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INCOME SMOOTHING: THE ROLE OF GROWTH, FINANCIAL PERFORMANCE, BONUS PLAN, AND CASH HOLDING

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ABSTRACT

This study examines income smoothing, a form of earnings management where companies report consistent earnings over time, with a focus on the primary consumer goods sector in Indonesia—an industry highly sensitive to investor expectations and exhibiting fluctuating income smoothing practices between 2019 and 2023. The research addresses how firm growth, financial performance, bonus plans, and cash holdings influence the likelihood of income smoothing. Unlike previous studies that generally discuss earnings management more broadly, this paper contributes by specifically exploring income smoothing within a sector and time frame that have received limited empirical attention. Using a quantitative approach, the study employs logistic regression analysis on 175 firm-year observations selected through purposive sampling from companies listed on the Indonesia Stock Exchange. The results show that firm growth and cash holdings do not significantly affect income smoothing, while financial performance has a negative effect and bonus plans have a positive effect, suggesting that internal managerial incentives play a more prominent role than growth or liquidity. The study concludes that income smoothing is primarily driven by internal factors such as bonus schemes, offering important implications for corporate governance practices and the promotion of financial transparency.

INTRODUCTION

The increasing number of companies going public on the Indonesia Stock Exchange (IDX) reflects the rapid development of the capital market in the country. As competition intensifies, companies are required to operate more efficiently and make strategic decisions to maintain their reputation and appeal to investors. One of the most critical tools in this process is the financial statement, which serves as an important source of information for both internal parties—such as management and employees—and external stakeholders—such as investors and creditors (Setyani & Wibowo, 2019).

Among the various elements in financial statements, profit (or earnings) is often the most attractive indicator. Profit serves as a measure of the company's performance and is closely monitored by investors and analysts alike (Agitia & Dillak, 2021). A company that consistently reports high profits is perceived as financially healthy and capable of generating returns, which in turn attracts investors and lowers investment risks (Nirmanggi & Muslih, 2020). However, this expectation of stable profits often pressures management to manipulate financial reports to maintain a favorable image.

One of the most common forms of earnings manipulation is income smoothing. Income smoothing refers to the practice of adjusting reported earnings to reduce fluctuations from period to period, thereby presenting a picture of financial stability (Mulyanto & Wibowo, 2020). Through this strategy, companies aim to signal to the market that they are in a stable and healthy condition with low risk, even if their actual performance varies from year to year (Arli et al., 2024).

Although income smoothing may initially appear beneficial, it can be misleading and harmful to investors. When financial statements do not accurately reflect a company's real condition, investors may make misinformed decisions, which could lead to financial losses and reduced trust in the market (Alisa et al., 2024). This is particularly concerning in competitive industries such as the consumer goods sector, where investor confidence plays a major role in stock price stability and company valuation.

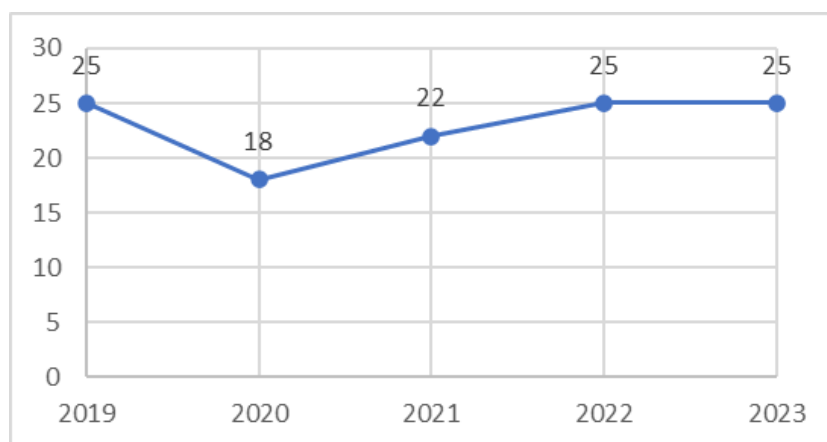


Figure 1. Number of Companies in the Primary Consumer Goods Sector Engaging in Income Smoothing from 2019 to 2023

Figure 1 presents the number of companies in the primary consumer goods sector that engaged in income smoothing from 2019 to 2023. A total of 115 companies were found to have practiced income smoothing during this period. The highest occurrences were in 2019, 2022, and 2023, with 25 companies each year. In contrast, 2020 saw a notable decline with only 18 companies, possibly due to the global COVID-19 pandemic, which forced businesses to shift focus from earnings management to survival. The Eckel Index was employed to detect income smoothing, where a value of less than 1 indicates the presence of such practices (Angelista et al., 2021).

Several companies exemplify this behavior. For instance, PT Akasha Wira International Tbk (ADES) reported a substantial increase in net profit in 2020 despite a decline in sales, with an Eckel index of -5.7597, clearly signaling income smoothing. Similarly, PT Indofood Sukses Makmur Tbk (INDF) and PT Nippon Indosari Corpindo Tbk (ROTI) also posted Eckel index values below 1, suggesting they engaged in earnings management during the same period.

The decision to engage in income smoothing is influenced by various factors. One of the key drivers is firm growth. Firms experiencing rapid growth often attempt to maintain consistent profit figures to appear more stable and attractive to potential investors. Studies by Arli et al. (2024) confirm a positive relationship between firm growth and income smoothing behavior. Nevertheless, some studies report inconsistent results, suggesting that the impact of growth on income smoothing may vary across contexts.

Other internal factors that influence income smoothing include financial performance, bonus plans, and cash holdings. Return on Assets (ROA), a common measure of financial performance, may encourage income smoothing when managers aim to sustain favorable results. Bonus plans may also drive earnings manipulation, as executives strive to meet performance targets tied to compensation. Meanwhile, cash holdings provide flexibility for managers to manage earnings through discretionary expenditures or accruals. However, research findings on the effects of these variables remain mixed, indicating that the motivation and capacity to smooth earnings depend on a company's strategic objectives and operational realities.

RESEARCH MATERIALS AND METHODS

According to Jensen & Meckling (1976), an agency relationship arises when a principal delegates authority to an agent to manage the company on their behalf. This contractual relationship can lead to conflicts of interest, as the agent may act opportunistically for personal gain rather than the principal's interests. Fauzia & Lastanti (2024) explain that agents often possess more information about the company than principals, creating information asymmetry. This imbalance allows agents to engage in earnings management, such as income smoothing, to present stable earnings that attract external investors (Nirmanggi & Muslih, 2020). Sari & Darmawati (2021) add that opportunistic agents may manipulate earnings to align with company targets while concealing actual performance from the principal.

Watts & Zimmerman (1986) state that positive accounting theory seeks to explain and predict accounting choices based on company circumstances. It highlights how accounting methods are influenced by managerial incentives. The theory includes three key hypotheses: 1) bonus plan hypothesis: managers are likely to choose accounting methods that increase reported earnings to meet performance targets and maximize bonus compensation, 2) debt covenant hypothesis: firms with higher debt levels tend to adopt income-increasing accounting policies to meet debt agreement requirements, and 3) political cost hypothesis: larger firms or those facing higher political scrutiny may adopt income-decreasing strategies to reduce political costs such as taxes and regulatory pressures.

Firm growth reflects changes in total assets over time. High growth increases operational funding needs, which can drive management to smooth earnings to maintain performance stability and attract investment (Fathihani & Nasution, 2021). From an agency perspective, differing interests between principals and agents can lead agents to smooth income to protect personal gains when operational risks rise due to rapid growth. Prior studies Arli et al. (2024) found a positive relationship between firm growth and income smoothing.

H1: Firm growth has a positive effect on income smoothing.

Financial performance, often measured using Return on Assets (ROA), reflects how efficiently a company uses assets to generate profit. Higher ROA motivates managers to smooth earnings to maintain consistent performance and build investor trust (Karina & Sutandi, 2019). Under agency theory, agents may exploit their position to manipulate financial reports, especially when ROA is high, to meet investor expectations and personal incentives. Research by Sianturi et al. (2019) confirms a positive influence of ROA on income smoothing.

H2: Financial performance has a positive effect on income smoothing.

Bonus plans provide rewards to management based on performance targets. The higher the bonus potential, the stronger the motivation to manipulate earnings to meet targets (Vikkatrisakti & Rahmi, 2021). According to the bonus plan hypothesis in positive accounting

theory, managers are incentivized to adopt income-increasing methods when bonus compensation is at stake. Studies by Rahima & Simon (2023) and Vikkatriasakti & Rahmi (2021) support the positive relationship between bonus plans and income smoothing.

H3: Bonus plan has a positive effect on income smoothing.

Cash holding refers to a company's available cash for operations and investment. Liquid cash gives management more flexibility, which may encourage opportunistic behavior such as income smoothing to show stable earnings and attract investors (Nirmanggi & Muslih, 2020). Agency conflicts arise when agents use their control over cash for personal interests. This may include manipulating earnings to achieve perceived financial stability. Empirical findings by Nirmanggi & Muslih (2020), Rahima & Simon (2023), and Angreini & Nurhayati (2022) indicate a positive impact of cash holding on income smoothing.

H4: Cash holding has a positive effect on income smoothing.

The population in this study consists of all primary consumer goods sector companies listed on the Indonesia Stock Exchange. The sample was selected using purposive sampling, a method based on specific criteria determined by the researcher to obtain relevant information.

Table 1. Sample Selection

No	Criteria	2019	2020	2021	2022	2023
	Primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2019–2023	80	87	98	113	125
1	Companies in the primary consumer goods sector not listed on the Indonesia Stock Exchange in 2019–2023	(0)	(7)	(18)	(33)	(45)
2	Companies in the primary consumer goods sector that did not publish an annual report during 2019–2023	(8)	(8)	(10)	(9)	(9)
3	Companies in the primary consumer goods sector that experienced losses during 2019–2023	(37)	(37)	(35)	(36)	(36)
	Number of Sample Companies	35	35	35	35	35
	Total Observational Data			175		

Table 2. Variable Measurement

No	Variable	Formula
1	Income Smoothing	$\text{Income Smoothing Index} = \frac{CV\Delta I}{CV\Delta S}$ ΔI: Change in earnings between year n-1 and year n ΔS: Change in sales between year n-1 and year n CV: Coefficient of variation in the variable, calculated as the standard deviation divided by the mean of changes in I and S Companies with $CV\Delta I < CV\Delta S$ are classified as income smoothers (score 1), while those with $CV\Delta I \geq CV\Delta S$ are non-smoothers (score 0)
2	Firm Growth	$\frac{\text{Total Assets This Year} - \text{Total Assets Last Year}}{\text{Total Assets Last Year}} \times 100\%$
3	Financial Performance	$ROA = \frac{\text{Net Income after Tax}}{\text{Total Assets}} \times 100\%$
4	Bonus Plan	$\ln \text{ Salary Expense}$

No	Variable	Formula
5	Cash Holding	$\frac{\text{Cash} + \text{Cash Equivalents}}{\text{Total Assets}}$

The logistic regression model used in this study is formulated as follows:

$$\text{Ln PL}/(1-\text{PL}) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \quad (1)$$

Explanation:

Ln PL/(1-PL) : Dummy variable or earnings management (income smoothing) index

α : Constant

$\beta_1, \beta_2, \beta_3, \beta_4$: Regression coefficients of the related variables

X1 : Firm growth

X2 : Financial performance

X3 : Bonus plan

X4 : Cash holding

e : Error term

RESULT AND DISCUSSION

Based on the results of the descriptive statistical test conducted using SPSS version 29, the information is presented in Table 3:

Table 3. Descriptive Statistics Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
X1	175	-0.1546	1.6761	0.082	0.166
X2	175	0.0005	0.4163	0.096	0.071
X3	175	24.226	29.994	26.459	1.365
X4	175	0.0033	0.6211	0.151	0.125
Y	175	0.0000	1.0000	0.657	0.476

Source: Secondary data processed using SPSS version 29 (2025)

The logistic regression analysis model is used to examine whether the probability of the dependent variable can be predicted by the independent variables. The results of the logistic regression analysis are presented in Table 4:

Table 4. Logistic Regression Analysis Results

Variable	β
X1	0.212
X2	-4.826
X3	0.342
X4	0.398
Y	-7.946

Source: Secondary data processed using SPSS version 29 (2025)

Based on the SPSS output presented in Table 4, the logistic regression model is obtained as follows:

$$\ln PL/(1-PL) = -7,946 + 0,212X_1 - 4,826X_2 + 0,342X_3 + 0,398X_4 + e \quad (2)$$

The model feasibility test (Hosmer and Lemeshow) assesses whether the model fits the data. If the significance value is greater than 0.05, the model is considered fit; if less than 0.05, it is not fit. The test results are shown in Table 5:

Table 5. Regression Model Feasibility Test Results

Step	Chi-square	df	Sig.
1	13.528	8	0.095

Source: Secondary data processed using SPSS version 29 (2025)

Based on the results in Table 5, the Hosmer and Lemeshow Goodness of Fit Test shows a Chi-square value of 13.528 with a significance level of 0.095. Since the significance value is greater than 0.05, the model is considered fit and acceptable, as it aligns with the observed data and can accurately predict the research observations.

The overall model fit test is assessed using the Likelihood Ratio (LL) to examine the simultaneous effect of all independent variables on the dependent variable. This is done by comparing the initial -2 Log Likelihood (block number = 0) with the final -2 Log Likelihood (block number = 1). A decrease in the -2 Log Likelihood value indicates that the hypothesized model fits the data. The results of the overall model fit test are presented in Table 6 below:

Table 6. Overall Model Fit Test Results

Block	-2Log Likelihood
Block 0 (Beginning)	225.019
Block 1 (Method)	212.549

Source: Secondary data processed using SPSS version 29 (2025)

Based on the results presented in Table 6, the overall model fit test consists of two stages: Block 0, where independent variables are not included in the regression model, and Block 1, where the independent variables are included. The test results show that the initial -2 Log Likelihood value (Block 0) is 225.019, while the final -2 Log Likelihood value (Block 1) is 212.549. This indicates a decrease of 12.47, suggesting that the hypothesized model fits the data.

Table 7. Result of the Coefficient of Determination Test

Step	Nagelkerke R Square
1	0.095

Source: Secondary data processed using SPSS version 29 (2025)

Based on the results in Table 7, the coefficient of determination test shows a Nagelkerke R Square value of 0.095. This means that income smoothing can be explained by firm growth, financial performance, bonus plan, and cash holding variables by 9.5%, while the remaining 90.5% is explained by other factors outside the variables used in this study.

Table 8. t-Test Results

Hypothesis	β	t	Sig.	Decision
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H1: Firm growth has a positive effect on income smoothing	0.212	0.147	0.883	H1 Rejected
H2: Financial performance has a positive effect on income smoothing	-4.826	-2.054	0.040	H2 Rejected
H3: Bonus plan has a positive effect on income smoothing	0.342	2.396	0.017	H3 Accepted
H4: Cash holding has a positive effect on income smoothing	0.398	0.285	0.776	H4 Rejected

Based on the results of the t-test (partial test) for the first hypothesis (H1), it is found that the coefficient value is 0.212, the significance value is 0.883, and the t-statistic is 0.147. Since the t-statistic (0.147) < t-table (1.974), the formulation of the first hypothesis (H1), which states that firm growth has a positive effect on income smoothing, is rejected. This study proves that firm growth has no effect on income smoothing. Based on the results of the descriptive statistical analysis, the average value of the firm growth variable is 0.082 with a standard deviation of 0.166 from 175 data samples of primary consumer goods sector companies listed on the Indonesia Stock Exchange from 2019–2023. There are 74 company data points (42%) above the average and 101 company data points (58%) below the average. This shows that 74 companies have high growth rates, which increases the likelihood of income smoothing, while 101 companies have lower growth rates, reducing the likelihood of income smoothing.

This finding contradicts agency theory, which posits that there are conflicts of interest between principals and agents. Agents, who tend to prioritize their personal interests, are driven to engage in income smoothing practices; hence, the higher the firm growth, the greater the opportunity for income smoothing. However, this study fails to prove that firm growth affects income smoothing. Companies experiencing growth tend to focus on improving performance and maintaining credibility in the eyes of the public, creditors, and investors, thus avoiding income smoothing. This is done to prevent fraud that may damage the company's reputation through such practices. Moreover, firm growth is not the sole information considered by investors in making investment decisions, so it does not influence management's decision to engage in income smoothing (Fitriyah & Efendi, 2022).

The level of firm growth, whether high or low, does not influence companies to engage in income smoothing. This is evidenced by PT Astra Agro Lestari Tbk (AALI), which experienced fluctuating growth rates. In 2020, AALI had a growth rate of 0.0299 but was not categorized as practicing income smoothing, as the Eckel index value was $3.5023 > 1$. In 2021, despite a growth increase to 0.0943, AALI was still not categorized as engaging in income smoothing, with an Eckel index of $2.1103 > 1$. In 2022, growth declined to -0.0378, yet AALI again was not categorized as income smoothing, with an Eckel index of $1.6432 > 1$. This research aligns with studies by Onoyi & Windayati (2023) which also found that firm growth does not affect income smoothing. However, it contradicts research by Arli et al. (2024) who found a positive influence of firm growth on income smoothing.

Based on the results of the t-test (partial test) for the second hypothesis (H2), it is found that the coefficient value is -4.826 (negative direction), the significance value is 0.040, and the t-statistic is -2.054 (negative direction). Since the t-statistic (-2.054) > t-table (-1.974), the formulation of the second hypothesis (H2), which states that financial performance positively affects income smoothing, is rejected. This study proves that financial performance has a

negative effect on income smoothing. Based on descriptive statistics, the average value of the financial performance variable is 0.071 with a standard deviation of 0.096 from 175 sample data. There are 72 companies (41%) above the average and 103 companies (59%) below the average. This shows that 72 companies have high financial performance, thus reducing the likelihood of income smoothing, while 103 companies have lower financial performance, increasing the possibility of income smoothing.

This finding is inconsistent with agency theory, which suggests that conflicts of interest between principals and agents—particularly opportunistic behavior by agents—may lead to income smoothing. The theory would suggest that the higher the financial performance, the greater the opportunity for income smoothing. However, this study does not support that notion. Even with high ROA, companies do not necessarily engage in income smoothing. High ROA tends to attract investor attention and prompts companies to minimize risk, such as avoiding income smoothing (Suhartono & Hendraswari, 2020). Conversely, companies with low ROA often experience significant fluctuations in reported earnings. Low ROA reflects a weaker ability to generate profit, prompting some companies to smooth earnings to attract investors by presenting stable profits (Nurani & Dillak, 2019).

Thus, higher ROA reduces the likelihood of income smoothing. This is evidenced by PT Mulia Boga Raya Tbk (KEJU), which showed varying levels of financial performance. In 2019, with ROA of 0.1471, KEJU was not classified as income smoothing (Eckel index = 2.6164 > 1). In 2020, ROA increased to 0.1793, still not smoothing earnings (Eckel index = 9.3935 > 1). In 2021, ROA increased again to 0.1885 with an Eckel index of 96.9326 > 1, indicating no income smoothing. This study aligns with research by Fauzia & Lastanti (2024) and Suhartono & Hendraswari (2020), which found that ROA negatively affects income smoothing. However, it contradicts studies by Sianturi et al. (2019) which found a positive effect.

Based on the results of the t-test (partial test) for the third hypothesis (H3), it is found that the coefficient is 0.342, significance value is 0.017, and t-statistic is 2.396. Since the t-statistic (2.396) > t-table (1.974), the formulation of the third hypothesis (H3), which states that the bonus plan has a positive effect on income smoothing, is accepted. This study confirms that bonus plans positively influence income smoothing. Descriptive analysis shows that the average bonus plan variable is 26.459 with a standard deviation of 1.365 across 175 company data. There are 75 data points (43%) above average and 100 data points (57%) below average. This indicates that companies with higher bonus plans are more likely to engage in income smoothing.

This finding aligns with the bonus plan hypothesis of positive accounting theory, which posits that management tends to choose accounting methods that increase reported profits to receive bonuses. Companies offering bonus incentives encourage management to adjust earnings to meet target profits. The company's bonus policies, tied to profit levels, motivate managers to engage in income smoothing. Managers may inflate or deflate profits to hit targets and maximize their bonuses (Nurani & Dillak, 2019).

Higher bonus plans are associated with a greater likelihood of income smoothing. This is illustrated by PT Sumber Alfaria Trijaya Tbk (AMRT), which had varying bonus plan levels. In 2019, with a bonus plan of 29.575, AMRT was classified as income smoothing (Eckel index = 0.9956 < 1). In 2020, the bonus plan rose to 29.686 and was still considered smoothing (Eckel index = 0.2905 < 1). In 2021, the bonus plan increased again to 29.758, with an Eckel index of 0.4616 < 1, indicating continued income smoothing. This study supports research by Rahima & Simon (2023) and Vikkatriisakti & Rahmi (2021) which found a positive relationship between

bonus plans and income smoothing. However, it contradicts studies by Angreini & Nurhayati (2022) which found no effect.

Based on the t-test (partial test) results for the fourth hypothesis (H4), it was found that the coefficient value was 0.398, the significance value was 0.776, and the t-count was 0.285. Since the t-count of $0.285 < t\text{-table of } 1.974$, the formulation of the fourth hypothesis (H4), which states that cash holding has a positive effect on income smoothing, is rejected. This study proves that cash holding does not have an effect on income smoothing. Based on the results of descriptive statistical analysis, the average value of the cash holding variable was 0.151 with a standard deviation of 0.125 from 175 data samples of companies in the primary consumer goods sector listed on the Indonesia Stock Exchange from 2019 to 2023. There were 71 company data points or 41% above the average, and 104 company data points or 59% below the average. This shows that 71 companies had a high level of cash holding, which increases the opportunity for income smoothing, while 104 companies had a low level of cash holding, reducing the opportunity for income smoothing.

The results of this study are not in line with agency theory, which states that there is a conflict of interest between agents and principals due to differing objectives. Agents who have control over cash holdings are motivated to engage in income smoothing practices to serve their personal interests. This study was unable to prove the influence of cash holding on income smoothing. The cash available in the company is focused on functional purposes such as debt repayment, funding operational activities, and paying dividends to shareholders. Therefore, management does not use the cash for personal interests or to create the appearance of stable earnings. Additionally, investors tend to focus more on the company's profits than on its cash holdings, so cash management does not influence management's actions in performing income smoothing (Widyaningsih et al., 2022).

The level of cash holding does not affect a company's decision to engage in income smoothing practices. This is evidenced by PT Gudang Garam Tbk (GGRM), which had varying levels of cash holding. In 2019, GGRM had a cash holding level of 0.0439 and was categorized as engaging in income smoothing practices because it had an Eckel index value of $0.0109 < 1$. In 2020, GGRM's cash holding increased to 0.0609 and was still categorized as engaging in income smoothing practices, with an Eckel index value of $-0.0133 < 1$. In 2021, GGRM's cash holding declined to 0.0419, but it was still categorized as engaging in income smoothing, as shown by an Eckel index value of $-1.9907 < 1$. This research is in line with the studies conducted by Widyaningsih et al. (2022), Fauzia & Lastanti (2024), and Sari & Darmawati (2021), which found that cash holding does not influence income smoothing. However, the results are not in line with the studies by Nirmanggi & Muslih (2020), Rahima & Simon (2023), and Angreini & Nurhayati (2022), which found that cash holding has a positive effect on income smoothing.

CONCLUSION

Based on the results of the study regarding the influence of firm growth, financial performance, bonus plans, and cash holding on income smoothing, several conclusions can be drawn. The first finding indicates that firm growth has no effect on income smoothing. Companies experiencing high or continuous growth generally face lower financial risk, leading them to avoid income smoothing practices. Additionally, companies with higher growth typically implement stricter and more professional oversight, which further discourages income smoothing.

The second finding reveals that financial performance has a negative effect on income smoothing. A high Return on Assets (ROA) does not increase the likelihood of a company engaging in income smoothing. On the contrary, a high ROA tends to attract more attention from investors, prompting companies to minimize risks, including avoiding income manipulation. Therefore, the higher the ROA, the less likely it is that a company will smooth its income.

The third result shows that bonus plans have a positive effect on income smoothing. Companies often provide substantial bonuses to managers when performance targets are achieved. This incentive motivates managers to manipulate reported earnings to align with target goals, increasing their chances of receiving maximum bonuses. Thus, bonus plans can encourage income smoothing behavior.

Lastly, the study finds that cash holding has no effect on income smoothing. The cash retained by companies is typically used for operational needs, debt payments, and dividend distributions rather than for personal interests or manipulating reported earnings. Moreover, investors tend to focus more on a company's profitability than its cash reserves, making cash management less relevant to income smoothing practices.

Following the data analysis and the findings, this study has certain limitations that are expected to serve as input for future research. One notable limitation is that the Nagelkerke R Square coefficient of determination was only 0.095. This means that the variables of firm growth, financial performance, bonus plans, and cash holding explain only 9.5% of the variation in income smoothing, while the remaining 90.5% is explained by other factors not included in this study. This low explanatory power indicates the need to explore additional variables that may better capture the determinants of income smoothing behavior in companies.

Based on the aforementioned limitations, several suggestions can be made for future studies. Since the coefficient of determination showed a Nagelkerke R Square value of 0.095 or 9.5%, the remaining 90.5% presents an opportunity for future research to include or add other independent variables. These may include the dividend payout ratio, which represents the portion of profits paid out to investors and is influenced by the company's earnings. Firms that regularly distribute dividends are generally more attractive to investors, especially those who value stable and increasing dividend payments. As a result, companies with a high dividend payout ratio may be inclined to smooth earnings to maintain investor confidence (Utari et al., 2024). Another variable worth considering is net profit margin, which reflects a company's efficiency in generating profits from sales. A stable net profit margin signals consistent performance, boosting investor trust. If this ratio fluctuates significantly, companies might engage in income smoothing to maintain a stable financial image and meet profitability targets (Helmi & Kurniadi, 2024).

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