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THE INFLUENCE OF RETURN ON ASSETS, DEBT TO EQUITY RATIO AND SIZE ON INCOME SMOOTHING OF MANUFACTURES COMPANY

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Abstract
The current research aimed to know if there is influence of Return on Assets (ROA), Debt to Equity Ratio (DER) and company Size on Income Smoothing. Population of data consisted of 21 manufactures companies registered on Stock Exchange Indonesia in 2011-2015. To know the influence of independent variable to dependent variable in this study used double linier regression analysis with Statistic Package for the Social Sciences version.20. The research resut showed: Return on Assets (ROA) partially not gave influence on Income Smoothing, because siq 0,331 > 0.05., Debt to Equity Ratio (DER) partially gave negative and significant influence on Income Smoothing, because Siq, 0.042 < 0.05 and company size partially not gave influence on Income Smoothing because Siq, 0.120 > 0.05. Meanwhie, the Return on Assets(ROA), Debt to Equity ratio (DER) and Company Size simultaneously gave influence on Income Smoothing as much 7,80%. While the rest 92,20 % was affected by other factors.

Keywords: *Return on Assets, Debt to Equity Ratio, Size and Income Smoothing*

1. Introduction

The decision making by stockholders is sorely determined from the quality of financial report presented by the management. In addition as the reflection of financial condition of such company, by the parties involved the financial report is often used as the media for carrying the company to achieve its goals, short term goals even long term goasl. As one of the parts of information that is periodically communicated to the internal parties and external parties of company, thus the conflict of interest among the two not occurs. The conflict of interest between the management and the stockholders is one of the reasons income smoothing in financial report is conducted. In Financial Accounting Standard, provide a flexibility for management to choose the accounting policy that more represent the real condition of company, then that flexibility used by the management to do an action that make financial report become be better that is through the income smoothing.

2. Literature Review

2.1 Return on Assets (ROA)

Return on assets (ROA) is part of the profitability ratio in which according to Harahap (2004) in Purwaningsih and Suyanto (2015), profitability is the ability of a company in gaining profits through all skills and available sources for instance the activity of selling, capital balance, number of employee, number of branch, and so on. While according to Kasmir (2015), *Return on Assets (ROA)* is a ratio that shows the rate of return from business on all available capital. It is one of indicators used by stockholders to measure the success of business undertaken. The higher this ratio the better, because the owner position of the company become stronger and the measurement of this ratio is comparing the net profits after taxes *(Earning after tax (EAT)* with total asset *(Assets).*

2.2 Debt to Equity Ratio (DER*)*

According to Fahmi (2012) in Julianti (2014), *Debt to Equity Ratio* (DER), is the measurement used to analyze financial report to see the amount of a warranty for creditor, while according to Kasmir (2015), is a ratio used to measure the debt with equity, it may be calculated by dividing the total of liabilities with equity (own capital), which aim to know the total fund provided by the creditor with the company owner and each rupiah of own capital used as the guarantee liability. For the creditor, the larger this ratio will more unfavorable because the risk borne by the company is larger. However, for the company the larger this ratio will be better because the company get high trust from the creditor and will conduct optimalization of that debt use.

2.3 The Company Size *(SIZE)*

Generally large company usually has more activities, give larger effect on community and get more attention and support from public than small company. According to Cowen *et.al* (1987) in Sembiring (2003), stated that larger company possibly will have stockholders who consider the social program planned by the company in annual report, as the media for distributing the information pertain to the social and financial responsibilities of the company. Thus, the large company which consider the social responsibilities and attach it on the annual report may be the attraction for the candidate of stakeholder or investor who concern on the company that take care on its social responsibilities. To describe the large or small size of a company, it can be measured with the total of assets, volume of selling, number of employees and value of market capitalization, then the larger the company size (Triyanto, 2010). In the present study, the proxy of company size (Size) is the total of assets because may be used as the scale of measurement and describes the large or small of a company (Yuliawati and Sukirman, 2015).

2.4 Income Smoothing

Earning management has wider scope than income smoothing, because management believe that the market reaction is based on the accounting information disclosure, thus the profits behavior is the aspect of risks determination of business entity market. According to Shella (2015) the basic reason of management conducting income smoothing is the stock market price of a company significantly affected by profit, risks and speculation, therefore a company whose the profits experiencing increase from period to period consistently will lead the company risk decrease more than the procentage of profits increase. This thing that causes many companies manage and orgaize the profits as one of the ways to reduce the risks.

3 Research Method

3.1 Samples and Data

Population of the present study is 21 manufactures companies registered on Stock Exchange Indonesia in 2011-2015. The data collection use sampling method, the data observed are from the financial report of companies registered in Stock Exchange Indonesia. The independent variables are *Return on Assets, Debt to Equity ratio* and company size *(Size)* while the dependent variable is Income Smoothing.

3.2 Data Analysis Method

Data analysis used in this study is Double Linier Regression with Statistic Package for the Social Sciences version.20.

Multiple Linear Regression Model

Model of data analysis double linier regression on this study after processing using **Statistic Package for the Social Sciences version.20**, is as follows:

$$\mathbf{IS = -0{,}532 - 0{,}193ROA - 0{,}103DER + 0{,}041SIZE}$$

Descriptions:

IS = *Income Smoothing*
ROA = *Return on Assets*
DER = *Debt to Equity Ratio*
SIZE = Company Size

4 Discussion

Table 1: Regression Result

Variable	Std. Error	t-statistic	Sig
ROA	0.198	-0.978	0,331
DER	0,050	-2,057	0,042
SIZE	0,041	1,570	0,120

Table 2: Regression Result

Model	Df	F-statistic	Sig
Regression	3	2.862	0,041b
Residual	101		
Total	104		

Table 3: Regression Result

Model	R	R Square	F Change	Sig.F Change
1	0,280	0,78	2.862	0.041

The Influence of Return on Assets (ROA) on Income Smoothing

Based on table.1, *Return on Assets (ROA)* partially not give any influence on Income smoothing because siq 0,331 > 0.05.

The Influence of Debt to Equity Ratio (DER) on Income Smoothing

Based on table1. *Debt to Equity Ratio (DER)* partially give negative and significant influence on Income Smoothing because Siq, 0.042 < 0.05.

The Influence of Company Size (Size) on Income Smoothing

Based on table.1, company size *(Size)* partially not give any influence on Income Smoothing because Siq, 0.120 > 0.05.

The influence of Return on Assets(ROA), Debt to Equity ratio (DER) and company size (SIZE) on Income Smoothing

Based on table.2, *Return on Assets(ROA), Debt to Equity ratio (DER)* and company size simultaneously give significant influence on Income Smoothing because Siq, 0.041 < 0.05. Based on table.3 *Return on Assets(ROA), Debt to Equity ratio (DER)* and company size simultaneousy give significant influence on Income Smoothing as much 7,80 %, while th rest 92.20 % affected by other factors.

5 Conclusions

Based on the research result conducted then the writer conclude that:

5.1 *Return on Assets (ROA)* partially not give any influence on Income Smoothing,
5.2 *Debt to Equity Ratio (DER)* partially give negative and significant influence on Income Smoothing,
5.3 Company size *(Size)* partially not give any influence on Income Smoothing,
5.4 Company size *(Size)*, *Return on Equity (ROE)* and *Leverage* simultaneously give influence on Corporate Social Responsibility (CSR) disclosure.

6 Limitation

This research was only done in 3 years and used 20 companies in industries in consumption sectors as the subjects, so that the data taken still less reflect the conditions of the companies. It is suggested that future researchers would broaden the research's objects to be studied both the terms of period and the number of companies.

7. Suggestion

a. *Return on Assets (ROA)* partially not gives any influence on Income Smoothing means by the profits increase then the management policy of conducting Income Smoothing will not occur.
b. *Debt to Equity Ratio (DER)* gives positive and significant influence on Income Smoothing means by debt increase then management will reduce the policy of Income Smoothing.
c. Company Size partially not give any influence on Income Smoothing means the larger assets owned by company then management will not conduct a policy of Income Smoothing.
d. For further researcher, better to use the wider object of study, whether the company or the period of research.

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Attachments

Coefficient Correlations[a]

Model			UKURANPERUSAHAAN	ROA	DER
1	Correlations	Company Size	1.000	-.052	.154
		Return on Assets	-.052	1.000	.015
		Debt to Equity Ratio	.154	.015	1.000
	Covariances	Company Size	.001	.000	.000
		Return on Assets	.000	.039	.000
		Debt to Equity Ratio	.000	.000	.003

a. Dependent Variable: *Income Smoothing*

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0086269	.7072331	.5238095	.14046072	105
Std. Predicted Value	-3.668	1.306	.000	1.000	105
Standard Error of Predicted Value	.048	.436	.084	.045	105
Adjusted Predicted Value	.0418231	.7334033	.5261182	.13795990	105
Residual	-.70723313	.60055590	0E-8	.48176995	105
Std. Residual	-1.447	1.228	.000	.985	105
Stud. Residual	-1.473	1.244	-.002	.998	105
Deleted Residual	-.73340327	.61591274	-.00230864	.49447147	105
Stud. Deleted Residual	-1.482	1.247	-.003	1.000	105
Mahal. Distance	.016	81.557	2.971	8.328	105
Cook's Distance	.001	.026	.007	.005	105
Centered Leverage Value	.000	.784	.029	.080	105

a. Dependent Variable: *Income Smoothing*

Coefficients[a]

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	Correlations	Collinearity Statistics

	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	-.532	.759		-.701	.485	-2.038	.974					
ROA	-.193	.198	-.094	-.978	.331	-.586	.199	-.080	-.097	-.093	.997	1.003
DER	-.103	.050	-.199	-2.057	.042	-.202	-.004	-.220	-.201	-.196	.976	1.025
UKURANPERUSAHAAN	.041	.026	.152	1.570	.120	-.011	.093	.178	.154	.150	.973	1.027

a. Dependent Variable: *Income Smoothing*

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.052	3	.684	2.862	.041[b]
	Residual	24.139	101	.239		
	Total	26.190	104			

a. Dependent Variable: *Income Smoothing*

b. Predictors: (Constant), Company Size, Return on Assets,Debt to Equity Ratio.

Model Summary[b]

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
				R Square Change	F Change	df1	df2	Sig. F Change	
.280[a]	.078	.051	.48887260	.078	2.862	3	101	.041	1.155

a. Predictors: (Constant), Company Size, Return on Assets,Debt to Equity Ratio

b. Dependent Variable: *Income Smoothing*