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The Influence of Company Size, Financial Leverage, Cash Holding and Managerial Ownership on Income Smoothing

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Abstract

Information about a company's profits is an important indicator for users of both internal and external financial statements in decision-making. The food and beverage industry is a fast-growing industry, and as the population of Indonesia grows, the need for food and drink as a basic necessity for survival continues to increase. The study aims to analyze the impact of corporate size, financial leverage, cash holding and managerial ownership on income smoothing on food and beverage companies. The research method used quantitatively from the data of financial statements listed on the Indonesian Stock Exchange (BEI) with a total population of 90 samples of 18 companies. The results of data analysis showed a positive correlation of the size of the company and cash holding, but the results of financial leverage and managerial ownership showed that there was a negative Correlation. Implications of this research can be an evaluation material for companies and investors as well as provide additional information about any factors that influence income smoothing.

Keywords: income smoothing, company size, financial leverage, cash holding, managerial ownership

INTRODUCTION

Currently companies are required to be able to survive in global competition, in this case companies are expected to be able to manage their finances well and financial management must be able to reflect the achievement of profits obtained by the company(Gayatri & Wirasedana, 2021). Information about a company's profits is an important indicator for users of financial reports, both internal and external, in making decisions (Gayatri & Wirasedana, 2021). According to PSAK No. 1 Financial reports are part of the financial reporting process. Statements of financial position (which can be presented in various ways, for example as a cash flow statement or funds flow statement), notes and other reports and explanatory material that form an internal part of the financial statements. Apart from that, it also includes a schedule and additional information related to the report, for example financial information on industrial and geographic segments and disclosure of the effect of price changes. The food and beverage industry is an industrial sector that is always growing rapidly, and along with the increase in Indonesia's population, the need for food and drink as a basic need for survival continues to increase. (Sukmahayati & Suwaidi, 2021)This sector plays an important role in the growth and advancement of the national economy and is included in the category of industry that stabilizes and withstands various crises, especially economic crises (Sukmahayati & Suwaidi, 2021)

The phenomenon that occurred in the company that provides the ADES drinking water brand, PT Akasha Wira International Tbk (ADES), managed to record net profit growth of up to 38.48% last year to IDR 52.96 billion from the previous year's IDR 38.24 billion. The company was also able to record an increase in net margin to 6.58% from 2017 which was only 4.7%. ADES achieved this increase in net profit even though the company's sales were corrected by 1.25% to IDR 804.3 billion

from the 2017 achievement of IDR 814.49 billion. The company's sales fell slightly last year because revenue from the cosmetic product line fell 6.47% year on year (YoY) to IDR 308.74 billion, while drinking water sales grew slightly 2.31% YoY to IDR 495.54 billion. (www.cnbcindonesia.com, 2019)

*Income smoothing*carried out by management to reduce fluctuations in reported profits, company management carries out income smoothing with the aim of reducing reported profits if actual profits are greater than normal profits that have been previously calculated and increasing reported profits. (Saputri & Febyansyah, 2023)

Company size shows that large companies tend to have tighter internal controls than small companies because companies with large assets will definitely attract the attention of the public and government, this shows that income smoothing occurs more often in large companies.(Pradipta & Susanto, 2019)

*Leverage*shows how much influence a business's assets have on equity, companies with a high leverage ratio have higher risks and finance their assets with debt and liabilities than companies with a lower leverage ratio. (Cahyadi & Wijaya, 2020)

*Cash holdings*reflecting the greater the company's cash holding value, the more difficult it is to maintain conditions, so management changes the profit data in the annual report to maintain its reputation and the completeness of its data. (Musyafa & Kholilah, 2023)

Management ownership influences how the company is run and the extent to which the company achieves its stated goals. The managerial ownership structure is believed to be able to align the interests of managers and business owners, which ultimately influences the quality of reported profits. (Indrati & Marsa, 2022)

Based on differences in previous research results by (Di Fabio et al., 2021) company size had a positive relationship on income smoothing whereas (Pradipta & Susanto, 2019) and (Sivaram et al., 2019) on the contrary. Research (Bangun & Justin, 2023) financial leverage has a positive relation on income soothing while (Musyafa & Kholilah, 2023), on the other hand. Studies (Setyaningsih & Irawati, 2022) and (Anwar & Gunawan, 2020) cash holding have a positive link to income smoothing.

However, this research was implemented in the food and beverage sub-sector industry listed on the Indonesian Stock Exchange (BEI) in 2019-2023 by adding independent variables of cash holding and managerial ownership where the development of this industry is increasingly competitive as technology and e-commerce developments in Indonesia and increased customer demand for consumer goods. This research is expected to provide an in-depth overview of the factors that influence the performance of food and beverage companies. This will give investors a better understanding, enabling them to make investment decisions with the hope of delivering appropriate returns.

LITERATURE REVIEW

Agency Theory

Agency theory explains why there is conflict between the agent and the principal. When one or more people (company owners) employ other people and give them the authority to make decisions, this is called an agency relationship.(Jensen & Meckling, 1976)To reduce the problems faced by the agency(Jensen & Meckling, 1976)stipulates that management ownership must supervise or supervise each, because they own shares of the company, management has a direct benefit from the decisions they make. Because this ownership will regulate the interests of shareholders and management.

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Positive Accounting Theory

Positive accounting theory is clearly put forward (Watts & Zimmerman, 1986) that positive accounting theory can be interpreted to explain why accounting policies are a problem for companies and parties interested in financial reports, and to predict the accounting policies that companies will choose under certain conditions. According to positive accounting theory, the accounting procedures used by companies do not have to be the same as others, but companies are given the freedom to choose one of the alternative procedures available to minimize contract costs and maximize company value. (Watts & Zimmerman, 1986). Positive accounting theory proposes three motivational hypotheses that are related to opportunistic actions carried out by companies, namely the bonus plan hypothesis, the political cost hypothesis, and the debt covenant hypothesis. (Watts & Zimmerman, 1986)

Income smoothing

*Income smoothing*is an earnings management technique used by a company, actions planned by managers to prevent fluctuations in profits by using accounting policies and when the profits generated are relatively low and profits are relatively high, management usually takes action to reduce profits (Abogun et al., 2021). This is due to the fact that an indirect decrease in profits caused by a decrease in assets will have a negative impact on the business. Financial Accounting Standards give management the freedom to choose accounting methods that better reflect the actual state of the company, this flexibility is usually used by management to manage income. (Dewi et al., 2019). PSAK No. 25 states the benefits of profit information, namely to assess changes in potential economic resources that may be controlled in the future, to generate cash flows from existing resources, and to formulate considerations about the company's effectiveness in utilizing additional resources. Therefore, management has a tendency to take actions that can make financial reports better.

Company Size

According to(Archibald & Baumol, 1960) Larger companies can take advantage of larger sources of income because they can buy more products that are useful for their size, and company size reflects the extent or size of a company's assets, thus influencing company value. Enterprise can be defined as the size of a company based on its capital, sales, and total assets, medium and large companies are in the maturity stage, where the total assets of the company are increasing, and mature companies are expected to have profitable cash flows and generate profits over a long period of time (Miftah et al. 2023). Compared with small companies, large companies have a greater impact on the public interest if they take different actions (Miftah et al., 2023)

Financial Leverage

According to (Durand, 1952) Leverage is a capital loan or long-term or short-term debt to generate profits.Leverage shows how much debt is used to finance the company's assets. The more debt is used to finance the company's assets, the more debt the company must bear rather than spending its own capital to finance its business. (Hermanto & Dewinta, 2023)

Cash Holding

According to (Jensen, 1986) cash holding is a source of free cash that managers use to meet the needs and desires of shareholders. Manager performance is usually measured by how the manager maintains

the stability of the company's cash. (Musa et al., 2020) There are three motives for companies to have cash holdings, namely transaction motives, prevention motives and speculation motives. First, transaction motives, namely cash holdings can be used by companies to pay for various company transactions such as paying workers' wages, paying dividends to shareholders, and purchasing inventory. second is the prevention motive, namely the availability of cash holding in the company only in case the company can pay the costs when facing unpredictable situations or for unexpected costs, if the company can predict correctly and accurately all cash payments and the company's income will be lower and if it is easier for companies to use external funding sources. The company's cash holding will also be low, and the third is speculative motives, namely one of the goals of companies that have cash holdings is to gain profits from owning or investing cash holdings in the form of very liquid investments. (Dewi & Effriyanti, 2022)

Managerial Ownership

Managerial ownership is the percentage of shares owned by management, management performance will be influenced by ownership because of greater ownership, management is responsible for maximizing performance and fulfilling their desires (Pambudi, 2020). By taking ownership of company management, agency conflicts can be reduced and every management who owns shares will definitely have a better understanding of the conditions that occur in the company where they work.(Jensen & Meckling, 1976). Therefore, management who own shares will make every effort to ensure that they can take advantage of their position as managers and as owners of the company. (Miftah et al., 2023)

RELATIONSHIP BETWEEN VARIABLES

The relationship between company size, financial leverage, cash holding and managerial ownership simultaneously on income smoothing

Company size influences income smoothing because investors tend to prefer investing in large companies with good financial reports. (Hermanto & Nurhidayah, 2022). Financial leverage has an effect on income smoothing because management in companies with high debt will try to manage the funds obtained from the debt as quickly as possible to return and increase the company's profits even higher. (Prihatin et al., 2023). Cash holding affects income smoothing because the information contained in financial reports regarding cash in the company allows investors to assess management performance by its ability to maintain a stable increase in cash in the company. (Anwar & Gunawan, 2020). Managerial ownership has an impact on income smoothing because the high value of managerial ownership makes him as a shareholder have quite influential voting rights on the company so that he has the potential to carry out income smoothing. (Suwandi & Chandra, 2023)

H1: Company size, financial leverage, cash holding and managerial ownership simultaneously influence income smoothing

The relationship between company size and income smoothing

In agency theory it is assumed that each individual is motivated by their own interests, giving rise to conflicts of interest (Fitriyah & Saputra, 2024). Large-scale companies have a high tendency to smooth income compared to small-scale companies, because large companies receive more attention and supervision from investors, which causes managers to tend to determine accounting methods with a delay, Larger companies attract the attention of investors, analysts, and governments because they are perceived to generate larger profits which can influence higher costs, such as taxes. (Younis & Sundarakani, 2020). Companies that have high assets will get a good view from the public, therefore companies try their best to avoid large fluctuations in profits, because if the profits recorded are large

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enough it will have an impact on the taxes paid, namely higher taxes, so that the greater The size of the company, the higher the income smoothing action taken by management. (Sintia Dewi, 2023)

Previous research (Sintia Dewi, 2023) stated that company size has a positive effect on income smoothing, however(Sivaram et al., 2019)stated that company size has a negative effect on income smoothing.

The hypothesis proposed is based on the description above:

H2: Company size has a positive effect on income smoothing

The relationship between financial leverage and income smoothing

According to positive accounting theory in the debt convenant hypothesis, which states that companies that have a lot of debt tend to carry out earnings management by increasing profits, because companies that have a large debt ratio tend to have more difficulty getting additional funds from creditors and even the company is threatened. debt agreement (Dewi & Effriyanti, 2022). Leverage shows the extent to which a company uses debt to finance its investments and operational efforts and leverage also shows the performance results on debt used in operational activities to gain the trust of investors and creditors, the company will tend to carry out income smoothing and managers will report better or expected income than which are actually.(Putri & Hendrani, 2024)The amount of debt a company has determines the level of financial leverage it has, where a company relies on debt rather than its own capital. (Santikah & Syahzuni, 2023). Large debts result in increased risk, so the greater the risk of leverage, the risk borne by capital owners will also increase. A large leverage ratio causes a decrease in investor interest in reducing their capital in the company. So it can trigger income smoothing actions. (Wake & Justin, 2023)
Previous research by (Wake & Justin, 2023) states that leverage has a positive effect on income smoothing, however (Musyafa & Kholilah, 2023) states that leverage has a negative effect on income smoothing
The hypothesis proposed is based on the description above:

H3: Financial leverage has a positive effect on income smoothing

The relationship between cash holding and income smoothing

According to agency theory, disputes between management and investors encourage each party to own funds in the company. Businesses with a lot of free cash flow will face agency problems, which will encourage management to take opportunistic actions, one of which is income smoothing. (Anwar & Gunawan, 2020). The existence of financial report information regarding cash in the company allows investors to assess the manager's performance based on its ability to keep the increase in cash in the company stable. By having stable cash in the company, it shows that the company has a low level of risk, because the company is considered capable of paying its obligations so that management motivated to carry out income smoothing (Inayah & Izzaty, 2021)

Previous research by (Anwar & Gunawan, 2020) and (Setyaningsih & Irawati, 2022) stated that cash holding has a positive effect on income smoothing

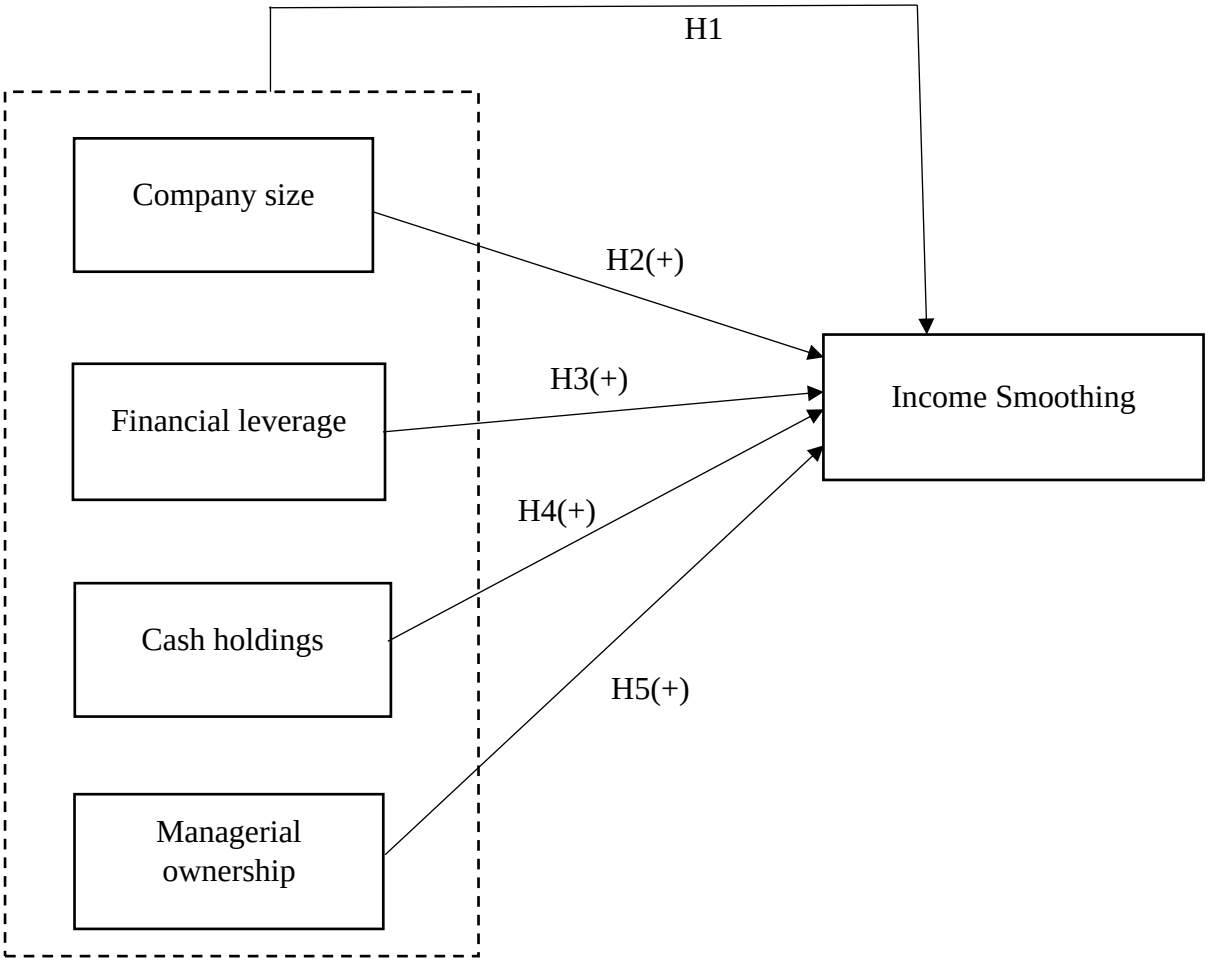
H4: Cash Holding has a positive effect on income smoothing

The relationship between managerial ownership and income smoothing

One way to reduce agency conflicts due to information asymmetry is share capital owned by management, because management will position itself as the principal. (Suleiman & Loka, 2022) Managerial ownership is believed to be able to influence the running of a company and have an impact on company performance. Managerial ownership plays a role in determining the accounting policies of the company they lead. In other words, the percentage of share ownership by management can lead to income smoothing practices. (Amarsanaa et al., 2021)

Previous research (Pambudi et al., 2021) stated that managerial ownership has a positive effect on income smoothing, but the research conducted (Pratomo & Ikram, 2019) states that managerial ownership has a negative effect on income smoothing

H5: Managerial ownership has a positive effect on income smoothing



RESEARCH METHODS

In this research study, researchers used the dependent variable, income smoothing, proxied by the Eckel Index measured by CV ΔI divided by CV ΔS. If the income smoothing index value is ≥ 1, then the company does not take income smoothing action, conversely if the income smoothing index value is ≤ 1, then the company takes income smoothing action. The independent variable uses company size proxied by the Natural Log of Total Assets. The Leverage Ratio is proxied by DER which is measured from total debt compared to total equity. Cash holding is measured by comparing the amount of cash and cash equivalents owned by the company with the total assets of the company. Managerial ownership is proxied by the total shares owned by management compared to the total company shares outstanding.

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Researchers used quantitative methods, with secondary data reported from the Indonesia Stock Exchange (BEI) website where the population was selected, namely food and beverage sub-sector companies, using purposive sampling techniques. The criteria for this research are financial reports that are consistently listed on the Indonesia Stock Exchange (BEI) and companies that do not have managerial ownership in the 2019 - 2023 period.

Test the feasibility of the model tested with*Hosmer and Lemeshow's Goodness of Fit Test. The regression model can be said to be feasible according to Hosmer and Lemeshow's Goodness of Fit Test based on decisions; If the Hosmer and Lemeshow's Goodness of Fit Test statistics value is ≤ 0.05, then the null hypothesis is rejected, meaning that there is a significant difference between the model and the observed values, so the model is said to be not good, because the model cannot predict the observed values; If the Hosmer and Lemeshow's Goodness of Fit Test statistics value is > 0.05, then the null hypothesis is accepted, meaning there is no significant difference between the model and the observed values, so the model is said to be good, because the model can predict the observed values*

Test the feasibility of the entire model. There are several stages in testing the feasibility of the model in the logistic regression test, namely:
Chi Square, is an assessment of model fit that uses Log Likelihood by comparing the -2 log Likelihood value at the beginning (block number = 0) with the -2 log Likelihood value at the next stage (block number = 1). Furthermore, the regression model can be said to be fit, if there is a reduction between -2 log likelihood numbers (block number = 0 – block number = 1).
Cox and Snell's R Square, is the Cox and Snell's R Square coefficient where the measure is based on R2 multiple linear regression which produces a maximum value of less than one. This model aims to determine the variability of the dependent variable which can be explained by the independent variable.
Nagelkerke's R Square. The Nagelkerke's R Square coefficient is a modification of the Cox and Snell's R Square coefficient so that the maximum value can reach one and has a range between zero and one, the same as the coefficient of determination R2 in multiple linear regression. The closer the value is to 1 (one), the model is considered to have goodness of fit, while the closer it is to 0 (zero), the less good the model is.
The data analysis model uses logistic regression, because the dependent variable is a dummy variable, where 0 (does not practice income smoothing) and 1 (does not practice income smoothing). This logistic regression model produces regression coefficient values and significance. The regression coefficient on each variable will be tested to show the form of relationship between variables.

Logistic regression analysis in this study is proxied into the following equation model:

$$\boldsymbol{L_n \frac{IC}{1-IC} = \alpha + \beta 1Size + \beta 2DER + \beta 3CH + \beta 4KM + €it}$$

Information:

I.C	:*Income Smoothing*
α	: Constant
β1 – β4	:Regression coefficient
Size	: Company Size

CH :*Cash Holding*

DER :*Financial Leverage*

KM : Managerial Ownership

€it : Error

RESEARCH RESULT AND DISCUSSIONS

Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide an overview or description of the variables in the research. The variables studied are Company Size (SIZE), Financial Leverage (DER), Cash Holding (CH), and Managerial Ownership (KM) as independent variables and Income Smoothing as the dependent variable. The data results are described by showing values in the form of average value (mean), highest value (maximum), lowest value (minimum), and standard deviation. The results of data analysis are presented in a descriptive statistical table with the research sample (n=90), as follows:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Company Size	90	.03	.98	.6389	.29949
Leverage	90	.03	3.34	.7294	.57949
Cash Holding	90	.00	1.00	.3873	.38883
Managerial Ownership	90	.00	.99	.3684	.41390
Excel Index	90	.00	1.00	.4444	.49969
Valid N (listwise)	90				

Based on table 1 above, it can be seen that the number of sample data used in this research was 90 data from 18 food & beverage companies listed on the Indonesia Stock Exchange (BEI) which were used as samples from the 2019-2023 period. Table 4.1 describes the variables statistically and shows the results of descriptive statistics regarding the independent and dependent variables in this study.

The first independent variable, namely Company Size (SIZE), shows the results that a minimum value of 0.03 is found in the companyPrasidha Aneka Niaga Tbk (PSDN) in 2019 and a maximum value of 0.98 for the Tunas Baru Lampung Tbk (TBLA) company in 2023. The average value (mean) of the company size variable is 0.6389. Meanwhile, the standard deviation value for the company size variable is 0.29949. As for the standard deviation value on the enterprise size variable of 0.29949. This means that food and beverage companies have a corporate size value of 63.89% and a smaller default deviation then the data distribution is relatively large, so that the data used is non-variable.

The second independent variable Financial Leverage (DER) shows the results that a minimum value of 0.03 is found in the companySentra Food Indonesia Tbk (FOOD) in 2020, Tunas Baru Lampung Tbk (TBLA) in 2020, Indofood Sukses Makmur Tbk (INDF) in 2020, Indofood CBP Suskes Makmur Tbk (ICBP) in 2019, and Sekar Bumi Tbk (SKBM) in 2019 and a maximum value of 3.34 found in the Prasidha Aneka Niaga Tbk (PSDN) company in 2021. The average (mean) value of the financial leverage variable is 0.7294. Meanwhile, the standard deviation value for the financial leverage variable is 0.57949. That means food and beverage companies have a financial leverage of 72.94% and the standard deviation is smaller then the data spread is relatively large, so the data used is variable.

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The third independent variable Cash Holding (CH) shows the results that the company has a minimum value of 0.00 Buyung Poetra Sembada Tbk (HOKI) in 2022 and a maximum value of 1.00 for the companies Sentra Food Indonesia Tbk (FOOD) and Garudafood Putra Putri Jaya Tbk (GOOD) in 2023. The average value (mean) of cash holding is 0.3873. Meanwhile, the standard deviation value for the cash holding variable is 0.38883. That means food and beverage companies have a cash holding value of 38.73% and the standard deviation value is larger then the data spread is relatively large, so the data used is variable.

The fourth independent variable Managerial Ownership (KM) shows the results that a minimum value of 0.00 is found in the companyMayora Indah Tbk (MYOR) in 2022 and a maximum value of 0.99 found in the companies Mayora Indah Tbk (MYOR) in 2023 and Akasha Wira International Tbk (ADES) in 2020. The average value (mean) of the variable managerial ownership is 0.3683. Meanwhile, the standard deviation value for the company size variable is 0.41390. This means that food and beverage companies have a managerial ownership of 36.83% have a relatively large data spread, so the data used is variable.

The dependent variable, namely Income Smoothing, shows the results that a minimum value of 0.00 is found in food and beverage companies that do not carry out income smoothing and a maximum value of 1.00 is found in food and beverage companies that carry out income smoothing. The average (mean) value for this dependent variable is 0.4444 and the standard deviation value is 0.49969. This means that an average food and beverage company practices income smoothing of 44.4% with a relatively small data spread, so the data used is non-variable.

Logistic Regression Analysis Method

The statistical analysis of the data used in this research is binary logistic regression analysis. Logistic regression analysis has four model tests, namely, Assessing the entire Model (Overall Model Test), Testing the Feasibility of the Regression Model (Goodness Fit Test), Determination Coefficient, and Classification Matrix. Model testing based on the data that will be presented uses Microsoft Excel data processing tools and Statistical Package For Social Science (SPSS) Version 27.0.

Overall Model (Overall Model Fit)

To assess the overall model (Overall Model Fit) it is shown by the Log Likelihood Value (value – 2LL), namely by comparing the -2LL value at the beginning (block number = 0) with the -2LL value at the end (block number = 1). The test is carried out by looking at the difference between the initial -2 log likelihood value (block number = 0) and the final -2 log likelihood value (block number = 1). If the initial -2 log likelihood value is greater than the final -2 log likelihood value, then there will be a decrease in results. The decrease in Log Likelihood shows that the regression model is getting better. The hypothesis for assessing overall model fit is:

H0: The hypothesized model fits the data

H1: The hypothesized model does not fit the data

Table 2. Overall Model Fit

-2 initial likelihood logs (block number = 0)	123,653
-2 log final likelihood (block number = 1)	66,060

Based on table 2 obtained from the results of the regression analysis, it shows that the initial -2Log likelihood value (block number = 0) before being included in the independent variable is 123.653. After the four independent variables were entered, the final -2Log likelihood value (block number = 1) decreased to 66.060. The difference between the initial -2Log likelihood and the final -2Log likelihood shows a decrease of 57.594. It can be concluded that the initial -2Log likelihood value (block number = 0) is greater than the final -2Log likelihood value (block number = 1), resulting in a decrease. This indicates that the hypothesized model is fit to the data, so that the addition of independent variables to the model shows that the regression model is getting better or in other words H0 is accepted.

Feasibility of the Regression Model (Goodness of Fit Test)

Testing the feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test which was measured by the chi square value. Hosmer and Lemeshow's Goodness of Fit Test tests the null hypothesis that the empirical data fits or fits the model (there is no significant difference between the model and the data so the model can be said to be fit).

If the Hosmer and Lemeshow test shows a probability value (P-value) ≤ 0.05 (significant value) it means that there is a significant difference between the model and the observed values so that the model cannot be used to predict the observed values.

If the Hosmer and Lemeshow test shows a probability value (P-value) ≥ 0.05 (significant value) it means there is no significant difference between the model and the data or it could be said that the model can be used to predict the observed value.

Table 3. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	11,630	8	,168

Based on table 3 obtained from the results of the regression analysis, it shows that the results of the Hosmer and Lemeshow Goodness of Fit Test obtained a chi-square value of 11.630 with a significance level of 0.168. The test results show that the probability value (P-value) ≥ 0.05 (significant value), namely 0.168 ≥ 0.05, then H0 is accepted. This indicates that there is no significant difference between the model and the data so that the regression model in this study is feasible and able to predict the observed values.

Coefficient of Determination (Nagelkerke's R Square)

The variability of the independent variable in explaining the dependent variable is measured using the coefficient of determination which can be seen from the Nagelkerke R Square value. The value of Nagelkerke R Square is in the form of a decimal which can be converted into a percentage so that it is easy to understand and interpret

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Table 4. Models Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	66.060a	,473	,633

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

Based on table 4 obtained from the results of the regression analysis, it shows that the coefficient of determination as seen from the Nagelkerke R Square value is 0.633. This indicates that the ability of the independent variables, namely company size, financial leverage, cash holding, and managerial ownership in explaining the dependent variable, namely income smoothing, is only 63.3%. Meanwhile, the remainder is explained by other variables outside of this research model, namely 36.7%.

Classification Matrix

The classification matrix shows the predictive power of the logistic regression model to predict the possibility of Income Smoothing carried out by the company. The classification matrix is presented in tabular form as follows.

Table 5. Classification Table

Observed			Predicted Excel Index		
			Income Smoothing	No Income	Percentage Correct
Step 1	Excel Index	Income Smoothing	46	4	92.0
		No Income	7	33	82.5
	Overall Percentage				87.8

a. The cut off value is .500

Based on table 5 obtained from the results of the regression analysis, it shows that the model's ability to predict whether or not income smoothing will occur is 87.8%. From the table above, the possibility of a company not carrying out income smoothing is 82.5% of the total sample of 90 data. Meanwhile, companies that carry out income smoothing account for 92% of the total sample of 90 data.

Logistic Regression Model

The analysis used in this research is logistic regression analysis, namely by looking at the influence of Company Size (SIZE), Financial Leverage (DER), Cash Holding (CH), and Managerial Ownership (KM) on Income Smoothing in food & beverage companies. drinks for the 2019-2023 period.

Table 6. Variable in the Equation

		B	S.E	Wald	df	Sig.
Step 1a	Company Size	6,970	3,236	4,640	1	.031
	Leverage	-.233	,602	,150	1	,699
	Cash Holding	2,652	1,091	5,909	1	,015
	Managerial Ownership	,774	1,004	,595	1	,441
	Constant	-6,371	2,412	6,975	1	,008

a. Variable(s) entered on step 1: Company Size, Leverage, Cash Holding, Managerial Ownership.

Based on table 6 which is the result of analysis of logistic regression, the logistic regression equation can be formulated as follows:

$$L_n \frac{IC}{1-IC} = -6.371 + 6.970 - 2.33 + 2.652 + 0.744 + €it$$

Based on the logistic regression equation above, the influence of the independent variable on the dependent variable can be analyzed, including:

1. The constant value (α) is -6.371, meaning that if the dependent variable has a fixed value (constant), then the income smoothing value is -6.371.

2. The Company Size Variable (SIZE) has a positive coefficient value of 6.970, meaning that if every one unit increase in company size assumes the values of other variables are constant, it will increase the Income Smoothing value by 6.970.

3. The Financial Leverage (DER) variable has a negative coefficient value of -2.33, meaning that if every one unit increase in financial leverage, assuming the values of other variables are constant, it will reduce the Income Smoothing value by -2.33.

4. The Cash Holding (CH) variable has a positive coefficient value of 2.652, meaning that if every one-unit increase in holding cash is used with the assumption that the values of other variables are constant, it will increase the Income Smoothing value by 2.652.

5. The Managerial Ownership (KM) variable has a positive coefficient value of 0.744, meaning that if every one unit increase in managerial ownership is assumed the values of other variables are constant, it will increase the Income Smoothing value by 0.744.

Hypothesis Testing

Wald Test (Partial t Test)

The Wald test is used to test whether each independent variable consisting of company size, financial leverage, cash holding, and managerial ownership is able to influence the dependent variable, namely Income Smoothing, in this research. To determine whether the hypothesis is accepted or rejected by comparing tcount and the significance level α = 0.05 with the following criteria:

1. If the tcount < ttable and p-value > 0.05, then the hypothesis (H0) is accepted. This shows that the independent variables individually (partially) do not influence the dependent variable.

2. If the t value > t table and the p-value < 0.05, then the hypothesis (H0) is rejected. This shows that the independent variables individually (partially) influence the dependent variable.

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Table 7. Variable in the Equation

		B	S.E	Wald	df	Sig.
Step 1a	Company Size	6,970	3,236	4,640	1	.031
	Leverage	-.233	,602	,150	1	,699
	Cash Holding	2,652	1,091	5,909	1	,015
	Managerial Ownership	,774	1,004	,595	1	,441
	Constant	-6,371	2,412	6,975	1	,008

a. Variable(s) entered on step 1: Company Size, Leverage, Cash Holding, Managerial Ownership.

With a total of (n=90) observations and a total of (k=5) independent and dependent variables, the degree of freedom (df) = nk = 90-5 = 85, where the significance level is α = 0.05.

So ttable can be calculated using the Ms Excel formula with the insert function formula as follows:

ttable = TINV(Probability,deg_freedom)

ttable = TINV(0,05,85)

ttable = 1.988

Based on the table, the results of hypothesis testing using logistic regression analysis can be obtained as follows:

The first hypothesis (H1) is that company size has a positive effect on income smoothing. The results of the Wald (t) test show that the tcount value is greater than ttable (4,640 > 1.988) and the probability value is smaller than the significance level (0.031 < 0.05). Based on the test results, it can be concluded that H1 which states that company size has an effect on income smoothing is accepted. This can be interpreted to mean that company size has an effect on income smoothing.

The second hypothesis (H2) is that financial leverage has a positive effect on income smoothing. The results of the Wald (t) test show that the tcount value is smaller than ttable (0.150 < 1.988) and the probability value is greater than the significance level (0.699 > 0.05). Based on the test results, it can be concluded that H2 which states that financial leverage has no effect on income smoothing is rejected. This can be interpreted to mean that financial leverage has no effect on income smoothing.

The third hypothesis (H3) is that cash holding has a positive effect on income smoothing. The results of the Wald (t) test show that the tcount value is greater than ttable (5.909 > 1.988) and the probability value is smaller than the significance level (0.015 < 0.05). Based on the test results, it can be concluded that H3 which states that cash holding has an effect on income smoothing is accepted. This can be interpreted to mean that there is a significant influence between cash holding and income smoothing.

The fourth hypothesis (H4) is that managerial ownership influences income smoothing. The results of the Wald (t) test show that the tcount value is greater than ttable (6.975 > 1.988) and the probability value is greater than the significance level (0.441 > 0.05). Based on the test results, it can be concluded that H4 which states that managerial ownership has no effect on income smoothing is rejected. This can be interpreted to mean that managerial ownership has no effect on income smoothing.

Omnibus Tests of Model Coefficients (Simultaneous Test f)

The Omnibus Tests of Model Coefficients test is used to test together whether all independent variables consisting of company size, financial leverage, cash holding, and managerial ownership are simultaneously able to influence the dependent variable, namely income smoothing. To determine whether a hypothesis is accepted or rejected by comparing the f count and the significance level of 5% or 0.05 which can be explained by the following criteria:

1. If the fcount < ftable and p-value > 0.05, then H0 is accepted and H1 is rejected. This shows that the independent variables simultaneously do not influence the dependent variable.

2. If the fcount > ftable and p-value < 0.05, then H0 is rejected and H1 is accepted. This shows that the independent variable simultaneously influences the dependent variable.

Table 8. Omnibus Tests of Model Coefficients

Chi-square	df	Sig.
57,593	4	,000
57,593	4	,000
57,593	4	,000

With a number of observations of (n=90) and a number of independent and dependent variables of (k=5), then the degree of freedom (df1) = k-1 = 5-1 = 4 and (df2) = nk = 90-5 = 85, where the significant level α = 0.05. So ftable can be calculated using the Ms Excel formula with the insert function formula as follows:

ftable = FINV(Probability,deg_freedom1,deg_freedom2)

ftable = FINV(0.05,4.85)

ftable = 2.479

Based on the table, it can be obtained that the fcount value is greater than ftable (57.593 > 2.479) with a significance level of (0.000 < 0.05), so H5 is accepted. So it can be concluded that company size, financial leverage, cash holding, and managerial ownership simultaneously influence income smoothing.

Analysis and Addition of Research Results

Based on the results of the simultaneous test (Chi-Square), the variables company size, financial leverage, cash holding and managerial ownership have a significant effect on income smoothing with the result that the f value is greater than f table (57.593 > 2.479) with a significance level of (0.000 < 0.05). This shows that H1 is accepted, meaning that company size, financial leverage, cash holding, and managerial ownership have a significant effect simultaneously on income smoothing. With a coefficient of determination (Nagelkerke's R square) of 0.633. This means that company size, financial leverage, cash holding and managerial ownership can explain income smoothing by 63.3% while the remaining 100% - 63.3% = 36.7% is explained by factors other than the variables studied above. The results of this research show that company size, financial leverage, cash holding and managerial ownership can simultaneously explain the influence on Income Smoothing in food and beverage companies listed on the IDX for the 2019-2023 period.

The influence of company size on income smoothing. The second hypothesis (H2) which states that company size influences income smoothing in the analysis is accepted. This is shown in the table with the tcount value being greater than ttable (4.640 > 1.988) and the probability value being smaller than the significance level (0.031 < 0.05). So based on the research results, the company size variable has a partial effect on income smoothing which shows significant results with a positive correlation. This indicates that company size in food & beverage companies influences Income Smoothing. Based

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on agency theory, it is assumed that each individual is motivated by their own interests, giving rise to conflicts of interest (Fitriyah & Saputra, 2024). Large-scale companies have a high tendency to smooth income compared to small-scale companies, because large companies receive more attention and supervision from investors, which causes managers to tend to determine accounting methods with a delay, Larger companies attract the attention of investors, analysts, and governments because they are perceived to generate larger profits which can influence higher costs, such as taxes. (Younis & Sundarakani, 2020). Companies that have high assets will get a good view from the public, therefore companies try their best to avoid large fluctuations in profits, because if the profits recorded are large enough it will have an impact on the taxes paid, namely higher taxes, so that the greater The size of the company, the higher the income smoothing action taken by management.(Sintia Dewi, 2023)

Results of previous research (Sintia Dewi, 2023), (Nugroho, 2019) And (Hamdani et al., 2021) stated that company size has a positive effect on income smoothing.

The effect of financial leverage on income smoothing. The third hypothesis (H3) which states that financial leverage has an effect on income smoothing in the analysis is rejected. This is shown in the table with the tcount value being smaller than ttable (0.150 > 1.988) and the probability value being greater than the significance level (0.699 > 0.05). So based on the research results, the financial leverage variable has no partial effect on income smoothing which shows significant results with a negative correlation. According to positive accounting theory in the debt convenant hypothesis, which states that companies that have a lot of debt tend to carry out earnings management by increasing profits, because companies that have a large debt ratio tend to have more difficulty getting additional funds from creditors and even the company is threatened. debt agreement(Dewi & Effriyanti, 2022). The influence of financial leverage on income smoothing can occur because financial leverage shows how efficient the company is in managing its funds to anticipate long-term and short-term debt, so that the company's long-term operational activities are not disrupted. However, companies experiencing financial difficulties can meet funding needs from other sources, such as using retained earnings and issuing shares to increase equity, because companies obtain relatively cheap funds with lower capital costs and capital costs can be reduced. So management becomes unmotivated to carry out income smoothing

Results of previous research (Bangun & Justin, 2023) (Saragih & Nurhasanah, 2023) And (Sitompul et al., 2024) states that financial leverage has a negative effect on income smoothing.

The effect of cash holding on income smoothing. The fourth hypothesis (H4) which states that cash holding has an effect on income smoothing in the analysis is accepted. This is shown in the table with the tcount value being greater than ttable (5.909 > 1.988) and the probability value being greater than the significance level (0.015 < 0.05). So based on the research results, the cash holding variable has a partial effect on income smoothing which shows significant results with a positive correlation.According to agency theory, disputes between management and investors encourage each party to own funds in the company. Businesses with a lot of free cash flow will face agency problems, which will encourage management to take opportunistic actions, one of which is income smoothing. (Anwar & Gunawan, 2020). The existence of financial report information regarding cash in the company allows investors to assess the manager's performance based on its ability to keep the increase in cash in the company stable. By having stable cash in the company, it shows that the company has a low level of risk, because the company is considered capable of paying its obligations so that management motivated to carry out income smoothing (Inayah & Izzaty, 2021)

Results of previous research by (Anwar & Gunawan, 2020) And (Setyaningsih & Irawati, 2022) stated that cash holding has a positive effect on income smoothing.

The influence of managerial ownership on income smoothing. The fifth hypothesis (H5) which states that managerial ownership influences income smoothing in the analysis is rejected. This is shown in the table with the tcount value being smaller than ttable (6.975 > 1.988) and the probability value being greater than the significance level (0.441 > 0.05). So based on the research results, the managerial ownership variable has no partial effect on income smoothing which shows significant results with a negative correlation. One way to reduce agency conflicts due to information asymmetry is share capital owned by management, because management will position itself as the principal.(Suleiman & Loka, 2022).More or less managerial ownership has no effect on income smoothing because the welfare and prosperity of managers does not change even if profits rise or fall so that relatively small managerial ownership causes managers to be unmotivated to carry out the practice of income smoothing. Apart from that, the amount owned by management is not too large and has an impact on votes. provided in company decision making related to profit manipulation.

Results of previous research by (Miftah et al., 2023) And (Saitri & Putra, 2020) states that managerial ownership has a negative effect on income smoothing.

CONCLUSION

This sample data amounts to 90 financial reports originating from 18 food and beverage sub-sector companies listed on the Indonesia Stock Exchange (BEI) over a 5 year period, namely 2019-2023. With the research results, Company Size and Cash Holding have a significant effect on Income Smoothing, while Financial Leverage and Managerial Ownership do not have a significant effect on Income Smoothing.

The limitation of this research is that the sample used is only data on food and beverage companies listed on the Indonesia Stock Exchange (BEI), so this research only reflects income smoothing in the food and beverage sector. The independent variables used in this research are company size, financial leverage, cash holding, and managerial ownership. And there are many other variables that can be researched and can have an influence on income smoothing. This research only uses data from 5 periods, namely 2019-2023. Some suggestions from this research that can be carried out for further research are that further research is expected to be carried out in other industrial sectors, so that more accurate results can be obtained in a wider sector. Using other independent variables that may have an influence on income smoothing, can add additional consideration for investors in determining their investment strategy.

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