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CORPORATE SIZE IN MODERATE THE INFLUENCE OF CURRENT RATIO AND DEBT TO EQUITY RATIO ON INCOME SMOOTHING

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ABSTRACT

Net profit information is very important for the sustainability of the corporate's operational activities and investor confidence in investing their funds, so that corporate management practices income smoothing or income smoothing by manipulating the corporate's financial statements. Several previous studies, there are gaps in experiment outcomes from one experimenter to another, so this study tries to re-examine the gaps or gaps found in several studies. This study is a replication study to re-examine several factors that influence income smoothing by using Corporate size as a moderating instrument variable. The addition of this moderation instrument variable aims to increase the depth of analysis and provide a more nuanced understanding of the relationship between the dependent instrument variable and the independent instrument variable. Moderating instrument variables can strengthen the relationship between the two instrument variables. The purpose of this study is to determine the effect of the current ratio and debt to equity ratio on income smoothing with corporate size as a moderating instrument variable in manufacturing corporates listed on the Indonesia Stock Exchange for the period 2020-2022. This study uses a purpose sampling technique with data for three years obtained from the website www.idx.co.id. Data processing in this study used SPSS version 27 and Microsoft Excel 2016 applications. The analysis in this study used logistic regression analysis for the current ratio and debt to equity ratio hypotheses and absolute difference analysis for the current ratio and debt to equity ratio on income smoothing with corporate size as a moderating instrument variable. The outcomes of this study indicate that the current ratio and debt to equity ratio do not affect income smoothing. Corporate size as a moderating instrument variable cannot moderate the current ratio and debt to equity ratio instrument variables on income smoothing.

Keywords: *current ratio, debt to equity ratio, income smoothing, firm size*

1. INTRODUCTION

Net profit is very important information for a corporate because it contains the net profits obtained by the corporate which are contained in the corporate's financial reports. Investors and interested parties really pay attention to corporate net profits as a consideration for investing so that the required funds are always available so that the corporate's operational activities run smoothly. Net profit information is very important for the continuity of the corporate's operational activities and investors' confidence in investing their funds, which makes corporate management practice income smoothing by manipulating the corporate's financial reports. Income smoothing is a deviation carried out by managers by increasing or decreasing reported net profits to reduce fluctuations so that they are in line with the desired targets both through accounting and transaction methods.

Based on accounting principles, corporate activities in carrying out income smoothing practices are still reasonable actions taken by corporates because they do not violate legal accounting standards, so many corporates practice income smoothing. As a outcome of the practice of income smoothing, some information related to published net profits becomes unreliable because the people involved in using the financial reports cannot make the right decisions and can produce wrong information.

In several previous studies, there were gaps in experiment outcomes from one experimenter to another, so this experiment tries to re-examine the gaps in some of these studies. It is hoped that this experiment can provide input for corporates, especially corporate management, so that they can consider factors that can influence income smoothing practices. Managers can consider what things should be done to reduce the practice of income smoothing. It is hoped that this experiment can provide input for corporate management to be able to consider the factors that occur in the practice of income smoothing in corporate financial reports, so that the decision-making process can be carried out appropriately.

Agency Theory. Agency theory according to Jensen and Meckling (1976) is the relationship between shareholders as principals and management as agents. Agency theory describes how leaders entrust work to their subordinates to carry out tasks so that these interests are achieved, but this creates problems that subordinates don't like, which are called agency problems. Agency theory on income smoothing has a relationship between management and principals whose interests conflict with each other because the manager carries out income smoothing practices for his own interests. The reason managers implement income smoothing practices is so that corporate activities can look good and smooth and investors can directly predict how much net profit they will make in the future. Apart from that, the principal also has the aim of increasing net profit benefits which is often in conflict with the manager.

Positive Accounting Theory. According to Watts and Zimmerman (1986), positive accounting theory explains how several economic-related factors can be linked to the behavior of managers or parties involved in preparing financial reports. In positive accounting theory, the accounting cycle used by a corporate may not be the same as other corporates because corporates are given leeway in determining several other procedures in order to minimize contractual costs and increase the value of the corporate's effectiveness. The presence of positive accounting theory makes a very significant contribution to accounting development.

Signal Theory. Rorin (2012) defines information as something that is very important for investors because information can provide an overview of how good market conditions are from the past to the future. Information can provide positive and negative signals for investors in carrying out investment activities which can be seen in market activity when the information appears. In signal theory, this theory explains why corporates have an incentive to provide financial report information to external parties. Signal theory is built on the existence of asymmetric information between management and shareholders. This theory comes from the idea that management will provide good information regarding the corporate to investors or shareholders, such as an increase in corporate value.

Income Smoothing. The definition of income smoothing is an effort by management to reduce the level of net profit fluctuations in order to obtain a normal amount of corporate net profit carried out by management. An impact outcomeing from income smoothing makes the net profit information in the net profit and loss report inaccurate or wrong because it falsifies actual conditions and can make the decision-making process wrong for investors. In simple terms, income smoothing is an action deliberately carried out by managers using special tools in accounting to reduce net profit fluctuations (Bora and Saha, 2015).

Current Ratio. The current ratio is the ratio most commonly used to measure a corporate's liquidity or ability to meet short-term obligations without facing difficulties. The current ratio can be calculated by dividing current assets by current liabilities. A low current ratio is usually considered to indicate a problem with liquidity. However, a corporate that has a current ratio that is too high is not good, because it shows a lot of idle funds which can ultimately reduce the corporate's net profits. Kasmir (2018:134) states that "The current ratio is a ratio to measure a corporate's ability to pay short-term obligations or debts that are due when they are fully collected."

Debt to Equity Ratio. Debt to equity ratio is a ratio used to measure a corporate's borrowing or debt. According to Horne and Wachowicz (2009:186), the mathematical calculation of debt to equity ratio is the comparison between total debt and total shareholder's equity. A high level of debt use can outcome in reduced dividends because some of the net profits are used as reserves to pay off debt. However, if the level of debt use is low, the corporate can increase dividends and some of the corporate's net profits can be given to increase shareholder satisfaction.

Corporate Size. Corporate size is one of the factors that explains the corporate's possibility of carrying out income smoothing activities and influences income smoothing practices. Large corporates have greater pressure from stakeholders regarding the corporate performance that investors hope to achieve. Corporate size shows the condition and ability of the corporate to finance its investments in order to earn net profits. The large amount of supervision from various parties means that large corporates do not want to see their net profits fluctuate, which outcomes in corporates carrying out income smoothing. The size of the corporate itself is determined based on the total assets of a corporate (Alexandri and Anjani, 2014).

The Influence of the Current Ratio on Income Smoothing Practices
The current ratio is used to see the corporate's ability to pay off its current liabilities using current assets that can be exchanged for existing cash in one year period. A high level of current ratio indicates that excessive current assets are not good for corporate net profitability. Usually current assets produce a lower rate of return than fixed assets and other components of current assets. Some assumptions conclude that a higher current ratio makes the lender's position better. Based on the creditors' point of view, a ratio with a high value provides protection in the event of losses related to the corporate's liquidity. Experiment conducted by Narumondang Bulan Siregar and Vivian (2015) and Erna Dwi Rahayu (2017) states that the current ratio has a positive and significant effect on income smoothing. However, the outcomes of this experiment also conflict with experiment conducted by Azizi (2015) and Jessica and Sofia Prima Dewi (2019) which stated that the current ratio or liquidity does not have a significant effect on income smoothing.

The Influence of Debt to Equity Ratio on Income Smoothing Practices
Debt to equity ratio is one of the ratios used to see a corporate's ability to pay off its debts using the corporate's equity it owns. If the interest rate is higher compared to the capital owned, then the corporate has a high financial risk. Debt used in high amounts can cause net profits to decrease because the corporate bears fixed expenses that continue to increase. Experiment by Suryani and Damayanti (2015), Herlina Monica and Sufiyati (2019), and Kusnadi (2015) states that the debt to equity ratio or financial leverage has a significant

positive effect on income smoothing. This is different from experiment conducted by Yunengsih et al. (2018) and Hizkia Budiansyah and Ardiansyah Rasyid (2019) who stated that at a significant level the debt to equity ratio has a negative influence and does not have a significant effect on the practice of income smoothing.

The Influence of Corporate Size on the Relationship between Current Ratio and Income Smoothing

The current ratio is used to see the corporate's ability to pay off its current liabilities using current assets that can be exchanged for existing cash in one year period. A high current ratio figure shows that the corporate is stable, while a low current ratio figure shows that the corporate has risks related to liquidity problems. Large corporates have an incentive to practice income smoothing because investors view them more critically and carefully compared to small corporates. This happens because large corporates make more disclosures compared to small corporates which are influenced by the structure of the corporate's activities. The outcomes of this experiment are sugested by experiment conducted by Bulan Siregar and Vivian (2015) stating that corporate size influences the relationship between current ratio and income smoothing.

Pengaruh Ukuran Perusahaan Terhadap Hubungan Debt to Equity Ratio Dengan Income Smoothing

Debt to equity ratio is used as a ratio to measure the level of leverage against shareholder's equity in the corporate's financial statements. Large corporates use more funds to carry out corporate operations such as debt. Large corporates practice income smoothing because they tend to have high debt levels, so managers create regulations that can increase corporate income. A high level of debt indicates that the corporate has a high level of risk which makes creditors monitor the magnitude of the risk. The outcomes of experiment conducted by Muhammad Wahyu Akbar (2019) state that corporate size can moderate the influence of the debt to equity ratio on income smoothing practices. However, the outcomes of this experiment also contradict experiment conducted by Hamdayani (2019) and Prasetya and Raharjo (2013) which stated that corporate size was unable to moderate the relationship between debt to equity ratio and income smoothing.

Experiment conducted by Narumondang Bulan Siregar and Vivian (2015) and Erna Dwi Rahayu (2017) states that the current ratio has a positive and significant effect on income smoothing. However, the outcomes of this experiment also conflict with experiment conducted by Azizi (2015) and Jessica and Sofia Prima Dewi (2019) which stated that the current ratio or liquidity does not have a significant effect on income smoothing.
H1: Current ratio has a positive and significant influence on income smoothing practices

Experiment by Suryani and Damayanti (2015), Herlina Monica and Sufiyati (2019), and Kusnadi (2015) states that the debt to equity ratio or financial leverage has a significant positive effect on income smoothing. This is different from experiment conducted by Yunengsih et al. (2018) and Hizkia Budiansyah and Ardiansyah Rasyid (2019) who stated that at a significant level the debt to equity ratio has a negative influence and does not have a significant effect on the practice of income smoothing.
H2: Debt to equity ratio has a positive and significant influence on income smoothing practices

The outcomes of this experiment are sugested by experiment conducted by Bulan Siregar and Vivian (2015) stating that corporate size influences the relationship between current ratio and income smoothing.
H3: Corporate size as a moderating instrument variable has a significant influence on the relationship between the current ratio and income smoothing practices

The outcomes of experiment conducted by Muhammad Wahyu Akbar (2019) state that corporate size can moderate the influence of the debt to equity ratio on income smoothing practices. However, the outcomes of this experiment also contradict experiment conducted by Hamdayani (2019) and Prasetya and Raharjo (2013) which stated that corporate size was unable to moderate the relationship between debt to equity ratio and income smoothing.
H4: Corporate size as a moderating instrument variable has a significant influence on the relationship between debt to equity ratio and income smoothing practices

The framework of thinking in this experiment is as described below:

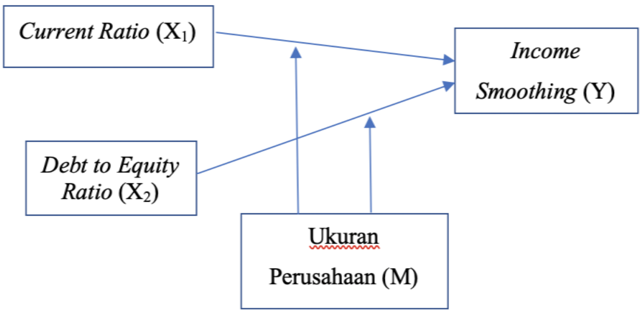

Figure 1. Framework

2. RESEARCH METHODS

The methodology used in this experiment is a quantitative method using secondary data obtained from the financial reports of manufacturing corporates listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. This experiment uses a purposive sampling technique in taking samples. The criteria for sampling itself consist of: (1) Manufacturing corporates listed on the Indonesia Stock Exchange during the 2020-2022 period, (2) Manufacturing corporates that do not use the Rupiah currency in presenting financial reports during the 2020-2022 period, (3) Manufacturing corporates that do not experience losses during the 2020-2020 period, (4) Manufacturing corporates that do not experience initial public offerings (IPO), delisting, and relisting during the period. 2020-2022, (5) Manufacturing corporates whose financial reports end on December 31 for the 2020-2022 period.

The number of samples that meet the criteria is 70 corporates. This experiment uses Microsoft Excel 2019 and SPSS version 29 programs to carry out logistic regression tests and moderated regression tests using the absolute difference test method.

The following are the operational and measurement instrument variables in this experiment:

Table 1. Operational and measurement instrument variables

Instrument variable	Size	Scale
Income smoothing	$\frac{CV\Delta I}{CV\Delta S}$ An income smoothing index value of < 1 means the corporate carries out income smoothing, while an income smoothing index value ≥ 1 means the corporate does not carry out income smoothing.	Nominal
Current ratio	$\frac{Current\ assets}{Current\ liabilities}$	Ratio
Debt to equity ratio	$\frac{Total\ liability}{Total\ equity}$	Ratio
Firm size	$Ln\ Total\ assets$	Ratio

3. RESULTS AND DISCUSSIONS

The outcomes of experiment on the analysis of the logistic regression model formed based on the estimated parameter values in the output instrument variables in the equation using SPSS version 29 are as follows:

Table 2. Logistic Regression Test
Source: Outcomes of data processing with SPSS version 29

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Current Ratio	,011	,011	,957	1	,328	1,011
	Debt to Equity Ratio	-,120	,094	1,632	1	,201	,887
	Constant	,342	,172	3,968	1	,046	1,408

a. Instrument variable(s) entered on step 1: Current Ratio, Debt to Equity Ratio.

Table 4 shows the equation of the logistic regression analysis model in this study, which is as follows:

$$\textit{Income Smoothing} = 0{,}342 + 0{,}011X_1 - 0{,}120X_2$$

The outcomes of the analysis using the logistic regression test show that the current ratio instrument variable has a coefficient value of 0.011 and a significant value of 0.328 which is higher than 0.05. These outcomes show that the current ratio has a negative and insignificant influence on the practice of income smoothing, which means that hypothesis H1 is ignored. A high current ratio level indicates a higher corporate's ability to fulfill its short-term obligations. In this case, the corporate will carry out income smoothing to obtain loans from creditors in order to avoid impacts that could harm the corporate even more.

The debt to equity ratio instrument variable has a coefficient value of -0.120 and a significant value of 0.201 which is higher than 0.05. These outcomes show that the debt to equity ratio has a negative and insignificant effect on income smoothing practices, which means that hypothesis H2 is ignored. The higher the debt to equity ratio, the lower the corporate's ability to distribute dividends. In this case, the corporate will carry out income smoothing to make net profits stable, which will make creditors feel safe in providing credit to the corporate because they believe the corporate is able to pay the credit smoothly.

The outcomes of experiment on the moderation regression test using the absolute difference test method using SPSS version 29 are as follows:

Table 3 Absolute Assumption Test
Source: Outcomes of data processing with SPSS version 29

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Zscore: Current Ratio	,198	,644	,094	1	,759	1,219
	Zscore: Debt to Equity Ratio	-,222	,196	1,285	1	,257	,801
	Zscore: Ukuran Perusahaan	-,028	,145	,037	1	,847	,972
	X1_M	,481	,423	1,295	1	,255	1,618
	X2_M	-,046	,243	,036	1	,850	,955
	Constant	-,110	,401	,075	1	,784	,896

a. Instrument variable(s) entered on step 1: Zscore: Current Ratio, Zscore: Debt to Equity Ratio, Zscore: Ukuran Perusahaan, X1_M, X2_M.

Furthermore, the outcomes of the analysis using a moderating regression test using the absolute difference test method show corporate size as a moderating instrument variable for the independent instrument variable current ratio with income smoothing having a coefficient value of 0.481 and a significant value of 0.255 which is higher than 0.05. The outcomes of this experiment show that the corporate size instrument variable is not part of the moderating instrument variable on the relationship between the current ratio instrument variable and the income instrument variable, meaning that hypothesis H3 is ignored. In this case, the larger or smaller the size of the corporate does not guarantee the corporate will carry out income smoothing practices in order to get loans from creditors. The large amount of supervision from various parties means that large corporates do not want to see their net profits fluctuate, which outcomes in corporates carrying out income smoothing.

Next, the moderating regression test uses the absolute difference test method. The outcomes of the final analysis show corporate size as a moderating instrument variable for the independent instrument variable debt to equity ratio with income smoothing having a coefficient value of -0.046 and a significant value of 0.850 which is higher than 0.05. The outcomes of this experiment show that the corporate size instrument variable is not part of the moderating instrument variable on the relationship between the debt to equity ratio instrument variable and the income instrument variable, which means that hypothesis H4 is ignored. A high level of debt indicates that the corporate has a high level of risk which makes creditors monitor the magnitude of the risk, but if the corporate has a high level of net profit, then the corporate has a low level of risk. The increasing size of the corporate forces the corporate to obtain funds from investors, which makes managers carry out income smoothing practices in order to obtain these funds.

The following are the outcomes of the hypotheses that have been tested in this experiment, as follows:

Table 4. Hypothesis Testing Outcomes

Hypothesis	Statement	Regression Coefficients	Significance Level	Hypothesis Outcomes
H_1	The current ratio has a positive and significant influence on income smoothing practices	0,011	0,328	H_1 is ignored
H_2	Debt to equity ratio has a positive and significant influence on practice income smoothing	-0,120	0,201	H_2 is ignored
H_3	Corporate size as a moderating instrument variable has a significant influence on the	0,481	0,255	H_3 is ignored

	relationship between current ratio with practice income smoothing			
H_4	Corporate size as a moderating instrument variable has a significant influence on the relationship between debt to equity ratio with practice income smoothing	-0,046	0,850	H_4 is ignored

Effect of Current Ratio on Income Smoothing

The outcomes of this experiment analysis are that the current ratio has a negative and insignificant influence on income smoothing practices, which means that hypothesis H1 is ignored. Based on the outcomes above, it can be concluded that the current ratio cannot explain and does not influence and does not increase the corporate's ability to implement income smoothing practices. This is because the comparison between current assets and short-term debt has an insignificant negative effect on a corporate's income smoothing. Corporates practice income smoothing because they can avoid impacts that could harm the corporate even more.

The outcomes of this study are sugested by previous studies, but there are also conflicting studies. Experiment conducted by Narumondang Bulan Siregar and Vivian (2015) and Erna Dwi Rahayu (2017) states that the current ratio has a positive and significant effect on income smoothing. However, the outcomes of this experiment also conflict with experiment conducted by Azizi (2015) and Jessica and Sofia Prima Dewi (2019) which stated that the current ratio or liquidity does not have a significant effect on income smoothing.

The Effect of Debt to Equity Ratio on Income Smoothing

The outcomes of this experiment analysis are that the debt to equity ratio has a negative and insignificant effect on the practice of income smoothing, which means that hypothesis H2 is ignored.

Based on the outcomes above, it can be concluded that the debt to equity ratio cannot explain and does not influence and does not increase the corporate's ability to implement income smoothing practices. This is because the comparison between total debt and total equity has a significant negative influence on a corporate's income smoothing. Corporates practice income smoothing because they can avoid impacts that could harm the corporate even more. Apart from that, income smoothing makes net profits stable which will make creditors feel safer about providing credit to the corporate because they believe the corporate is able to pay the credit smoothly.

The outcomes of this study are sugested by previous studies, but there are also conflicting studies. Experiment conducted by Muhammad Wahyu Akbar (2019), Hamdayani (2019), Suryani and Damayanti (2015), Herlina Monica and Sufiyati (2019), and Kusnadi (2015) stated that the debt to equity ratio or financial leverage has a positive and significant effect on income smoothing. However, the outcomes of this study also contradict experiment conducted by Yunengsih et al. (2018) and Hizkia Budiansyah and Ardiansyah Rasyid (2019) who state that the debt to equity ratio has no significant effect on income smoothing.

The Influence of Corporate Size on the Relationship Between Current Ratio and Income Smoothing

The outcomes of this experiment are that the hypothesis H3 which states that corporate size as a moderating instrument variable has a significant influence on the relationship between the current ratio and income smoothing practices is not proven, which means the hypothesis H3 is ignored.

Based on the outcomes above, it can be concluded that the corporate size instrument variable is not part of the moderating instrument variable on the relationship between the current ratio instrument variable and the income smoothing instrument variable. This is because the use of corporate instrument variables as moderating instrument variables falls into the moderation homologizer category, which means that these instrument variables are not part of the moderating instrument variables.

The outcomes of this experiment contradict experiment conducted by Bulan Siregar and Vivian (2015) which states that corporate size influences the relationship between current ratio and income smoothing.

The Influence of Corporate Size on the Relationship Between Debt to Equity Ratio and Income Smoothing

The outcomes of this experiment are that hypothesis H4 which states that corporate size as a moderating instrument variable has a significant influence on the relationship between debt to equity ratio and income smoothing practices is not proven, which means hypothesis H4 is ignored.

Based on the outcomes above, it can be concluded that the corporate size instrument variable is not part of the moderating instrument variable on the relationship between the debt to equity ratio instrument variable and the income smoothing instrument variable. This is because the use of corporate instrument variables as moderating instrument variables falls into the moderation homologizer category, which means that these instrument variables are not part of the moderating instrument variables.

The outcomes of this experiment are in line with experiment conducted by Hamdayani (2019) and Prasetya and Raharjo (2013) which stated that corporate size is unable to moderate the relationship between debt to equity ratio and income smoothing. However, the outcomes of this experiment also contradict experiment conducted by Muhammad Wahyu Akbar (2019) which states that corporate size can moderate the influence of the debt to equity ratio on income smoothing practices.

4. CONCLUSIONS AND SUGGESTIONS

The outcomes of this study show that the current ratio and debt to equity ratio have no effect on income smoothing. Corporate size as a moderating instrument variable cannot moderate the current ratio and debt to equity ratio instrument variables on income smoothing. This experiment has several limitations faced by this experiment, including the following: (1) The corporates used as samples in this experiment are only limited to manufacturing corporates listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period, so they cannot describe the condition of corporates in Indonesia as a whole. (2) The sample selection in this study used certain criteria so that only 70 corporates were available that met the criteria so that there were a total of 210 samples in the 3 year period. (3) The instrument variables used in this experiment are limited to independent instrument variables, namely current ratio and debt to equity ratio, income smoothing as the dependent instrument variable, and corporate size as a moderating instrument variable.

By knowing these limitations, there are several suggestions that can be given to be useful for future experiment on the same topic. Some of these suggestions include: (1) It is hoped that future experimenters can extend the experiment period for more than 3 years so that the experiment outcomes obtained will be more accurate. (2) Future experimenters are expected to expand the scope of experiment such as adding other corporate sectors on the Indonesian Stock Exchange (BEI) in order to describe overall market conditions. (3) Future experimenters are expected to be able to add other independent instrument variables or replace moderating instrument variables which may have more influence on income smoothing so that they can obtain new and useful experiment outcomes.

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