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The Effect Of Profitability And Solvency On Income Smoothing With Good Corporate Governance As A Moderating Variable At Pt Bank Muamalat Indonesia In 2018-2022

Maulida Jam'ah [1]; Andri Soemitra *[2]; Aqwa Naser Daulay [3]

[1] Universitas Islam Negeri Sumatera Utara

Email: [1] maulidajamah47@gmail.com ; [2] andrisoemitra@uinsu.ac.id ;

[3] aqwanaserdaulay@uinsu.ac.id

****) Corresponding Author***

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ABSTRACT

This research aims to determine the effect of profitability and solvency on income smoothing with good corporate governance as a moderating variable at PT Bank Muamalat Indonesia in 2018-2022. This type of research is quantitative research with the type of data using secondary data which is collected on the official website of PT Bank Muamalat Indonesia. The data analysis method uses SEM, namely PLS with the SmartPLS program to analyze Good Corporate Governance as a moderating variable which can strengthen or weaken the relationship between the independent variable and the dependent variable. The research results show that profitability has a positive effect on income smoothing, meaning that the higher the level of profitability, the higher the possibility of income smoothing. Solvency has a positive effect on income smoothing, meaning that the higher the level of solvency, the higher the possibility of income smoothing. GCG has a positive effect on income smoothing, meaning that the better corporate governance (GCG), the higher the possibility of income smoothing. GCG is able to moderate the influence of profitability on income smoothing with a positive influence, meaning that GCG is able to strengthen the relationship between profitability and income smoothing. GCG is able to moderate the influence of solvency on income smoothing, meaning that GCG is able to influence the relationship between solvency and income smoothing.

INTRODUCTION

One of the ways managers use to manipulate data is income smoothing. Income smoothing is a problem faced by stakeholders related to the clarity of financial statements. Financial reports containing earnings information must have good quality so as not to mislead

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their users. The activity of minimizing profits is carried out when the company's profits are increasing and increasing profits is carried out when the company's profits are decreasing. Stable earnings are expected to create investor perceptions of the company's good condition. The concept is motivated by agency theory in agency theory states that management is the main party that plays an important role and is the party that knows important information about the company compared to owners or shareholders. So that management is often in a position and situation that is very likely to benefit itself or the company, because management can manipulate profits in financial reports. Income smoothing practices are not only carried out in public companies that sell shares, but the banking sector can also take these actions, both conventional commercial banks and Islamic commercial banks.

Islamic banks that carry out their business activities based on sharia principles and according to their type consist of Islamic Commercial Banks and Islamic People's Finance Banks. Islamic banks are also financial institutions that are able to facilitate economic mechanisms in the real sector through business activities (investment, buying and selling, or other activities) based on sharia principles. In other words, Islamic banks are financial institutions whose main business is to provide financing and other services in payment traffic and money circulation whose operations are in accordance with Islamic sharia principles (Anggraini, 2021). The development of Islamic banking in recent years has been quite rapid. During the 26 years since Islamic banks first started operating, the number of Islamic banks in Indonesia has reached 202 units, consisting of 13 Islamic Commercial Banks, 168 Islamic Rural Banks and 21 Islamic Business Units. Since the first Islamic Bank was established in 1991, namely Bank Muamalat Indonesia (BMI). The emergence of Bank Muamalat Indonesia (BMI) accommodates banking with the principle of profit sharing both Commercial Banks and BPRS, so that the Islamic banking sector continues to increase due to its immunity in removing the monetary crisis (Soemitra, 2009).

The process of preparing financial statements involves management, the board of commissioners and shareholders. Financial reports that are misused by management will affect profits. Therefore, a control mechanism is needed to align the interests between management and principal, namely the Good Corporate Governance system in controlling and regulating the company to create added value for stakeholders. In Bank Indonesia regulation Number 8/4 / PBI / 2006 article 2 that Commercial Banks are required to apply the principles of Good Corporate Governance. Good Corporate Governance is a process and structure used to improve business success and corporate accountability in order to realize long-term value while taking into account the interests of other stakeholders based on laws and regulations and ethical values. Good Corporate Governance is a very important element in the banking industry given the increasing risks and challenges faced by the banking industry. The implementation of Good Corporate Governance will strengthen the position of efficient and effective competitiveness which ultimately strengthens trust so that it operates and grows sustainably in the long term. A corporate governance that applies the principles of openness (tranparancy), accountability, responsibility, professionalism, and equality (fair or equal). One of the GCG principles which is the biggest derivative of the value of tawhid is the principle of justice. As in the word of Allah SWT in surah Al-Maidah verse 8 which reads:

يَا أَيُّهَا الَّذِينَ آمَنُوا كُونُوا قَوَّامِينَ لِلَّهِ شُهَدَاءَ بِالْقِسْطِ ۖ وَلَا يَجْرِمَنَّكُمْ شَنَآنُ قَوْمٍ عَلَىٰ أَلَّا تَعْدِلُوا ۚ اعْدِلُوا هُوَ أَقْرَبُ لِلتَّقْوَىٰ ۖ وَاتَّقُوا اللَّهَ ۚ إِنَّ اللَّهَ خَبِيرٌ بِمَا تَعْمَلُونَ

Meaning: O you who believe, be those who always establish (the truth) for the sake of Allah, bearing witness with justice. And let not your hatred of any people lead you to be unjust.

Be just, for justice is nearer to piety. And fear Allah, surely Allah knows best what you do (QS. Al-Maidah: 8).

This verse explains that one of the principles in Good Corporate Governance is to manage a fair company for each party. If it is associated with sharia, justice must include spiritual and material aspects. So in GCG and values that can be raised on the implementation of justice.

The implementation of GCG principles is considered very important in business because it will consistently attract both domestic and foreign investors. Good Corporate Governance aims to deal with the risks that will be faced in the banking sector. Some problems occur such as dishonesty in reporting financial statements, especially in reporting company profits. Dishonesty in reporting earnings is called earnings management (Mufidah & Purnamasari, 2018). Earnings management is an action taken by company management to influence reported earnings over a long period of time. Earnings management actions occur when managers use financial reporting considerations and preparation of transactions to change financial statements with the aim of stabilizing a company's finances There are three types of earnings management strategies that are often used by managers to achieve long-term earnings management goals, namely managers increasing earnings, reducing earnings and reducing earnings fluctuations with Income Smoothing (Herlambang, 2017).

Income smoothing is created because of profit. Every company must have profits that fluctuate annually because the income and expenses earned are not always the same from year to year. Earnings information has a huge influence on users in making decisions, so investors' attention is often focused on earnings information. Because of this situation, it is an indication that the company is doing income smoothing. The action of income smoothing is inseparable from the factors that influence it, in this study one of the factors that influence income smoothing is the profitability ratio and solvency ratio. Profitability is how the company earns profits from all company activities in a certain period (Harahap et al., 2016). Profit is the net result of business operating activities in a certain period expressed in financial terms. Profitability is also used to see the company's ability whether the company experiences profits or losses in a certain period. So that profitability is used as a tool to evaluate management performance.

When the profitability of a company is high, it is considered that the management is working well or effectively, while the profitability of a company is low, it is considered that the management is not working effectively. Profitability also shows the company's ability to generate profits using the resources owned by a company such as capital or company sales and assets. Profitability is not only used to measure the company's ability to generate profits but also to determine the company's effectiveness in managing its resources. There are eight ratios in profitability, namely Return On Asset, Return On Equity, Gross Profit Margin, Net Profit Margin, Return On Sales Ratio, Return On Capital, Return On Investment, Earning Per Share (Rahayu, 2020).

One of the financial ratios used to assess the company's financial condition and capabilities is the solvency ratio. The solvency ratio is a ratio to measure how much a company is financed with debt. This ratio is used to measure the extent to which a company's assets are financed by debt or in other words, the ratio used to measure how much debt burden the company must bear in order to fulfill assets (Sunanto, Putri et al 2020). By using this ratio, it can be seen several things related to the use of own capital and loan capital and determine the company's ability to fulfill its debt.

The solvency ratio contains steps that begin with calculating the ratio of debt to equity (Debt To Equity Ratio), total debt to total assets (Debt To Total Asset Ratio), the number of times interest is earned (Time Intrest Earned), Long Term Debt To Equity Ratio (Long Term Debt To Equity Ratio) and Long Term Debt or lease assets with lease contracts (Fixed Charge Coverage).

Table 1 Development of Income Smoothing in Companies in Indonesia

TAHUN	PENGARUH	HASIL	KETERANGAN
2014-2017	Profitabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
	Solvabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
2026-2018	Profitabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
	Solvabilitas Terhadap Income Smoothing	Negatif	Tidak Melakukan Perataan Laba
2017-2019	Profitabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
	Solvabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
2019-2020	Profitabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
	Solvabilitas Terhadap Income Smoothing	Positif	Melakukan Perataan Laba
2019-2021s	Profitabilitas Terhadap Income Smoothing	Negatif	Tidak Melakukan Perataan Laba
	Solvabilitas Terhadap Income Smoothing	Negatif	Tidak Melakukan Perataan Laba

Based on the table above, it shows that the development of income smoothing in companies in Indonesia, profitability every year has a positive influence on income smoothing, which means that high profitability tends to do income smoothing to determine the company's future capabilities. So that it is easier to hasten reporting or delay reporting of profits included in income smoothing techniques, profits earned in good or increasing periods will be allocated to periods that are less good or decreasing. When the profitability of a company is high, the management of a company is considered to be working effectively and vice versa. So that a stable level of profitability will give investors confidence that the company has good performance in generating profits. Profit shows the company's success in generating profits, because investors prefer a stable level of profitability every year. Meanwhile, solvency has a positive effect every year, which means that a high level of solvency will allow the use of a company's debt. The higher the solvency, the higher the possibility of income smoothing. High solvency indicates the more difficult it is for companies to obtain additional funding. Thus, the company will show a good reputation by doing income smoothing. By doing income smoothing, it can produce stable profits so that the company is considered capable of paying its obligations.

In this study entitled "The Effect of Profitability and Solvency on Income Smoothing with Good Corporate Governance as a Moderating Variable at PT Bank Muamalat Indonesia" has been done a lot but there are still many differences from the results of the research. The previous research conducted by Eka Pratiwi (2018) with the title Effect of Profitability and Solvency on Income Smoothing with Good Corporate Governance as a Moderating Variable at Islamic Commercial Banks produced a study that in general at Islamic Commercial Banks in

2014-2017 the effect of profitability and solvency had a positive effect on income smoothing, while good corporate governance had a negative effect on income smoothing.

Penelitian oleh Friska Angelline (2018) dengan judul Analisis Pengaruh Profitabilitas, Solvabilitas dan Ukuran Perusahaan terhadap Income Smoothing dengan Corporate Governace sebagai Variabel Pemoderasi di Bursa Efek Indonesia menghasilkan penelitian bahwa secara umum pada perusahaan-perusahaan tersebut pada tahun 2016-2018 pengaruh profitabilitas berpengaruh signifikan terhadap perataan laba (income smoothing) sedangkan pengaruh solvabilitas tidak berpengaruh signifikan terhadap perataan laba (income smoothing).

Penelitian Rara Mayharani (2020) dengan judul Pengaruh Profitabilitas, Financial Leverage dan Non Perfoming Financing terhadap Income Smoothing dengan Good Corporate Governance sebagai Variabel Pemoderasi pada Bank Umum Syariah menghasilkan penelitian bahwa secara umum pada Bank Umum Syariah tahun 2017-2019 bahwa profitabilitas berpengaruh secara parsial terhadap perataan laba (income smoothing), financial leverage berpengaruh secara parsial terhadap perataan laba (income smoothing), dan non perfoming financing berpengaruh secara parsial terhadap perataan laba (income smoothing). Variabel profitabilitas, financial leverage, dan non performing financing berpengaruh secara simultan terhadap income smoothing.

Research by Muchamad Yusuf Taofik (2021) with the title Profitability and Leverage on Earnings Smoothing Practices with Good Corporate Governance as a Moderating Variable on the Stock Exchange produced a study that in general on the Indonesia Stock Exchange in 2016-2019 profitability has a positive and significant effect on earnings smoothing practices, leverage has a positive and significant effect on earnings smoothing practices, good corporate governance does not moderate the effect of profitability on earnings smoothing practices, good corporate governance is able to moderate the effect of leverage on earnings smoothing practices.

Research by Eva Rosa Dewi (2016) with the title The Effect of Good Corporate Governance on Earnings Management in Companies Included in the JII (Jakarta Islamic Index) produces a study that good corporate governance has a significant or positive effect on earnings management.

Based on previous research, the difference between this research and previous research is that in this study the variables studied are profitability, solvency to income smothing. And there is good corporate governance acting as a moderating variable. This research case study is also at PT Bank Muamalat Indonesia (BMI) and this research year is also taken from 2018-2022. Thus this research was conducted to provide differences from the results of previous research that has been done.

LITERATURE REVIEW

Income Smoothing

Income smoothing is one of the ways managers use to manipulate transaction data. Manipulation can be done in terms of timing of earnings or earnings reports so that reported earnings look stable. Income smoothing in one form of earnings management by increasing or decreasing reported earnings to reduce fluctuations in corporate profits between periods. The activity of minimizing earnings is carried out when the company's profit is increasing and increasing earnings is carried out when the company's profit is decreasing. Stable earnings are expected to create investor perceptions of the company's good condition. Income smoothing activities are deliberately carried out to attract the market's desire to invest. Investors rarely pay attention to the procedures used by managers to generate profits and usually only see the condition of the company that managers use to generate profits and usually only see the condition of the company monitored as stable or not (Widiasmara et al., 2022). From this understanding, it can be concluded that income smoothing is one of the management patterns

often used by managers. By flattening the reported profit, the goal is to make the profit earned stable so that investors give good value to the company's performance. Income smoothing action is inseparable from the factors that influence it, one of the factors that influence income smoothing includes profitability ratios and solvency ratios.

Income smoothing index is a number that distinguishes companies that practice earnings smoothing using the Eckel index (1981). The calculation of the Eckel index is done with the following formula:

$$IS = \frac{\text{CV}\ \Delta S}{\text{CV}\ \Delta I}$$

Description:
CV ΔS : coefficients of variation for changes in sales.
CV ΔI : coefficients of variation for changes in earnings.
IS : income smoothing index.
The CV values of sales and earnings are calculated as follows:

$$\text{V}\ \Delta\text{S} = \frac{\sqrt{\sum(\Delta XS - \Delta XS)}}{n-1} : \Delta\text{XS}$$

$$CV\ \Delta I = \frac{\sqrt{\sum(\Delta XI - \Delta XI)}}{n-1} : \Delta\text{XI}$$

Description:
Δx : Change in net income (I) or sales (S) between year n and year n-1.
ΔX : Average change in profit (I) or sales (S) between year n and n-1
N : Number of years observed

Good Corporate Governance

Good Corporate Governance is a set of rules that regulate the relationship between company management, creditors, government, employees and other stakeholders relating to their rights and obligations of a system that regulates and controls the company (Agoes & Ardana, 2009). Good Corporate Governance (GCG) is also a company system that is able to control and regulate business activities in order to add value to the company (value added), so that companies are considered capable of implementing and demonstrating accountability, responsibility, accuracy of information, and transparency. Good corporate governance is needed in various companies. The implementation of good corporate governance will improve financial performance. High financial performance has an effect on company value (Nursasi & Nurdanna Faizah, 2022).

The definition of Good Corporate Governance in accordance with the decree of the Minister of BUMN No. Kep 117 / MBU / 2002 dated July 31, 2022 is a process and structure used to improve business success and corporate accountability in order to realize long-term value while taking into account the interests of other stakeholders based on laws and regulations and ethical values. Good Corporate Governance is a very important element in the banking industry given the increasing risks and challenges faced by the banking industry. The implementation of GCG will strengthen the position of efficient and effective competitiveness which ultimately strengthens trust so that it operates and grows sustainably in the long term.

From the above understanding, Good Corporate Governance can be used as a moderating or moderating variable, namely a variable that can strengthen or weaken the relationship

between the independent variable and the dependent variable. This shows that Good Corporate Governance can inhibit managers from making policies in accordance with their personal interests, and also encourage managers to always be accountable for their actions. This personal interest is due to factors such as profitability which is closely related to income smoothing actions and solvency which is one of the main in funding a company.

Good Corporate Governance that increases, the governance of a company is also good and effective in the company. So that Good Corporate Governance on earnings management or income smothing also has an effect on continuing excellent company value, which acts as continuing company value if managers carry out bad corporate governance with policies according to their personal interests, and it is possible just to fulfill formal provisions without enforcing the implementation of good corporate governance. So that it causes corporate governance (good corporate governance) that is no longer effective and does not increase or even results in a decrease in profits so that investors are no longer interested in the company.

To regulate the provisions of GCG implementation by using self-assessment which is used to improve the quality and efforts to improve GCG. The self-assessment will produce a composite value as a rating of GCG implementation in a company.

Table 2 GCG Rating Classification

Nilai Komposit	Predikat Komposit	Peringkat
Nilai Komposit <1.5	Sangat Baik	1
1.5 ≤ Nilai Komposit < 2.5	Baik	2
2.5 ≤ Nilai Komposit < 3.5	Cukup Baik	3
3.5 ≤ Nilai Komposit < 4.5	Kurang Baik	4
4.5 ≤ Nilai Komposit < 5	Tidak Baik	5

Profitability

According to Aldila Septiana (2019: 108) profitability is a ratio that aims to determine the company's ability to generate profits during a certain period. Meanwhile, according to Kasmir (2015: 196) defines profitability as a ratio that assesses the ability of a company to generate profits. This ratio is indicated by the profit generated from both sales and investment income, this ratio also shows the efficiency of the company. And also the profitability ratio, which compares the amount of profit obtained by the company at any given time with the results of sales or the amount of investment of funds in the company (Nasution, 2018).

Based on the results of the definition above, it can be concluded that profitability is a company's ability to earn profit or profit in a certain period and profitability ratios are very important in increasing the value of a company. Company management with high profitability tends to do income smoothing to determine future capabilities. So that it is easier to hasten reporting or delay reporting of profits included in income smoothing techniques, profits earned in good or increasing periods will be allocated to periods that are less good or decreasing. When the profitability of a company is high, the management of a company is considered to be working effectively and vice versa. So that a stable level of profitability will give investors confidence that the company has good performance in generating profits. Profit shows the company's success in generating profits, because investors prefer a stable level of profitability every year. The practice of income smoothing is not only when profitability is high, but falling profitability can also be done by income smoothing so that there is no excessive profit fluctuation.

The types of profitability consist of 8 types including the following:

a. Gross profit margin is a profitability ratio to assess the percentage of gross profit to revenue generated from sales. Gross profit margin measures the efficiency of calculating the cost of

goods or production costs. The greater the GPM ratio, the better the company's operating conditions. conversely the lower the GPM, the less good the company's operations. The formula for calculating gross profit is Gross Profit Margin = (gross profit / total revenue) x 100%

b. Net profit margin (Net Profit Margin) is a profitability ratio to assess the percentage of net profit earned after deducting taxes against revenue earned from sales. This ratio measures net profit after tax against sales. The higher the net profit margin the better the operation of a company. Net profit margin with the formula, namely Net Profit Margin = Net Profit After Tax : Sales
c. Return on Assets Ratio is used to measure the company's effectiveness in generating profits by utilizing its assets. ROA is the ratio between profit after tax to total assets. The greater the ROA, the better the company's performance, because the rate of return is getting bigger. ROA according to can be calculated using the formula, namely ROA = Net Income : Total Assets
d. Return on Equity Ratio is a ratio that shows how many percent of net income is obtained when measured from the owner's capital. ROE can be calculated using the formula, namely ROE = Net Profit After Tax: Shareholders' Equity
e. Return on Sales Ratio is a profitability ratio that displays the company's profit level after payment of variable production costs such as labor wages, raw materials, and others before deducting taxes and interest. The following is the formula for calculating return on sales, namely ROS = (Profit before Tax and Interest / Sales) x 100%
f. Return on Capital Employed is a profitability ratio that measures the company's profit from the capital used in the form of a percentage (%). the ROCE formula that is often used is ROCE = Profit Before Tax and Interest / Working Capital or ROCE = Profit Before Tax and Interest / (Total Assets - Liabilities)
g. Return on investment (ROI) is a profitability ratio calculated from net profit after tax to total assets. The higher this ratio means the better the condition of a company. The ROI formula is ROI = (Return on Investment - Initial Investment) / Investment) x 100%.
h. Earning per share (EPS) is a ratio that shows how much ability per share to generate profits. EPS can be calculated by the formula, namely EPS = Net Income After Tax - Preferred Stock Dividends / Number of Common Shares in Circulation.

Solvency

Solvency is a ratio to measure how much the company's ability to meet all long-term financial obligations (Bi Rahmani, 2018). According to Dr. Kasmir solvency is a ratio used to measure the extent to which the company's assets are financed with debt. This means how much debt burden the company bears compared to its assets. Solvency ratio is a ratio to measure how much the company is financed with debt. This ratio is used to measure the extent to which the company's assets are financed by debt or in other words, the ratio used to measure how much debt burden the company must bear in order to fulfill assets (Apt & SWI, 2020). The lower the solvency ratio level of the company's industry standard, the greater the debt financed by the company's assets or the company is in an unhealthy state.

The greater the level of corporate solvency, the greater the company's debt, the greater the company's risk related to debt repayment, thus requiring management to make policies to increase company income. Thus, the greater the level of solvency, the greater the opportunity for company managers to practice income smoothing to give a good impression of the company in managing debt to increase company assets and income. Information on good debt management to increase income is a good signal for investors to assume that funds invested in the company can increase dividend distribution. In addition, based on agency theory, the level of solvency is one of the values for the principal to determine whether management can utilize debt properly to increase income that can be allocated to dividend distribution. The higher the

profit, the higher the share price and the greater the dividend, the company is considered successful or has good criteria so that it deserves high incentives.

The types of ratios that exist in the solvency ratio include the following:

a. Debt to Total Assets Ratio (Debt Ratio), which measures the percentage of funds originating from debt. The debt in question is all debt owned by the company, both short-term and long-term. To measure the amount of this debt ratio, the formula is used: Debt to Asset Ratio = x 100%
b. Debt to Equity Ratio is the ratio used to assess debt with equity. This ratio is measured by comparing all debt, including current debt with all equity. The higher this ratio means that there is less equity capital compared to the debt. For companies, the amount of debt should not exceed the capital itself so that the fixed costs are not too high. The smaller this ratio the better. That is, the smaller the portion of debt to capital, the safer. This ratio is formulated: Debt to Equity Ratio = x 100%
c. Times Interest Earned, according to J. Fred Weston, is a ratio to find the number of times interest is earned. This ratio is also defined as the company's ability to pay interest costs. This ratio is formulated:
d. Times Interest Earned = or Times Interest Earned =
e. Long Term Debt to Equity Ratio is the ratio between long debt and equity. The aim is to measure how much part of each rupiah of own capital is used as collateral for long-term debt by comparing long-term debt with own capital provided by the company. This ratio is formulated: LTDtER= x 100%
f. Fixed Charge Coverage is a ratio that resembles the times interest earned ratio. It's just that this ratio is done if the company obtains long-term debt or leases assets under a lease contract. This formula is formulated: FCC=

METHODS

This type of research uses a quantitative approach and uses descriptive approach research. A quantitative approach is research whose data is more numerical or numerical in nature and also to examine a population or sample that aims to prove a hypothesis set out in the research. A descriptive approach is a study by collecting data to test hypotheses and answer questions related to these objects. This research data collection was carried out on the official website of PT Bank Muamalat Indonesia which will be used as a research sample. The data source taken is the financial statements of PT Bank Muamalat Indonesia which have been audited and published on the official website of PT Bank Muamalat Indonesia. The type of data in this study is secondary data. Secondary data is data that has existed previously and is also collected which is used to complement research data needs. The data in this study include profitability ratios, solvency ratios, Good Corporate Governance and components for calculating earnings smoothing activities. The data collection technique in this study was obtained by collecting existing financial reports at PT Bank Muamalat Indonesia from the official website of PT Bank Muamalat Indonesia which was used as a sample. The financial statements that have been collected will be taken data that supports the measurement of profitability ratios, solvency ratios, Good Corporate Governance and components for calculating earnings smoothing activities. And the data analysis method uses the Structural Equation Modeling (SEM) equation model, namely Partial Least Square (PLS) as an analytical tool for testing with the help of the SmartPLS program. PLS has the ability to explain the relationship between variables and the ability to perform analyses in one test. And also to analyze Good Corporate Governance as a moderating variable that can strengthen or weaken the relationship between the independent variable and the dependent variable.

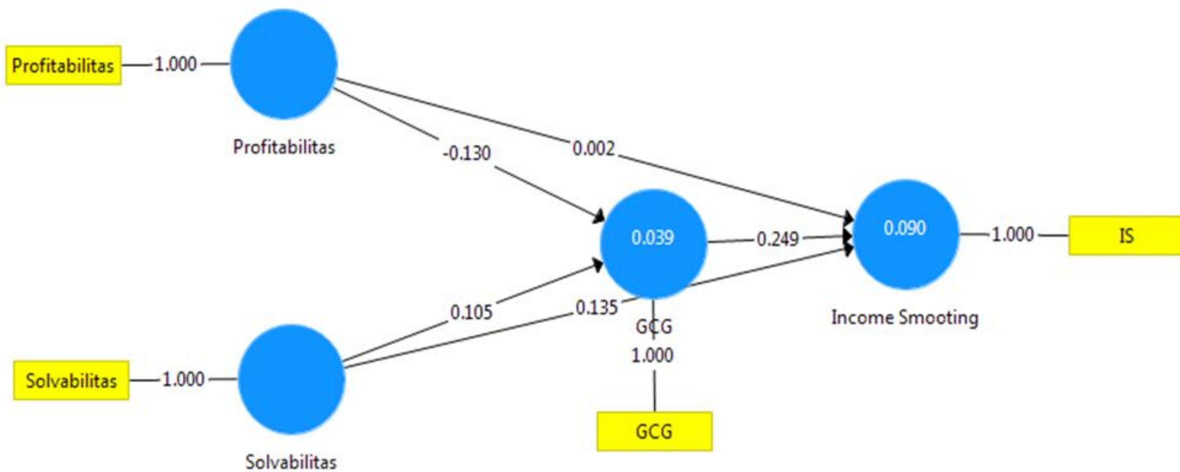
RESULTS

Outer Model Test (Measurement Model)

a. Convergent Validity Test

The convergent validity test is used to explain the relationship between concepts and measurements. If two constructs or indicators have a high correlation value, then the association is strong. With the loading factor value must be greater than> 0.7 is the ideal value, meaning that the indicator value is valid to measure the construct created.

Figure I. Loading Factor



Uji convergent validity per variabel dilihat dari nilai loading faktor masing-masing variabel per indikatornya dapat dilihat pada tabel 3.

Tabel 3 Hasil uji convergent validity

Variabel	Loading Faktor
Profitabilitas	1,000
Solvabilitas	1,000
Income Smooting	1,000
GCG	1,000

Source: processed primary data, 2023

Based on table 1 above, it can be seen that each indicator that has a loading factor value of more than> 0.7, the indicator value meets the criteria so that it is declared valid to measure the constructs made from each variable and there is no between the loading factor values> 0.5->0.6. Among them, the profitability variable (X1) has a loading factor value of (1.000), solvency (X2) has a loading factor value of (1.000), income smoothing (Y) has a loading factor value of (1.000) and GCG (Z) has a loading factor value of (1.000), so this shows that the results of this study pass the convergent validity test and can be relied upon to guarantee continuing in other tests.

b. Discriminant Validity Test

If a correlation is said to be valid because the cross loading indicator value is greater than the correlation value with other latent variables, the discriminant validity test is used to determine the relationship between variables that should not be related. And also by using the Average Varian Extracted (AVE) by comparing the square root which has a good discriminant validity value if the square root of the AVE for each construct is greater than the

correlation between the construct and other constructs. It is expected that an AVE value greater than 0.5 is used. The Discriminant Validity test results are presented in Table 4.

Table 4 Discriminant Validity Test Results

Variabel	*Cross Loading*			
	X1	X2	Y	Z
GCG	1,000			
Income Smooting	0,270	1,000		
Profitabilitas	-0,174	-0,097	1,000	
Solvabilitas	0,159	0,173	-0,416	1,000

Source: processed primary data, 2023

Table 5 Root Test Results Avarage Variance Extracted

Variabel	AVE	Akar AVE
GCG	1,000	1,000
Income Smooting	1,000	1,000
Profitabilitas	1,000	1,000
Solvabilitas	1,000	1,000

Source: Processed Primary Data, 2023

Based on table 5 above in table 5, it can be seen that the cross loading indicator value is 1.000 for each variable (X1, X2, Y and Z)> the correlation value with the latent variable. And in table 3 that each construct's AVE root value is higher than the correlation between variables (X1, X2, Y and Z) more than> 0.5 on the gcg variable (Z) to use the AVE root value of (1,000), Income smoothing (Y) AVE root value (1,000), Profitability (X1) AVE root value (1,000), and Soolvability (X2) AVE root value (1,000). So this means that it shows that the discriminant validity test with the AVE root of all variables is good and meets this test.

c. Reliability Test

Composite reliability and Cronbach's Alpha Method for Evaluating Variable Reliability. The reliability of the dimensions and indications of the instrument is evaluated, and the consistency of the instrument claims is explained. If the instrument results are stable over time, we say they are reliable. If the loading value is more than 0.7, the composite reliability test is considered reliable. Table 6 displays the results of the reliability test conducted on each variable.

Table 6 Reliability Test Results

Variabel	*Composite Reliability*	Cronbach's Alpha
GCG	1,000	1,000
Income Smooting	1,000	1,000
Profitabilitas	1,000	1,000
Solvabilitas	1,000	1,000

Source: processed primary data, 2023

Based on table 6, the results show that the variables of good corporate governance (Z), income smoothing (Y), profitability (X1) and solvency (X2) all have Cronbach's alpha value and composite reliability of more than 0.7 reliability limit value, namely each variable has 1,000. So the indicators used as observation variables for latent constructs can be considered to have explained the constructs or latent variables they produce, so the four variables can be

said to be reliable because the value is more than 0.7, which means they have consistency and trust when used in this study.

Inner Model Test (Structural Model)

The structural model test is carried out by including all indicators that have passed the validity and reliability tests. The structural model test shows the relationship between latent variables and other latent variables. Structural model evaluation is carried out by a bootstrapping process which will produce a coefficient of determination (R2), predictive relevance (Q2), effect size (f2), path coefficients and t-statistics. The results of data processing for the structural model test are explained as follows:

a. Coefficient of determination (R2)

R-Square is used to assess the effect of certain independent latent variables on the dependent latent variable whether it has a substantive effect. The value of R-Square is zero to one. R2 values of 0.67, 0.33, and 0.19 can be concluded that the model is strong, moderate, and weak. The results of the coefficient of determination R2 of the model can be seen in table 7.

Table 7 Test Results of the Coefficient of Determination R2

Variabel	R^2
Income Smooting	0,720
GCG	0,639

Source: processed primary data, 2023

Based on table 7 shows the dependent variable income smoothing (Y) has an R2 value of 0.720>0.19 has an influence with a strong category, meaning that the independent variable profitability (X1) and solvency (X2) is able to explain the dependent variable income smoothing (Y) by 72% and the remaining 28% is not explained in this study or influenced by other factors outside the model. The good corporate governance variable (Z) has an R2 value of 0.639> 0.19 has an influence with a strong category, which means that the profitability (X1) and solvency (X2) variables can be explained by the good corporate governance variable (Z) by 63.9% and the remaining 36.1% is not explained in this study or is influenced by other factors outside the model.

b. Predictive Relevance (Q2)

Predictive Relevance (Q2) measures how well the observed value is produced by the model and also the parameter estimate. A model is considered to have a predictive relevance value if Q2> 0. The predictive relevance value is obtained from:

Q2 = 1-(1-R12)(1-R22)

Q2 = 1-(1-0,7202)(1-0,6392)

Q2 = 0,715

The results of the calculation of Q2 in this study of 0.01 are generated from R12 with a value of 0.720 and R22 with a value of 0.639, which means that the model has predictive relevance with a strong category, which means that the value in Q2 meets the value category contained in the predictive relevance value consisting of a value of 0.02 (small), 0.15 (medium), 0.35 (large).

Hypothesis Testing

a. Direct Effect Test

The independent variable at a 5 percent significance level with a two-sided test is stated to be significant in the dependent variable if the t statistic result is greater than t table 1, 96.

The significance of the variable can also be seen from the P Value which is smaller than alpha (α=0,.05). The results of the direct effect test for each variable can be seen in table 6.

Table 8 Direct Effect of Latent Variables

Variabel	Original Sample (O)	T Statistics (|O/STDEV|)	P Values
Profitabilitas -> Income Smoothing	0,142	2,660	0,009
Solvabilitas -> Income Smoothing	0,169	2,678	0,008
GCG -> Income Smoothing	0,288	2,101	0,006

Source: Processed Primary Data, 2023

The size of the significance of hypothesis support can be used in comparison of ttable and t-statistic. If the t-statistic value is higher than the ttable value, the hypothesis is supported. For a confidence level of 95 percent (alpha 5 percent), the ttable value for a two-tailed hypothesis is> 1.96. Thus, if the t-statistic value is> 1.96, the research hypothesis is proven. The following table shows the results of hypothesis testing:

1) Effect of Profitability on Income Smoothing
   The first hypothesis (H1) states that profitability has a significant effect on income smoothing. The results showed that profitability has a coefficient value of 0.142, a t-statistic value of 2.660> 1.96 and a p-value of 0.009 <0.05 (significant). Thus H1 is accepted so that the first hypothesis in the study which states that profitability affects income smoothing is accepted.
2) The Effect of Solvency on Income Smoothing
   The second hypothesis (H2) states that slovability has a significant effect on income smoothing. Solvency has a coefficient value of 0.169, a t-statistic value of 2.678> 1.96 and a p-value of 0.008 <0.05 (significant), thus H2 is accepted so that the second hypothesis in the study which states that solvency affects income smoothing is accepted.
3) Good Corporate Governance on Income Smoothing
   The third hypothesis (H3) states that GCG has a significant effect on income smoothing. The results showed that GCG has a coefficient value of 0.288, a t-statistic value of 2.101> 1.96 and a p-value of 0.006 <0.05 (significant), thus H3 is accepted so that the third hypothesis in the study which states that Good Corporate Governance affects income smoothing is accepted.

b. Indirect Influence Test

This test is conducted to analyze the strength of the influence between constructs, both direct, indirect, and total effects. The direct effect is none other than the coefficient of all coefficient lines with one end arrow. The indirect effect is the effect that appears through an intermediate variable. The total effect is the effect of various relationships (Ferdinand, 2005). From Figure 1, the influence between variables in the path diagram is obtained as follows:

Table 9 Testing the Effect of Moderatin Variables

	Profitabilitas	Solvabilitas
Pengaruh Langsung	0,142	0,169
Pengaruh Tidak Lansung	= 0,142 x 0,288 = 0,041	= 0,169 x 0,288 = 0,049
Total Pengaruh	= 0,142 + 0,041 = 0,183	= 0,169 + 0,049 = 0,218
Kesimpulan	Pengaruh Total > pengarung lansung : **Perlu Moderating**	Pengaruh Total > pengarung lansung : **Perlu Moderating**

Source: primary data processed 2023

1) Profitability on income smoothing with good corporate governance as a moderating variable.
   Hypothesis four (H4), states that profitability has a significant effect on income smoothing with GCG as a moderating variable. The results of hypothesis testing produce a direct effect value of 0.142 and an indirect effect of 0.041 (0.142 * 0.288), so that the total effect is 0.183 (0.142 + 0.041) which means accepting the fourth hypothesis (H4) so that it can be concluded that the better the profitability, the indirectly will increase income smoothing, if the GCG of the company increases.
2) Solvency on income smoothing with good corporate governance as a moderating variable.
   Hypothesis five (H5) states that solvency has a significant effect on income smoothing with GCG as a moderating variable. The results of hypothesis testing produce a direct effect value of 0.169 and an indirect effect of 0.049 (0.169 * 0.288), so that the total effect is 0.218 (0.169 + 0.049) which means accepting the fifth hypothesis (H5) so that it can be concluded that the better the solvency, the indirectly it will increase income smoothing, if the GCG of the company increases.

DISCUSSION

1. The Effect of Profitability on Income Smooting

   Based on the results of the hypothesis in this study which states that profitability has a positive effect on income smoothing, which means that the higher the level of profitability, the higher the likelihood of continuing income smoothing. The results of this study are supported by the results of research by Eka Pratiwi (2018), Friska Angelline (2018), Rara Mayharani (2020), and Muchammad Yusuf Taufik (2021) that profitability has a significant or positive effect on income smoothing, which means that the higher the level of profitability, the higher the level of possibility to continue income smoothing. This can be done because large companies usually make more profits than small companies. Large profits will result in taxes that will be charged being greater as well. This becomes the company's motivation in managing its profits to reduce the tax costs incurred. The income smoothing action in this case is done by artificial smoothing, namely by moving income and/or costs from one period to another to reduce the amount of profit.

   Earnings management itself is the act of managers intervening in the determination of earnings intentionally for personal purposes. Income smoothing is one of the frequently used earnings management strategies. This strategy is carried out by lowering profits or increasing profits to reduce fluctuations. This strategy includes not reporting part of the profit in good periods by forming reserves, then reporting profits during bad periods.

2. The Effect of Solvency on Income Smooting

   Based on the results of the hypothesis in this study which states that solvency has a positive effect on income smoothing, which means that the higher the level of solvency, the higher the possibility of income smoothing. The results of this study are supported by the results of Eka Pratiwi's research (2018) that solvency has a positive effect on income smoothing, which means that the higher the level of solvency, the higher the likelihood of income smoothing. This shows that as a large company, Bank Muamalat Indonesia certainly needs funding to run their business.

   Islamic bank capital can be obtained from bank owner's funds, infaq/shadaqah, reserves and grants, or even debt from other parties In addition, Bank Muamalat can also issue shares to support its assets and capital. However, most of Bank Muamalat does not offer its shares to the public. Bank Muamalat only offers to strategic investors. Many strategies are carried out to attract investors so that the funding obtained is higher, one of which is to show a good reputation. The Efficiency Market Hypothesis theory states that financial reports can affect

stock prices. A company's profit that does not fluctuate too much from one period to another shows good performance.

This statement refers to earnings management, namely the act of intervening in information in financial reports which aims to trick stakeholders, namely investors and creditors. The company hopes that good financial reports will give a good reputation to investors and creditors. So that investors will be interested in investing their funds, while creditors have more confidence in the company because they are considered capable of paying their obligations. Delaying the settlement of obligations is also one of the reasons companies manage earnings.

In a debt agreement, the company will manage its profits so that the obligations that must be settled in a certain period can be postponed for the desired period. The company can manage the amount of profit to postpone its burden in a certain period and will be settled in the future period.

3. The Effect of Good Corporate Governance on Income Smooting

Based on the results of the hypothesis in this study which states that Good Corporate Governance has a positive effect on income smoothing, which means that the better corporate governance, the possibility of smoothing income is higher. The results of this study are supported by the results of research by Eva Rosa Dewi and Moh. Khoiruddin (2016) that Good Corporate Governance has a positive effect on income smoothing, which means that the better corporate governance, the possibility of smoothing income is higher. This shows that GCG applies principles that serve to protect stakeholder interests. These principles include the principles of transparency, disclosure, independence, accountability, and responsibility. This principle makes GCG considered capable of alleviating agency problems.

One of the principles of GCG is the issue of transparency, namely the principle of openness in disclosing relevant information about the company that the public needs to know, namely financial reports. Good Corporate Governance (GCG) is a set of systems that control and regulate companies to create added value for stakeholders. Shareholders have an interest that the funds invested will provide profits, while managers have an interest in getting incentives for managing funds. Because of this conflict of interest, the government requires that companies implement GCG practices. Islam has regulated to write every transaction in muamalah. It is intended that each party involved in the transaction both know what is happening in a transaction and so that there are no differences of opinion that will result in conflict.

The indicators assessed include the implementation of the duties and responsibilities of the Board of Directors and the Board of Commissioners, implementation of compliance and internal audit functions, implementation of committee duties, transparency of financial and non-financial conditions, implementation of risk management, implementation of GCG and internal reporting, and so on. From this assessment, it can be seen how effective the company is in managing the company and the health of the bank. If the GCG assessment is getting better, it is certain that the bank is good at running its business. So that the possibility to manage earnings is very small.

4. The Ability of Good Corporate Governance in Moderating the Effect of Profitability on Income Smooting

Based on the results of the hypothesis in this study which states that Good Corporate Governance is able to moderate the effect of profitability on income smoothing has a positive effect, which means that Good Corporate Governance is able to strengthen the relationship between profitability and income smoothing. This shows that if the company has a high level of profitability supported by good corporate governance, it can reduce the possibility of the company in earnings management. One of the organs in GCG that is expected to improve

GCG management for the better is the Audit Committee and the Board of Commissioners. The Board of Commissioners is tasked with supervising the implementation of GCG, while the Audit Committee is tasked with assisting commissioners in increasing internal and external effectiveness and improving the quality of financial reports. When the company gets a high level of profitability, the possibility of taking earnings management actions will be even higher due to the Political Cost Hypothesis proposed by Watts and Zimmerman (1986) which was also discussed in the first discussion.

5. The Ability of Good Corporate Governance in Moderating the Effect of Solvency on Income Smoothing
   Based on the results of the hypothesis in this study which states that Good Corporate Governance is able to moderate the effect of solvency on income smoothing has a positive effect, which means that Good Corporate Governance is able to influence the relationship between solvency and income smoothing. This shows that independent commissioners have an effect on earnings smoothing practices. There are several explanations for this. First, the appointment of independent commissioners by companies may only be done to fulfill regulations but is not intended to enforce Good Corporate Governance (GCG) within the company. Second, the 30% minimum requirement for the appointment of independent commissioners may not be high enough to cause the independent commissioners to dominate the policies taken by the board of commissioners, so that the role of independent commissioners becomes less effective in carrying out the company's monitoring role. If independent commissioners are the majority (> 50%), they may be more effective in carrying out the monitoring role in the company. However, if the appointment is not based on the needs of the company but is only limited to fulfilling regulations, then the proportion of the board of commissioners may not need to be increased, remain in accordance with existing regulations (at least 30%), and look at the effectiveness of the board over a longer period of time. The Stewardship Theory perspective describes the separation between the ownership function and the company management function related to the presence of independent commissioners into a scheme where investors, in this case the principal, entrust the management of company resources to other parties who act as more capable and prepared stewards. Stewards have no motivation to carry out earnings smoothing practices that are detrimental to the principal, therefore the supervisory mechanism through independent commissioners is unable to influence the earnings smoothing practices that occur.

CONCLUSION

Based on the research results previously described, it can be concluded that: Profitability has a positive effect on income smoothing, meaning that the higher the level of profitability, the higher the possibility to do income smoothing. Solvency has a positive effect on income smoothing, meaning that the higher the level of solvency, the higher the possibility of income smoothing. GCG has a positive effect on income smoothing, meaning that the better the corporate governance (GCG), the higher the possibility of income smoothing. GCG is able to moderate the effect of profitability on income smoothing with a positive effect, meaning that GCG is able to strengthen the relationship between profitability and income smoothing. GCG is able to moderate the effect of solvency on income smoothing, meaning that GCG is able to influence the relationship between solvency and income smoothing.

LIMITATION

This research is not free from a number of limitations and weaknesses even though it has been designed and developed in such a way. The first limitation is that this study only uses two independent variables that influence income smoothing, namely profitability measures.

independent variables that affect income smoothing, namely profitability and solvency measures. and solvency. Then, the research period used in this period used in this study is also still limited because it is only conducted for five years, namely 2018-2022. conducted for five years, namely 2018-2022. In addition, this study also only sampled the company PT Bank Mualamat Indonesia.

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