



The Influence of Financial Leverage, Information Asymmetry, and Profitability on Income Smoothing with Good Corporate Governance as a Moderation Variable

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Abstract. This study aims to examine the effects of financial leverage, information asymmetry, and profitability on income smoothing, and how the effects of financial leverage, information asymmetry, and profitability on income smoothing are moderated by good corporate governance. The sample in this study is mining sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. Data collection was carried out by tracing annual financial statements, total revenue, total debt, total assets, or related information that were selected as samples in this study. The population size in this study was 63 mining companies. After being selected using purposive sampling methods, a sample of 29 companies was obtained for 5 years, so that the total observation of this study was 145 financial statements. The data analysis used was with the help of the Statistical Product and Service Solutions (SPSS) Ver. 25 program. The results of the study showed that: 1) Financial leverage has a positive effect on income smoothing. 2) Information asymmetry has a positive effect on income smoothing. 3) Profitability has a negative effect on income smoothing. 4) Good corporate governance can weaken the effect of financial leverage on income smoothing. 5) Good corporate governance can weaken the effect of information asymmetry on income smoothing. 6) Good corporate governance can strengthen the effect of profitability on income smoothing.

Keywords: *Financial Leverage, Asimetri Informasi, Profitabilitas, Income Smoothing dan Good Corporate Governance.*

1. Introduction

In the era of globalization, characterized by the advancement of information technology and the rapid development of the economy, business competition is becoming increasingly intense in Indonesia. This can have a significant impact on the performance of companies. In facing this competition, companies must operate and function effectively and efficiently, so that they are able to bring about performance improvement. In addition, efforts to strengthen competitiveness and maintain the existence of companies in facing the dynamic development of the economy are also very important. The performance of companies becomes an important matter and must be achieved because it describes the achievements or achievements of a company that will be directly monitored by investors, both those who have invested capital or who will invest their capital in the company (Choirudin & Taman, 2018).

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Capital market is one of the channels that can be used to invest. In Indonesia, the capital market is the Indonesia Stock Exchange (IDX), also known as the Indonesia Stock Exchange. Through the capital market, investors can invest and build an investment portfolio that is in line with their risk appetite, while potentially generating optimal returns. At that time, investments were in the form of securities such as shares and bonds, but the more popular form was shares (Rahmawati et al., 2019).

Investors consider before buying their preferred stocks because of the information they receive. Information received by investors causes the stock price to change. Musdalifah (2015) said that the existence of relevant information for decision-making will affect the price of securities to a new equilibrium price. Information for investors can come from both internal and external sources of the company. Internal information can be in the form of news, financial statements and statements, while external information can be in the form of the economic conditions of a country, political conditions, commodity prices and other sources. Both of these sources generate information that can affect the company's shares positively and negatively.

Profit is a component of a company's financial statements that aims to assess management performance, help estimate representative profit capabilities in the long term, forecast profit, and estimate risk in investing (Widhianingrum, 2012). Consistent with the definition contained in the Financial Accounting Standards Statement No. 1 (2009), it states that profit information is generally an important factor in assessing management performance or accountability and profit information helps owners or other parties make assessment of the company's earning power in the future.

Income smoothing is the reduction of profit fluctuations from year to year by transferring income from years with high revenues to less profitable periods (Riahi & Belkaoui, 2007:56). The reasons management takes income smoothing measures are to achieve tax advantages, stable dividend greenery, and give a good impression of management performance to shareholders (Gunawati & Susanto, 2019). Of course, the existence of income smoothing actions results in the reports presented full of manipulation and not in accordance with the actual state of the company so that shareholders can make wrong decisions.

In the Indonesian capital market, there have been cases of income smoothing. According to news released on www.economy.okezone.com, PT. Timah (Persero) Tbk in 2015 provided financial information to the public that differed from the actual situation. Since 2013, the directors of PT. Timah (Persero) Tbk, according to the Timah Employees Association (IKT) from Bangka Belitung and Riau Islands provinces, have made numerous mistakes and omissions during their three-year tenure. They allegedly gave misleading information to the public about the company's financial performance. For instance, in the press release for the financial report of the first half of 2015, they claimed that efficiency and strategies had led to positive performance. However, the reality was that the operating profit for the first half of 2015 was a loss of Rp59 billion. This was done to portray the company's performance favorably to the public and attract investor interest. It's noteworthy that, in addition to a decline in profits, PT. Timah also experienced nearly a 100 percent increase in debt compared to 2013. In 2013, the company's debt was only Rp263 billion, but by 2015, it had surged to Rp2.3 trillion.

In addressing cases of income smoothing, the factors influencing the occurrence of profit smoothing practices become crucial. One such factor affecting earnings management is financial leverage, a policy undertaken by a company regarding the investment of funds accompanied by fixed costs or expenses that the company must bear. Financial leverage indicates the extent to which a company's assets have been financed through debt (Dewi & Abundanti, 2019). The greater the leverage, the less owner-provided funds are used to finance the company's investments, or the higher the level of debt usage by the company (Wahyuni, 2015). Dalimunte and Prananti (2019) assert that the level of a company's indebtedness (leverage) can influence management's actions in engaging in profit smoothing practices.

In the realm of income smoothing, the presence of information asymmetry between management and company owners can play a significant role, manifested through financial reports prepared by management. Information asymmetry refers to a situation where the agent possesses more information about the company and future prospects compared to the principal (Wicaksono, 2015). Jannah (2016) explored the impact of IFRS convergence, information asymmetry, and managerial ownership on income smoothing. The findings indicated that IFRS convergence and information asymmetry had a negative effect on income smoothing, while managerial ownership had a positive impact. Interestingly, research conducted by Wasilah (2005) on the influence of information asymmetry and earnings management practices resulted in a positive effect.

Income smoothing can also be influenced by profitability, which is a ratio that is often used to measure a company's ability to generate profits. Profitability itself is usually used by investors to measure the level of achievement and ability of a company to generate profits (Oktaviasari et al., 2018). It can be concluded that profitability is a scale for measuring a company's ability to generate profits from business operational activities in a certain period. Eka et al. (2020) revealed that profitability has a significant effect on income smoothing, while Hanif Tian and Dillak (2020) found that profitability has no significant effect on income smoothing.

Corporate governance, or good corporate governance, is a concept aimed at enhancing company performance through the supervision or monitoring of management and ensuring management accountability to shareholders, based on a regulatory framework (Nasution & Setiawan, 2007). The Organization for Economic Cooperation and Development (OECD, 2004) defines corporate governance as a system in which companies are directed and supervised. Corporate governance is concerned with how investors are assured that managers will not undertake actions detrimental to the funds or capital invested by investors and how investors control managers (Shleifer & Vishny, 1997). Mechanisms of good corporate governance that can control earnings management include managerial ownership, institutional share ownership, independent board of commissioners, and the existence of an audit committee (Siregar et al., 2005). Hidayah and Pansuri (2020) state that good corporate governance mechanisms moderate income smoothing.

This research refers to a study conducted by Nurani and Maryanti (2021), examining the influence of company size, profitability, and financial leverage on income

smoothing practices, with good corporate governance as a moderating variable in manufacturing companies. The difference between this study and previous research lies in the variables and research objects used. The researcher replaced the company size variable with information asymmetry because, based on the findings of Apriani and Wirawati (2018), higher levels of information asymmetry between management and external parties lead to increased income smoothing by management. Due to observed income smoothing practices in the mining sector, the research focus was shifted to the mining industry.

2. Literature Review and Hypothesis Formulation

2.1 Agency Theory

In agency theory, the principal-agent relationship is a contract formed when one or more individuals enter into an agreement with another party known as the principal and the agent (Jensen & Meckling, 1976). This agreement grants authority to the agent to make decisions. When the principal employs an agent to perform tasks and delegates decision-making authority on behalf of others, an agency relationship arises. In this theory, the agent is assumed to be a rational individual with personal interests, seeking to maximize their own benefits. The manager, acting as the agent, is responsible for optimizing the profits for the owners (the principal). However, on the flip side, managers also have an interest in maximizing their well-being, creating the likelihood that agents may not always act in the sole interest of the principal.

An explanation of the concepts of financial leverage, information asymmetry, profitability and income smoothing can be discussed using an agency theory approach. This theory discusses the problem of human behavior which has bounded rationality and avoids risk. Agency theory states that the practice of income smoothing is influenced by the interests between the agent and the principal which arise when each party tries to achieve or maintain the desired level of prosperity.

2.2 Income Smoothing

Income smoothing can be seen as a deliberate effort to normalize profits in order to achieve a desired trend or level. It involves the intentional reduction of fluctuations in profits that a company considers normal. The goal of income smoothing is to enhance the company's image in the eyes of external parties, level out business cycles through psychological processes, and demonstrate that the company has low risk (Juniarti & Carolina, 2005). The practice of income smoothing can be assessed using the Eckel index (1981), which employs the Coefficient of Variation (CV) for variables such as net profit and company sales. The formulation to calculate the Eckel index (1981) is as follows :

$$\text{Income smoothing index : } \frac{CV \Delta I}{CV \Delta S}$$

Information :

ΔI = Change in profit (*income*).

ΔS = Sales changes (*sales*).

CV = The coefficient of variation of a variable is the standard deviation divided by the value which are expected.

CV ΔI = Coefficient of variation for changes in profit.

CV ΔS = Coefficient of variation for changes in sales.

If CV $\Delta S >$ CV ΔI , then the company is not classified as a company that carries out income smoothing actions. CV ΔI and CV ΔS can also be calculated as follows. CV ΔI and CV ΔS =

$$\frac{\sqrt{\frac{\sum(\Delta x - \Delta E)^2}{n-1}}}{\Delta E}$$

Information:

⊗X : Change in profit (I) or sales (s)

⊗E : Average sales profit (I) or sales (s)

n : The number of years the indicator was observed can also be seen from the report finance, especially profit and loss statements for companies.

The criteria for a company to be considered engaged in income smoothing is when the coefficient of variation of changes in income (CV ΔI) is greater than the coefficient of variation of changes in sales (CV ΔS). A company is categorized as practicing income smoothing if the coefficient of variation of changes in sales is smaller than the coefficient of variation of changes in income. Conversely, a company is classified as not engaging in income smoothing if the coefficient of variation of changes in sales is greater than the coefficient of variation of changes in income

2.3 Financial Leverage

Leverage is a measure of how much a company is financed by debt (Wiagustini, 2014:85). A company with debt greater than its equity is considered to have a high level of leverage. Financial leverage is also a ratio that indicates the proportion of debt used to finance a company compared to its equity. Based on the definition above, it can be concluded that financial leverage is a ratio that shows the extent of debt usage in a company's capital structure. Companies with high leverage compared to equity can be said to have high risk. The higher the financial leverage ratio, the higher the company's risk, leading to increased interest rates (Hery, 2017:13). The measurement used in this study is Debt To Asset. The formula for Debt To Asset Ratio according to Kasmir (2017:122) is as follows :

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}} \times 100\%$$

Keterangan:

Total Debt = The total amount of debt that must be paid in the given period

determined.

Total Asset = The number of assets owned by the company.

The mentioned ratio illustrates the relationship between a company's debt and assets. A lower debt-to-asset ratio is indicative of a favorable situation, suggesting that the company carries a minimal amount of debt. Conversely, a higher debt-to-asset ratio signifies a significant portion of assets being financed through debt, potentially posing challenges in securing additional funding. This could raise concerns about the company's ability to cover its liabilities with the existing assets.

2.4 Information asymmetry

Information asymmetry is a situation where the agent has more information about the company and its future prospects compared to the principal (Wicaksono, 2015). Information asymmetry occurs when there is a difference in information between management as an information provider and information users (Kartika et al., 2015). According to (Scott, 2000), there are two types of information asymmetry, namely adverse selection and moral hazard. Adverse selection is information asymmetry that occurs when one or more parties in a business transaction or potential business transaction have more information than other parties, whereas moral hazard is information asymmetry that occurs when one or more parties in a business transaction or potential business transaction can monitor actions. them in the implementation of transactions relative to other parties. The measurements used are.

$$BID - ASK SPREAD = \frac{ask, it - bid, it}{\frac{ask, it + bid i, t}{2}}$$

Information :

Askj, = Company j's highest share offering price in year t

Bidj, = The lowest asking price for company j shares in year t

Profitabilitas

Profitability is the company's ability to earn profits using the assets and capital owned by the company (Hery, 2015: 192). Meanwhile, another definition is the company's ability to generate profits during a certain period using its activities productively. Return on Assets is the ratio of net profit to total assets to measure the return on total assets. Return on Assets is looking at the extent to which investments are used effectively to generate profits and the greater the ROA, the better the performance, because the rate of return is greater (Hery, 2014: 556). The following is the formula used to calculate the return on assets.

$$ROA = \frac{Net\ profit\ after\ tax}{Total\ asset}$$

This means that every 0.1 or 1% of the ROA ratio produced shows 1% of total net profit as the rate of return from the use of company assets. The greater the value of the ROA ratio, the greater the funds that can be returned from the company's total assets

into profits. The greater the net profit a company obtains, the better the company's performance.

2.5 Good Corporate Governance

The Indonesian Forum for Corporate Governance (FCGI, 2001) defines corporate governance as a set of regulations that regulate the relationship between shareholders, management, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations or in other words, a system that regulates and controls the company. The measurement used is managerial ownership with a ratio scale (Zahirah, 2017:3546).

$$KM = \frac{\text{number of managerial shares}}{\text{Number of shares outstanding}} \times 100\%$$

2.6 Research Hypothesis

The hypothesis proposed in this research is a short statement concluded from the literature review and is a temporary description of the problem that needs to be re-submitted, so the hypothesis of this research is as follows :

H1: Financial leverage has a positive effect on income smoothing.

H2: Information asymmetry has a positive effect on income smoothing.

H3: Profitability has a positive effect on income smoothing.

H4: Good corporate governance weakens the effect of financial leverage on income smoothing.

H5: Good corporate governance weakens the influence of information asymmetry on income smoothing.

H6: Good corporate governance strengthens the influence of profitability on income smoothing.

3. Research Methods

3.1 Data Collection Methods

The company selected for this research is a mining company listed on the Indonesia Stock Exchange from 2018 to 2022. The study relies on secondary data in the form of annual financial reports of mining companies listed on the Indonesia Stock Exchange, with data collection employing purposive sampling techniques. The population for this research comprises all 63 mining companies, but some were excluded as they did not meet the criteria set for sample selection due to incomplete data. This resulted in the elimination of several companies to ensure the quality of the available data, leaving 29 companies as the focus of the study, amounting to 145 samples. Jenis data yang digunakan dalam penelitian ini adalah data sekunder berupa data panel yang di peroleh melalui teknik pengumpulan dokumen, yang mana dokumen-dokumen tersebut didapatkan atau diperoleh dari beberapa situs online yang terpercaya dan resmi seperti www.idx.co.id, dan situs sampel perusahaan serta situs lainnya.

3.2 Analysis Techniques

The data analysis techniques employed in this research encompass descriptive statistical tests, classic assumption tests, and hypothesis testing. Descriptive statistical tests serve to illustrate the research data by calculating measures such as total count, maximum and minimum values, mean, and standard deviation. Classic assumption tests are utilized to assess whether there are any classical assumption issues within a regression model. The classic assumption tests applied in this research comprise autocorrelation testing, normality testing, multicollinearity testing, and heteroskedasticity testing. Moving on to hypothesis testing, the analytical methods employed include multiple linear regression analysis and moderated regression analysis.

3.3 Research Variables

The dependent variable employed in this research is income smoothing, which refers to the deliberate reduction or stabilization of fluctuations by a company in certain levels of earnings considered normal by the company (Riahi, 2007:73). To determine whether a company engages in income smoothing practices, the Eckel index is utilized, employing the Coefficient of Variation (CV) for income and net sales variables on a ratio scale (Eckel, 1981).

Income smoothing index: $\frac{CV \Delta I}{CV \Delta S}$

information :

ΔI = Change in profit (*income*).

ΔS = Sales changes (*sales*).

CV = The coefficient of variation of a variable is the standard deviation divided by the value which are expected.

CV ΔI = Coefficient of variation for changes in profit.

CV ΔS = Coefficient of variation for changes in sales.

Independent variable, financial leverage, measures the extent to which the company is financed with debt (Wiagustini, 2014: 85). The measurement used is Debt to Asset (DAR) with a ratio scale (Kasmir 2017:122)

$$Debt\ to\ Asset\ Ratio\ (DAR) = \frac{total\ hutang\ (debt)}{total\ aset} \times 100\%$$

Furthermore, information asymmetry, information asymmetry occurs when there is a difference in information between management as an information provider and information users (Kartika et al., 2015). The measurements used are,

$$BID - ASK\ SPREAD = \frac{ask, it - bid, it}{(ask, it + bid i, t)/2}$$

Information :

Askj, = Company j's highest share offering price in year t

Bidj, = The lowest asking price for company j shares in year t

Profitability is the company's ability to earn profits using the assets and capital owned by the company (Hery 2015:192). The measurement used is Return On Assets (ROA) with a ratio scale (Hery, 2014: 556).

$$ROA = \frac{\text{Net profit after tax}}{\text{Total aset}}$$

In this research, the moderating variable is Good Corporate Governance. According to the Forum for Corporate Governance Indonesia (FCGI, 2001), corporate governance is defined as a set of rules that regulate the relationships among shareholders, management, creditors, government, employees, and other internal and external stakeholders related to their rights and obligations. In other words, it is a system that governs and controls the company. The measurement employed is managerial ownership using a ratio scale (Zahirah, 2017:3546).

$$KM = \frac{\text{number of managerial shares}}{\text{Number of shares outstanding}} \times 100\%$$

4. Research Results

4.1 Descriptive Statistics

Table 1. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
<i>Leverage</i>	145	.07	2.42	.5721	.37071
Asimetri informasi	145	-.04	49.18	5.6946	8.72536
Profitabilitas	145	-.51	.59	.0516	.15056
<i>Income smoothing</i>	145	-.53	2.17	.7329	.45859
GCG	145	.00	.87	.0993	.21014

Based on Table 1, it can be seen that the value of the income smoothing variable shows that the lowest (minimum) sample value is -0.53 and the highest (maximum) value is 2.17, the average value of income smoothing obtained by mining companies is 0.7329 and the standard deviation is 0.45859. The next variable leverage shown in table 1 shows that leverage has the lowest (minimum) value of 0.07 and the highest (maximum) value of 2.42 with an average value of 0.517 and a standard deviation of 0.37071. The information asymmetry shown in table 1 shows that the lowest (minimum) value is -0.04 and the highest (maximum) value is 49.18 with an average value of 5.6946 and a standard deviation of 8.72536. The profitability shown in table

1 shows that the lowest (minimum) value is -0.51 and the highest (maximum) value is 0.59 with an average value of 0.0516 and a standard deviation of 0.15056. Good corporate governance shown in table 1 shows that the lowest (minimum) value is 0.00 and the highest (maximum) value is 0.87 with an average value of 0.0993 and a standard deviation of 0.21024.

4.2 Classic Assumption Test

In the regression equation model, there are several assumptions that must be met and must not be violated. This research uses a heteroscedasticity test and a multicollinearity test to check whether the regression equation model violates the assumptions. The following are the results of the classical assumption test which are presented in the table below:

Tabel 2. Uji Glejser

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
(constant)	.109	.017		6.509	.226
<i>Leverage</i>	.013	.021	.053	.606	.546
Asimetri Informasi	.000	.001	-.019	-.222	.825
Profitabilitas	.110	.042	.229	2.616	.095
<i>Good Corporate Governance</i>	-.037	.036	-.088	-1.045	.298

Tabel 3. Uji Multikolinearitas

Variabel Dependen	Variabel Independen	Collinearity Statistics		Keterangan
		Tolerance	VIF	
<i>Income smoothing</i>	<i>Leverage</i>	.895	1.1 17	Tidak Terjadi Multikolinearitas

	Asimetri informasi	.980	1.020	Tidak Terjadi Multikolinearitas
	Profitabilitas	.902	1.109	Tidak Terjadi Multikolinearitas
	<i>GCG</i>	.875	1.143	Tidak Terjadi Multikolinearitas

Based on table 2 which shows the results of the heteroscedasticity test (Glesjer test), the table above shows that the significance value of all variables is above 0.05. So it can be concluded that the data in this study is free from symptoms of heteroscedasticity. Furthermore, based on table 3 which shows the results of the multicollinearity test, the test results show that the VIF value for all variables has a value smaller than 10. This result is reinforced by the tolerance value which also shows a value greater than 0.10, thus it can be concluded that there are no symptoms of multicollinearity in regression model.

4.3 Results and Discussion

The data examined in this study is normally distributed, there are no symptoms of heteroscedasticity, multicollinearity or autocorrelation, so it is appropriate to carry out hypothesis testing and Moderated Regression Analysis (MRA) tests.

Tabel 4. T Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.623	.010		62.188	.000
<i>Leverage</i>	.184	.013	.418	13.842	.000
Asimetri informasi	.009	.001	.477	16.576	.000
Profitabilitas	-.200	.032	-.228	-6.272	.000
X1_Z	-.672	.044	-.497	-15.262	.000
X2_Z	-.027	.003	-.325	-8.604	.000
X3_Z	.803	.113	.277	7.117	.000

Based on table 4 of the leverage variable, the financial leverage coefficient value is 0.152, indicating a positive direction and the significance is $0.00 < 0.05$, so the first hypothesis which states that financial leverage has a positive effect on income smoothing, is accepted. This explains that disclosure of financial leverage has a positive effect on income smoothing, which means that increasing financial leverage can increase income smoothing practices. High leverage can encourage managers to carry out income smoothing because managers of companies with high leverage have an incentive to create more stable profits so that investors and creditors prefer companies with stable profits. These results are in line with research conducted by Wulandari (2019) which states that financial leverage has a positive and significant influence on income smoothing. This was also said by Sari and Rudy (2021) Financial leverage has a positive effect on income smoothing.

Based on table 4 of the leverage variable, the information asymmetry coefficient value is 0.010, indicating a positive direction and the significance is $0.00 < 0.05$, so the second hypothesis which states that information asymmetry has a positive effect on income smoothing, is accepted. This explains that disclosure of information asymmetry has a positive effect on income smoothing, which means that increasing information asymmetry can increase income smoothing practices. High information asymmetry can encourage managers to carry out income smoothing. This is because managers have an incentive to use their information for their own benefit, and investors and creditors are more at risk because they do not have access to the same information as managers. These results are in line with research conducted by Wasilah (2005) and Wicaksono (2015) who obtained the results that information asymmetry has a positive effect on income smoothing.

Based on table 4 of the leverage variable, the profitability coefficient value is -0.377, indicating a negative direction and the significance is $0.00 < 0.05$, so the third hypothesis which states that profitability has a significant positive effect on income smoothing, is rejected. This explains that profitability disclosure has a significant negative effect on income smoothing, which means that increasing profitability can reduce the practice of income smoothing. This is because company managers feel secure with good profitability, investors and creditors are more confident in companies with high profitability. These results are in line with research conducted by Natalie and Astika (2016) and Nurani and Dillak (2019) who found that profitability had a negative effect on income smoothing.

The fourth hypothesis was tested by stating that good corporate governance is able to moderate the influence of financial leverage on income smoothing, based on the SPSS output test results in table 4 showing that the coefficient value of good corporate governance in moderating financial leverage on income smoothing is -0.672, indicating a negative direction and its significance. $0.00 < 0.05$ So the fourth hypothesis which states that good corporate governance weakens the effect of financial leverage on income smoothing, is accepted. The results of this research are in line with research conducted by Juniarta and Sujana (2015) which states that good corporate governance weakens the effect of financial leverage on income smoothing. Other research conducted by Pande and Suryanawa (2017) found that implementing good corporate

governance consistently can minimize income smoothing actions carried out by management and become an obstacle to performance engineering activities which result in financial reports not reflecting the company's true value. Apart from that, it helps monitor management performance well so that the company meets the expected performance.

The fifth hypothesis was tested by stating that good corporate governance is able to moderate the influence of information asymmetry on income smoothing, based on the SPSS output test results in table 4 showing that the coefficient value of good corporate governance in moderating information asymmetry on income smoothing is -0.027, indicating a negative direction and its significance is $0.00 < 0.05$. So the fifth hypothesis which states that good corporate governance can weaken information asymmetry in income smoothing, is accepted. The results of this study are in line with research conducted by Veno and Sasongko (2016) who found empirical evidence that good corporate governance moderates the effect of information asymmetry on income smoothing. Wardani and Waheningtyas (2018) stated that the higher the implementation of good corporate governance, the lower information asymmetry can be.

The sixth hypothesis was tested by stating that good corporate governance is able to moderate the influence of profitability on income smoothing, based on the SPSS output test results in table 4 showing that the coefficient value of good corporate governance in moderating profitability on income smoothing is 0.803, indicating a positive direction and the significance is $0.00 < 0.05$, so the sixth hypothesis which states that good corporate governance strengthens the influence of profitability on income smoothing, is accepted. The results of this study are in line with research conducted by Syarah Hidayah et al. (2020) stated that good corporate governance has been proven to be able to strengthen or increase the influence of the profitability relationship on income smoothing. Prananda and Anwar (2021) say that the higher the share ownership of company managers, the more freedom the management will have to manage financial reports and carry out income smoothing actions.

5. Conclusion

5.1 Conclusion

Financial leverage has a positive impact on income smoothing. This shows that disclosure of financial leverage can improve income smoothing practices. High leverage can motivate managers to smooth profits because managers of companies with high leverage have an incentive to create more stable profits to make the company more attractive to investors and creditors. This is in line with agency theory which states that managers know more about the condition of the company than investors and are required to meet investors' expectations. Companies with high financial leverage represent greater risks for investors, causing investors to demand higher returns and consistently expect stable, non-fluctuating profits to help companies manage the risks associated with their debt obligations. As a result, companies tend to implement income smoothing practices to instill confidence in investors and encourage them to provide more loans. These dynamics highlight the interrelationship between financial leverage, earnings smoothing and investor perceptions, underscoring the importance of managing earnings stability in the context of high leverage scenarios.

Asymmetric information positively influences income smoothing. This is because managers have an incentive to use their information for their own benefit, and investors and creditors are at greater risk due to not having access to the same information as managers. This aligns with agency theory, which describes asymmetric information as a condition where agents have more information about the company and future prospects than principals. The existence of asymmetric information is considered a cause of income smoothing. The higher the level of asymmetric information between management and external parties, the higher the level of income smoothing performed by management. This information disparity results in management's efforts to manipulate information for their own interests through the practice of income smoothing.

Profitability has a negative effect on income smoothing. This is because company managers feel secure with good profitability, investors and creditors have more confidence in companies with high profitability. This is in accordance with agency theory which explains that managers know more about the company's condition than investors. Companies that have relatively low profitability tend to practice income smoothing compared to companies that have high profitability and companies that have fluctuating profits will tend to make companies practice income smoothing.

Good corporate governance can weaken the influence of financial leverage on income smoothing. The higher the level of good corporate governance, the lower the practice of income smoothing. This is in accordance with agency theory which states that company owners will try to minimize agency costs, namely costs that arise due to conflicts of interest between company owners and managers. Managers who own company shares tend to present accurate and transparent accounting information, thereby reducing information asymmetry. Managers who own company shares also have an interest in maintaining the trust of company owners. Therefore, managers who own company shares tend not to take actions that could harm the company owners.

Good corporate governance weakens the influence of information asymmetry on income smoothing. Managers who own company shares tend to present accurate and transparent accounting information, thereby reducing information asymmetry. Managers who own company shares also have an interest in maintaining the trust of company owners. This is in accordance with agency theory which states that managers who own company shares have an interest in maintaining the company's reputation. Therefore, managers who own company shares tend not to take actions that could harm the company owners.

Good corporate governance strengthens the influence of profitability information on income smoothing. Managers with large share ownership have a greater personal interest in company performance, so they are more likely to take action to reduce earnings volatility. This is in accordance with agency theory which states that managerial ownership is a corporate governance mechanism that can be used to reduce conflicts of interest between managers and shareholders. Managers with large share ownership have a greater personal interest in the company's performance, so they are more likely to act in the interests of shareholders. Therefore, managers who own company shares tend to carry out income smoothing.

5.2 Implications

This research has limitations that may impact the study outcomes. These limitations include a narrow study period of only five years, from 2018 to 2022. Additionally, some companies lacked comprehensive data, preventing the examination of all mining companies listed on the Indonesia Stock Exchange.

5.3 Limitations

This research has several limitations, one being the relatively short observation period from 2017-2021. Another limitation is the use of manufacturing companies as the research sample, making it challenging to generalize the findings to companies in other sectors. Additionally, the research focuses on a single profitability variable, namely net profit.

5.4 Suggestion

Based on the findings outlined and the limitations faced in the research, the researcher subsequently provides several recommendations. Firstly, it is suggested that future researchers consider adding or changing independent variables that could influence income smoothing, such as cash holding, bonus plans, and so forth. Additionally, expanding the research population to include industries like real estate or manufacturing, or broadening the study beyond Indonesia's borders, could enable comparisons with research results using Indonesian company populations. Furthermore, it is advised for future researchers to extend the study period to enhance the accuracy and consistency of the research outcomes.

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