. This test is carried out to assess the hypothesized model fit with the data or not. Testing is done by comparing the value between -2 Log Likelihood at the beginning (block number = 0) with the -2 log-likelihood value at the end (block number = 1).

Coefficient of determination (Adjusted R2

The coefficient of determination (Adjusted R2) is used to measure the ability of the model to explain the variation in the dependent variable. The value of the coefficient of determination is between 0 and 1. A small R2 value indicates the ability of the independent variable to explain the limited variation of the dependent variable. A value

close to 1 means that the independent variation provides almost all the information needed to predict the variation in the dependent variable.

t test (Partial Test)

This time the test was conducted to find out that each independent variable had a significant effect on the dependent variable. The test form is:

1. Formulating a hypothesis (Ha)

H 0A: $b_1 \dots \dots \dots n = 0$, which means that there is no significant effect of the four independent variables

H 1A: $b_1 \dots \dots \dots n \neq 0$, which means that there is a significant influence from the four independent variables

The criteria for evaluating the hypothesis in this t-test are:

In this study, the value of t count will be compared with t table at a significant level (α) = 5%

1. H 0 is accepted if t count \leq t table or a significance value $\geq \alpha$ (0.05)
2. H1 is accepted if t count $>$ t table or a significance value $< \alpha$ (0.05)

RESULTS

Descriptive Statistical Analysis

Descriptive statistics are an explanation of each variable under study, both independent and dependent variables, by taking into account the minimum, maximum, average and deviation standards. Table 1 below will display the results of descriptive statistical analysis.

Table 1: results of descriptive statistical analysis

	N	Minimum	Maximum	Mean	Std. Deviation
PERATAAN LABA	132	0	1	.19	.393
UKURAN PERUSAHAAN	132	25.620	32.150	28.65152	1.582296
PROFITABILITAS	132	.0001	.2904	.088749	.0596237
LIKUIDITAS	132	.730	12.990	2.81758	1.808793
FINANCIAL LEVERAGE	132	.077	2.106	.69382	.477128
Valid (listwise)	N132				

Source: SPSS output

From the descriptive statistical test results in table 1 above, it can be seen:

a. Income Smoothing (IPL)

From table 1 it can be seen that the minimum value of IPL uses a dummy variable so that the largest value is 1 which means doing income smoothing and the lowest value is 0 which means not doing income smoothing. The standard deviation of income smoothing is 0.393.

b. Company Size (SIZE)

From table 1 it can be seen that the minimum SIZE value is 25.62 and the maximum value is 32.15. This shows that the size of the SIZE which is the sample of this study is between 25.62 and 32.15 with an average of 28.65152 at standard deviation 1.582296.

c. Profitability (ROA)

From table 1, it can be seen that the minimum ROA value is 0.0001 and the maximum value is 0.2904. This shows that the amount of ROA which is the sample of this study is in the number between 0.0001 to 0.2904 with an average of 0.088749 at a standard deviation of 0.0596237.

d. Liquidity (CR)

From table 1, it can be seen that the minimum CR value is 0.730 and the maximum value is 12.990. This shows that the size of the CR which is the sample of this study is in the number between 0.730 to 12.990 with an average of 2.81758 at a standard deviation of 1.808793.

e. Financial Leverage (DER)

From table 1, it can be seen that the minimum DER value is 0.077 and the maximum value is 2.106. This shows that the DER size in the sample of this study is between 0.077 to 2.106 with an average of 0.69382 with a standard deviation of 0.477128.

Logistic Regression Analysis Test

This study uses logistic regression analysis which has several advantages when

compared to ordinary regression. This advantage is that it can predict the probability of an event. Logistic regression analysis techniques no longer require a normality test (Ghozali, 2012). In table 2 the following test results are obtained:

Table 2: Logistic Regression Test Results

	B	S.E.	Wald	d	Sig.	Exp(B)
Step 1 ^a						
X1	.164	.152	1.162	1	.281	1.178
X2	10.284	4.677	4.836	1	.028	29264.232
X3	-.856	.319	7.196	1	.007	.425
X4	-2.591	1.045	6.143	1	.013	.075
Const	-3.288	4.785	.472	1	.492	.037

In table 2 above, the logistic regression equation can be obtained as follows:

$$\ln P = a + b1\ln TA + b2ROA + b3CR + b4DER + e$$

$$1 - P$$

$$\ln P = -3,288 + 0,164 \ln TA + 10,284 ROA - 0,856 CR - 2,591 DER + e$$

$$1 - P$$

Where:

$$\ln P = \text{Income Smoothing Status}$$

$$1 - P$$

1 for companies that do income smoothing and 0 for companies that do not do income smoothing.

$$\ln TA = \text{Company Size}$$

$$ROA = \text{Profitability}$$

$$CR = \text{Current Ratio}$$

$$DER = \text{Debt to Equity Ratio}$$

$$e = \text{Residual Error}$$

Based on the first logistic regression equation, it is found that the firm size variable (X1), profitability (X2) has a positive coefficient. Meanwhile, the liquidity variable (X3), Financial Leverage (X4) and the income smoothing action variable (Y) have a negative coefficient.

Constant Coefficient (Y) : From the test results using logistic regression, the constant coefficient value shows a negative coefficient value of -3.3288. This implies that if the

company size, profitability, liquidity, and financial leverage are considered constant, the income smoothing action will decrease by 3.3288.

First Regression Coefficient (X1) : The equation above shows that the company size variable has a positive coefficient value of 0.164 with Exp (B) of 1.178 (11.78%) with a variable significant value of $0.281 > 0.05$. This means that the firm size variable does not have a significant effect on income smoothing even though the coefficient value is positive. This is not under the initial hypothesis in this study, so that H1 in this study is rejected, which means that the firm size variable cannot affect income smoothing.

Second Regression Coefficient (X2) : The profitability variable shows that the positive coefficient value is 10.284 with Exp (B) of 29264.232 with a variable significant value of $0.028 < 0.05$. This means that the profitability variable has a positive effect on income smoothing action following the initial hypothesis in this study. So that H2 in this study is accepted, thus the profitability variable can affect income smoothing.

Third Regression Coefficient (X3) : the liquidity variable shows that the negative coefficient is -0.856 with Exp (B) of 0.425 (42.5%) with a significant variable value of $0.007 < 0.05$. This means that the liquidity variable has a significant negative effect on income smoothing and is following the initial hypothesis in this study. So that H3 in this study is accepted, which means that the liquidity variable can affect income smoothing.

Coefficient of Fourth Regression (X4) : The financial leverage variable shows that the negative coefficient value is -2.591 with Exp (B) 0.075 (7.5%) with a variable significant value of $0.013 < 0.05$. This means that financial leverage has a significant negative effect on income smoothing so that it is under the initial hypothesis in this study. So that H4 in this study is accepted, thus the financial leverage variable can affect income smoothing.

Feasibility Test of Regression Model

The first step to finding out that a logistic regression model is a right model to use, first look at the feasibility of the overall model. This study was tested using the Hosmer and Lemeshow Test. In table 3, the following test results are obtained:

Table 3: Results of the Regression Model Feasibility Test

Step	Chi-square	df	Sig.
1	5.346	8	.720

In table 3, from the test results, the Chi-Square value is 5.346 with a significant value of 0.720. From the test results, it can be seen that the significant value is greater than $\alpha (0.05)$, which means that there is no significant difference between the predicted classification and the observed classification. So it can be concluded that the logistic regression model can be used for further analysis.

Whole Model Test

Furthermore, to find out whether the independent variables added to the model can significantly improve the regression model used, the overall model is tested by looking at the statistical value of $-2\log$ likelihood in block number = 0 (beginning block), it can be seen whether the independent variables added to the model significantly improve the model can be seen at $-2\log$ likelihood. In block = 0 (beginning block), that is, model 1 gets a value of 129.077. and shows that block number 1 is 116,329. So that there is a decrease from the value of block number 0 of 129.077 in block number 1 to be 116.329. So it can be concluded that this regression model is feasible to use.

Determination Coefficient Test (R2)

In this study, the coefficient of determination is used to determine how much the combination of the independent variables

consisting of company size, profitability, liquidity, and financial leverage can explain variations in the dependent variable, namely income smoothing. the results of the determination coefficient test are as follows: it is known that the Nagelkerke R Square value is 0.224, which means that 22.4% of the variation in income smoothing can be explained by the variables SIZE, ROA, CR, DER and the remaining 77.6% is explained by other variables not included in the study.

Partial Hypothesis Test (T-Test)

This test is done partially for the variables of company size, profitability, liquidity and financial leverage. The t-test shows how far the influence of one independent variable individually in explaining the dependent variable (Ghozali, 2005). the t-test results are obtained as follows: that the results of partial hypothesis testing (t-test) are as follows:

1. Test the first hypothesis

The first hypothesis test aims to determine whether the firm size variable has a positive effect on income smoothing. it is known that the variable company size has a positive effect with a coefficient value of 0.164, but the significant value of company size is $0.281 > 0.05$. So that company size does not affect income smoothing action, according to the initial hypothesis of the study, H1 in this study was rejected.

2. Second Hypothesis Test

The second hypothesis test aims to determine whether the profitability variable has a positive effect on income smoothing action. it is known that the profitability variable has a positive effect with a coefficient value of 10.284 and a significant value of 0.028 less than 0.05. So that under the initial hypothesis that profitability has a significant positive effect on income smoothing action, then H2 in this study is accepted

3. Third Hypothesis Test

The third hypothesis test aims to determine whether the liquidity variable has a positive effect on income smoothing action. it is known that the liquidity variable has a negative effect with a coefficient value of -0.856 and a significant value of 0.007 less than 0.05. So that liquidity in this study has a significant negative effect, then H3 in this study is accepted.

4. Test the fourth hypothesis

The fourth hypothesis test aims to determine whether the financial leverage variable has a positive effect on income smoothing action. it is known that the financial leverage variable has a negative effect with a coefficient value of -2.591 and a significant value of 0.013 less than 0.05. So that financial leverage in this study has a significant negative effect, then H4 in this study is accepted.

DISCUSSION

The Effect of Company Size on Income Smoothing Actions, The results of the study, firm size variables do not affect income smoothing action. This first hypothesis is not accepted because the bigger the size of the company will get tight supervision from the government, analysts, and investors so that managers do not dare to take income smoothing actions. The tight supervision will prevent managers of large companies from implementing income smoothing practices because it is likely that the government, analysts and investors will find out, thus damaging the company's image. This study is under the results of research by Djoko (2017) and Lestari (2017) which show that company size calculated by Ln total assets has no positive effect on income smoothing actions.

Effect of Profitability on Income Smoothing Measures: The results of the research variable profitability have a significant positive effect on income smoothing action. The acceptance of this second hypothesis is because investors and

creditors tend to use ROA information as a benchmark in assessing the effectiveness of a company in managing its resources. Investors are more interested in investing in companies that have the potential to generate high profits. This study is under the research results of Aminah (2017) and Oktaviasari (2018) which state that profitability has a significant positive effect on income smoothing action, this is under the concept of agency theory, which states that managers who act as agents will try to prioritize their interests such as increase company value and maintain the continuity of company operations by maintaining profitability so that the company looks stable. The results of this study are inconsistent with the results of the research of Juniarti (2004) and Yusuf (2004) which show that profitability calculated by ROA has no positive effect on income smoothing measures.

Effect of Liquidity on Income Smoothing Measures: The results of the study of the liquidity variable affect income smoothing action. The acceptance of this third hypothesis could be because the company's liquidity ability is very much considered by investors because it is related to the company's ability to pay off its short-term debt. The higher the liquidity, the better the company's ability to pay off its short-term obligations, but if the liquidity is higher, it will be considered bad because liquidity is too high, indicating bad management in managing liquidity sources so that it triggers managers to smooth income so that their performance is assessed. very nice. This study is following the results of research by Rahardjo (2013) and Wibowo, et al (2011) which show that liquidity calculated by the Current Ratio has a positive effect on income smoothing action.

Effect of Financial Leverage on Income Smoothing Measures: The results of the research variable financial leverage affect income smoothing action. The acceptance of this fourth hypothesis can be because if the company has a high level of financial leverage

or the greater the company's debt, the greater the risk faced by investors, so that management will smooth income so that investors are interested in investing their capital in the company. This study is following the results of research by Lahaya (2017) and Arleen et al. (2005) which show that financial leverage calculated by the Debt to Equity Ratio has a positive effect on income smoothing action. Agency theory states that financial leverage can be used to reduce agency problems, this is because financial leverage can convince shareholders that managers finance their business activities using their debts.

CONCLUSION

Based on the results of the data analysis described in the previous chapter, it can be concluded that:

1. The firm size variable (SIZE) has no significant effect on income smoothing measures in manufacturing companies listed on the Indonesia Stock Exchange.
2. Profitability variable (ROA) has a significant positive effect on income smoothing action in manufacturing companies listed on the Indonesia Stock Exchange.
3. The liquidity variable (CR) has a significant effect on income smoothing measures in manufacturing companies listed on the Indonesia Stock Exchange.
4. The variable Financial Leverage (DER) has a significant effect on income smoothing action in manufacturing companies listed on the Indonesia Stock Exchange.

From the research results and conclusions that have been stated previously, the suggestions that the researcher can give are:

1. For investors before investing in a company, you should first consider the company to be invested in, for example by looking at the company profile or looking

for the company's financial information which aims to assist in decision making.

2. For companies, it is better if the company's performance is to improve without prioritizing personal interests that can harm other parties.
3. For further research, it is better to use a longer research period and to add other variables to the test such as the variable stock price, bonus plans, and company age so that the results can be more accurate. Future research is expected to be able to take samples of all companies listed on the Indonesia Stock Exchange with the hope that the research results will be more representative.

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