

THE EFFECT OF PROFITABILITY, CASH HOLDING, COMPANY SIZE, AND FINANCIAL LEVERAGE ON INCOME SMOOTHING WITH GCG AS A MODERATING VARIABLE

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Abstract

This study aims to examine and analyze the influence of profitability, cash holdings, company size, and financial leverage on earnings management practices in technology sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023. In addition, this study also aims to explore the moderating role of Good Corporate Governance (GCG) in strengthening or weakening the influence of these variables on earnings management practices. The importance of this research lies in its effort to fill the gap in the literature on earnings management in the technology sector and to provide practical implications for regulators, company management, and investors to enhance transparency and accountability in financial reporting. This study also uses a quantitative approach, purposive sampling, and logistic regression analysis, the results of the study show that cash holding has a significant influence on income equalization. Meanwhile, profitability, company size, and financial leverage do not significantly affect revenue alignment. Furthermore, the implementation of GCG does not moderate the influence of these variables on income equalization.

Key Words: *Income smoothing, Profitability, Cash Holding, Company Size, Financial Leverage, Good Corporate Governance*

INTRODUCTION

Amid the dynamics of the modern business world, companies not only strive to maintain their existence but also aim to consistently demonstrate optimal performance to stakeholders. One way to showcase a company's stability is through financial statements. These statements serve as a key benchmark for investors, creditors, and other stakeholders in assessing a company's performance and financial stability. One common practice employed by corporate management to maintain profit stability across periods is income smoothing. According to Nurani and Maryanti (2021), this practice is often used to create the impression of stable profits, reduce perceived risks for investors, and sustain market confidence in the company.

Theoretically, the practice of income smoothing is explained through agency theory, which illustrates the potential for conflicts of interest between management as the agent and shareholders as the principal. Income smoothing is a process in which management deliberately normalizes or stabilizes earnings with the aim of achieving desired profit outcomes, stable earnings across periods are generally preferred by external parties, such as creditors and investors, who perceive that stable earnings indicate lower risk for the company (Milasari & Maryanti, 2023). Therefore, although income smoothing can be beneficial in the short term, this practice carries the risk of producing financial information that is not entirely accurate, potentially leading to negative impacts on stakeholders' decision-making.

In Indonesia, the practice of income smoothing has drawn significant attention in recent years, particularly following the discovery of financial statement manipulation in major companies. For example, PT Waskita Karya Tbk, a state-owned construction company, faced severe financial challenges. In 2020, the company reported a drastic decline in operating revenue, decreasing by 48.37% from IDR 31.38 trillion in 2019 to IDR 16.2 trillion. PT Waskita Karya recorded a loss of IDR 7.4 trillion, while cash flows from operating, investing, and financing activities showed severe imbalances. Although there was slight improvement in 2021, the company still reported a loss of IDR 1.83 trillion, and in 2022, it reported operating revenue of IDR 15.3 trillion with a reduced loss of IDR 1.67 trillion. These prolonged

financial issues prompted the government, through the Ministry of State-Owned Enterprises, to propose a capital injection for the company, which drew public and parliamentary scrutiny (Olavia, 2023). This case underscores the critical importance of financial statement transparency, particularly when public companies engage in income smoothing practices that risk presenting profits inconsistent with their actual financial condition.

Another case that garnered attention was PT Envy Technologies Indonesia Tbk, a technology company also suspected of engaging in income smoothing. In 2019, PT Envy Technologies reported a significant surge in revenue, reaching IDR 188.58 billion, a 135% increase from the previous year. However, in 2020, the company's financial statements revealed severe discrepancies, including a 99% decrease in cash and a sharp increase in short-term liabilities. These issues prompted the Indonesia Stock Exchange (IDX) to suspend the trading of the company's shares starting in December 2020, with the suspension lasting two years as a sanction for financial reporting violations (Christian et al., 2022). The case of PT Envy Technologies not only highlights the potential occurrence of income smoothing but also demonstrates that such practices can destabilize a company's financial position and diminish its credibility in the eyes of investors. The following table presents technology sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period that were suspected of engaging in income smoothing.

Table 1. Data on Technology Sector Companies Suspected of Engaging in Income Smoothing for the Period 2020–2023

No	Code	Change		Eckel index	Status
		Profit	Sales		
		CVΔI	CVΔS	CVΔI/CVΔS	
1	DIVA	-45.312	11.748	-3.857	Engaging in Income Smoothing
2	DMMX	11.495	0.803	14.314	Not Engaging in Income Smoothing
3	EMTK	4.208	-8.901	-0.473	Engaging in Income Smoothing
4	GLVA	2.801	-16.917	-0.166	Engaging in Income Smoothing
5	MCAS	-2.155	5.744	-0.375	Engaging in Income Smoothing
6	MLPT	10.556	1.203	8.778	Not Engaging in Income Smoothing
7	MTDL	0.881	1.327	0.664	Engaging in Income Smoothing
8	NFCX	-1.800	0.944	-1.907	Engaging in Income Smoothing
9	TECH	-3.914	-2.031	1.928	Not Engaging in Income Smoothing
10	TFAS	-4.444	-15.559	0.286	Engaging in Income Smoothing
11	WIFI	1.247	1.652	0.755	Engaging in Income Smoothing

Source: Processed Data by the Researcher, 2024

The table presents the calculation results of the Eckel Index, which is derived from the post-tax profit index and the sales index. Eight companies are identified as engaging in income

smoothing, as their Eckel Index values are less than 1, while three companies are not identified as engaging in income smoothing, as their Eckel Index values exceed.

Several studies have shown that income smoothing practices are influenced by various factors, including profitability, cash holdings, company size, and financial leverage. Profitability is a key factor motivating companies to engage in income smoothing, as stable profits can enhance investor confidence and maintain a positive image of the company. A study by Maotama and Astika (2020) indicates that companies with high profitability tend to be more stable in maintaining their earnings, while companies with fluctuating profits are more likely to engage in income smoothing to maintain investor perception. The cash holding factor also plays an important role due to its highly liquid nature, making it easy to convert into cash and, thus, easy to conceal for inappropriate actions (Agitia & Dillak, 2021). Meanwhile, company size is often used as a benchmark by management in assessing the need for income smoothing, especially for large companies, which generally attract more attention from the public and investors.

Aside from financial factors, the implementation of Good Corporate Governance (GCG) is also considered crucial in limiting income smoothing practices. Good corporate governance refers to an effective and transparent management system that prioritizes the long-term interests of the company. In this regard, the oversight role of independent commissioners, institutional ownership, and other leadership structures helps maintain the company's accountability. A study by Hidayah et al. (2020) shows that companies with good GCG practices tend to have higher financial transparency, thereby reducing management's tendency to engage in excessive income smoothing. In the context of technology companies, the implementation of GCG is also deemed important, as this sector experiences high income fluctuations and faces risks that differ from those of other sectors (Arnell et al., 2023).

This research focuses on technology sector companies listed on the Indonesia Stock Exchange from 2020 to 2023 for several reasons. First, technology sector companies are one of the sectors experiencing rapid growth and have a strategic role in the global economy. Second, technology sector companies allow researchers to explore how GCG practices moderate the relationship between other factors such as profitability, cash holding, company size, and financial leverage with income smoothing. Third, technology companies often face significant fluctuations in revenue and profit. The potential of the technology sector and its subsectors indicates a need for further knowledge about their relationship with the financial market. (Arnell et al., 2023). This creates an opportunity to examine how factors such as profitability, cash holding, company size, and financial leverage influence income smoothing practices.

Based on the background, this study is conducted to analyze the effect of profitability, cash holdings, company size, and financial leverage on income smoothing. Additionally, the role of good corporate governance as a moderating variable will also be analyzed, with the expectation of providing a deeper understanding of how corporate financial factors can be managed to achieve financial statement stability and enhance investor confidence in the company

LITERATUR REVIEW

Agency Theory

Agency theory explains the relationship between the owner (principal) and the manager (agent), where the principal grants authority to the agent to manage their resources. In carrying out this role, managers often possess more detailed information about the company's condition compared to the principal, leading to information asymmetry (Jensen and Meckling, 1976). This imbalance creates agency conflicts, where agents may prioritize their own interests, such as maintaining earnings stability to enhance their image or meet certain performance targets, rather than improving the welfare of the principal (Wulan, 2021).

Income smoothing

Income smoothing is a strategy employed by management to reduce fluctuations in reported profits, thereby creating an impression of stability in the company's performance. This technique is carried out through two methods: real smoothing, involving adjustments in production and investment activities, and artificial smoothing, which includes accounting manipulation such as shifting income or expenses between years (Nathania, 2023). This practice is measured using the Eckel Index, which

compares the variation in net profit and sales, where an index value of less than one indicates the presence of income smoothing (Puspa Sari et al., 2021).

Profitability

Profitability reflects the effectiveness of management in generating profits through its business activities. High profitability is indicated as a positive signal to investors, as it suggests that the company has strong operational performance. Profitability is commonly measured using return on assets (ROA), which is the ratio of net income to total assets. This ratio illustrates how efficiently management utilizes the company's assets to generate profits (Suryadi, 2023).

Cash Holding

Cash holding is defined as assets used by managers as a tool to carry out the company's business activities that are highly liquid and to protect the company from cash shortfalls (Afniofia et al., 2023). Cash holding is calculated by comparing the total cash and cash equivalents with the company's total assets (Agitia and Dillak, 2021).

Company Size

Company size reflects the scale of operations, which can be measured by total assets, log size, or market capitalization. The larger the company size, the greater the public attention and scrutiny it receives. According to agency theory, larger companies tend to have more agency problems and, therefore, are more motivated to engage in income smoothing to maintain the perception of financial stability (Putra and Astika, 2023).

Financial Leverage

Financial leverage measures the extent to which a company uses debt to finance its operations and investments. High leverage indicates that the company has significant obligations, which can be risky for shareholders. To maintain investor confidence and minimize risk, managers often engage in income smoothing to stabilize reported earnings (Milasari and Maryanti, 2023). Financial leverage can be measured using the debt-to-equity ratio (DER), which compares total debt to the company's equity (Diah Pratami et al., 2024).

Good corporate governance (GCG)

The system that directs and supervises the performance of a company is referred to as good corporate governance (GCG). In the context of income smoothing, the implementation of effective GCG acts as an oversight mechanism that can curb opportunistic behavior by managers. GCG, measured by the size of the board of commissioners, helps minimize manipulative practices in financial reporting by ensuring that the financial statements produced are accountable (KNKG, 2006; Diah Pratami et al., 2024).

Research Hypothesis

Profitability is a measure of a company's ability to generate profits from its operational activities. Profitability is a form of a company's ability to generate profits through its effectiveness in utilizing available resources (Ikawatia & Wijayanti, 2023). An increase in profitability reflects the company's high earnings, which attracts investors to invest. Based on this, the hypothesis proposed is:

H1: Profitability has an effect on income smoothing

A company can have sufficient liquidity to support financial stability if it holds high cash reserves. In some cases, management may use cash holdings to smooth reported earnings, thereby reducing income fluctuations (Inayah and Izzaty, 2021). Based on this study, the hypothesis proposed is:

H2: Cash holding has an effect on income smoothing

Companies with larger sizes often become the focus of attention for investors and the public. This encourages management of large companies to engage in income smoothing to create the impression of financial stability, which can enhance stakeholder confidence (Saputri and Febyansyah, 2023). Based on this study, the hypothesis formulated is:

H3: Company size has an effect on income smoothing

High financial leverage indicates that a company relies more on debt to finance its operations. To maintain a positive perception in the eyes of investors and creditors, company management may choose

to engage in income smoothing (Surya Indrawan et al., 2020). Based on this concept, the hypothesis proposed is:

H4: Financial leverage has an effect on income smoothing

Good corporate governance (GCG) plays a role in overseeing managerial actions and reducing manipulative practices, thus it is expected to mitigate the effect of profitability on income smoothing. With the implementation of good GCG, companies tend to be more transparent in financial reporting (Jam'ah, 2024). Therefore, the hypothesis proposed is:

H5: Good corporate governance moderates the effect of profitability on income smoothing.

The level of oversight in GCG allows for more controlled use of company cash, thereby reducing the risk of managers engaging in income smoothing practices (Bertand Arya and Pamungkas, 2023). Based on this, the hypothesis formulated is:

H6: Good corporate governance moderates the effect of cash holding on income smoothing.

Large company size is often accompanied by stronger implementation of GCG, which helps oversee the company's financial reporting and reduce income smoothing practices (Pratami et al., 2024). Based on this reasoning, the hypothesis proposed is:

H7: Good corporate governance moderates the effect of company size on income smoothing.

High financial leverage can increase a company's tendency to engage in income smoothing. However, the implementation of effective GCG can serve as a supervisor in managerial decision-making, thereby reducing the effect of financial leverage on income smoothing practices (Istikasari and Wahidahwati, 2022). Based on this study, the hypothesis proposed is:

H8: Good corporate governance moderates the effect of financial leverage on income smoothing.

RESEARCH METHOD

This study is a quantitative research aimed at examining the effect of profitability, cash holding, company size, and financial leverage on income smoothing with the moderation of Good Corporate Governance (GCG). The data used in this study were obtained from the financial statements of technology sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023.

Population and Sample

The population of this study consists of 47 technology sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. The sample was selected using a purposive sampling method based on the following criteria:

Table 2. Sample Selection Criteria Research Variables

Population: Technology Sector Companies Listed on IDX	47
Sample Selection Based on Criteria (Purposive Sampling) for the 2020–2023 Period	
1. Companies Not Continuously Listed on IDX from 2020–2023	-25
2. Companies Not Reporting Financial Statements for the 2020–2023 Period	-2
3. Companies Not Reporting Financial Statements in Rupiah	-1
4. Companies Not Reporting Profits for the 2020–2023 Period	-11
Research Sample	8
Total Sample (n x research period) = 4 x 11	32

There are three types of variables used in this study, namely the independent variable denoted by the letter 'X,' the dependent variable denoted by the letter 'Y,' and finally, the moderating variable denoted by the letter 'Z.' The indicators of the research variables are outlined in the table below:

Table 3. Definition and Identification of Variables

No	Variable	Definition	Indicator	Source
Independent Variable (X)				
1	<i>Profitability (X1)</i>	Profitability is a ratio used to measure a company's ability to generate profits as well as the level of effectiveness of its management.	$\text{Return On Asset (ROA)} = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$	(Setyaningsih dkk., 2021)
2	<i>Cash holding (X2)</i>	Cash holding refers to the cash available within a company, which is used to carry out various operational activities of the company.	$\text{Cash holding} = \frac{\text{Cash and Cash Equivalents}}{\text{Total Assets}}$	(Jannah and Widiyati, 2023)
3	<i>Company size (X3)</i>	Company size is a scale that classifies the size of a company in various ways, including total assets, log size, market value of shares, and others.	$\text{Company size} = Ln(\text{Total Assets})$	(T. I. and Soewignyo dan Sondakh, 2020)
4	<i>Financial leverage (X4)</i>	Financial leverage is a financial ratio that measures a company's ability to pay all of its obligations, both short-term and long-term liabilities.	$\text{Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$	(Setyaningsih dkk., 2021)
Dependent Variable (Y)				
5	<i>Income smoothing (Y)</i>	Income smoothing is an action taken by managers to intentionally manipulate the fluctuations in reported earnings, so that the company's profits reach a level considered reasonable or appear stable, in accordance with accounting and management principles.	$\text{Eckel Index} = \frac{CV \Delta I}{CV \Delta S}$	(Puspa Sari dkk., 2021)
Moderating Variable (Z)				
6	<i>Good corporate governance (Z)</i>	Good Corporate Governance (GCG) is a mechanism that provides rules and controls within a company to create added value. In this study, GCG is proxied by the number of the board of commissioners.	$\text{Board Size} = \text{Number of board members}$	(Diah Pratami et al., 2024)

Data Analysis Technique

This study utilizes SPSS 29 software with descriptive statistical analysis methods. Additionally, logistic regression analysis is applied because the dependent variable, income smoothing, is a dummy variable of a categorical nature (with a value of 1 for companies engaging in income smoothing practices and 0 for those that do not). This analysis technique is chosen to examine the relationship between independent variables (X) such as profitability, cash holding, company size, and financial leverage with the dependent variable (Y), which is income smoothing. The study also employs an interaction test in the form of Moderated Regression Analysis (MRA) due to the presence of a moderating variable (Z), which is good corporate governance. The logistic regression model used in this study is as follows:

$$\ln(P/(1-P)) = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5*Z + \beta_6X_1*Z + \beta_7X_2*Z + \beta_8X_3*Z + \beta_9X_4*Z + e$$

Where:

- Ln (P/(1-P)) : Income smoothing
 α : Constant
 $\beta_1 - \beta_9$: Regression Coefficient
 X_1 : Profitability Variable
 X_2 : Cash Holding Variable
 X_3 : Company Size Variable
 X_4 : Financial Leverage Variable
 Z : Moderating Variable
 e : Estimated Probability Error

RESULTS AND DISCUSSION

Descriptive Statistics

Table 4. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	32	.001	.308	.07684	.068851
Cash Holding	32	.012	.315	.15153	.077787
Company Size	32	26.135	31.426	28.32303	1.473965
Financial Leverage	32	.12	3.37	.8679	.77332
Good Corporate Governance	32	2.000	6.000	3.12500	1.128802
Income Smoothing	32	.000	1.000	.75000	.439941
Valid N (listwise)	32				

Source: Processed Data by the Researcher, 2024

Based on the results of the descriptive analysis, the following information is obtained regarding the data collected by the researcher. The profitability variable has a minimum value of 0.001 and a maximum of 0.308, with an average of 0.07684 and a standard deviation of 0.068851. For the cash holding variable, the minimum value found is 0.012 and the maximum is 0.315, with an average of 0.15153 and a standard deviation of 0.077787. The company size variable has a minimum value of 26.135

and a maximum of 31.426, with an average of 28.32303 and a standard deviation of 1.473965. The financial leverage variable has a minimum value of 0.120 and a maximum of 3.370, with an average of 0.8679 and a standard deviation of 0.77332. The good corporate governance variable has a minimum value of 2 and a maximum of 6, with an average of 3.215 and a standard deviation of 1.128802. Finally, the income smoothing variable is a dummy variable with a minimum value of 0 and a maximum of 1, where a value of 0 indicates companies that do not engage in income smoothing, and a value of 1 indicates companies that do.

Model Feasibility Test

Table 5. Uji Hosmer and Lemeshow

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	12.224	8	.141

Source: Processed Data by the Researcher, 2024

Based on the model feasibility test, the Chi-Square value obtained is 12.224 with a significance value of 0.141 which is greater than 0.05. This indicates that H0 is accepted, meaning the constructed regression model is appropriate.

Overall Model Test

Table 6. Overall Model Fit Test

Iteration History ^{a,b,c,d}								
Iteration		-2 Log likelihood	Coefficients					Good Corporate Governance
			Constant	Profitability	Cash Holding	Company Size	Financial Leverage	
Step 1	1	20.980	-14.807	-7.987	-12.907	.732	-.640	-.577
	2	16.386	-29.004	-12.589	-23.227	1.398	-.912	-1.173
	3	15.089	-43.243	-15.877	-31.584	2.044	-1.120	-1.741
	4	14.876	-52.386	-17.471	-36.118	2.448	-1.251	-2.059
	5	14.866	-55.057	-17.832	-37.335	2.563	-1.291	-2.138
	6	14.865	-55.245	-17.853	-37.416	2.571	-1.294	-2.143
	7	14.865	-55.245	-17.853	-37.416	2.571	-1.294	-2.143
a. Method: Enter								
b. Constant is included in the model.								
c. Initial -2 Log Likelihood: 35.989								
d. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.								

Source: Processed Data by the Researcher, 2024

Based on the results of the overall model fit test, the initial -2 Log Likelihood (-2LL) value was recorded at 35.989, while the final -2 Log Likelihood (-2LL) value is 14.865, indicating a significant decrease. This reduction in the -2 Log Likelihood (-2LL) value suggests that the regression model is appropriate and well-fitted to the hypothesized data.

Coefficient of Determination Test

Table 7. Nagelkerke R Square Test

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	14.865 ^a	.483	.716

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

Source: Processed Data by the Researcher, 2024

Based on the results of the coefficient test, the Nagelkerke R Square value obtained is 0.716 or 71,6%, meaning that the variables in this study, namely profitability, cash holding, company size, and financial leverage, can fully explain the dependent variable, income smoothing (100%).

Hypothesis Testing

Table 8. t-Test

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Profitability	-17.853	10.461	2.913	1	.088	.000
	Cash Holding	-37.416	15.690	5.687	1	.017	.000
	Company Size	2.571	1.324	3.769	1	.052	13.081
	Financial Leverage	-1.294	.830	2.429	1	.119	.274
	Good Corporate Governance	-2.143	1.163	3.393	1	.065	.117
	Constant	-55.245	31.226	3.130	1	.077	.000

a. Variable(s) entered on step 1: Profitability, Cash Holding, Company Size, Financial Leverage, Good Corporate Governance.

Source: Processed Data by the Researcher, 2024

Based on the t-test results, it can be concluded that the first hypothesis shows profitability with a significance value of 0.088. Since this value is greater than 0.05, H1 is rejected. The results of the second hypothesis testing indicate that cash holding has a significance value of 0.017, which is less than 0.05, thus H2 is accepted. The third hypothesis testing shows that company size has a significance value of 0.052, which is greater than 0.05, so H3 is rejected. Lastly, the fourth hypothesis testing indicates that financial leverage has a significance value of 0.119, which is greater than 0.05, leading to the rejection of H4.

Moderation Test

Table 9. Moderation Tes

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Company Size	-1.427	1.285	1.234	1	.267	.240
	Good Corporate Governance	-12.294	10.490	1.373	1	.241	.000
	X3_Z	.441	.379	1.351	1	.245	1.554
	Constant	40.640	35.377	1.320	1	.251	44651129709 3251010.000

a. Variable(s) entered on step 1: Company Size, Good Corporate Governance, X3_Z.

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Financial Leverage	9.756	6.406	2.319	1	.128	17260.857
	Good Corporate Governance	2.266	1.452	2.434	1	.119	9.640
	X4_Z	-3.651	2.218	2.711	1	.100	.026
	Constant	-4.771	4.032	1.400	1	.237	.008

a. Variable(s) entered on step 1: Financial Leverage, Good Corporate Governance, X4_Z.

Source: Processed Data by the Researcher, 2024

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Profitability	-32.214	30.363	1.126	1	.289	.000
	Good Corporate Governance	-.164	.824	.040	1	.842	.849
	X1_Z	5.351	9.084	.347	1	.556	210.869
	Constant	2.919	2.689	1.179	1	.278	18.530

a. Variable(s) entered on step 1: Profitability, Good Corporate Governance, X1_Z.

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Cash Holding	-40.147	28.560	1.976	1	.160	.000
	Good Corporate Governance	-.933	1.324	.497	1	.481	.393
	X2_Z	7.267	8.466	.737	1	.391	1432.743
	Constant	6.994	4.636	2.276	1	.131	1090.311

a. Variable(s) entered on step 1: Cash Holding, Good Corporate Governance, X2_Z.

Based on the results of the fifth hypothesis test, the regression coefficient obtained for the interaction between good corporate governance (GCG) and profitability on income smoothing is 5.351 with a significance of 0.556. Since the significance value is greater than 0.05, hypothesis H5 is rejected. Next, the results of the sixth hypothesis test show that the interaction between GCG and cash holding on income smoothing has a regression coefficient of 7.267 with a significance of 0.391. The significance value greater than 0.05 leads to the rejection of H6. In the seventh hypothesis test, the regression coefficient for the interaction between GCG and company size on income smoothing is 0.441 with a significance of 0.245. Since the significance is greater than 0.05, H7 is rejected. Finally, the eighth hypothesis test shows that the interaction between GCG and financial leverage on income smoothing yields a regression coefficient of -3.651 with a significance of 0.100, which is greater than 0.05, thus H8 is rejected.

DISCUSSION

H1: The Effect of Profitability on Income Smoothing

The results show that profitability does not have a significant effect on income smoothing (significance value of 0.088). This means that high profits do not encourage management to engage in income smoothing. This can be interpreted to mean that profit is not the primary determinant in the practice of income smoothing, and it may reflect that companies with more stable profits do not have a strong need to stabilize profit fluctuations through income smoothing. This finding is consistent with other research by Surya Indrawan et al. (2020), which concluded that profitability does not have a significant impact on income smoothing.

H2: The Effect of Cash Holding on Income Smoothing

Cash holding has a significant effect on income smoothing (significance value of 0.017). Statistically, this indicates that a company's liquidity, in the form of cash and cash equivalents, influences decisions to engage in income smoothing. This finding supports the interpretation that when a company's cash holding is high, it reflects low cash activity, which may discourage investors from investing their funds. To address this issue, companies may resort to income smoothing. This aligns with the study conducted by Bertand Arya and Pamungkas (2023), which concluded that cash holding significantly influences income smoothing practices.

H3: The Effect of Company Size on Income Smoothing

Company size, whether large or small, does not significantly influence income smoothing (significance value of 0.052). Thus, the size of the company in this study does not drive income smoothing. Larger companies, which tend to be under stricter scrutiny, may be more inclined to report financial performance transparently, while smaller companies may face lower risks of income smoothing due to less external attention. This finding aligns with the research by Diah Pratami et al. (2024), which concluded that company size does not have a significant impact on income smoothing.

H4: The Effect of Financial Leverage on Income Smoothing

Financial leverage also does not have a significant effect on income smoothing (significance value of 0.119). This result suggests that the debt-to-equity ratio does not serve as a factor that drives companies to engage in income smoothing. While previous theories suggest that high leverage could trigger income smoothing to maintain stability, this result indicates that companies may already be accustomed to maintaining transparency in their financial reporting to retain creditor trust without resorting to income smoothing. This finding is consistent with research by Angelista et al. (2021), which concluded that financial leverage does not significantly impact the practice of income smoothing.

H5: The Effect of Good Corporate Governance in Moderating the Relationship Between Profitability and Income Smoothing

Good corporate governance (GCG) does not moderate the relationship between profitability and income smoothing (significance value of 0.556). Although profitability reflects the company's earnings performance, GCG does not have a sufficiently strong moderating impact to determine whether companies with high or low profitability are more likely to engage in income smoothing. This suggests that GCG practices are more focused on reporting and internal policies that are not directly related to profit fluctuations as a factor of earnings management. This finding aligns with the study by Nurani and Maryanti (2021), which concluded that good corporate governance does not moderate the relationship between profitability and income smoothing.

H6: The Effect of Good Corporate Governance in Moderating the Relationship Between Cash Holding and Income Smoothing

Good corporate governance (GCG) also does not moderate the relationship between cash holding and income smoothing (significance value of 0.391). Conceptually, this indicates that the company's liquidity level in the form of cash holding, although part of the company's financial strategy, is not sufficiently influenced by the implementation of GCG in relation to the decision to engage in income smoothing. Therefore, even with the implementation of GCG, liquidity management does not become a variable that drives or reduces management's tendency to practice income smoothing. This finding is consistent with the research by Milasari and Maryanti (2023), which concluded that good corporate governance cannot moderate the relationship between cash holding and income smoothing practices.

H7: The Effect of Good Corporate Governance in Moderating the Relationship Between Company Size and Income Smoothing

Good corporate governance (GCG) does not moderate the relationship between company size and income smoothing (significance value of 0.245). In this context, whether a company is large or small does not have a distinct influence on income smoothing practices, even when the company implements GCG. Large companies that apply GCG can still choose to engage in or refrain from income smoothing, which may be more influenced by external regulations or other factors than by the internal impact of GCG policies. This finding is consistent with the research by Ayu Del Alpi dkk. (2023), which concluded that good corporate governance does not moderate the relationship between company size and income smoothing practices.

H8: The Effect of Good Corporate Governance in Moderating the Relationship Between Financial Leverage and Income Smoothing

Good corporate governance (GCG) cannot moderate the relationship between financial leverage and income smoothing (significance value of 0.100). Although financial leverage may reflect the company's debt burden, which should be influenced by good management practices, the implementation of GCG is not significant enough to change management's tendency to engage in income smoothing. This may be due to the fact that GCG focuses more on general managerial policies rather than specific regulations related to the company's financial obligations. This finding aligns with the study by Karriage (2024), which concluded that good corporate governance does not play a moderating role in the relationship between financial leverage and income smoothing practices.

CONCLUSION

Based on the results of the research on the impact of profitability, cash holding, company size, and financial leverage on the practice of income equalization, with good corporate governance as a moderation variable, it can be concluded that, individually, cash ownership has an impact on income equalization. Profitability, company size, and financial leverage do not have a significant impact on

revenue leveling practices. In addition, Good Corporate Governance (GCG) is unable to moderate the influence of profitability, cash holding, company size, or financial leverage on revenue leveling practices.

SUGGESTIONS

The limitations of this study lie in the sample size and the time period of the data used. Based on the findings of this research, it is recommended that future studies reconsider testing all variables using different proxies, expand the sample to include companies from other sectors, and extend the research period. This would provide a more comprehensive understanding of the factors influencing income smoothing practices across different contexts and over a longer time horizon.

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