

THE EFFECT OF CASH HOLDING AND FINANCIAL RISK ON INCOME SMOOTHING PRACTICES IN FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN THE 2021–2025 PERIOD

Karisma Dwi Nopitasari¹⁾, Moh. Ubaidillah²⁾, Maya Novitasari³⁾.

¹ Accounting Departement, Faculty of Economics and Business, University of PGRI Madiun
email: karismanopita@gmail.com

² Accounting Departement, Faculty of Economics and Business, University of PGRI Madiun
email: mohubaidillah@unipma.ac.id

³ Accounting Departement, Faculty of Economics and Business, University of PGRI Madiun
email: maya.novitasari@unipma.ac.id

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh *cash holding* dan financial risk terhadap praktik income smoothing pada perusahaan sektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2021–2025. Penelitian ini menggunakan pendekatan kuantitatif dengan data sekunder yang bersumber dari laporan tahunan perusahaan. Sampel dipilih menggunakan teknik purposive sampling. Analisis data dilakukan melalui statistik deskriptif, uji korelasi Pearson, uji asumsi klasik, dan analisis regresi linear berganda, dengan bantuan program IBM SPSS. Hasil penelitian menunjukkan bahwa cash holding berpengaruh terhadap praktik income smoothing, sedangkan financial risk tidak berpengaruh terhadap praktik income smoothing.

Kata Kunci: Cash Holding, Financial Risk, Income Smoothing

Abstract

This study aims to examine the effect of cash holding and financial risk on income smoothing practices, in food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2025 period. This study employs a quantitative approach using secondary data obtained from companies' annual reports. The sample was selected through a purposive sampling technique. Data were analyzed using descriptive statistics, Pearson correlation, classical assumption tests, multiple linear regression, with the aid of IBM SPSS. The results show that cash holding has significant effect on income smoothing, whereas financial risk has no significant effect on income smoothing.

Keywords: Cash Holding, Financial Risk, Income Smoothing

A. INTRODUCTION

Profit is crucial information in financial statements and serves as a basis for evaluating management performance and making economic decisions by investors, creditors, and other stakeholders (Fadillah & Luthan, 2023). However, management's flexibility in preparing financial statements creates opportunities for earnings management, one form of which is income smoothing, namely the deliberate reduction or increase of reported profit so that it appears stable from period to period (Angelista et al., 2021). This practice can either improve or reduce the quality of earnings information depending on its purpose, whether as a signal of performance or as a form of managerial opportunism that misleads stakeholders decision making (Hung et al., 2024).

The food and beverage sector is an important pillar of the national economy and is required to remain resilient in facing global market volatility, creating pressure on management to maintain a stable performance image in the eyes of shareholders and potentially encouraging income smoothing practices (Turnip et al., 2023). The 2021–2025 period was characterized by changes in consumer demand patterns following the pandemic, inflation, and increases in raw material prices, which contributed to instability in companies' net income. One indication of this phenomenon occurred at PT Sentra Food Indonesia Tbk, which reported a net loss of Rp12.92 billion in its interim financial statements as of September 30, 2025, despite an 11.36% increase in sales to Rp65.25 billion; the company's Eckel index was 0.49, indicating a tendency toward income smoothing practices.

One factor suspected of influencing income smoothing is cash holding, namely the proportion of cash and cash equivalents retained by a company. High cash holding provides financial flexibility but may also create agency conflicts because it gives management room to use excess cash at its discretion (Yilmaz & Samour, 2024). In addition to cash

holding, financial risk, proxied by the debt-to-equity ratio (DER), is also suspected of encouraging this practice because companies with high debt burdens face greater return demands from creditors and investors, which may encourage management to stabilize reported earnings (Putri & Nuswandari, 2022).

Previous studies have shown inconsistent results Suwandi et al., (2022), Prasasti & Febyansyah, (2024) found that cash holding has a positive effect on income smoothing, whereas Rifalda et al., (2025), Sari & Darmawati, (2021) found that cash holding has no effect. Similarly, for financial risk, Wiharno et al., (2022) found a positive effect on income smoothing, while Masning et al., (2022), Mangngalla & Kartini, (2021) found a negative or insignificant effect. These inconsistencies indicate a research gap that requires further examination, particularly by involving audit quality as a variable that may strengthen or weaken these relationships.

Based on the foregoing discussion, this study aims to analyze the effect of cash holding and financial risk on income smoothing practices in food and beverage companies listed on the Indonesia Stock Exchange during the 2021–2025 period.

1. Theoretical Review and Hypotesis Development

Agency Theory

Agency theory explains the potential conflict of interest between management (the agent) and shareholders (the principal) arising from information asymmetry. Managers who manage cash and face certain financial risks may have incentives to act opportunistically, including through income smoothing practices, to maintain perceptions of stable performance among shareholders (Fadillah & Luthan, 2023). Within this framework, audit quality functions as an external monitoring mechanism that is expected to suppress such opportunistic behavior.

Signaling Theory

Signaling theory explains that management communicates information to investors through financial statements to reduce information asymmetry. Stable earnings are considered a positive signal regarding a company's future performance and risk (Sijiu & Sutrisno, 2025), so companies with certain financial conditions, both in terms of cash availability and financial risk, may be encouraged to manage reported earnings so that they appear consistent over time.

Income Smoothing

Income smoothing is an action by management to smooth reported earnings so that they appear stable from period to period, with the aim of reducing perceived risk and increasing investor confidence (Angelista et al., 2021). This study measures income smoothing using the Eckel Index.

Cash Holding and Income Smoothing

Cash holding reflects the proportion of cash and cash equivalents retained by a company as a form of liquidity (Fadillah & Luthan, 2023). Companies with high cash reserves tend to be better able to withstand and recover quickly from financial pressures (Chang & Yang, 2022), however, excess cash may also trigger agency conflicts because managers have greater discretion in managing earnings reporting. Suwandi et al., (2022), Prasasti & Febyansyah, (2024) found that cash holding has a positive effect on income smoothing, whereas Rifalda et al., (2025) found a negative or insignificant effect, indicating that the relationship between the two still requires further examination. Based on the foregoing discussion, the first hypothesis is formulated as follows:

H1: Cash holding has an effect on income smoothing practices.

Financial Risk and Income Smoothing

Financial risk reflects the risk faced by a company in meeting its obligations and bearing financing costs, which in this study is proxied by the debt-to-equity ratio

(Masning et al., 2022). The higher the level of debt, the greater the risk borne by investors, causing stakeholders to demand higher returns, which may encourage management to engage in income smoothing to maintain earnings stability (Wiharno et al., 2022). On the other hand, high financial risk may also trigger stricter monitoring by creditors, thereby limiting management's ability to manipulate earnings (Mangngalla & Kartini, 2021). Based on the foregoing discussion, the second hypothesis is formulated as follows:

H2: Financial risk has an effect on income smoothing practices.

B. METHOD

Research Type, Population, and Sample

This study uses a quantitative approach with secondary data in the form of annual reports of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2025 period, accessed through www.idx.co.id and the official websites of the respective companies. The sample was selected using a purposive sampling technique. Based on the specified criteria, a total of 375 observations were obtained. Some observations did not meet the normality assumption, so outlier treatment was performed, leaving 183 observations for hypothesis testing.

Operational Definitions of Variables

Table 1. Measurement of Variables

Variabel	Pengukuran	Skala
Cash Holding (X1)	$CH = \text{Kas dan Setara Kas} / \text{Total Aset}$	Rasio
Financial Risk (X2)	$DER = \text{Total Utang} / \text{Ekuitas}$	Rasio
Income Smoothing (Y)	$\text{Indeks Eckel} = CV \Delta I / CV \Delta S$	Rasio

C. RESULTS AND DISCUSSIONS**1. Statistik Deskriptif****Table 2. Descriptive Statistic**

Variabel	Minimum	Maksimum	Mean	Std. Deviation
Cash Holding (X1)	0,0005	0,2340	0,071450	0,0570737
Financial Risk (X2)	0,0288	2,3329	0,907078	0,5490674
Income Smoothing (Y)	-2,0460	5,0960	0,994587	1,3512729

Source: Data processed 2026

For cash holding as an independent variable, the mean is 0.071450, with a minimum value of 0.0005 recorded by PT Widodo Makmur Unggas Tbk in 2024, indicating that the company had a very low proportion of cash relative to total assets. Meanwhile, the maximum value is 0.7756, recorded by PT Aman Agrindo Tbk in 2024, indicating that the company had a very high proportion of cash relative to total assets. The standard deviation is 0.0570737, indicating that cash holding has a high level of variation and the data can be considered homogeneous.

For financial risk as an independent variable, the mean is 0.907078, with a minimum value of 0.0288 recorded by PT Indo Pureco Pratama Tbk in 2022, indicating that the company had low financial risk. Meanwhile, the maximum value is 2.3329, recorded by PT FKS Multi Agro Tbk in 2021, indicating that the company had high financial risk. The standard deviation is 0.5490674, indicating that financial risk has a high level of variation and the data can be considered homogeneous.

For income smoothing as the dependent variable, the mean is 0.994587, with a minimum value of -2.0460 recorded by PT FKS Multi Agro Tbk, indicating a low tendency toward income smoothing practices. Meanwhile, the maximum value is 5.0960, recorded by PT Sampoerna Agro Tbk, indicating a higher tendency toward income smoothing practices. The standard deviation is 1.3512729, indicating that income smoothing has a high level of variation and the data can be considered heterogeneous.

2. Hypothesis Testing Result

The results indicate no evidence of multicollinearity, heteroskedasticity, or autocorrelation, and this study findings satisfied the normalcy test's standards. Subsequently, the analysis proceeded with hypothesis testing.

Partial Tets (t-Test)

Table 3. t-test

		Coefficients ^a	
Model		T	Sig.
1	(Constant)	-2,394	,018
	CH X1	3,117	,002
	FR X2	,839	,403

a. Dependent Variable: Y

Source: Data processed 2026

Based on the partial test (t-test), cash holding has a t-value of 3.117 with a significance value of $0.002 < 0.05$, indicating that cash holding has a positive and significant effect on income smoothing. This result shows that the higher the cash holding owned by a company, the greater the tendency of management to engage in income smoothing practices. This condition can be explained by agency theory, which states that high cash holding provides greater financial flexibility and discretion to management in managing company resources. However, excess cash may also increase the potential for agency conflicts because management has greater room to use cash at its discretion and manage earnings reporting. This is consistent with Yilmaz & Samour, (2024) who explain that high cash holding provides financial flexibility but may also create agency conflicts. This finding is also consistent with Suwandi et al., (2022), Prasasti & Febyansyah, (2024) who found that cash holding has a positive effect on income smoothing; therefore, H1 is accepted.

Based on the partial test (t-test), financial risk has a t-value of 0.839 with a significance value of $0.403 > 0.05$, indicating that financial risk has no effect on income smoothing. This result shows that the level of financial risk does not significantly affect

management's tendency to engage in income smoothing practices. The absence of an effect indicates that the level of debt is not the main factor determining management's decision to smooth earnings. Although companies may face higher financial risk, this condition does not automatically encourage management to engage in income smoothing because high financial risk may also increase creditor monitoring of the company. This finding is consistent with Masning et al., (2022) who found that financial risk has no significant effect on income smoothing. However, this result differs from Wiharno et al., (2022) who found that financial risk affects income smoothing. This difference indicates that the relationship between financial risk and income smoothing remains inconsistent, suggesting that financial risk is not the only factor determining income smoothing practices in food and beverage companies; therefore, H2 is rejected.

Coefficient of Determination (R^2)

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,440 ^a	0,194	0,171	0,82261
a. Predictors: (Constant), CH_X1, FR_X2				
b. Dependent Variable: Y				
Source: Data processed 2026				

The coefficient of determination (R^2) shows that the Adjusted R^2 is 0.171. This indicates that the independent variables, namely cash holding and financial risk, explain 17.1% of the variation in income smoothing. The remaining 82.9% is explained by factors outside the model that were not identified in this study.

D. CONCLUSIONS

Based on the results of the study, it can be concluded that cash holding has a positive effect on income smoothing practices in food and beverage companies listed on the Indonesia Stock Exchange during the 2021–2025 period. This indicates that the higher the cash

holding owned by a company, the greater the tendency of management to engage in income smoothing because high cash holding provides greater flexibility and discretion in managing company resources. Meanwhile, financial risk has no effect on income smoothing practices. This finding indicates that the level of financial risk is not a major factor determining management's tendency to engage in income smoothing. Therefore, income smoothing practices in food and beverage companies in this study are more closely associated with cash holding conditions than with the level of financial risk.

E. SUGGESTIONS

For companies, the findings of this study are expected to serve as a consideration for managing cash holding more optimally and transparently and improving the quality of financial reporting to reduce the potential for income smoothing practices. For investors, information regarding cash holding should be considered when assessing the company's financial condition and performance, rather than focusing solely on the stability of reported earnings. For future researchers, this study can be developed by adding other variables that may influence income smoothing, expanding the research to other industrial sectors, and extending the research period to obtain more comprehensive results.

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