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EFFECT OF PROFITABILITY, FIRM SIZE, AND CASH HOLDING ON PRACTICE INCOME SMOOTHING SECTOR CONSUMER NON-CYCLICALS

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Submitted: 12-10-2025, Revised: 19-10-2025, Accepted: 04-11-2025

ABSTRACT

This study aims to determine the effect of Profitability, Firm Size, and Cash Holding on Income Smoothing Practices in the Consumer Non-Cyclical Sector. The nonprobability sampling method chosen in this study is purposive sampling, using a sample of 73 companies listed on the Indonesia Stock Exchange with an observation period of 3 years from 2021-2023. Data processing was carried out using logistic regression analysis through the SPSS application for hypothesis testing. The results revealed that Profitability and firm size have a positive direction but do not significantly influence Income Smoothing, and Cash Holding has a negative effect but does not significantly influence Income Smoothing. This means that management bonus policies, contractual obligations, or pressure from investors may have a stronger influence. In addition, regulatory pressure, ownership structure, or market conditions have a greater influence on income smoothing practices. Investors usually do not use cash holdings as a measure of company performance, there is no reason for managers to consider implementing income smoothing practices.

Keywords: *Income Smoothing, Profitabilitas, Firm Size, Cash Holding*

1. INTRODUCTION

A company's financial statements are crucial information for measuring a company's financial well-being and making investments. This motivates every company to strive to demonstrate consistent, strong financial performance to maintain the trust of current investors and attract potential new ones. Earnings information is one of the most influential indicators from a company's financial statements. Investors often overlook the process required to generate earnings information, focusing solely on earnings. Management clearly understands the value of earnings information, and in an effort to address these issues, they often engage in dysfunctional behavior (dysfunctional behavior) namely, profit manipulation. Management and other stakeholders often clash. Maintaining investor trust and attracting potential investors can be achieved by producing sound and consistent financial reports. Indirectly, a company is required to account for profits to shareholders who have invested in the company. Therefore, companies should make every effort to maintain the performance of their financial reports.

To demonstrate stable financial results, company management often manipulates earnings through income smoothing. Management, as those entrusted with the task and responsibility of managing company operations, often feels pressured by the company's goals, especially given the limited time available. Therefore, company managers frequently revise their decisions and engage in earnings management when preparing a company's financial statements. Earnings management is an activity undertaken by business management to influence reported earnings in the long term. Because management discloses information about the company's earnings that the company is not fully aware of, this action can be detrimental to the company. Earnings

information is the primary factor used to assess a company's success or failure in achieving its stated operational objectives. Therefore, earnings management is carried out to make financial statements appear good. Earnings management has several models, such as Taking A Bath, Minimum income, Income smoothing, Income maximization, Timing Revenue, And Expense Recognition In earnings management, the method commonly used for the benefit of the company is the earnings smoothing method.

The method used to minimize profit fluctuations in financial reports by hiding information that should be disclosed transparently is known as income smoothing (Suhartono and Hendraswari, 2020). Income Smoothing carried out during the permitting process by good accounting and management practices. The process carried out in income smoothing This doesn't mean equating high and consistent profits every year, but rather adding less profitable revenues in that period to revenues from periods considered high. This indicates a company's lack of transparency in disclosing actual events and ultimately misleads investors in making decisions.

A company's ultimate objective is to make a lot of money. Potential new investors will find it more appealing if the profit is higher. High-profitability businesses are typically the ones that attract investors. Managers will therefore be urged to use income smoothing techniques when a business is not profitable in order to persuade investors to put their money into businesses that are. The findings indicate that profitability significantly and negatively affects income smoothing (Nathalia and Sufiyati, 2022).

Thu and Khuong (2018) define company size as the total asset ownership of a company, which can be used as a measure of the size of a company. Generally, companies with large sizes are more likely to engage in fraudulent practice income smoothing compared to small companies, large companies attract investors' attention for investment. Therefore, a company's performance must consistently be good, and its profits must be stable year after year.

Cash holding Cash is cash freely available for use in company operations. For immediate receipts and payments, cash can be in the form of cash or bank deposits. Cash holdings can be easily converted into cash, so managers are advised not to smooth income when the company's cash holdings change.

Based on the background above and the inconsistency of several studies, further research will be conducted on the influence of profitability Firm Size and Cash Holding to Income Smoothing.

Agency Theory

The relationship between the principal and the agent is the main topic of study in agency theory. Jensen and Meckling (1976) defined an agency conflict as one that results from the principal and agent having different interests. The relationship between a business owner, who is regarded as the principle, and management, who is regarded as the agent, is comparable to this contractual arrangement (Barli, 2018). According to Handoyo and Fathurrizki (2018), management can influence earnings by smoothing them in order to appease investors and get paid. Since managers wish to benefit from the company's profits, they can develop accounting options that result in higher revenue. The relationship between agency theory and income smoothing stems from the innate human tendency toward opportunism, which suggests that managers act to prioritize their self-interest. Opportunistic actions refer to the company's choice of accounting policies aimed at maximizing profitability and meeting corporate goals. Agents' self-interest leads them to exploit the imbalance of available information, manipulating

financial statements to align with their preferences. This manipulation occurs because principals assess agents' performance based on their capacity to accumulate profits for dividend allocation. Increased profits can increase stock prices and subsequently increase dividend payments. Thus, agents are considered successful or performing well and therefore deserve high incentives.

Positive Accounting Theory

In positive accounting theory, this theory explains the use of accounting policies and practices that can be implemented by a company to deal with certain conditions (Watts & Zimmerman, 1986). In facing various uncertain future situations, this theory is considered capable of predicting what actions should be taken by managers. Within the framework of positive accounting theory, Watts and Zimmerman (1986) proposed three theories. The first, known as the bonus plan hypothesis, argues that managers in businesses offering incentive plans often use accounting techniques that cause profits from subsequent periods to be included in the current period. This gives managers the ability to influence reported profitability while still remaining in positions of power. The second theory, also known as the Debt/Equity Hypothesis or the Debt Covenant Hypothesis, argues that firms with a larger debt-to-equity ratio often use accounting strategies that have the potential to increase sales and profits. This is because creditors have a harder time obtaining additional funds, even if they are on the verge of a debt agreement and the last one is the political cost hypothesis. This hypothesis states that larger companies will have greater societal demands because larger companies are expected to pay more attention to regulations and the environment.

Income Smoothing

According to Jessica and Dewi (2019), income smoothing is an effort to practice income smoothing to demonstrate good company performance to external parties. According to Pratiwi and Damayanthi (2017), the conscious act of reducing profit fluctuations to demonstrate stable company performance so that investors remain loyal is the definition of income smoothing. It can be concluded that income smoothing is defined as an action taken by company management intentionally or consciously to reduce fluctuating profits in a financial report. This is useful for proving a company has stable financial reports and good performance in the eyes of investors. Reducing or increasing the amount of profit in the current year that experiences fluctuations by adjusting the amount of profit in the previous period is a method of accounting practice. As a result, profits in the current year will consistently align with profits earned in the previous year. Income smoothing is performed for various reasons: first, to obtain tax benefits. Second, to demonstrate good management performance to owners and creditors. Third, to reduce fluctuations in reported earnings and risk. Fourth, to generate consistent profit growth. Finally, to maintain management's position within the company.

Profitability

According to Mochamad et al. (2021), profitability is a crucial factor assessed, monitored, and evaluated in a company's operational performance by agents (management) and investors. High profitability indicates good company performance, while low profits indicate declining performance. If businesses base bonus compensation on profits, they tend to smooth earnings if profitability fluctuations are low or declining.

A company with good performance will generate high profits, and vice versa. If a company generates high profits, it means the company is able to utilize existing resources to generate profits. Consequently, a company with a well-known image should be able to maintain its profit

income every year. Therefore, companies with high profitability are more likely to engage in good corporate governance practices compared to low profitability companies.

Competition between companies with high profitability gives rise to the desire of management to carry out practice income smoothing to attract investors, because investors will be attracted to a company if the company has stable profits from year to year. As a result, companies with high profitability tend to engage in profitable practices, to enhance the company's image. This is in line with research conducted by Chusnah (2019) and Musyafa and Kholilah (2023), which stated that profitability has a significant positive effect on income smoothing. Research conducted by Nathalia and Sufiyati (2022) and Indrawan et al. (2018) produced different findings. The results indicated that profitability had a significant negative effect on income smoothing.

H₁: Profitability has a positive and significant influence on income smoothing.

Firm Size

Company size is a scale where companies are classified according to their size based on their total assets. The larger the total assets, the larger the company (Dewantari and Susila, 2019). Because company size influences its value, large companies tend to attract investors. In other words, company size directly influences its value. Investors can determine a company's size through indicators that show the level of investment ratios or the amount of investment. A company's total assets are shown in the company's financial statements. Therefore, larger companies receive increased scrutiny and attention, which discourages managers from engaging in earnings manipulation practices. If a company experiences losses or is found to have committed fraud, its reputation, both internally and externally, will be damaged. Conversely, smaller companies receive less attention.

Susanto & Pradipta (2019) and Chusnah (2019), stated that company size has a significant negative effect on corporate governance practices. This means that the bigger the company, the less likely it is that the company will engage in fraudulent practices. This is because large companies tend to be in the spotlight of external parties, such as investors, the government, and other parties such as auditors who conduct audits competently and pay attention to the company's control aspects, so the company does not necessarily dare to carry out these practices, due to the existence of close attention and fear of damaging the reputation or image of the company.

H₂: Firm size has a negative and significant influence on income smoothing.

Cash Holding

The quantity of money a business has on hand to do different business operations is known as its cash holding (Sari & Darmawati, 2021). Because a business has cash, investors can evaluate management's performance based on how well they can guarantee a steady rise in the company's cash flow. Cash holdings are relatively easy for managers to control because of their short-term, liquid nature and simplicity of conversion into cash. Investors evaluate the company's cash flow to assess how well managers handle growing cash; income smoothing is one tactic (Putri & Budiasih, 2018).

One way to assess a manager's performance is by observing how they manage their company's cash. Cash can be in the form of cash or bank deposits for immediate receipt and as a means of payment. Therefore, cash holdings are considered cash and cash equivalents, which can be easily converted into cash. Managers must be able to account for their company's cash by demonstrating that they have generated satisfactory returns for shareholders, thus encouraging

management to engage in income smoothing. Research conducted by Nathalia & Sufiyati (2022) states that cash holdings have a positive effect on income smoothing.

Investors can assess managerial effectiveness using financial reports by looking at the company's capacity to steadily grow its cash reserves. Stable cash flows are a sign of minimal risk because a corporation is thought to be able to pay its debts. If a company has too much cash, or excessive cash, then current capital is simply held as reserves rather than being better utilized through investment, the business may miss out on opportunities to generate greater profits.

H₃: Cash holding has a positive and significant influence on income smoothing.

Thinking Framework

The research framework is shown with the following description:

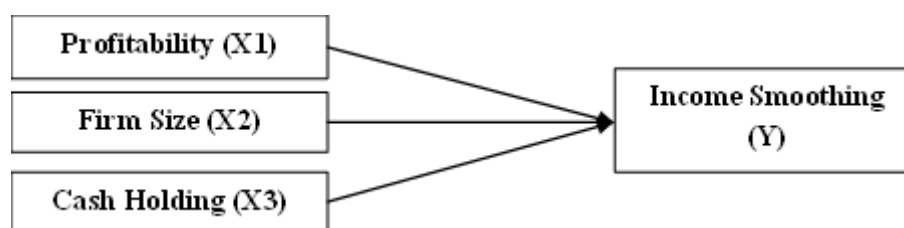


Figure 1. Research Model (Framework)

2. RESEARCH METHOD

The aforementioned objectives, which were to determine and collect empirical data regarding the relationship between income smoothing and business size, cash holdings, and profitability, were the focus of this study. Sector-consumer non-cyclicals that were listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023 make up the firms used in this study. The population considered for study consists of 73 businesses. This study will make use of secondary data. This information can be found on the official Indonesia Stock Exchange (IDX) website at <https://www.idx.co.id/>. The finance industry is one of the industries that controls the Indonesian Stock Exchange (BEI). non-cyclical consumers.

The approach chosen for this research is a quantitative approach. A quantitative approach involves data collection using calculations and numerical processing. Therefore, the data will be calculated using an application Microsoft Excel and the data will be processed using the application Statistical Program for Social Science (SPSS) Statistics 25. The data that will be used in this study is panel data. The method chosen to determine the sample in this study is to use the method purposive sampling. Method purposive sampling or non-random selection techniques (nonprobability sampling) is a method for determining samples based on criteria. In other words, samples are not taken randomly but according to predetermined criteria. The goal of using this method is to ensure that the samples taken for data processing yield results that align with the research objectives.

The following standards have been taken into account and must be fulfilled while choosing samples for this study: 1) The company produces audited financial statements ending December 31; 2) Sector companies are non-cyclicals that have been listed on the IDX consecutively for the 2021–2023 period; 3) Non-cyclical sector enterprises that have been regularly listed on the IDX between 2021 and 2023; 4) Businesses that report in Indonesian rupiah (IDR).

The results of the sampling process will be described in the following table.

Table 1. Sample Determination Results
 Source: Author, 2025.

Sample Selection Criteria	Amount
Sector companies <i>consumer non-cyicals</i> listed on the IDX as of 2021-2023	125
Companies that were not listed consecutively for the period 2021-2023	(50)
Companies that do not present audited financial statements and ended on December 31	(0)
Companies that do not use Indonesian currency or Rupiah (IDR) in their reporting	(2)
Number of companies that meet the sampling criteria	73
Total research data (2021-2023)	219

Based on Table 1, 73 companies met the sampling criteria. The observational data used in this study spans three years, from 2021 to 2023, resulting in a total of 219 data points.

The following is a table of operationalization of variables along with the proxies that will be used by each formula:

Table 2. Operationalization of Variables

Variable	Scale	Measurement	Source
Dependent Variable			
Income Smoothing	Nominal	Indeks Eckel : $\frac{CV \Delta I}{CV \Delta S}$	Obeidat (2021)
Independent Variables			
Profitability	Ratio	$ROE = \frac{\text{Net Income}}{\text{Total Equity}}$	Obeidat (2021)
Firm Size	Ratio	$Fsize = \ln(\text{Total Asset})$	Obeidat (2021)
Cash Holding	Ratio	$\frac{\text{Cash} + \text{Cash Equivalent}}{\text{Total Asset}}$	Putri & Budiasih (2018)

Data analysis

The quantitative data in this study was analyzed using descriptive statistics and logistic regression equation analysis. In this study, a dummy variable served as the dependent variable. Because the dependent variable is a variable related to a dichotomous scale (dummy), the analysis for this study used a logistic regression test (Paramita et al. 2021, h. 124).

Logistic Regression Analysis

In this study, income smoothing as the dependent variable. Hypothesis testing for the dependent variable typically uses logistic regression (Ghozali, 2021). Therefore, income smoothing is a variable with a nominal scale and is suitable for use in logistic regression analysis. By using logistic regression analysis, the independent variables in this study do not require classical assumption testing, normality testing, or heteroscedasticity testing (Ghozali, 2021, p. 349). The assessment of the results of the logistic regression analysis indicates whether a company is engaging in practices income smoothing will be given a score of 1, but if you do not practice income smoothing, then the number 0 will be given. This study uses a tool that supports logistic regression analysis, namely the application Statistical Product and Service Solutions (SPSS). The following is an analysis model in logistic regression that is useful for testing hypotheses, as follows:

Regression model 1:

$$\text{Ln} \left[\frac{P_i}{1-P_i} \right] = \beta_0 + \beta_1 \text{ROE} + \beta_2 \text{Fsize} + \beta_3 \text{CH}$$

Information:

$\text{Ln} \left[\frac{P_i}{1-P_i} \right]$	: Odds ratio or company ratio
β_0	: Constant
$\beta_1, \beta_2, \beta_3$	: Regression coefficient
ROE	: Return on Equity (Profitability)
FSize	: Firm Size
CH	: Cash Holding

3. RESULTS AND DISCUSSIONS

The following is a table of the results of descriptive statistical tests on each variable for this study.

Table 3. Results of Descriptive Statistical Tests
 Source: Results of data testing output using the program SPSS 25, 2025.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROE	219	-19.47	2.17	-.0701	1.41519
SIZE	219	17.98	32.86	28.7640	1.96527
Cash Holding	219	.00	.64	.1199	.13081
Income Smoothing	219	.00	1.00	.4658	.49997
Valid N (listwise)	219				

Based on the findings of the descriptive statistical test, the table shows the minimum, maximum, mean, and standard deviation values for each variable. The data used in the descriptive statistical test came from 219 samples, or 73 companies overall, over the 2021–2023 observation period. The following variables will be explained: cash holding (CH), business size (FSize), and profitability (ROE).

Inferential Statistical Test

Logistic regression analysis is the appropriate method to use because Income Smoothing is the dependent variable in this study and a dummy variable. This study aims to determine if income smoothing techniques are significantly impacted by cash holdings, firm size, and profitability characteristics (ROA). The following is an explanation of the steps involved in testing utilizing the logistic regression test overall:

Model Feasibility Test (Goodness of Fit Test)

The first stage, the testing done is to test the eligibility of the model. The qualification of this model will be tested Hosmer and Lemeshow's by looking at the sig value. The aim of evaluating the feasibility of this model is to adjust the hypothesis as empirical data has been fit exactly with the model.

Table 4. Results of the Hosmer and Lemeshow Model Feasibility Test
 Source: Results of data testing output using the program SPSS 25, 2025.

Step	Chi-Square	df	Sig.
1	15.247	8	0.055

The model feasibility test (goodness of fit test) shows that the resulting significance value is 0.055 based on table 4's results. This indicates that the significance value of the value is larger than 0.05 (0.055 > 0.05). As a result, the findings show that H0 is accepted, which means that

there is no substantial discrepancy between the model and its observation values. This means that the test can predict the observation values, or, to put it another way, the model fits.

Overall Model Test (*Overall Model Fit*)

The second stage of testing will assess the suitability of the overall model being tested. The purpose of this testing is to determine whether all independent variables used in this study influence the dependent variable.

Table 5. Overall Model Test Results

Source: Results of data testing output using the program *SPSS 25, 2025*

Overall Model Fit (-2LogL)	
-2LogL Block Number = 0	Value 302,570
-2LogL Block Number = 1	Value 293.255

Table 5's results indicate that the model's overall test value (overall model fit) 302.570 is the value of -2LogL Block Number in the beginning (-2LogL Block Number = 0). However, the value drops to 293.255 at the following stage (-2LogL Block Number = 1). Comparing the two figures reveals that the initial value of 302.570 has decreased by 9.315 to 293.255. As a result, the findings show that H0 is accepted, indicating that the proposed model fits the data and is part of a strong regression model.

Coefficient of Determination Test (Nagelkerke R Square)

The third stage, the test that will be carried out is to test the coefficient of determination by utilizing the value Nagelkerke R Square. Modification of the coefficients Cox and Snell shows that the normal value in this test is between 0 and 1.

Table 6. Results of the Determination Coefficient Test Nagalkerke R Square

Source: Results of data testing output using the program *SPSS 25, 2025*.

Step	-2Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
1	293.255	0.042	0.056

The findings of table 6 show that the coefficient of determination test produces a Nagelkerke R Square of 0.056, meaning that the independent variable influences the dependent variable by 5.6%. This shows that only the independent factors (profitability, firm size, and cash holding) can account for the dependent variable (income smoothing) at a rate of 0.056, or 5.6%. Furthermore, the figure of 99.4%, which is influenced and explained by additional factors not included in this study, is calculated as $100\% - 5.6\% = 94.4\%$.

Classification Matrix Test

The fourth stage is the stage that uses the classification matrix in the regression model to explain the strength in predicting the possibility of the occurrence of practice income smoothing in a company. Calculation of the correct estimated value (correct) and wrong (incorrect) will be presented in a 2x2 table. Overall, this table will show the accuracy of the classification obtained.

Table 7. Classification Matrix Test Results Classification Table
Source: Results of data testing output using the program SPSS 25, 2025.

Source: Results of data testing output using the program SPSS 25, 2023.					
		Predicted			
		Income Smoothing			
	Observed	not doing income smoothing	Perform income smoothing	Percentage Correct	
Step 1	income smoothing	not doing income smoothing	76	41	65.0
		perform income smoothing	62	40	39.2
Overall Percentage					53.0

Based on the results of table 7, the ability of the regression model to estimate the possibility of a company not being involved in fraudulent practice income smoothing is 65.0%. These results indicate that of the 219 model samples used in this study, the model estimates that 65 samples are not involved in carrying out the practice income smoothing, while the remaining 39.2 samples are estimated to be involved in carrying out the practice income smoothing. In contrast, predictive accuracy for the likelihood of a company engaging in fraudulent practice income smoothing is 39.20%. In 219 samples, this model accurately predicted that 40 samples would practice income smoothing, but left out 62 cases that were incorrectly predicted as companies not engaging in the practice income smoothing. The test results from the table show that this model produces a regression model accuracy of 53.0%.

Data Analysis Results

The next step, after completing the four model tests above, is to interpret the results of the regression model developed in this study. The interpretation of these model results will utilize several hypothesis testing techniques, namely: logistic regression analysis, and the t-test to all (f test), and testforest (t test).

Logistic Regression Analysis

In this study, the dependent variable (bound) will be analyzed using a logistic regression test. The dependent variable (income smoothing) included in the variable dummy with a nominal scale and this variable is suitable for use in logistic regression analysis. Assessment of the results of the logistic regression test analysis if a company carries out the practice income smoothing then the number 1 will be given, but if the company does not carry out the practice income smoothing, then the number 0 will be given. This study uses a tool that supports logistic regression analysis, namely the application Statistical Product and Service Solutions (SPSS). The following is an analysis model in logistic regression that is useful for testing hypotheses, as follows:

Regression model 1:

$$\text{Ln} \left[\frac{P_i}{1-P_i} \right] = \beta_0 + \beta_1 \text{ROE} + \beta_2 \text{Fsize} + \beta_3 \text{CH}$$

Information:

$\text{Ln} \left[\frac{P_i}{1-P_i} \right]$: Odds ratio or company ratio

β_0 : Constant

$\beta_1 - \beta_3$: Regression coefficient

ROE : Return on Equity (Profitability)

FSize : Firm Size

CH : Cash Holding

Table 8. Logistic Regression Analysis Model 1 Variables in the Equation
Source: Results of data testing output using the program SPSS 25, 2025.

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	ROE	0.352	0.294	1.434	1	0.231	1.421
	FSize	0.152	0.080	3.592	1	0.058	1.164
	Cash Holding	-1.357	1.132	1.435	1	0.231	0.258
	Constant	-4.353	2.322	3.516	1	0.061	0.013

Based on table 8, the logistic regression equation model is obtained which can be formulated as follows:

$$\text{LnPi1-Pi} = -4.353 + 0.352 \text{ ROE} + 0.152 \text{ FSize} - 1.357 \text{ CH}$$

Omnibus Test (F Test)

The f test, also known as the simultaneous statistical test, is an omnibus test of model coefficients. Finding out if the independent factors can affect the dependent variable at the same time is the aim of this test. With a 95% confidence level, this analysis found that a significance value of 0.05 was employed.

Table 9. Omnibus Test Results (F Test) Omnibus Tests of Model Coefficients
Source: Results of data testing output using the program SPSS 25, 2024.

		Chi-Square	df	Sig.
Step 1	Step	9.316	3	0.025
	Block	9.316	3	0.025
	Model	9.316	3	0.025

To ascertain if the significance value is higher or lower than 0.05, the obtained values can be examined in light of the findings in Table 9. A significant value of 0.025 is less than 0.05 ($0.025 < 0.05$), according to these findings. The profitability variable, business size, and cash holdings to income smoothing factors are found to be significantly impacted by simultaneous testing.

Significance Test

H₁: Profitability has a positive and significant influence on income smoothing.

The partial test of the profitability variable against the variable income smoothing, as shown in table 8 previously presented in logistic regression analysis 1 from 219 research samples during 2021–2023, indicates that the profitability value significantly improves income smoothing. The significance value of 0.231, which indicates a significance value more than 0.05 ($0.231 > 0.05$), illustrates this. Furthermore, the coefficient test value for the profitability variable was 0.352. In other words, although this value indicates a positive result, H₁ is not accepted in this study.

H₂: Firm size has a positive and significant influence on income smoothing.

The partial test on the variables firm size to variables income smoothing, based on table 8 previously reported in logistic regression analysis 1 from 219 research samples during 2021–2023, indicates that the value of company size has a positive but not significant effect on income smoothing. The resulting significance value is more than 0.05 ($0.058 > 0.05$), as can be seen from the significance value's figure of 0.058. The coefficient on the variable business size then had a test value of 0.152. In other words, this value indicates a positive result. Therefore, the conclusion is that H₂ in this study is not accepted.

H₃: Cash Holding has a positive and significant influence on income smoothing.

The partial test on the variables cash holding to variables income smoothing, based on table 8 previously reported in logistic regression analysis 1 from 219 research samples between 2021-2023, indicates that the value of cash holding has a substantial positive impact on income smoothing. The significance value is 0.231, as can be shown, indicating that the final significance value is higher than 0.05 ($0.231 > 0.05$). The test value for the variable cash holding's coefficient was then -1.357. Stated otherwise, this value denotes a negative outcome. Consequently, it is concluded that H₃ in this investigation is not acceptable.

In this section, the researcher will discuss the overall results of all tested variables. The discussion will begin by analyzing the effects of each independent variable on the dependent variable. The following is a table summarizing the results of the hypothesis testing.

Table 10. Summary of Hypothesis Testing Results
 Source: Author, 2025.

Hypothesis	Regression Coefficient	Sig. Value	Conclusion
H1: Profitability has a positive and significant influence on income smoothing.	0.352	0.231	H1 is not accepted.
H2: Firm size has a positive and significant influence on income smoothing.	0.152	0.058	H2 is not accepted.
H3: Cash holding has a positive and significant influence on income smoothing.	-1.357	0.231	H3 is not accepted.

The following is a discussion that will be outlined for each hypothesis of this research.

The Influence of Profitability on Income Smoothing

Profitability is the first independent variable to be discussed, according to Table 8's partial t-test results. With a significance value of 0.231, the profitability variable, represented by ROE, is above the 0.05 cutoff. This variable has a beta value of 0.352. Thus, it may be said that the dependent variable (income smoothing) is positively but marginally impacted by the first independent variable, profitability. This indicates that the study's first hypothesis (H₁), according to which profitability significantly improves income smoothing, is not accepted.

High profitability encourages managers to engage in income smoothing to maintain profit stability and boost investor confidence. However, conversely, very high profitability can actually reduce the need for income smoothing because the company is already performing well. The company's reputation, financial performance, and investor needs are prioritized, making income smoothing less of a primary objective.

Based on the results of table 8, it shows that profitability has a positive and insignificant effect on income smoothing. This means that there is no influence between profitability and practice income smoothing. Due to the positive but insignificant results, it can be concluded that other factors or relationships exist that differ from those hypothesized in the study. Managerial ownership, leverage, and dividend policy, for example, may influence income smoothing practices more than profitability.

This is in accordance with the theory that has been explained in chapter two, namely agency theory. Agency theory, explained by Jensen & Meckling (1976), discusses the relationship between contracts between principals and agents. Company ownership is the principal's, while company management is the agent's. The relationship between the theory and this research is that there is a conflict of interest between the principal and agent's interests. The focus between the principal and agent differs, as evidenced by the principal's focus on building a sustainable

company and seeking maximum profit. Meanwhile, the agent prioritizes the interest of gaining profit by any means to fulfill what has been promised, which can be in the form of salary increases, bonuses, incentives, etc. for the benefit of the agent. The results of this study are in accordance with research conducted by Nathalia & Sufiyati (2022), Indrawan et al. (2018), and Ridwan and Fransiska (2020) which stated that profitability has a negative and significant effect on income smoothing. However, this does not correspond to the research results conducted by Musyafa & Kholilah (2023) and Chusnah (2019) as they revealed that profitability has a significant positive influence on income smoothing.

The Effect of Firm Size on Income Smoothing

Table 8's partial t-test findings indicate that firm size will be the second independent variable examined. The variable firm size represented by FSize exceeds the significance level of 0.05 with a significance value of 0.058. The displayed beta value for this variable is 0.152. Therefore, it may be concluded that the second independent variable, company size, has little effect on the dependent variable (income smoothing). This indicates that the study's second hypothesis (H_2), according to which business size significantly improves income smoothing, is not accepted.

Firm size is a measurement that can describe whether a company is classified as small or large. This company's classification can be measured by calculating the total assets owned by a company. In addition, firm size can be used as a measure to describe a company's ability to use its resources to generate revenue or profit. Therefore, the larger a company, the greater the interest and attention from investors and the government. The greater attention paid to large companies leads management to consider ways to balance their profits from year to year. A large company will be the primary focus of investors' attention, as it is perceived to provide greater returns. Given these pressures, management tends to engage in risk-taking practices income smoothing becomes smaller, they know there is a greater risk if they are caught doing income smoothing.

The study's findings are consistent with the positive accounting hypothesis presented in chapter two. According to Watts & Zimmerman (1986), positive accounting theory explores the connection between the application of accounting policies and practices that a business can adopt in specific situations. This theory is said to be able to forecast what management can do in a variety of unknown future circumstances. The bonus plan hypothesis, the debt agreement hypothesis, and the political cost hypothesis are the three hypotheses that make up positive accounting theory. Nonetheless, the political cost hypothesis will be the main topic of discussion in this study. This idea clarifies how a company's size and the amount of regulatory scrutiny it receives are related. This means that the larger a company, the greater the attention and demands for regulatory attention. Therefore, managers will determine policies to minimize revenue by shifting profits to the future to reduce exposure to political costs, such as tax costs, by choosing to engage in practices income smoothing. Additionally, small companies typically face less attention from regulators, governments, or the public due to their smaller economic percentage compared to larger companies. However, the policies chosen by small companies to use good corporate governance practices income smoothing due to reasons of business stability rather than avoiding political costs. This practice is carried out due to the need to gain the trust of creditors and investors, as small companies are more reliant on external funding sources. Therefore, implementing this practice will create financial stability and help build a healthy financial image.

The findings of this investigation align with those of studies by Musyafa & Kholilah (2023)

and Helmi & Kurniadi (2024). According to research by Musyafa & Kholilah (2023) and Helmi & Kurniadi (2024), business size has no discernible impact on income smoothing. This contrasts with studies by Ridwan & Fransiska (2020) and Wijaya et al. (2020), which found that business size significantly and favorably affects income smoothing. The findings of this study also run counter to those of studies by Susanto & Pradipta (2019), Chusnah (2019), Nathalia & Sufiyati (2022), and Indrawan et al. (2018), which found that business size significantly and negatively affects income smoothing.

The Influence of Cash Holding on Income Smoothing

The second independent variable that will be examined is cash holding, which is based on table 8's partial t-test results. The significance value of 0.231 for variable cash holdings shows that the value is higher than the 0.05 threshold. This variable has a beta value of -1.357. Thus, it can be said that the dependent variable (income smoothing) is not significantly impacted by the third independent variable, which is cash holding. This indicates that the study's third hypothesis (H_3), according to which cash holdings have a negligible detrimental impact on income smoothing, is rejected.

The lack of a significant effect of cash holdings on income smoothing may be due to some companies not having sufficient cash to engage in income smoothing. The research results show a negative trend, indicating that companies with large cash holdings are less likely to engage in income smoothing. Cash holding is the amount of money retained by the company, so the influence cash holding becomes insignificant. Investors usually do not use cash holding as a measure of company performance, so they do not consider cash holding companies when they make decisions. Therefore, there is no reason for managers to consider cash holding when deciding to implement a practice income smoothing. The results of this study are in line with Sari & Darmawati (2021) and do not correspond to Arya & Pamungkas (2023).

4. CONCLUSIONS AND SUGGESTIONS

The purpose of this study is to empirically demonstrate if the dependent variable (income smoothing) may be influenced by the independent factors (profitability, business size, and cash holding). The manufacturing sector of consumer non-cyclicals listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023 served as the study's corporate sector. The research results provide the following results:

- 1) The first variable measured using the profitability proxy proves that profitability has a positive but not significant effect on income smoothing. Hypothesis 1. (H_1) is not accepted because perhaps management bonus policies, contractual obligations, or pressure from investors may have a stronger influence so that it is not done. income smoothing. Investors may not consider stable profits important if the company uses its profits for operations or investments, rather than for income smoothing.
- 2) The second variable measured using a proxy firm size prove that firm size has a positive but not significant effect on income smoothing. Hypothesis 2 (H_2) is not accepted, usually larger companies (firm size) tend to have the ability to do income smoothing because of greater resources, more information, and the desire to create a stable image in the market. But there are other factors (for example, regulatory pressure, ownership structure, or market conditions) that have a greater influence on income smoothing practices than company size. Companies of the same size may have very different behaviors regarding income smoothing, it could be between industries or during certain economic periods when they do not do it now but at other times they may do income smoothing.

- 3) The last variable in this study is the variable cash holding produces a negative and insignificant direction, meaning that the results indicate that there is no influence on income smoothing. Hypothesis 3 (H_3) not accepted This means that the level of cash holding owned by a company does not directly affect or become an indicator of their ability to smooth income, either positively or negatively. This can happen because some companies may not have sufficient cash to carry out income smoothing practices effectively. There may be other factors that have a stronger influence on income smoothing besides the level of cash holding. In general, investors do not use cash holding as a measure of company performance, so they do not consider cash holding companies when they make decisions. Therefore, there is no reason for managers to consider cash holding when deciding to implement a practice income smoothing.

Based on the limitations outlined above, this study provides several suggestions for further research. It is hoped that these suggestions will assist future research in achieving better results. One suggestion for further research is to add other variables with greater potential to influence the variables. *income smoothing* By adding new variables, the research is likely to yield different findings than previous ones. Therefore, a suggestion is to extend the research duration. The purpose of extending the duration is to generate data and conditions that can be analyzed over the long term. Furthermore, it is recommended that future research expand the comparative study. Expanding the comparative study can be done in several ways, such as expanding the use of company sectors, comparing two sectors simultaneously in a single study, and trying to add more samples by comparing one or two companies from other countries.

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