

ABSTRACT

This research analyzes the effect of firms' size on the tendency to smooth Income. This study also analyzes the associations between income smoothing practices and profit before tax on firm value with firms' size as control variable.

The research sample consist of 185 companies which was taken by purposive sampling technique from the total population of 634 listed companies in the Indonesia Stock Exchange during 2014-2017 period. Income Smoothing was calculated using the Eckel Index (1981) and firm value was proxied by Tobin's Q. This research use independent t test to analyze differences in the trend of income smoothing practices between companies with larger asset and smaller asset. Multiple linear regression is used to test the associations between income smoothing and earnings before tax on firm value with firms' size as control variable.

The results of the independent t test test show that there is a difference in the tendency of income smoothing practices between small and large companies. The regression test results show there is no relationship between income smoothing and firm value, but there is a significant positive relationship between earnings before tax on firms value. The results of this study indicate that the value of the company is more concerned with the level of earnings rather than the level of earnings stream.

Keywords: income smoothing, profit before tax, firm value