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Palembang, Indonesia

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FOREWORD

Assalammualaikum Wr. Wb

Welcome to the Sriwijaya, Economics, Accounting and Business Conference (SEABC). SEABC is scholarly activity consists of international seminar and conference that is expected to give contribution and identify national economic policy, especially in facing ASEAN economic community. In 2020, SEABC is running its sixth year and taking a theme of " VUCA 2.0 : How to Survive Unsteady World ?".

The Faculty of Economics of Universitas Sriwijaya has organized this important seminar and conference. Many individuals have put that hard work to make this event becomes reality. The papers presented at this conference and included in this proceedings are expected to give contribution to research and technology development (IPTEK).

At last, we would like to thank for all the participants and the presenters that are willing to present their ideas and make this conference possible. We hope this proceedings can be a reference to build our nation and country.

Wassalammualaikum Wr. Wb

Prof. Dr. Mohamad Adam, S.E., M.E.
Dean of Faculty of Economics
Universitas Sriwijaya

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FOREWORD

Assalammualaikum Wr. Wb

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The Economics Faculty of Universitas Sriwijaya have organized this important seminar and conference. This year is special. All of us can't predict this before, the pandemi of Covid – 19. That thing makes all seminar and confence activity do by online. The 6th SEABC conference papers were peer reviewed for technical and editorial content by a dedicated committee of referees. We accept nearly 90 papers for oral presentation from 10 countries. These papers were presented in 2 days, 4 sessions each day.

Finally, I would like to thank for all the presenters that are willing to present their ideas and make this conference possible. We hope this proceeding book can give contributes to research and technology development .

Wassalammualaikum Wr. Wb

Agung Putra Raneo, S.E., M.Si
Chairman 6th SEABC
Universitas Sriwijaya

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INCOME SMOOTHING ANALYSIS: ECKEL INDEX APPROACH (EMPIRICAL STUDY OF GO PUBLIC PROPERTY, REAL ESTATE AND CONSTRUCTION COMPANIES)

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Abstract

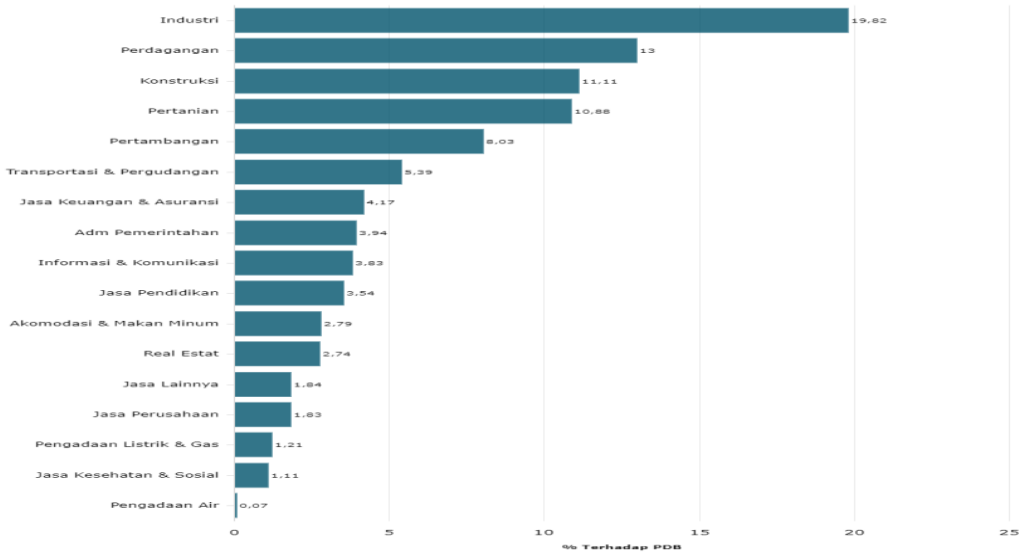
The purpose of this study is to determine companies that perform income smoothing by using the Eckel index approach.The population in this study were property, real estate and construction companies listed on the Indonesia Stock Exchange for the period 2016 to 2019, totaling 83 companies. The sample selection used in this research is purposive sampling method with a total sample of 54 companies that meet the sample selection criteria. The research method used in this study to determine and obtain information about the existence of income smoothing practices by the company is a quantitative descriptive statistical method. Based on the results of the research using the Eckel index approach, it can be seen that as many as 32 companies consisting of 28 property and real estate companies and 4 construction companies were proven to be identified as carrying out income smoothing actions, while as many as 22 companies that were not proven were identified to have carried out income smoothing actions. The results of this study can provide contributions and considerations for the parties who use financial statements, especially investors in assessing companies for decision making to be more careful in placing their investments.

***Keywords**: Income Smoothing, Indeks Eckel*

1. INTRODUCTION

The industrial sector provides the largest contribution to the Indonesian economy. Based on data from the Central Statistics Agency, Gross Domestic Product (GDP) in 2018, the industrial sector reached 2,947.3 trillion or 19.82% of the national GDP of 14,837 trillion. The second largest contribution was the trade sector with a value of 1,932 trillion or 13% of GDP and the third largest was the construction sector at 1,562 trillion or 11% of GDP as can be seen in the figure below:

Figure 1: Sectoral Contribution on Gross Domestic Product (GDP) 2018 Based on Central Statistics Agency (BPS)



Source : Databoks, 2020

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Property, real estate and construction companies have the opportunity to continue to grow and develop, especially in Indonesia. Based on a macroeconomic perspective, the property, real estate and construction industry has a very broad scope of business so that the excitement of the property, real estate and construction business will affect economic growth. Santosa (2005) argues that property is also an important indicator of a country's economic health. Because this sector is the first to signal the fall or rise of the country's economy. Based on data from the Central Statistics Agency (BPS), the contribution to Gross Domestic Product (GDP) in 2016 was 10.38%, in 2017 the contribution of construction was stagnant, namely 10.38% to GDP, while in 2018 it increased by 11.11%. The contribution of the real estate sector to GDP in 2016 was 2.82%, while in 2017 the real estate sector experienced a decline in 2017 to 2.79% of GDP, and in 2018 the contribution of the real estate sector was only 2.74%. This can be a consideration for investors for investing in companies. The tight competition in the business world makes company management competing to attract investors to invest their funds in their companies. One way to attract investors is by looking at the performance of financial statements. According to Kasmir (2013) financial statements are reports that show the company's current financial condition or the future period. The purposes and objectives of the financial statements indicate the company's financial condition which can be used as consideration in making decisions for the users of financial statements.

The tendency of investors to look more at the size of a company's profit in deciding to do investment. However, not a few companies have experienced failures because the resulting profits have decreased, there are also those who experience unstable profit conditions due to the impact of the global economy. The condition of unstable profit conditions is a threat to the company because it will have an impact on investors who have invested or who have not invested in the company. This puts pressure on the company's management to make every effort so that the profits generated by the company can attract investors to invest or even increase their investments. This condition provides an opportunity for management to manipulate financial statements based on the information it has. One form of this action is the practice of income smoothing, which is basically an action that is considered contrary to company goals (Widyaningdyah, 2001). Michelson (2000) argues that income smoothing is carried out by management with specific goals. Income smoothing targets are usually carried out in activities that can be used by management to manipulate financial information.

The income smoothing action is aimed at presenting a relatively stable profit figure from year to year so as to be able to maintain the company's reputation in a good position. The company's reputation is important to improve and maintain because it includes continuous assessment of an organization's ability to provide valuable results for its stakeholders. A reputable real estate and property industry tends to do income smoothing because it wants to increase management compensation and company reputation. Thus, the income smoothing index of the real estate and property industry in good standing is different from the real estate and property industry that has a bad reputation.

2. LITERATURE REVIEW

Agency theory is a concept that explains the contractual relationship between the principal and agent principals, which is the party that mandates the other party, namely the agent, to carry out all activities on behalf of the principals in their capacity as decision makers. Agency theory intends to solve problems that occur in agency relationships. One of them is the problem of the conflicting interests or goals of the principal and the agent and when the principal finds it difficult to trace what the agent actually does. (Arrozi, 2008). Based on research by Watts and Zimmerman (1986), it is empirically proven that the relationship between agents and principals is often determined by accounting numbers (Widyaningdyah, 2001). This encourages management as an agent to try to process accounting figures in such a way through a systematic way by selecting certain methods / policies so that the accounting figures (profits) reported from period to period can actually achieve the desired final goal (Muchammad, 2001).

Income Smoothing is a form of earnings management that is most often carried out and the most popular, through income smoothing, managers increase or decrease profits to reduce reported

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fluctuations in profits so that the company looks stable or is not at high risk. According to Belkaoui (2011), income smoothing is a reduction in profit fluctuation from year to year by moving income from years with high income to less profitable periods. Therefore, income smoothing includes the use of certain techniques to reduce or increase the amount of profit in a period equal to the amount of profit in the previous period (Salno and Baridwan, 2000). These actions deliberately done by management to achieve the desired profit position in the report profit and loss company in order to attract market interest in investing, because of the attention of investors often only focus on the procedures companies use to produce earnings information (Subekti, 2005)

According to Harahap (2005), income smoothing is usually carried out in various ways, namely adjusting the timing of the transaction. Management can determine the time when the actual transaction occurs so that the effect on income reporting tends to reduce the variation from time to time. Often, the planned time from which an event occurs (for example research and development) will be a function of the accounting rules governing the accounting recognition of the event. According to Herry (2017), income smoothing is classified into operating manipulations and accounting manipulations. Operating manipulation deals with trying to change operating decisions that affect the flow of funds and net income for a period. Meanwhile, accounting manipulation is related to the use of flexibility in accounting methods to change the amount of profit. According to Suwito and Arleen (2005) income smoothing can go through several dimensions income smoothing, namely: (1) smoothing income through events or recognition of an event, (2) income smoothing through allocations during a certain period, (3) income smoothing through classification. This income smoothing action is usually carried out to reduce taxes, increase the confidence of investors who think stable profits will reduce stable dividend policy and maintaining the relationship between managers and workers for reduce volatility in profit increases in earnings reporting which is quite sharp.

3. RESEARCH METHODOLOGY

The data source used in this research is secondary data in the form of financial statements. In this study, the object used is the eckel index measurement to measure income smoothing of property, real estate and construction companies that carry out income smoothing for the 2016-2019 period. The research method used by researchers to find and get answers to the problems under study is a quantitative descriptive research method which is a research conducted to determine the value of a variable with other variables and without the need to relate with other variables, where these variables process data with numbers.

The population in this study are property, real estate and construction companies listed on the Indonesia Stock Exchange. The sample selection used in this study used a purposive sampling method with criteria, namely property, real estate and construction companies listed on the Indonesia Stock Exchange for the period 2016 to 2019, the company published a complete and audited financial report and the company did not experience a loss. The number of research samples observed in this study were 54 companies consisting of 43 property and real estate companies and 11 construction companies.

Table 1: Sample Selection

Criteria	Amount
Property, real estate and construction companies listed on the Indonesia Stock Exchange for the period of 2016-2019	83
Companies that don't publish complete and audited financial reports	(26)
Companies that suffered losses for the periode of 2016-2019	(3)
Total Amount	54

Source: Data Process, 2020

The data analysis technique of this study is descriptive statistical analysis technique. So the data that has been collected will be used as research samples and identified using descriptive statistical analysis

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to provide an overview of the overall data used to explain how much the income smoothing index value, the lowest value, the average value and the standard deviation in a research sample. So it can be classified as the value with the greatest status is 1, it can be said that the company does income smoothing and the smallest value is 0, it can be said that the company does not do income smoothing. In this study, the research variable used is income smoothing. The practice of income smoothing is measured using the Eckel index approach (Eckel, 1981). Eckel index is used to determine companies that do income smoothing with companies that do not. The income smoothing index is calculated using the following formula:

$$\text{Income Smoothing Index} = \frac{CV\Delta I}{CV\Delta S}$$

Description:

Information :

ΔI : Change in profit over a period

ΔS : Change in sales within one period

CV : The coefficient of variation of the variable, namely the standard deviation of the expected value

CVΔI : The coefficient of variation for changes in profits

CVΔS : The coefficient of variation for changes in sales

$$CV\Delta I \text{ or } CV\Delta S = \frac{\textit{Standard Deviation}}{\textit{Expected Value}}$$

or

$$CV\Delta I \text{ dan } CV\Delta S = \frac{\sqrt{\sum(\Delta I - \Delta X)^2}}{n-1} : \Delta X$$

If CVΔI ≥ CVΔS or Income Smoothing Index> 1, then the company is not classified as a company that carries out income smoothing actions, while CVΔI <CVΔS or Income Smoothing Index <1 means that the company is classified as a company that carries out income smoothing action (Lila, 2013)

4. RESULTS AND DISCUSSIONS

Descriptive Statistics

According to Ronald E. Walpole in Rachmat (2015), descriptive statistics are methods related to the collection and presentation of a data cluster so that it provides useful information. The results of descriptive statistics in this study can be seen in table 2 below:

Table 2: Descriptive statistics

	N	Min	Max	Mean	Std. Dev
Indeks Eckel	54	-140,26	17,69	-1,64805	19,76815
Status	54				
Valid N (Listwise)	54				

Source: Data Process, 2020

Based on the data in Table 2, the descriptive statistics show that the highest value of the income smoothing index with the Eckel index approach is 17.69, the lowest value is -140.26, the average value for the income smoothing index is -1.64805 with a standard deviation of 19 , 76815. While the largest status value is 1 and the smallest value is 0 (1 states that the company practice income smoothing and 0 states that the company does not practice income smoothing).

Income Smoothing Analysis: Eckel Index Approach

Based on the results of calculations using the Eckel index approach, it can be seen that property, real estate and construction companies identified as practicing income smoothing. The income smoothing variable is measured using a dummy variable to differentiate between companies that are proven to be identified as practicing income smoothing with a value of 1 (one) and companies that are not proven to be identified as practicing income smoothing are given a value of 0 (zero). The following are the results of the research using the Eckel index approach, it is proven that as many as 32 companies out

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of 54 companies identified as practicing income smoothing consisted of 28 property and real estate companies and 4 construction companies while as many as 22 companies were not proven to be identified as practicing income smoothing can be seen in table 3 below:

Table 3: Research Results

No	Company Code	Indeks Eckel	*Dummy*	Description	Industrial Sector
1	APLN	0,80	1	Practice income smoothing	Property and real estate
2	ASRI	-1,05	0	Not practice income smoothing	Property and real estate
3	ELTY	2,59	0	Not practice income smoothing	Property and real estate
4	BAPA	-0,02	1	Practice income smoothing	Property and real estate
5	BEST	-140,26	1	Practice income smoothing	Property and real estate
6	BIPP	-6,40	1	Practice income smoothing	Property and real estate
7	BIKA	1,77	0	Not practice income smoothing	Property and real estate
8	BKDP	10,33	0	Not practice income smoothing	Property and real estate
9	BCIP	-0,78	1	Practice Income smoothing	Property and real estate
10	BSDE	1,01	0	Not practice income smoothing	Property and real estate
11	CTRA	0,42	1	Practice income smoothing	Property and real estate
12	COWL	0,93	1	Practice income smoothing	Property and real estate
13	SCBD	2,94	0	Not practice income smoothing	Property and real estate
14	DART	0,87	1	Practice income smoothing	Property and real estate
15	DUTI	0,34	1	Practice income smoothing	Property and real estate
16	LCGP	2,27	0	Not practice income smoothing	Property and real estate
17	FMII	0,74	1	Practice income smoothing	Property and real estate
18	GAMA	0,70	1	Practice income smoothing	Property and real estate
19	GMTD	0,64	1	Practice income smoothing	Property and real estate
20	GWSA	-0,47	1	Practice income smoothing	Property and real estate
21	OMRE	0,86	1	Practice income smoothing	Property and real estate
22	DILD	-1,03	1	Practice income smoothing	Property and real estate
23	JRPT	2,13	0	Not practice income smoothing	Property and real estate
24	KIJA	-21,64	1	Practice income smoothing	Property and real estate
25	LPCK	1,88	0	Not practice income smoothing	Property and real estate
26	LPKR	-1,47	1	Practice income smoothing	Property and real estate
27	MMLP	1,40	0	Not practice income smoothing	Property and real estate
28	EMDE	1,80	0	Not practice income smoothing	Property and real estate
29	MTSM	-0,25	1	Practice income smoothing	Property and real estate
30	MKPI	0,64	1	Practice income smoothing	Property and real estate
31	MTLA	7,20	0	Not practice income smoothing	Property and real estate
32	MDLN	0,65	1	Practice income smoothing	Property and real estate
33	PWON	7,77	0	Not practice income smoothing	Property and real estate
34	GPRA	0,20	1	Practice income smoothing	Property and real estate
35	RODA	1,17	0	Not practice income smoothing	Property and real estate
36	PLIN	-0,63	1	Practice income smoothing	Property and real estate
37	PPRO	0,56	1	Practice income smoothing	Property and real estate
38	RBMS	-1,79	1	Practice income smoothing	Property and real estate
39	RDTX	-1,73	1	Practice income smoothing	Property and real estate
40	BKSL	0,62	1	Practice income smoothing	Property and real estate

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41	TARA	3,50	0	Not practice income smoothing	Property and real estate
42	SMRA	-0,86	1	Practice income smoothing	Property and real estate
43	SMDM	0,44	1	Practice income smoothing	Property and real estate
44	ACST	-3,78	1	Practice income smoothing	Contruction
45	ADHI	1,10	0	Not practice income smoothing	Contruction
46	IDPR	0,24	1	Practice income smoothing	Contruction
47	JKON	4,16	0	Not practice income smoothing	Contruction
48	DGIK	5,11	0	Not practice income smoothing	Contruction
49	NRCA	1,22	0	Not practice income smoothing	Contruction
50	PTPP	0,88	1	Practice income smoothing	Contruction
51	SSIA	2,87	0	Not practice income smoothing	Contruction
52	TOTL	17,69	0	Not practice income smoothing	Contruction
53	WSKT	2,22	0	Not practice income smoothing	Contruction
54	WIKA	0,49	1	Practice income smoothing	Contruction

Source : Data Process, 2020

Table 3 shows the results of the research based on the eckel index calculation which states which companies carry out income smoothing actions. The results of this study can be used as a material consideration for the parties who use the report, especially investors in assessing the company's performance so that investors are more careful and not wrong in investing their capital to invest. In addition, the results of this study also provide contributions and references for investors to decide to increase their investment in the company if they already invest in the company or decide not to invest.

5. CONCLUSION

Based on the results of the discussion above, it can be concluded that of the 54 sample companies in the study, there were 32 companies consisting of 28 property and real estate companies and 4 construction companies that were proven to have been identified as carrying out income smoothing actions, while 22 companies were proven not to take income smoothing actions. Based on the results of this study, it can provide contributions and considerations for the parties who use financial statements, especially investors in assessing a company so that they can be more careful in deciding whether to invest. With the results of this study, investors can decide whether the company really has real and stable profits or even a deviation because it can have an impact on the returns received by investors when investing.

LIMITATION AND STUDY FORWARD

The limitation in this study is that it only analyzes the income smoothing variable, without connecting with other variables or being related to the determinants of income smoothing variables. The suggestion from this research is that it is hoped that further research can analyze the income smoothing variables with the factors that affect income smoothing so that the research results are more accurate.

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