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INCOME SMOOTHING PRACTICES IN ANIMAL FEED SUB-SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE 2020-2022 PERIOD

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KEYWORDS

Income Smoothing, Animal Feed Companies, Eckel Index

ABSTRACT

This study aims to analyze Income Smoothing practices in animal feed sub-sector companies with a focus on the financial implications of using the eckel index during the period 2020 – 2022. The sample used is animal feed sub-sector companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange, there are 5 companies. Based on calculations using the eckel index derived from the financial statements of each company, This research shows that there are 4 companies that do profit smoothing and 1 company that does not do income smoothing.

INTRODUCTION

In today's era of increasingly fierce business competition, companies around the world strive to maintain a good reputation in the eyes of investors, shareholders, and other stakeholders. The good or bad reputation of a company can affect the value of the company and can also affect the interest of investors to invest in the company. This means that company management must ensure that the company's financial statements are properly presented to parties who have an interest in the company's accounting information (Fatchan & Trisnawati, 2018).

Financial statements provide information in the form of company financial data that has meaning for its users (Maulana, 2017). To be considered useful information, data in financial statements must meet certain standards of quality and value. One of the information that investors pay close attention to in financial statements is profit. Profit information has benefits, such as for assessing potential changes in economic resources that may be controllable in the future, generating cash flow from existing resources, as well as assisting in making decisions about how effective and efficient the company is in using additional resources (Santoso, Fala, & Khoirin, 2017). This is what makes profit information very important and has a big role in helping investors make decisions when they use financial statements so that management will strive to manage profits in an effort to make the company's financial condition look good (Manossoh, 2016).

One effort that is often used is the practice of profit smoothing or income smoothing. This phenomenon has become a big concern in accounting and finance because it can affect the transparency, fairness, and integrity of a company's financial statements (Dibta, 2020).

Livestock has an important role in development in at least 4 strategic things, namely animal husbandry to provide food, especially to meet people's needs for animal protein, animal husbandry for sources of income and employment opportunities, animal husbandry for work business, Livestock for sustainable agriculture and environmental improvement and animal husbandry for alleviating people from poverty This is the role of the food subsector in caring for its environmental resources (Jannah, 2018).

Animal feed sub-sector companies are very important in maintaining the availability of animal food and supporting national economic growth (Rusdiana & Maesya, 2017). Although, the contribution of the animal feed sub-sector to Indonesia's Gross Domestic Product (GDP) is only around 1.1%, this sub-sector still has an influence on food security and economic stability in Indonesia. But what is interesting is how the practice of Income Smoothing in animal feed sub-sector companies can affect these aspects. Some companies in this subsector may tend to do Income Smoothing in an effort to present more financially favorable financial statements (Arlita, Bone, & Kesuma, 2019). However, this practice may hide the real problems within the company. This phenomenon also includes the extent to which companies in the animal feed sub-sector feel external pressures, such as fluctuations in raw material prices and regulatory changes in the industry. This kind of uncertainty might encourage companies to use Income Smoothing practices as a way to maintain the stability and consistency of their profits, regardless of changing conditions External.

Previous research by Fatimah, Danial, &; Z (2019) on food and beverage industry companies listed on the Indonesia Stock Exchange for the period 2014-2016. The study used the Eckel index. From the results of the study, there were 6 companies that carried out Income Smoothing actions and 4 companies that did not carry out Income Smoothing actions. While Yang, Leing Tan, & Ding (2012) conducted a study on Income Smoothing practices with the Eckel index on companies listed in China. Of the 1,358 registered Chinese companies during the period between 1999 and 2006, it was found that more than half of them practiced Income Smoothing. Similar research conducted by Septia, Easter, & Nugroho (2013) showed that from 73 samples from non-manufacturing companies, there were 22 companies that carried out Income Smoothing actions, and 51 companies that did not take Income Smoothing actions. Mila & Supatmi (2012) examined that out of 212 companies there were 72 non-manufacturing companies that carried out Income Smoothing actions and 140 of them were carried out by manufacturing companies.

However, previous studies made observations on food and beverage industry companies and companies registered in China as the object of its research. Meanwhile, this study uses animal feed sub-sector companies listed on the IDX for the 2020-2022 period.

This study aims to analyze Income Smoothing practices in animal feed sub-sector companies with a focus on financial implications using the ECKEL index.

RESEARCH METHODS

The method used to measure the practice of Income Smoothing is "Eckel Index" or "Eckel's Earnings Smoothing Index" which was first introduced by Philip Eckel. The Eckel Index is one of the tools used to identify whether a company has leveled its profits (Saputri, Auliyah, & Yuliana, 2017).

The population in this study is animal feed industry companies listed on the Indonesia Stock Exchange for the period 2020 – 2022 with a sample of 15 financial statements. These companies include PT Central Proteina Prima, Tbk., PT Sreeya Sewu Indonesia, Tbk., PT Malindo Feedmill, Tbk., PT Charoen Pokphand Indonesia, Tbk. and PT Japfa Comfeed Indonesia, Tbk.

Variables and Variable Measurement

The variable in this study is Income Smoothing. The method used to measure the practice of profit smoothing is "Eckel Index" or "Eckel's Earnings Smoothing Index" which was first introduced by Philip Eckel. The Eckel Index is one of the tools used to identify whether a company has leveled its profits. A simple formula that can be used to calculate the Eckel Index is as follows:

$$\frac{\boldsymbol{CV\Delta\ I}}{\boldsymbol{CV\Delta\ S}}$$

Information:

ΔI = Change in profit in one period
ΔS = Change in sales in one period
CV = Coefficient of variation of the variable i.e. standard deviation with expected value
CVΔI = Coefficient of variation for profit change
CVΔS = Coefficient of variation for sales change

Where:

CVΔI or CVΔS = $\frac{\textbf{\textit{Standard Deviation}}}{\textbf{\textit{Expected Value}}}$

Or

CVΔI or CVΔS = $\sqrt{\frac{\sum(\Delta x - \Delta x)^2}{n - 1} :\ \Delta X}$

Information:

Δx = Change in profit (I) or sales (S)
ΔX = Average change in earnings (I) or Sales (S)
N = Number of years observed

If CVΔI ≥ CVΔS or Income Smoothing index 1, then the company does not take Income Smoothing action. Conversely, if CVΔI < CVΔS or Income Smoothing index < 1, the company takes Income Smoothing action.

RESULTS AND DISCUSSION

Based on the calculation results using the eckel index, it can be known whether animal feed sub-sector companies carry out Income Smoothing practices. The profit smoothing variable is measured using a dummy variable. To distinguish companies identified as doing profit smoothing are given a value of 1 (one) and companies that are not identified as doing profit smoothing are given a value of 0 (zero) (Fatimah & Danial, 2019). Based on calculations The following results from the study are shown in table 1:

Table 1
Research Results

No	Code	Change		Ekcel Indeks	Status	Dummy Variables
		Profit	Sales			
		(CV ΔI)	(CV ΔS)	(CVΔI/CVΔS)		
1	CPRO	0.4677997	0.35325804	1.324243534	INCOME SMOOTHING	1
2	SIPD	1.1834749	0.66892438	1.769220737	INCOME SMOOTHING	1
3	MAIN	0.7673575	0.60915278	1.259712653	INCOME SMOOTHING	1
4	CPIN	1.2868637	0.97	1.323501126	INCOME SMOOTHING	1
5	JPFA	0.7286266	0.94	0.772394588	NOT INCOME SMOOTHING	0

Based on table 1 above, out of 5 samples of animal feed sub-sector companies, 4 of them made Income Smoothing. Companies that do Income Smoothing are CPRO, SIPD, MAIN, and CPIN. Meanwhile, companies that do not level profits are JPFA.

CONCLUSION

Based on this research, it can be concluded that from 5 samples of animal feed sub-sector companies, there are 4 companies that level profits, and 1 company does not level profits. It can be concluded that the greater the value of the eckel index, the company flattens profits (Fatimah & Danial, 2019). Conversely, if the eckel index number is low or small, the company does not level profits. The lowest value of the eckel index is in the company PT Japfa Comfeed Indonesia Tbk with an eckel index value of 0.94.

The results of this study can be used as a reference and consideration for investors in assessing a company and in making investment decisions (Kurniawan & Mawardi, 2017). Companies that do Income Smoothing certainly need to be avoided because reported profits and sales can be fictitious profits, this can have an impact on the profit results obtained by investors (Janah, 2018). Because Income Smoothing is something that can cause a domino effect, because the profit component itself consists of income, expenses, taxes, and so on.

The limitation of this study is that it only analyzes profit smoothing variables, without connecting with other variables or being connected with other factors that can affect profits (Astuti, Nuraina, & Wijaya, 2017). The suggestion from this study is expected so that future research can analyze the variables of profit smoothing with factors that influence it. In order to get more accurate results. And this research only focuses on sub-sectors, it is hoped that future research can focus on sector companies.

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