

ABSTRACT

Income smoothing is an action performed by the company's management in order to reduce fluctuations earnings This is done with the motivation to show good performance to investors, by showing a stable corporate profits. 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 is done by adding or reducing the company's actual profit, to be moved to certain period. 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 was conducted to determine the effect simultaneously and partially variable profitability, dividend payout ratio and firm size to income smoothing in companies listed on the LQ45 Index in 2012-2016

The hypothesis in this study was tested using descriptive statistical analysis and logistic regression analysis using SPSS 23.0. The population in this study are companies listed on the LQ45 Index in 2012-2016. The method used for sampling is purposive sampling with the sample size is 80.

Based on the result of research, profitability, dividend payout ratio and firm size have influence simultaneously significant to income smoothing. Partially, profitability have a negative effect to income smoothing. While the dividend payout ratio and firm size do not have an effect to income smoothing.

Keywords: Income Smoothing, Profitability, Dividend Payout Ratio, Firm Size