ABSTRACT

Income smoothing is a management strategy to reduce the level of earnings fluctuations in order to achieve the desired level of profit by shifting revenue and expenses among different reporting periods. Income smoothing has become commonplace for management in effort to increase the company's value. But income smoothing could adversely affect the decision-making process of investment. Because firms with an unstable level of earnings are judged to have greater risks than those that aren't. Income smoothing was tested by using Eckel index (1981) to define the companies into smoothers category and non-smoothers category. Eckel index compares coefficient variation for change in net income with changes in net sales over a period. If the result is less than 1 then classified as smoother and categorized as 1, while the result more than 1 is classified as non-smoother which is categorized as 0.

This study aims to determine the effect of independent variables that are profitability, dividend payout ratio and financial leverage to the dependent variable that is income smoothing. The hypothesis in this study was tested using descriptive statistical analysis and logistic regression analysis. The population in this study are companies listed on the LQ45 Index in 2011-2016. The method used for sampling is purposive sampling with the sample size is 84.

The result of this study shows that, simultaneously, independent variables significantly affects dependent variable. Partially, only profitability has an effect on income smoothing with a negative direction, while dividend payout ratio and financial leverage have no effect on income smoothing.

Keywords: Dividend Payout Ratio, Financial leverage, Income smoothing and Profitability.