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The Market Reaction and Income Smoothing
(Case Study on Listed Company in LQ 45 Indonesian Stock Exchange)

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Abstract

The purpose of this study was to analyze whether there are differences in the market reaction over the announcement of earnings among companies that perform income smoothing with a company that does not perform income smoothing. Companies that perform income smoothing or who did not perform income smoothing can be detected by Eckel index, the market reaction variables were measured using a cummulative abnormal returns (CAR) and will be used to test the hypothesis test independent samples t-test. Based on the study results, the authors conclude that there is no difference between the market reaction to companies that perform income smoothing with a company that does not perform income smoothing.

Keywords: Income Smoothing, Cummulative abnormal return (CAR), Market Reaction, Earnings Announcement

1.INTRODUCTION
1.1.Background.

The financial statements are not designed to measure directly the value of a company but the information provided was intended to estimate the value of the company by requiring the parties . Testing the information content of the profits intended to see the reaction of an announcement (Watts and Zimmerman,1986). The financial report is a means for management to take responsibility for the performance (Khafid et al , 2002) . The financial statements are a reflection of the real condition of a company , because in a financial statement contained in the information needed by the various interested parties with the company. The financial statements were collated by the management, performance management and indicates a source in evaluating management performance. Investors' attention is always focused on income information, regardless of how the procedures and methods used to generate the earnings information to encourage managers conduct earnings management One of the profits of management actions that can be performed by management is income smoothing . Income smoothing is a tool used by management to reduce earnings variability using accounting numbers (Ronen and Sadan(1981) ; Khafid et al , (2002). Income smoothing is done in order to reduce the actions of investors to forecast future cash flows (Prasetio et al (2002); Cahan et al (2008))

To perform income smoothing, managers increase profits in the report when the lower income and lower reported earnings when earnings are relatively high. Corporate managers perform income smoothing with a view to reducing the perception of shareholders for earnings variability, because it can act as a positive influence on the value of the company's stock market price. Managers think that investors will give respond positively to the company because it has a stable earnings ((Ronen and Sadan (1981) ; Michelson et al . , (1995) ; Tucker and Zarowin (2006);(Budiasih,2009)). This is due to the trend of income smoothing , would pose a low risk assessment . The higher variability of earnings , the stronger the impetus for management to smooth its earnings (Beattie et al, 1994; Nasir et al, 2002) . Income smooth action is rational action .Beidleman(1973) suggests that managers perform income smoothing action is to create a stable cash flow and reduce covariance with the market return . Gordon (1964) stated that satisfaction of shareholders increased by the growth of earnings and profits tend to be steady . Income smoothing can indirectly expand the stock market and there should be a good influence on the value of company stock .

This action led to the disclosure of income smoothing on earnings becomes misleading information that would result in errors in decision-making by parties with an interest in the company, particularly external parties. Therefore, Hector (1989) in Jatiningrum (2000) explains that income smoothing is one thing that is common for companies to financial statements, so that the users of financial reporting information should have been more vigilant.

Research conducted Zuhroh (1996) states that measures income smoothing can be detrimental to investors. This statement supports the idea Ashari et al, (1994) and Albrecht and Ricardson (1990) who explains

that as a result of inaccurate and inadequate disclosure regarding the earnings, investors can not evaluate the returns and risks arising from their portfolio have appropriately. Ashari et al, (1994) states that income smoothing measures can have important implications, which can be useful as additional information for users of financial statements and allow them to take the necessary precautions when reading financial data.

The issue of income smoothing has been widely discussed in the accounting literature . Assih and Gudono (2000) reported that there is a probability of companies doing income smoothing . While Ashari et al (1994) reported that there were indications of income smoothing measures and operating profit targets are commonly used to perform income smoothing . Income smoothing tends to be done by companies that have low profitability , and companies that have a high risk in the industry . In Indonesia , research on income smoothing has been done by Assih (1998), Salno (1999), and Samlawi (2000) who provide evidence that the practice of income smoothing has been found in companies listed on the Jakarta Stock Exchange, and indicates the factors that may encourage the practice of income smoothing. Moses (1987) states that income smoothing implies a causal connection between the risk of market fluctuations in earnings. Michelson et al (1995) in Natsir et al, (2002) reported that the companies that do have income smoothing average return is significantly lower, have lower beta , and the market value of assets is higher. Income smoothing action may provide a signal that improves the accuracy of prediction of earnings , then the purpose of this study was to investigate the effect of income smoothing action on top of the market reaction to earnings announcements. whether there are differences in the market reaction over the announcement of earnings among companies that perform income smoothing with a company that does not perform income smoothing. The results of this study are expected to be used as an additional reference in considering investment decisions and provide adequate knowledge about income smoothing for investors and prospective investors are interested to invest in the capital market, so that investors do not make a mistake in making investment decisions.

2.Literature Review and Hypothesis Development
2.1. Income smoothing

Income smoothing is part of the concept of earnings management (earnings management). Earnings management is a process that is done on purpose, within the limits of general accepted accounting principles, to lead to a desired level above the reported earnings. Income smoothing is included in the definition of earnings management, income smoothing can be seen as a way of reduction in the variability of earnings over a specified period or in the period, which leads to the expected level of earnings reported above (Assih and Gudono, 2000). Explanation of the concept of earnings management using agency theory approach which states that the practice of earnings management is influenced by a conflict of interest between the management (agent) and the owner (principal) that arises when each party trying to achieve or maintain a level of prosperity that pleases. In an agency relationship, the manager has the information asymmetry to external parties, such as creditors and investors. Information asymmetry occurs when the internal corporate information managers have relatively more and know the information faster relative to the external party. In such conditions, managers can use the information learned to manipulate financial reporting in an effort to maximize their own welfare (Jensen and Meckling, 1976).

In line with the concept of earnings management, income smoothing is also discussion of the concept of using the framework of the theory of agency, that flattening the income arises when there is a conflict of interest between management and owners. Information gap between management and owners of income smoothing trigger. According to Fudenberg and Tirole (1995), income smoothing is the process of manipulating the timing of gain or profit that reported earnings appear stable. According Heyworth (1953) income smoothing is done with the intention to improve relations with creditors, investors, and employees. Meanwhile, according to Gordon (1964) Income smoothing is a accounting technique used by the management company to maximize the satisfaction or prosperity, satisfaction is a function of job security, the level and growth rate of scale (size) of the company, shareholder satisfaction and increase in performance, the company can improve the status of and rewards for managers in the same satisfaction depending on the level of earnings growth and the stability of the company. Some companies convicted of income smoothing in the same manner deciding the amount of the transaction and also how to report it, so for a given year may not be possible to distinguish whether the amount of research and development costs are reported to be different from other periods.

Income smoothing can be influenced by several factors that explain why companies conduct empirically income smoothing. Moses (1987) found evidence that large companies have a stronger incentive income smoothing than do small companies, because large companies get closer scrutiny from the government and the general public. Smith (1976) explains that the manager of the company is very likely to make income smoothing. Business managers can select the measurement and reporting rules that result in the reporting period average net income (Copeland and Licastro, 1968 in Salno and Baridwan, 2000).

Each party in the agency relationship driven by different motivations in accordance with their interests. Considered from the standpoint of management, Hepworth (1953) revealed that managers are motivated to

perform income smoothing basically want to get a variety of economic and psychological advantages: first, reducing the total tax payable. Second, increasing the confidence managers concerned because a stable income to support a stable dividend policy as well. Third, improve the relationships between managers and employees for reporting income rose sharply to give the possibility of a demand increase in salaries and wages. And fourth, the cycle of increasing and decreasing income can be matched and waves of optimism and pessimism can be softened. Also added by Gordon (1964), that the net income or earnings smoothing have an important role to reduce the bias of the shareholders in the calculation of earnings in the past, which is used to predict future earnings. Furthermore, Lambert (1984) and Dye (1988) in setting the agency states that the manager has refused to avoid the risk of debt and borrowing in the capital markets, has thrust power to act leveling net income or profit. This opinion is supported by Trueman and Titman (1988) in a market setting associated with the creditor, indicate that managers prefer the alternative that generates cash flow more evenly.

Ronen and Sadan (1981), suggests that income smoothing through the process of time can be done in three ways. First, management can determine the occurrence of certain events through its policies (eg, cost and development) to reduce variation in reported earnings. Alternatively, management may also determine the timing of the recognition events. Second, management can allocate certain revenues or costs for multiple accounting periods. Third, the management has its own policy in classifying items of income specified in the different categories.

Moses (1987), found the income smoothing can be linked to company size, the difference between the actual earnings and expected earnings absence of bonus compensation plan. Treumen and Titman (1998), found the manager of the company perform income smoothing rationally with the aim of reducing the claims of shareholders for variations in economic profit corporation, which in turn can affect the market value of the company. Management did income smoothing to reduce fluctuations in reported earnings and enhance the ability of investors to predict future cash flows. Income smoothing is shown to be affected by stock prices, the difference between the actual earnings with a normal profit, and the effect of accounting policies on profit. Ashari et al (1994) reported that there were indications of income smoothing operation is a common goal that is used to perform income smoothing, income smoothing and tends to be done by the company and the company's low profitability are more risky. Jin and Mas'ud (1998) showed evidence that the factors that can push income smoothing them are operating leverage.

Practice income smoothing is done artificially by the management of listed companies on the Stock Exchange is an effort to reduce fluctuations in earnings management from the company. Income smoothing is performed by management intentionally has a goal to give the perception of investors about the stability of the profits from the company. Provide stable income to the investors' perception that the expected level of stock return is high and the level of risk of low stock portfolio, so that the level of performance of the company looks good. In addition, the management also need to know what are the factors that could affect income smoothing practices either directly or indirectly influence the level of expected return and risk of a portfolio of shares (performance shares) so that investors can make a decision to invest appropriately.

Approach relating to net income smoothing / profit proposed by Albrecht and Richardson (1990), namely the classical approach, income approach and the variability of the dual economy approach. In his research, Gordon, et al (1966) examined the relationship between the method of accounting for the investment tax credit (net income as a leveling instrument / earnings) and earnings per share growth rate and shareholder returns (net income smoothing purposes / income), the results indicate that the relationship significant, and the belief in the practice of smoothing net income / profit.

Research conducted Moses (1987) and Ashari, et al (1994), examine the factors related to the net income or earnings smoothing by examining, among others, the size of the company, the difference between actual earnings and normal earnings. This study was also conducted by Zuhro (1996), Jin and Mas'ud (1998), whose results only operating leverage and share prices are pushing the income smoothing action.

Income smoothing is a rational behavior based on the assumption of positive accounting theory, that management is rational individuals who pay attention to her interests. Consistent with the assumption that the motivation that affects the choice of top managers is to maximize the interests of certain policies. While the interests of the manager depends on the value of the company and the manager believes that market based on accounting figures. Fluctuations in the profits and earnings predictability because determinant will come a stock market risk.

Income smoothing is defined by Koch (1981) as a tool used by management to reduce fluctuations in reported earnings to match the desired target both artificial and real. Flattening a deliberate reduction of the fluctuations on some level that is considered normal profit for the company.Brayshaw and Eldin (1989) states that income smoothing is a voluntary action motivated management aspects of behavior within the company and its environment. Income smoothing motivation in doing this is usually to the satisfaction of the two groups, namely external users (including investors 12 creditors) accounting and internal users. Assih and Gudono (2000) states that managers perform income smoothing to reduce fluctuations in reported earnings and enhance

the ability of investors to predict cash flow in the future. Income smoothing literature stated that the choice of accounting method will be used to reduce fluctuations in earnings rather than to maximize or minimize reported earnings (Moses, 1987). Income smoothing can be done by using accounting methods or estimates (accrual-based manipulation) or by treating the transaction that caused reported earnings closer than the targeted rate maximizes the expected cash flow at this time (real manipulation) (Bartov, 1993).

According to Eckel (1981), income smoothing can be produced from one alignment between natural(natural smoothing) or flattening intentional (intentional smoothing) as well as coming from real smoothing (smoothing estate) or artificial smoothing (artificial smoothing). smoothing naturally implies that the earnings process is inherent generate an income stream that is evenly distributed. While the alignment actually means income smoothing by choosing accounting methods and accounting procedures to implement and cost or revenue move from one period to another to generate a certain income stream.

2.2.Information Content of Earnings

The financial statements of a business language as a means of communication by which the management of internal and external parties such as creditors, investors, and governments. All parts of the financial statements such as balance sheet, income statement, statement of changes in equity / change in retained earnings, cash flow statement, and notes to the financial statements are an important part of the company's financial statements. However, in practice, part of which is the focus of attention of external parties only on account of profit (earnings) contained in the income statement.

Information about earnings and its components are a focus of concern by external parties are based on accrual accounting. The basis generally provide a better indication of a company's ability to generate favorable cash flows compared with on limited information compiled on cash receipts and disbursements (cash basis). The financial statements are not designed to measure directly the value of a company but the information provided was intended to estimate the value of the company by requiring the parties. Testing the information content of the profits intended to see the reaction of an announcement (Watts and Zimmerman, 1986). If the announcement contains information, it is expected that the market will react when the announcement is received. The market reaction is indicated by a change in the price of the relevant securities. This reaction can be measured by using the return (profit rate) as the change in the price or value of the abnormal return. Abnormal returns if used, it can be said that an announcement which has information content will give abnormal return to the market. Instead contain information that is not notprovide abnormal returns to the market. Testing the information content of the profits was limited to test the reaction of the market, but did not test how fast the market reacts.

The study examined the information content of earnings relationship with returns based on the assumption that the beneficial profit for investors. Ball and Brown (1968) estimated the benefits of the existence of accounting income numbers by examining the information content and timeliness of the earnings figures. They noticed that the information contained in the accounting numbers are useful ie if the actual income differs from profit expectations of investors, the market reacted as reflected in the stock price movements around earnings announcement dates. Stock prices tend to rise when the reported earnings greater than earnings expectations, and the reverse stock prices tend to fall when the reported earnings less than the profit expectations.

Beaver (1968) stated when the annual earnings announcement contain information, variability of price changes will appear bigger than when it announced earnings while the other during the year because there is a change in the balance value of the current stock price during the announcement period. Research results provide evidence that the price and volume behavior around the announcement date indicate that annual earnings contain information that is relevant for the valuation of the company. Capital market research requires the use of valuation models to measure or generate earnings earnings data surprises (unexpected income), especially for research aimed at measuring the information content of earnings (Jogiyanto, 2010). Earnings surprise is the difference between profit expectations with actual earnings announced by the company.

2.3.Hypothesis Development

The reported profit is a signal about the earnings in the future, therefore users of financial statements to make predictions over corporate earnings for the foreseeable future based on signals provided by management. Besides income smoothing is a signaling technique that is intended to provide a signal to the making accurate predictions.

Income smoothing is a deliberate action to reduce the variability of reported earnings in order to reduce the risk of the stock market over the company, which in turn can increase the market price of the company. Research Michelson et al (1995) examined the relationship of income smoothing and stock market performance. The study received empirical evidence that public companies in the United States who perform income smoothing is a large company that has a stock market value is relatively large, have returns and lower risk than companies with smaller market shares do not perform income smoothing.

Investors concerned with stock market risk and stock returns in the investment decision-making. On

the historical financial statements reflected management's performance and earning power company in the future. In company that has a very large fluctuations in earnings, management do income smoothing to reduce market risk on the company's stock , which can ultimately increase the price of the stock market.. The question is whether the market reaction over the announcements of corporate earnings among Companies that perform income smoothing and the market reaction over the announcement of company earnings does not perform income smoothing will be different.The reaction will be seen from the cumulative abnormal return. Based on literature review and previous studies, so the hypothesis of the study, stated in the alternative hypothesis, is:

Ha:there are differences in the market reaction over the announcement of earnings among companies that perform income smoothing by the company does not perform income smoothing.

3.RESEARCH METHODE
3.1.Population and Sampling
The population that will be used in this study are all companies listed on the Jakarta Stock Exchange. This study takes the analysis period from 2007 to 2010. Samples in this study is purposive sampling with the following criteria:

a. Has been registered before 2007 at the Indonesian Stock Exchange.
b. The Company is included in LQ 45 for each period
c. Issuing financial statements as of December 31 of the year 2007 up to 2010.
d. Available data on stock prices during the period of observation.
e. Available data on Composite Stock Price Index during the period of observation.
f. Available data on the earnings announcement date of December 31, 2007 up to 2010.
g. During the observation period did not dividend announcement ..

3.2.Types and Sources of Data.
This study uses secondary data publicly traded company listed on the Indonesia Stock Exchange (ISX) that share data and accounting data. Share data used are the daily stock price and daily IHSGindex. Accounting data used includes net sales and profit after tax.Share data and accounting data is obtained through Directory ISX, the ISX corner, and other documents.

3.3.Operationalization of Variables.
3.3.1.Variable IncomeSmoothing
To determine the company as income smoothing or not income smoothing, classified using the index Eckel (1981). Eckel index formula is as follows:

Income smoothing index = (Δ CV I / CV Δ S) .... (1)
Where:
Δ I: changes in earnings in the period.
Δ S: change in sales in one period.
CV: coefficient of variation.
ΔS ΔI CV or CV can be calculated as follows:
CV or CV ΔS ΔI =
Where:
Δ x = change in income (I) or sale (S) between year n-1.
Υ Δ = average change in earnings (I) or sale (S) between year n-1.
n = number of years observed.

Earnings used in this research is earnings after tax (EAT). Earnings after tax (EAT) been referring to the reason that, the profit after tax is profit figure includes all effects of income smoothing action where exceptional elements can also be used as a means of income smoothing. Companies that perform income smoothing or who do not perform income smoothing can be detected by Eckel index. If Eckel index value greater than one, then the company does not perform income smoothing, but if Eckel index is smaller than one, then the company doing income smoothing.

3.3.2.Market Reaction Variables.
Market reaction variables were measured using the cumulative abnormal return (CAR). Cummulative abnormal returns (CAR) is the sum of the return period events for each of the securities (Jogiyanto, 2010). Cummulative abnormal returns (CAR) calculated using the observation period of five days before the earnings announcement . CAR is calculated by the formula (Jogiyanto, 2010):

$$CAR_{i,t} = \sum_{a=1}^{t} A_{i,t} \text{...} (2)$$

Where:

$A_{i, t:}$ abnormal return for stock i on day t.
The description of the calculation of abnormal returns above can be written by the following formula (Jogiyanto, 2010):

$$A_{i, t} = R_{i, t} - E(R_{i, t}) \quad\dots\dots\dots\dots\dots\dots\dots\dots\dots (3)$$

Where:
$A_{i, t:}$ abnormal return for stock i on day t.
$R_{i, t:}$ return stock i on day t.
$E(R_{i, t):}$ the expected return for stock i.
Based on the market-adjusted model, the expected return is calculated as follows (Jogiyanto, 2010):

$$E(R_{i, t}) = R_{m, t} \quad\dots\dots\dots\dots\dots\dots\dots\dots\dots (5)$$

Where:
$E(R_{i, t):}$ the expected return for stock i
on day t.
$R_{m, t:}$ return of the market index on day t.

4. DATA ANALYSIS AND DISCUSSION OF RESULTS

In this chapter, provides a summary of the results of the descriptive statistical analysis consisted of mean and frequency distribution of each variable were examined for a sample of 25 companies. In testing the hypothesis, this study used a descriptive statistical methods, the possibilities were testing the Independent samples t-test.

Before conducting the above test first known normality of distribution of each variable using the Kolmogorov-Smirnov One Sample Test. The test is performed to determine that the data is normally distributed or not. The test results are presented in the following table

Descriptive Analysis

Table 1.Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation	Variance
CAR 5 Days Before	100	- .16375	.17095	- .0051265	.0485653	.0024
Car 5 Days After	100	- .11824	.20989	- .008968	.0612575	.0038

In descriptive statistics above, the CAR is seen that the value of at least 5 days before the notices for a profit of -0.16375, while the maximum value of 0.17095, while the mean value and standard deviation value -0.0051265 and 0.008968. whereas for 5 days after the earnings announcement -0.11824 minimum value, maximum value of 0.20989, -0.008968 mean value and standard deviation of 0.0612575. all values are obtained based on 25 samples of eligible

Table 2.CAR Income Smoothing

	N	Minimum	Maximum	Mean	Std Deviation
CAR	59	- .31535	.17095	- .017758	.074753

In the descriptive statistics above, the CAR income smoothing the minimum value of -0.31535, while the maximum value 0.17095 while the mean value -0.017758, with a standard deviation of 0.074753.

Table 3.CAR No Income Smoothing

	N	Minimum	Maximum	Mean	Std Deviation
CAR	41	- .16432	.13655	- .00948	.059785

In the descriptive statistics above, the CAR is not income smoothing the minimum value of -0,16432, while the maximum value 0.13655 while the mean value -0.00948, with a standard deviation of 0.059785.

4.1.Classical Test Assumption

Results of this study was to determine whether there are differences in the market reaction over the announcement of earnings among companies that perform income smoothing with a company that does not perform income smoothing, the following are the results of hypothesis testing using independent sample T-test. Prior to hypothesis testing is done first tested the normality of data. To determine whether or not normally distributed test One Sample Kolmogorov Smirnov Test with less significance level 0.05.Tabel 4 below presents the results of tests of normality distribution of the data.

Table 4.Normality Test Data

CAR	Sig	Distribution
Income Smoothing	.543	Normal
Not Incom Smoothing	.875	Normal

After testing the normality of the data, the samples were classified into groups instead of grading and grading group, it can be seen that the sign 2-tiled greater than 0.05 then the data are normally distributed.

Table 5.Independent Sample T-test

Information	Levene's Test For Equality Of Variance	t	Sign
Equal Variance Assumed	.315	- .398	.648
Equal Variance Not Assumed		- .428	.648

From the test results of independent sample t-test period of 5 days prior to the earnings announcement to 5 days after the announcement of earnings for companies doing income smoothing and income smoothing is not done, not significantly different at 5% alpha. Seen that t is equal to -0398 with a significant level of 0,648 then Ha is rejected because the probability of >0.05. The results showed that there was no significant difference between the CAR 5 days before the earnings announcement to 5 days after the earnings announcement. The results of this study are generally similar to the results of research conducted by Salno and Baridwan (2000) who announced that there was no significant difference between the CAR 5 days before to 5 days after the earnings announcement because of <0.05. Conditions of acceptance and rejection of the hypothesis if the significance is below or equal to 0.05 then Ho rejected and Ha accepted. Market reaction to the announcement that earnings are determined by cumulative abnormal return during the observation period (the time of the earnings announcement up to three days after the earnings announcement), the obtained results indicate that the market is not reacting to the announcement of earnings. In addition, the results of this study also showed no difference between the market reaction to companies that perform income smoothing and companies that do not perform income smoothing. These results contrast to some previous research conducted among others ;Assih and Gudono (1998) who find evidence that the market reaction is measured with a cummulative abnormal returns between companies that perform income smoothing significantly different from companies that do not perform income smoothing . Samlawi(2000) concluded that the total sample analysis found that the difference of return on average significantly between companies that perform income smoothing and the companies that do not perform income smoothing . While recent research conducted by Khafid (2002) found empirical evidence that there are differences in the market reaction is measured with cummulative abnormal returns between companies that perform income smoothing with a company that does not perform income smoothing . However, this study did not differ by several researchers , among others ; Salno and Baridwan (2000) find evidence that there is no difference in returns between companies that perform income smoothing with a company that does not perform income smoothing . In studies on income smoothing , a company that includes a group of companies that perform income smoothing will show a steady income stream . This causes profits to be announced can be relatively more predictable through profit last year . In the group of companies are not doing income smoothing , income stream which has been published showing a high degree of variation . Therefore in such a group of companies , investors are relatively difficult to predict earnings will be announced only through the signal shown on the income information on some of the last period . If so , then the information will be announced by the company urgently needed by investors and market participants . At the time of the earnings announcement made the difference between the predicted profit with actual profit declared is what will cause a reaction . However this study gives a different discourse with these discourses . Researchers suspect there are other factors that lead to at any given time there was indeed a difference between the market reaction to corporate earnings announcements are doing income smoothing with a company that does not perform income smoothing . But there are also times that resulted in no difference between the market reaction to corporate earnings announcements are doing income smoothing by the company does not perform income smoothing . It is also possible that the period other factors greater influence than the income smoothing action . This is in accordance with the opinion of Khafid 2002) which states that the other announcements that could affect stock prices , among others : forecasting by official company announcements, announcements of dividends (cash distributions , the distribution of shares) , funding announcements (announcements relating to equity, debt-related announcements, stock splits, share repurchases), relating to the government's announcement, the announcement of investment , employment announcements , merger and acquisition announcements . Over the influence of these announcement at the time the study was conducted , because investors could equally obtain information about the condition of a company .

Conclusion

The purpose of this study was to analyze whether there are differences in the market reaction over the announcement of earnings among companies that perform income smoothing with a company that does not perform income smoothing . Based on the results of the study can be summarized as follows : if the market reaction over the announcement of earnings is determined by cummulative abnormal returns over a period of 5 days prior to the earnings announcement date up to 5 days after the date of the earnings announcement , the obtained results there is no difference between the market reaction to the company's corporate income smoothing not income smoothing . This result indicates that investors can not distinguish between companies that perform income smoothing and companies that do not perform income smoothing . Many things can be concluded from

these results , in making investment decisions investors are not reviewing the company's fundamentals . Investors in making investment decisions tend to use analysts trend is happening in the market .

Suggestions and Limitations of Research

1. The study did not use the other factors that affect the practice of smoothing income but for which further research in order to use other factors affecting income smoothing practices such as: the amount of corporation, the net profit margin (NPM) and business groups.

2. This study was only conducted an analysis of data to indicate whether the company practice income smoothing or not, and use the index Eckel's to group companies doing income smoothing or companies that do not perform income smoothing, thus this study does not indicate a company trying to do the practice income smoothing. Enable future studies to incorporate the method used to indicate the practice of income smoothing, which in addition to using data analysis also uses data directly from the management company or a third party, such as public accounting firm.

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