Effect of Profitability, and Leverage Company Size to Income smoothing in Indonesian Stock Exchange Pharmaceutical Companies

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Abstract: This study aims to determine the effect of Profitability, Leverage, Company Size on Income Smoothing in Pharmaceutical Companies listed on the Indonesia Stock Exchange. This research was conducted at pharmaceutical companies listed on the Indonesia Stock Exchange. The sample determination method uses purposive sampling by taking into account the availability of financial report information for the 2017-2021 period, a total of 55 samples consisting of 11 companies with a 5 year period. The data used in this research is secondary, namely the financial reports of the Indonesia Stock Exchange (IDX) for 2017-2021. In this study the technique used is multiple linear regression analysis. The results of the analysis show that there is a significant effect of Profitability, Leverage and Company Size together on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. There is a significant effect of Profitability on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange. While Leverage and Company Size partially have no significant effect on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.

Keywords: Profitability, Leverage, Company Size, Income Smoothing.

I.   INTRODUCTION

The financial report is a presentation of information from a company's financial condition, because the financial report will present various kinds of information about the company's financesrequired by various companies. Users of financial reports include, among others, management, creditors, shareholders, company employees, suppliers, government, consumers andother general public which essentially can be divided into two major groups, namely internal and external parties.

Development   economy   in Indonesia is growing well and is able to produce products in every sector–the corporate sector that is able to compete in the business world, including the pharmaceutical sector. Accelerating the development of the pharmaceutical and medical device industry sector has become the main focus of the government, especially since the last five years. The aim is to realize independence and increase the competitiveness of the domestic pharmaceutical and medical device industry. The policy to accelerate the development of the pharmaceutical and medical device industry is motivated by Presidential Instruction Number 6 of 2016 to guarantee the availability of pharmaceuticals and medical devices, as an effort to improve health services within the framework of the National Health Insurance.

*Income Smoothing*a special practice of earnings management involving temporary internal

reporting of income smoothing, which makes earnings appear stable without unreasonably high fluctuations. Profitability is a ratio to estimate a company's ability to achieve profits Leverage is a ratio used as a measure of the extent of a company's assetsfinanced by debt. This means how much debt is borne by the company compared to its assets. Company Size is a measure of organization size large and small as indicated by different sections, specifically all resources, complete transactions, log size, stock exchange value, etc. Etc.

II. RESEARCH OBJECTIVES

The research objectives that can be put forward in the study are:

1. For know influence
   Profitability, Leverage and Company Size on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.
2. To determine the effect of Profitabilityon Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.
3. To determine the effect ofLeverageIncome Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.

III. LITERATURE REVIEW

According to Nejad et al., (2013) inAlfonsa (2017) Income Smoothing is a special practice of earnings management that involves internal reporting of temporary income smoothing, which makes profits look stable without too high fluctuations. Stable profits are expected to create investors' perceptions of a good company condition. Income Smoothing activities are deliberately carried out to attract the market's desire to invest.

According to Cashmere (2017) ratioProfitability is a ratio to ratecompany's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management.Cashmere (2017) ratio leverageis the ratio used to measure the extent to which a company's assets are financed with debt. The financial leverage ratio is used to measure the relationship between total assets and equity capital used to fund assets.

According to Paramita and Isarofah (2016), company size is a scale where a company can be classified as large or small through various ways, including total assets, log size, stock market value, and others. Sizethe company's results are the overall average of net sales for the current period to the next year.The ratio of company size used in this study is the company size of total assets.

IV. RESEARCH METHODOLOGY

The type of research used in his research is associative, which is research that aims to determine the relationship between two or more variables.The population used in this study are pharmaceutical companies listed on the Indonesian Stock Exchange. Sampling using purposive sampling. The number of samples studied were 11 pharmaceutical companies listed on the Indonesia Stock Exchange.

The data needed for this research is secondary in the form of financial reports of pharmaceutical companies which are listed on the Indonesia Stock Exchange which can be accessed viawww.idx.com. The data collection technique used in this research is documentation. Collecting information from the financial reports of pharmaceutical companies listed on the Indonesia Stock Exchange.

Data analysis used in this study is a quantitative analysis using statistical formulaswhich was corrected by research that took documentary data from the financial reports of pharmaceutical companies listed on the Indonesia Stock Exchange

V.   RESULTS

Classical Assumption Test Analysis
Normality test

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Y_Incomesmoothing
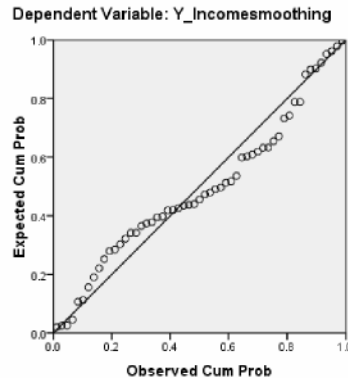
Source: SPSS 2023 Data Output Results.
Figure 1.
Normality Test Results

Based on the appearance of the Normal PP Plot graph, the normal graph can be seen from the dots–sigh pointbar around the diagonal line and follow the direction of the diagonal line.

Heteroscedasticity Test

Scatterplot

Dependent Variable: Y_Incomesmoothing
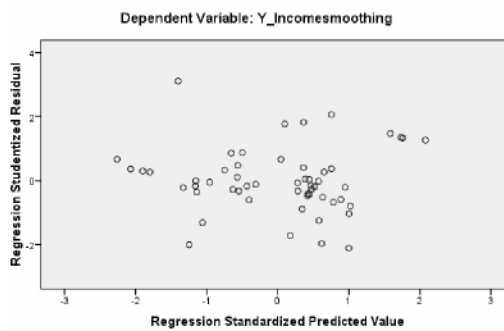
Source: SPSS 2023 Data Output Results.
Figure 1.
Heteroscedasticity Test Results

Based on the results of this study, the appearance of Figure 1.2 shows that there is no clear pattern such as dots–spreading point.

Multiple Linear Regression Test

Table. 1
Multiple Linear Regression Results

Coefficientsa

	Unstandared	standardize

| Model | Coefficient | | Coefficients |
	B	std. Error	Betas
1 (Constant)	.186	.221	
X1_Profita bilityUS	.791	.488	.276
X2_Leverag	-	.023	-.080
X3_SizePer effort	-.006	008	-.129

a. Dependent Variables:Y_Incomesmoothing
b. Source: SPSS 2023 Data Output Results.

Based on the results of the multiple linearstudied on the variable Profitability (X1), Leverage(X2), and Company Size (X3)on Income Smoothing (Y) can be described as multiple linear regression as follows:**Y = 0.186+0.791X1- 0.014X2- 0.006X3**

Based on the calculation of the multiple linear equation above, the constant Income Smoothing coefficient value of 0.186 indicates that if the independent variables, namely Profitability, Leverage andCompany size in the company is assumed to have a fixed value, so the profit growth earned by the company is - 0.186.

Results calculation   mark   coefficientProfitability (X1) 0.791 means if there is Increase Profitability (X1) by 100% then Income Smoothing will increase 0.791.

Resultscalculation   mark   coefficientLeverage (X2) -0.14 to Income Smoothing means that Leverage has a negative relationship to Income Smoothing (Y) which is equal to 100%, so Income Smoothing will decrease by -14%.

The results of calculating the coefficient value of Firm Size (X3) to Income Smoothing (Y) shows a positive coefficient of 0.006 if there is an increase in Firm Size (X3) of 100% then Income Smoothing will increase 0.6%.

Hypothesis testing
F test

F test is used to find outis there any influence of the independent variables Profitability, Leverage, Firm Size together on the dependent variable Income Smoothing.

Table. 2
F test results
ANOVA[b]

Model	Sum ofSquares	df	MeanSquare	F	Sig.
1 Regression	.363	3	.121	3,389	.025 a
Residueal	1821	51	,036		
Total	2,18	54			

a. Predictors: (Constant), X3_Companysize,X2_Leverage, X1_Profitability
b. Dependent Variable: Y_Incomesmoothing
Source: SPSS 2023 Data Output Results.

Based on the table above, it can be seen that the value of Fcount= 3,389>Ftable= 3.18 with Sig.

F 0.025 <0.05. F_{table} value with 95% confidence level and error rate (α) 5% = 0.05 with the formula: df = nk-1 , and numerator (K=3) so k-1=2 and denominator df = nk-1=(55-3-1)= 51 is 3.81 then Ho is rejected and Ha is accepted. This means that there is a significant effect on Profitability, Leverage and company size on Income Smoothing in pharmaceutical companies listed on the Stock Exchange Indonesia.

T TEST (Partial)

    T test to determine Profitability, Leverage and Company Size on Income Smoothing of Pharmaceutical Sector Companies on the Indonesia Stock Exchange (IDX). The results of the t test (Partial Test) can be seen in the following table:

Table 3.
Test Results t
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	std. Erro	Betas		
1 (Constant)	.18	.22		.841	.40
X1_Proviabilitys	6,791	1	.276	1.721	5
X2_Leverase	-014	.48	-	-	.01
X3_Company size	-006	8	.080	.578	1

a. Dependent Variable: Y_Incomesmoothing
Source: SPSS 2023 Data Output Results.

    Based on the table above, it shows the t_{table} value with a confidence level of 95% and an error rate (α) of 5% = 0.05 with the formula: df = n–k (n = number of samples and k = number of variables), then: df = n–k = 55–3 = 52. So, the value of ttable= 1.674.

    The t_{count} value is 1.721> the t_{table} value is 1.674 with Sig. t 0.011 <0.05. That is, there is a significant influence Profitability, Leverage and Company Size on Income Smoothing in Pharmaceutical companies listed on the Indonesia Stock Exchange.

    The t_{count} value is -0.578 < the t_{table} value is 1.674 with Sig. t 0.566 > 0.05. This means that there is a significant effect of Profitability, Leverage and Company Size on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.

    The t_{count} value is -0.773 < the t_{table} value is 1.674 with Sig. t 0.443 <0.05. That is, there is no significant influence Profitability, Leverageand Company Size on Income Smoothing in Pharmaceutical companies listed on the Indonesia Stock Exchange.

VI.   Discussion

    The effect of Profitability, Leverage and Company Size simultaneously on Income Smoothing in Pharmaceutical Companies listed on the Indonesia Stock Exchange.Based on the test results that there is a significant influence between Profitability, Leverage and Company Size on Income Smoothing.

Hypothesis test results Test F with a significant level α = 0.05 or 5% F_{count} 3.389 >Ftable3.18 with a value of Sig F ≤ α (0.025 ≤ 0.05), then Ho is rejected and Ha is accepted meaning that there is an effect of Profitability, Leverage and Company Size on Income Smoothing in Pharmaceutical Companies listed on the Indonesia Stock Exchange.

The results of this study mean that the higher the profitability, theshown through the profits owned by the company, it is able to influence the practice of income smoothing in the company. With the higher level of debt owned by the company, it encourages management to manipulate profits to improve the company's image and reputation in the eyes of stakeholders so that investors still want to invest in the company. This means that the larger the size of the company as indicated by the size of the total assets owned by the company, the more influence it has on the practice of income smoothing.

The partial effect of Profitability, Leverage and Company Size on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.

The Effect of Profitability on IncomeSmoothing on the Pharmaceutical Companylisted on the Indonesia Stock Exchange.

The results of the hypothesis test show that significant value t variable profitability against Income Smoothing 0.011 withusing t table with a real level df = 55-3 = 52 then $t_{count}$is 1.721 >ttableof 1.674 and a significant profitability of 0.011 <α 0.05, then Ho is rejected and Ha is accepted, meaning that there is a significant influence between profitability partially on Income Smoothing in pharmaceutical companies listed on the Indonesian stock exchange.

The Effect of Leverage on Income Smoothing in Pharmaceutical Companies Listed on the Indonesia Stock Exchange.

The results of the hypothesis test show that the significant value of t variable leverage on Income Smoothing is 0.566by using the t table with a significant level df = 55-3 = 52 then tcountof -0.578 <ttableof 1.674 and a significant leverage of 0.566 > α 0.05 then Ho is accepted and Ha is rejected, meaning that there is no significant effect of partial leverage on Income Smoothing in pharmaceutical companies listed on the stock exchangeIndonesia

Effect of Company Size onIncome Smoothing for Pharmaceutical Companies listed on the Indonesia Stock Exchange.

The results of the Hypothesis Test show that significant value of t variable Company Size on Income Smoothing is 0.443 using t table with a significant level df = 115-3-112 then t count is -0.773 ≤ table is 1.674 and significant Firm Size is 0.443 ≥ a 0.05 then Ho is accepted and Ha is rejected, meaning that there is no significant effect between company size partially on income smoothing in pharmaceutical companies listed on the Indonesian stock exchange.

VII.   CONCLUSIONS
Based on the test results above, it can be concluded as follows:
1) There is a significant influence Profitability,Leverage and Company Size on Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.
2) There is a significant influence Profitabilityon Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.
3) There is no significant leverage effecton Income Smoothing in pharmaceutical companies listed on the Indonesia Stock Exchange.
4) There is no significant effect of Company Size on Income Smoothing in pharmaceutical companies listed on the Stock ExchangeIndonesia.

RECOMMENDATION
Based on   conclusionin this research, the suggestions that can be given for further research are as follows:
1) The research period should be extended in order to better predict long-term research results.
2) Future studies are expected to add to the sample companies in order to predict the effect of the independent variables on the dependent variable.
3) Further research is recommended to add or replace variable

independent variables that are likely to influence the dependent variable, namely Income Smoothing such as Cash Holding, Growth, etc.

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