

Effect of Companies That Do and Do Not Perform Income Smoothing on Automotive Sector Company Value

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Abstract: The purpose of this study was to determine the effect of companies that do and do not perform income smoothing on the value of the company specifically in the Automotive Sector company in the Indonesia Stock Exchange with the period of 2012-2017. The method used in this study was quantitative descriptive analysis, namely: calculate income smoothing using the Eckel index method and calculating company value, Price Earning Ratio (PER) and Price Book Value (PBV). The results show that in this sector, 2 of 6 companies that were proven to perform income smoothing with the Eckel index calculation value below 1, namely AUTO and INDS. There were 4 of the 6 companies that had overvalue above the criteria of PER analysis, the four companies were ASII, AUTO, INDS, and NIPS. There were 4 companies from 6 companies that had overvalue above the criteria from PBV analysis, the four companies were ASII, AUTO, NIPS, and SMSM. Companies that had proven to have income smoothing such as AUTO and INDS on average had good PBV value. Companies that performed income smoothing tend to increase the value of the company in terms of Price Book Value ratio except for INDS, in PBV calculations the INDS company had a bad value because it was below the industrial standard. Companies that had proven to have income smoothing such as AUTO and INDS on average had good PER value.

1 INTRODUCTION

Demand for automotive needs makes the automotive sector players increasingly improve the performance of their companies in order to also increase corporate profits. Because the parameters of the financial statements used in measuring the performance of the company's management are profit, management will do various ways to provide "positive information accounting". One of them is income smoothing. Income smoothing is performed by increasing profit if profit tends to be low and vice versa if profit tends to be high, then management will decrease its profit (Budiasih, 2009). The phenomenon of tight competition is a strong trigger for the management of the company to show the best performance because it will have an impact on the market value of the company and also affect the interests or decisions of investors. Finally, it will affect the availability and amount of funds that can be utilized as well as the Cost of Capital (COC) that must be borne by the company.

Income smoothing is a detriment to investors, because investors will not get accurate information about profits in order to evaluate the rate of return from the portfolio. The action of income smoothing results in the disclosure of financial statements to be inadequate (Dwiatmini and Nurkholis, 2001). This phenomenon is a negative impact of information asymmetry in agency theory concepts. The act of income smoothing is a general or rational action (Jatiningrum, 2000). The practice of income smoothing is also a common phenomenon as a management effort in order to reduce reported earnings fluctuations (Narsa, et al., 2003). The actions of income smoothing are also a means of management to reduce fluctuations in income reporting and manipulate pseudo (accounting) variables or by conducting real transactions (Brayshaw and Eldin, 1989). For management, it is often not necessary to report the maximum profit of company, even the management is more likely to report the company profits that are considered normal for some periods (Samlawi and Sudibyo, 2000).

Companies that are indicated often perform income smoothing actions, such as companies in the Automotive, Textile and Garment sectors, Property and Real Estate, Manufacturing and Banking. Automotive companies, one of the companies that are strongly indicated, often perform income smoothing. The cause of the automotive sector companies often perform income smoothing because the level of competition in that industry is very tight, besides that the automotive sector is a business with bright and profitable prospects. This is supported by increasingly advanced technological advances and the increasing need for automotive products for the community (Hery, 2015).

Profit as a benchmark for the success of the company because of the achievement of profits, companies can make investors more interested in investing in the automotive sector. The drop in sales experienced by several companies in the automotive sector made the company have to experience a decline in profits and even tended to suffer some losses. The decline in profits and losses experienced by some companies that look extreme will greatly affect the value of the company which results in reduced investor interest in investing. Data on automotive companies profit/loss in 2014-2016 on the Indonesia Stock Exchange can be seen from Table 1.

Table 1: Automotive companies profit data 2014-2016 (in rupiah)

Code	2014	2015	2016
ASII	22.125.000.000.000	15.613.000.000.000	18.302.000.000.000
AUTO	956.409.000.000	322.701.000.000	483.421.000.000
BRAM	222.409.138.000	176.030.484.000	312.194.148.000
GDYR	38.384.584.000	(1.553.692.000)	23.185.750.000
GJTL	269.868.000.000	(313.326.000.000)	626.561.000.000
IMAS	(67.093.347.900)	(22.489.430.531)	(312.881.005.784)
INDS	127.657.349.869	1.933.819.152	49.556.367.334
LPIN	(4.130.648.465)	(18.173.655.308)	64.037.459.813
MASA	6.622.210.000	(376.027.022.000)	(93.830.926.000)
NIPS	50.134.988.000	30.671.339.000	65.683.137.000
PRAS	11.340.527.608	6.437.333.237	(2.690.964.318)
SMSM	421.467.000.000	461.307.000.000	502.192.000.000

Source: www.idx.com

The 12 companies incorporated in the automotive industry on the IDX in 2018, only 6 companies that have positive profits from year to year are seen from the company's financial statements. Companies that always have positive profits from year to year have the potential for management to take income smoothing. Income smoothing is absolutely necessary if the company wants to increase the value of the company.

Previous research that showed the link between income smoothing and firm value (PBV and PER) conducted by Zuhriya and Wahidahwati on income smoothing and the factors that influence manufacturing companies on the IDX. The results showed that PBV did not have a positive effect on profits (Wasilah, 2012). Another research conducted by Rahmawantari, examined the effect of profitability, financial risk and price earnings ratio (PER) on income smoothing in the plantation industry which is listed on the Indonesia Stock Exchange. The results showed that PER had a positive influence and

significance on the practice of income smoothing (Rahmawantari, 2012).

Research conducted by Pasaribu, et al, examined the effect of accounting conservatism, managerial ownership, dividend policy, company size, leverage, price earnings ratio, price to book value and earnings per share on profit management (a study of manufacturing companies on the IDX 2008-2013). The results of the study found that there was a significant influence on the variables of managerial ownership, leverage, and Price Earning Ratio (PER). While the variables of accounting conservatism, dividend policy, company size, Price to Book Value (PBV) and Earning Per Share (EPS) had no significant effect on profit management (Prayudi and Daud, 2013). This study aims to present the effects of the automotive public sector companies actions that do and or do not make income smoothing on their corporate values based on industry standards, where simple detection and analysis can be used by

investors. The income smoothing calculation uses the Eckel Index.

2 METHODOLOGY

2.1 Type and Source of Data

The types and sources of data used in this study were secondary data obtained from the financial statements and annual reports of the automotive sector companies from 2012 to 2017 (www.idx.com).

2.2 Population and Sample

This study used a population of automotive sector companies on the IDX during the period 2012 to 2017. The number of research population was 12 companies. However, only six companies were

selected as samples, because only 6 companies had positive profits from year to year. The sample technique which is used is purposive sampling. Purposive sampling is a data source sampling technique with certain considerations (Sugiyono, 2017).

The criteria used in determining the sample of this study are as follows:

1. The automotive sector company is listed on the IDX for the period 2012-2017.
2. The Company has issued and published annual financial statements in a row from 2012 to 2017.
3. Automotive companies that have positive profits from year to year during 2012-2017.

After selecting a sample based on the above criteria, the company selected as a sample was 6 companies, as follows:

Table 2: List of sample of automotive sector companies listed on the IDX

No	Company Name	Code
1	Astra International Tbk	ASII
2	Astra Otoparts Tbk	AUTO
3	Indo Kordsa Tbk	BRAM
4	Indospring Tbk	INDS
5	Nipress Tbk	NIPS
6	Selamat Sempurna Tbk	SMSM

Source: www.idx.com

2.3 Analysis Technique

The data analysis technique which is used is quantitative descriptive analysis. The quantitative descriptive analysis is a research method based on the philosophy of positivism used to examine a particular population or sample, data collection using research instruments, data analysis is quantitative/statistical with the aim of testing predetermined hypotheses (Sugiyono, 2017).

Quantitative descriptive analysis techniques used in this study are as follows:

Calculate income smoothing using Eckel Index method, where Eckel Index is used to indicate companies that do income smoothing or not (Warsidi, 2014).

Calculate company value as follows:

a. Price Earning Ratio (PER)

The PER ratio reflects the market's appreciation of the company's ability to generate profits (Widyaningdyah, 2010).

b. Price Book Value (PBV)

Price Book Value (PBV) is a ratio that describes how much the market valuing the book value of shares of a company (Husnan and Pudjiastuti, 2012).

3 RESULT AND DISCUSSION

Eckel index analysis on the automotive sector companies in IDX for the period 2012-2017 can be seen from Table 3.

Table 3: Eckel index of automotive sector companies in IDX 2012-2017

Code	CVΔI	CVΔS	IS	Description
ASII	9.55	2.23	4.29	Not Income smooting
AUTO	-2.97	0.94	-3.16	Income smooting
BRAM	2.44	1.61	1.52	Not income smooting
INDS	-54.14	1.45	-37.40	Income smooting
NIPS	4.22	0.95	4.44	Not income smooting
SMSM	0.40	0.40	1.00	Not Income smooting

Source: Processed by author, 2018

AUTO and INDS empirically based on Eckel index analysis proved to have income smooting. Income smooting which performed by AUTO and INDS can be seen from the results of the Eckel index which is < 1. Income smooting for AUTO and INDS has an impact on the stable value of corporate profits that can spur investors to be more interested in investing, but for stakeholders who do income smooting can be detrimental to stakeholders because there are differences in recognition of company profits. Whereas ASII, BRAM, NIPS and SMSM

empirically based on Eckel index analysis proved not to do income smooting in the observation period of 2012-2017. Income smooting that is not carried out by these companies can be seen from the results of the Eckel index that is > 1. Companies that do not make income smooting tend to have a better profit value so that they do not need to reduce reported profit fluctuations, manipulate variables (accounting) or by making real transactions. The results of the analysis of company value using PER can be seen from table 4.

Table 4: PER performance of automotive sector companies

Code	2012	2013	2014	2015	2016	2017	Average	Industrial Standard	Description
ASII	15.83	14.17	15.66	16.81	22.13	17.81	17.07	15.00	<i>Overvalue</i>
AUTO	13.55	16.44	23.20	24.24	23.56	18.07	19.85		<i>Overvalue</i>
BRAM	8.32	17.17	13.03	14.61	11.55	15.23	13.32		<i>Undervalue</i>
INDS	7.10	7.65	8.29	243.06	10.68	7.25	47.34		<i>Overvalue</i>
NIPS	80.08	3.10	14.44	20.60	8.81	23.03	25.01		<i>Overvalue</i>
SMSM	15.59	16.12	16.23	16.03	3.12	53.96	20.17		<i>Overvalue</i>
Max	80.08	17.17	23.20	243.06	23.56	53.96			
Min	7.10	3.10	8.29	16.03	3.12	7.25			

Source: processed by author, 2018

Price earning ratio analysis in terms of the comparison of stock prices and profits from shares in the company. Based on PER calculations for automotive sector companies listed on the IDX, in 2012-2017 on average only ASII, AUTO, INDS and NIPS had average values above the PER standard. The three companies, in general, can be said to be of good value because the company is able to show a consistent value above the standard Price Earning Ratio criteria.

BRAM and SMSM on average had sub-standard criteria. The BRAM, although on average had a value below the criteria of good value, in 2013 and 2015 BRAM had a good corporate value above the standard 15.00. The results of the analysis of

company value by using a price book value (PBV) can be seen from table 5.

Based on the calculation of PBV in the automotive sector companies in 2012-2017 it can be seen that on average only 4 companies from 6 companies that were overvalued (high value) including ASII, AUTO, NIPS and SMSM. The highest value in 2012-2017 was obtained by the NIPS in 2013 with a PBV value of 10.76 and the lowest value obtained by the INDS in 2015 with a PBV value of 0.12.

The recapitulation results of the effect of income smooting which related to PER and PBV can be seen from table 6.

Table 5: PBV performance of automotive sector companies

Code	2012	2013	2014	2015	2016	2017	Average	Industrial Standard	Description
ASII	2.00	2.59	2.50	1.92	2.39	2.15	2.26	1 time	<i>Overvalue</i>
AUTO	2.90	1.84	2.00	0.76	0.94	0.92	1.56		<i>Overvalue</i>
BRAM	0.92	0.51	1.01	0.79	1.13	1.16	0.92		<i>Undervalue</i>
INDS	1.16	0.80	0.57	0.12	0.26	0.39	0.55		<i>Undervalue</i>
NIPS	0.35	10.76	1.26	1.04	0.69	0.93	2.50		<i>Overvalue</i>
SMSM	0.44	4.94	5.97	4.76	0.89	4.10	3.52		<i>Overvalue</i>
MAX	2.90	10.76	5.97	4.76	2.39	4.10			
MIN	0.44	0.51	0.57	0.12	0.26	0.39			

Source: processed by author, 2018

Table 6: The Effect of Income Smoothing Which Related to PER and PBV Performance

Code	IS	PER	PBV	Performance	Description
ASII	4.29	17.07	2.26	Good	Inappropriate
AUTO	-3.16	19.85	1.56	Good	Appropriate
BRAM	1.52	13.32	0.92	Bad	Appropriate
INDS	-37.40	47.34	0.55	Bad	Inappropriate
NIPS	4.44	25.01	2.50	Good	Inappropriate
SMSM	1.00	20.17	3.02	Good	Inappropriate

Source: processed by author, 2018

Based on Table 6, it can be seen that companies that performed income smoothing actions such as AUTO have firm value based on Price Earning Ratio and Price Book Value that were well above industrial standard (overvalued), with a PER value of 17.07 and a PBV value of 2.26. Other companies that did not perform income smoothing such as ASII, NIPS, and SMSM had company value based on Price Earning Ratio and Price Book Value that were well above industrial standard (overvalued), namely with PER value of ASII was 17.07, NIPS of 25.01 and SMSM of 20.17.

While the PBV value of ASII value was 2.26, NIPS was 2.50 and SMSM was 3.02. INDS which performed income smoothing had a PER value that was well above the industry standard (overvalued) of 47.34 but had a PBV value below the industrial standard (undervalued) which was 0.55.

Conditions in the INDS indicated that companies that make income smoothing will not necessarily increase the value of the company, especially the measurement of company value using price book value. Companies that were proven not to perform income smoothing such as BRAM, had a company value based on bad Price Earning Ratio and Price Book Value because they were below the industrial standard (undervalued), with a PER value of 13.32 and a PBV value of 0.92.

4 CONCLUSION

The conclusion of this study is that there were 2 of 6 companies that were proven to perform income smoothing with the Eckel index calculation value below 1, namely AUTO and INDS. There were 4 of the 6 companies that had overvalue above the criteria of PER analysis, the four companies were ASII, AUTO, INDS, and NIPS. There were 4 companies from 6 companies that had overvalue above the criteria from PBV analysis, the four companies were ASII, AUTO, NIPS, and SMSM.

Companies that had proven to have income smoothing such as AUTO and INDS on average had good PBV value. Companies that performed income smoothing tend to increase the value of the company in terms of Price Book Value ratio except for INDS, in PBV calculations the INDS company had a bad value because it was below the industrial standard. Companies that had proven to have income smoothing such as AUTO and INDS on average had good PER value.

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