



THESIS

**THE INFLUENCE OF COMPANY SIZE AND PROFITABILITY
ON INCOME SMOOTHING IN COMPANIES ENLISTED IN
INDONESIA STOCK EXCHANGE**

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ABSTRACT

The Objective of this study is to examine the influences of company size and profitability individually and simultaneously on income smoothing. The observed population is the whole manufacturing and financial sector companies enlisted in Indonesia Stock Exchange in period of year 2002 until 2006. Population samples are taken by applying purposive sampling method. The selected company that match to be the samples of this research consist of 15 companies. Research design used in this research is hypothesis test research method that is done by using simple linear regression and double linear regression. The result of this study show that there is a positive but not significant effect of profitability individually on income smoothing. There are effects of profitability and company size simultaneously toward income smoothing. Profitability gives negative effects while company sizes give positive effects. Based on the result of index eckel calculation (1981), it can be realized that the companies enlisted in Indonesia Stock Exchange conduct income smoothing practice.

Keyword : Earning Management, Income Smoothing

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Capital market is one of the alternatives where the investors can invest their funds. During the commerce transaction in the capital market, the investors should be aware in making a decision. For that reason, various type of accounting information is needed to describe the work of emitter completely and transparently.

Frequently, The investors concern with the strength or the weakness of a company. They focus on the company's net income, and not focusing with the operation income. While, the true company's net income can be seen from the operation income, the net income after taxation usually contains the non operational items which are potentially making a blurred vision about the company.

One of the common actions taken by management to increase financial statement performance in order to have a better look is earning management. This action can be done in various ways for certain purpose.

Income information is a very essential aspect for both company's internal and external parties. It is a component of company financial statement intended to examine management performance, to assist estimating representative income's potency in a long term, and to predict the risk of investment or loan fund (Kirschenheiter and Melumad, 2002).

One of the reasons in doing income smoothing is to fulfil company owner's needs, such as increasing the company value, so that the company will be considered as a low risk company (Foster in Dwiatmini and Nurkholis, 2001) and increasing the price of company stock (Kirschenheiter and Melumad, 2002). Another reason is to gain personal satisfaction of necessity, as in getting compensation (Et al Wild in Pool, 2004), and in keeping their occupation position (Fudenberg and Tirole in Spohr, 2004).

Through the company management has a certain purpose and reason in doing income smoothing, the action keeps having a capability of changing the content of information of company's income. The presence of this information changes on a company's net income, in many ways, will leave an influential impact on the reaction of those using the related information, as well as the application of income smoothing in a company. These are the things that financial statement user should be aware of, since both added or reduced information will possibly be able to lead into a wrong decision making.

Influencing factors on income smoothing are varied, as told by some late researches. Those factors are: company size, profitability, industry sectors, stock prices, operation leverage, bonus plan and nationality. But in some cases, though measuring the same items, the result of the research can differ.

CHAPTER V

CLOSING

5.1. Conclusion

Based on the analysis and study that has been conducted, those following conclusions are resulted:

- 1) There is a positive but not significant effect of company size individually on income smoothing practice in go public company in Indonesia Stock Exchange in year 2002-2006. It shows that company size variable has regression coefficient in positive value (0,051) and p value that is bigger than 0,05 ($0,408 > 0,05$). So that, the conclusion is company size has the positive effect, but this variable does not influence income-smoothing practice significantly. It is consistent to Ilmainir research result (1993); Jin and Machfoedz (1998); Jatiningrum (2000); and Yusuf and Soraya (2004).
- 2) There is a negative but not significant effect of profitability individually on income smoothing in companies enlisted in Indonesia Stock Exchange year 2002-2006. It shows that profitability variable has the regression coefficient in negative value (-0,073) and p value that is bigger than 0,05 ($0,318 > 0,05$). So that, the conclusion is company size has the negative effect, but this variable does not influence income smoothing significantly. It is not consistent to research results of Narsa, et al. 2003, Suranta and Merditusi, 2004.

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