

INCOME SMOOTHING IN SHARIA ACCOUNTING: STUDY OF LITERATURE

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Abstrak,

Perataan laba merupakan suatu proses yang memanipulasi waktu laba atau laporan laba sehingga laba yang dilaporkan terlihat stabil dan baik. Perataan laba biasanya terjadi karena laba yang dihasilkan tidak sesuai dengan harapan perusahaan. Manajer yang melakukan perataan laba pada dasarnya ingin mendapatkan berbagai manfaat ekonomi dan psikologis. Tujuan penelitian ini adalah untuk mendeskripsikan literatur tentang perataan laba dalam akuntansi syariah periode lima tahun, 2017-2022. Metode penelitian yang digunakan dalam penelitian ini adalah penelitian kualitatif dengan analisis isi makalah dari database Google Scholar. Peneliti menemukan 154 makalah, setelah melalui proses seleksi, akhirnya penulis mereview 25 artikel yang dianggap paling relevan. Peneliti menemukan empat tema terkait perataan laba dalam akuntansi syariah, yaitu faktor pengaruh perusahaan yang melakukan perataan laba, perilaku perataan laba pada bank syariah, perbandingan perilaku perataan laba bank syariah dengan bank konvensional dan perataan laba dalam perspektif syariah.

Kata Kunci: Perataan laba, Akuntansi syariah, Manajemen laba

Abstract,

Income smoothing is a process that manipulates the timing of earnings or earnings reports so that reported earnings look stable and good. Income smoothing usually occurs because the profit generated is not according to the company's expectations. Managers doing income smoothing basically want to get various economic and psychological benefits. The purpose of this study is to describe the literature on income smoothing in Islamic accounting for a period of five years, 2017-2022. The research method used in this study is qualitative research with content analysis of papers from the Google Scholar database. Researchers found 154 papers, after going through a selection process, the author finally reviewed 25 articles that were considered the most relevant. Researchers found four themes related to income smoothing in Islamic accounting, namely the influence factor of companies doing income smoothing, income smoothing behavior in Islamic banks, comparison of income smoothing behavior of Islamic banks with conventional banks and income smoothing in a Sharia perspective.

Keywords: Income smoothing, Sharia accounting, Earnings management

INTRODUCTION

In recent years, there have been many cases that indicate the practice of earnings management in state-owned companies. Not to mention that the chaotic financial reports



of PT Garuda Indonesia (Persero) Tbk have subsided, now the public is again amazed by the financial statements of PT Perusahaan Listrik Negara (Persero) or PLN and PT Pertamina (Persero). The three SOEs managed to record a brilliant performance at the end of 2018, although they stumbled until the third quarter of 2018. In retrospect, the three state-owned companies have the same key to success, namely pocketing profits thanks to recording receivables as revenue. Head of the Center for Strategic and International Studies (CSIS) Department of Economics Yose Rizal Damuri stated that recording receivables as income is one of the efforts of state-owned companies to beautify their financial statements. (CNN Indonesia).

Financial reports are used as the basis for decision-making and used as a tool to demonstrate accountability for performance management within the company (Nurul, 2017). In the business world, profit is potential information in financial statements both for internal and external parties, so it often occurs in the preparation of and presentation of financial statements management performs accounting methods with objectives related to the achievement of corporate profits. The action of management in choosing accounting methods for certain purposes is called earnings management (Rachmawati, et.al, 2006).

Earnings management is an action taken by the management that increases or decreases reported earnings and provides erroneous economic benefits to the company so that in the long run it will be very disruptive and even endanger the company (Yushita, 2010). One way to regulate earnings by the management is to perform income smoothing.

Suwandi (2017) states that income smoothing is a rational behavior based on assumptions in *Positive Accounting Theory*, where the management of a company carries out certain policies to maximize its interests. The practice of income smoothing is also carried out to provide a good image of the company because many investors think that a good company is a company with earnings that do not fluctuate with the trigger factor of the practice of income smoothing due to a decrease in financial performance.

The discussion on income smoothing in Islamic financial institutions has been reviewed by many researchers. Rara, (2021) found that profitability, financial leverage, and non-performing financing had no significant effect on income smoothing partially or simultaneously. Furthermore, Rara (2021) asserts that in the view of Islamic economics the implementation of income smoothing is contrary to the sharia principles that have been carried out by Islamic commercial banks. Harianto et al.'s research (2020) found that firm size and financial leverage affected income smoothing practices. This is different from the results of Alwiah's research (2020) where Bank Syariah Mandiri KCP Polewali is a sharia bank that holds principles by Islamic values so that it does not practice earnings management but applies moral values as the main reference in its operational activities.

Previous studies have mostly used field studies using both primary and secondary data. This research is a literature study related to income smoothing in Islamic accounting. Researchers are interested in doing this research because as far as the researcher observes, research in the form of a literature study that specifically discusses literature related to income smoothing in sharia accounting has never been done.

The researcher will discuss this paper in two sub-discussions. First, map the literature review related to income smoothing in sharia accounting. Second, analyze the themes studied in the literature study related to income smoothing in Islamic accounting.

This research is important for several reasons, namely: First, academically a literature study is needed to be a guide in seeing the development of research related to income smoothing in Islamic accounting. Second, this literature study can be an illustration for practitioners regarding the law of doing income smoothing in Islam. Third, by not doing income smoothing by Islamic financial institutions, in particular, it is hoped that the public will have more confidence in Islamic financial institutions.

LITERATURE REVIEW

Income Smoothing is defined as a deliberate reduction or fluctuation of several levels of profit that are currently considered normal by the company. Understanding income smoothing is a process that manipulates the timing of earnings or earnings reports so that reported earnings look stable and good. Income smoothing usually occurs because the profit generated is not under the expectations desired by the company (Drew Fudenberg and Jean Tirole, 1995). Scott (2015) mentions that I come from smoothing the company using smooth the reported profit so that it can reduce profit fluctuations that are too large because In general, investors prefer relatively stable earnings. In general, income smoothing can be defined as management's action in choosing accounting methods to reduce fluctuations in earnings so that the company's performance looks stable (Drew Fudenberg and Jean Tirole, 1995). Income smoothing is part of earnings management which is an effort to create normal income. This action was done intentionally by management to attract investors.

Income smoothing (income smoothing) is an effort to arrange so that the company's profits are relatively the same for some period. This effort is carried out by playing current period revenues and expenses are higher or lower than the actual revenue or cost (Sri Sulistyanto, 2008). Reserves are profits that are drawn back from the actual recognition period and are used when needed. For example, allowance for losses on receivables, the decline in the value of inventories, and others. Disclosure of earnings in financial statements can be inadequate due to income smoothing practices carried out by management, even



though this seems misleading. This can cause investors to fail in assessing the risk of their investments because investors do not have accurate information about earnings.

The Purpose of Doing Income Smoothing

Managers doing income smoothing basically want to get various economic and psychological benefits, namely: a. Reduce the total tax payable. b. Increase the confidence of the manager concerned because stable profits will support a stable dividend policy as well. c. Maintaining the relationship between managers and employees, because reporting of sharply increased profits allows the emergence of demands for an increase in salaries and wages of employees. d. The cycle of increasing and decreasing profits can be matched so that the waves of optimism and pessimism can be softened (Hery, 2015). Furthermore, the objectives of income smoothing according to Foster (1986, in Alexandri and Anjani, 2014) are 1. Improve the image that the company has low risk in the eyes of external parties. 2. Provide relevant information as a basis for predicting future earnings. 3. Increase business relationship satisfaction. 4. Improve the perception of the company's external parties on management capabilities. 5. Increase management compensation.

Hery (2015) and Foster (1986) have outlined the purpose of doing income smoothing. Based on the reasons stated above, it can be concluded that income smoothing is carried out by managers for the benefit of the company. With stable profits, the company's image will be maintained.

METHODS

The research method used in this study is qualitative research with content analysis of papers from the Google Scholar database. To get the mapping and main themes discussed in the Google Scholar database within five years, the author uses the content analysis paper method. The paper selected in this review came from a search on the Google Scholar database with the keywords "Islamic accounting" and income smoothing within the period 2018 to 2022. The search process uses the help of the Publish or Perish (POP) application. In the first stage, the author conducted a search for papers in the Google Scholar database with the keywords "Islamic accounting" and income smoothing and found 154 papers that matched the search keywords. After going through the process of reading the title, abstract, and keywords of the paper that are still relevant, there are 32. Furthermore, in the final stage, the authors obtained 25 papers as reviewed papers in this research.

DISCUSSION

This paper is an analysis of research maps related to Income Smoothing in Islamic Accounting in Indonesia in the last five years on the Google Scholar database. The results of the paper search based on the keywords of sharia accounting and income smoothing are as follows.

No	Author and Year	Title
1.	(Delta, 2021)	Pengaruh Provision For Loan Losse Dan Financial Leverage Terhadap Praktik Perataan Laba Di Bank Umum Syariah Periode 2015-2018
2.	(Apridasari, n.d.) 2020	Analisis Manajemen Laba Bank Konvensional dan Bank Syariah di Bursa Efek Indonesia
3.	(Ulfah, 2019)	Analisis Pengaruh Rasio Keuangan dan Good Corporate Governance Terhadap Income Smoothing Perbankan Syariah Di Indonesia (Studi Kasus Pada Bank Umum Syariah Periode 2012 – 2016)
4.	(Abbas et al., 2020)	Sharia banks and their business earnings: an empirical exploratory of the case of Indonesia
5.	(SARI et al., 2018)	Analisis Perbandingan manajemen Laba Pada Bank Syariah dan Bank Konvensional
6.	(Munawarah, 2017)	Pengaruh Profitabilitas, Financial Leverage dan Ukuran Perusahaan Terhadap Praktik Income smoothing pada Bank Umum Syariah (BUS) di Indonesia
7.	(Wahyudi, 2020)	Analisis perbandingan pengaruh profitabilitas, leverage dan ukuran perusahaan terhadap manajemen laba pada perusahaan sektor properti dan konstruksi yang terdaftar di indeks saham syariah indonesia dan shariah compliant securities malaysia periode 2016-2018
8.	(Ilham & Utami, 2020)	Analysis Earning Management Practice: Approach Discretionary Loss Loan Provision (Case Study of Islamic Banks di Indonesia tahun 2011-2016)
9.	(Suwandi, 2017)	Etika Perataan Laba dari Perspektif Akuntansi Syariah
10.	(Ismail, 2019)	Implementasi profit equalization reserve perbankan syariah Di indonesia dalam tinjauan fiqih
11	(Syarvina, 2021)	Penerapan akad mudharabah muqayyadah Pada bank syariah di indonesia
12	(KHOLIF, 2022)	Pengaruh board size, cash holding, financial Leverage dan non performing financing (npf) Terhadap income smoothing pada perusahaan Perbankan syariah yang terdaftar di bursa Efek indonesia (BEI) periode 2015-2020



13.	(Rahmi, 2021)	Pengaruh corporate governance, Bonus plans, debt covenant, dan firm Size terhadap manajemen laba (studi Empiris pada perusahaan perbankan Syariah yang terdaftar di bursa efek Indonesia tahun 2014-2019)
14.	(Annisa & Taqwa, 2020)	Pengaruh fair value accounting dan dewan komisaris terhadap earning management yang dimoderasi oleh peran syariah (studi empiris pada perusahaan perbankan yang terdaftar di bei tahun 2015-2018)
15.	(Shabill, 2020)	Pengaruh Financial Leverage, Ukuran Perusahaan, Profitabilitas, dan Struktur Kepemilikan Terhadap Praktik Perataan Laba
16.	(Janah, 2018)	Pengaruh manajemen laba, profitabilitas, size dan good Corporate governance terhadap tingkat pengungkapan Islamic social reporting
17.	(RARA, 2021)	pengaruh profitabilitas, financial leverage dan non performing financing (npf) terhadap income smoothing dengan good corporate governance (gcg) sebagai variabel moderating (studi pada bank umum syariah tahun 2017-2019)
18.	(Pratiwi, 2018)	Pengaruh Profitabilitas dan Solvabilitas Terhadap Income Smoothing Dengan Good Corporate Governance Sebagai Variabel Moderating
19.	(Irodah, 2017)	Pengaruh Ukuran Perusahaan dan Tingkat Kecukupan Modal Terhadap Praktik Perataan Laba dengan Profitabilitas Sebagai Variabel Intervening
20.	(Harianto et al., 2020)	Pengaruh Ukuran Perusahaan, dan Leverage Terhadap Praktik Income Smoothing pada Bank Syariah
21.	(MEGARANI, n.d.) 2019	Pengaruh tax planning, nilai perusahaan, dan leverage terhadap praktik perataan laba pada perusahaan yang terdaftar di jakarta islamic index periode 2010-201
22.	(Alwiah, 2020)	Perilaku opportunistik dalam praktik manajemen laba Dengan nilai akhlak sebagai ethicality judgment (Studi Pada Bank Syariah Mandiri KCP Polewali Mandar)
23.	(Ainun, 2017)	Praktik manajemen laba efisien dan kesesuaian nilai-nilai islam pada perbankan syariah di indonesia
24.	(Rahmatika et al., 2020)	Sight Beyond Sight: Foreseeing Fraudulent Financial Reporting through the Perspective of Islamic Legal Ethics
25.	(Syahputri, 2019)	Studi komparatif praktik earnings management pada bank konvensional dan bank syariah di indonesia dan malaysia

Descriptive quantitative

Papers by year of publication

Year	F	%
2017	4	16
2018	3	12
2019	4	16
2020	9	36
2021	4	16
2022	1	4

Papers by publication type

Publication Type	F	%
Journal	11	44
Proceeding	1	4
Thesis	13	52

Paper-based on methodology

Research Design/Methodology	F	%
Qualitative Method	6	24
Quantitative Method	18	72
Mixed Method	1	4

Paper-based on the discussion theme

Theme	F	%
Factors influencing the company to do income smoothing	15	60
Income smoothing behavior in Islamic banks	5	20
Comparison of income smoothing behavior of Islamic banks with conventional banks	3	12
Income smoothing in Sharia perspective	2	8



Factors Influencing Companies Doing Income Smoothing

Research on income smoothing that is quantitative in nature is mostly done to test the factors that affect income smoothing. In quantitative research, the influencing factor is known as the independent variable, while income smoothing as the affected variable is called the dependent variable. The results of the literature review found many factors as independent variables that affect companies in performing income smoothing. These factors include corporate governance, profitability, financial leverage, company size, cash holding, bonus plan, debt covenants, fair value accounting, board of commissioners, capital adequacy level, and ownership structure (Munawwarah, 2017; Irodah, 2017; Jannah, 2017). , 2018; Annisa & Takwa, 2020; Sabil, 2020; Delta, 2021; Rahmi, 2021). In addition to these factors, of course, many other factors influence companies in performing income smoothing, in line with research developments.

Furthermore, research on factors that influence income smoothing behavior is also developed by using moderating variables as factors that influence the independent variables and the dependent variable. The moderating variable used is good corporate governance (Pratiwi, 2018). This means that corporate governance can strengthen or weaken the relationship between variables or factors that influence income smoothing. In addition to using moderating variables, research on factors that influence income smoothing has also used profitability as an intervening variable. This means that the study tries to prove that the relationship between the influencing factors or independent variables with income smoothing as the dependent variable is not a direct influence, but is an indirect relationship mediated by profitability factors (Iradah, 2017). Although the results of this study cannot prove profitability as an intervening variable, at least research on factors affecting income smoothing has been growing by trying to find variations of the relationship between factors that affect income smoothing.

Income Smoothing Behavior in Islamic Banks

Income smoothing in Islamic banks is usually done by using the instruments *Profit Equalization Reserve* (PER). PER is a reserve that is formed by Islamic banks by taking a certain amount from the gross profit from financing (mudharabah) issued or set aside before allocating it to *mudharib* to provide *returns* /results more evenly distributed to account holders and shareholders. Reserve this fund can be used when the financing profit-sharing decreases so that the bank can maintain a certain level of financing profit for the benefit of managers and owners of capital (Syarfina, 2021). This means that income smoothing in Islamic banks is implemented in the form of mudharabah, especially mudharabah muqayyadah (bound investment). Mudharabah muqayyadah is a sharia bank

principle in raising funds which can be defined as a collaboration between the owner of the fund and the manager of the fund for a limited productive business and dividing the results according to the agreed ratio. The hallmark of this principle is that the fund manager, in this case, the Islamic bank, can only channel these funds in sectors that have been determined by the owner of the funds (customers). This means that Islamic banks do not have the freedom to channel these funds as usual under other cooperative principles.

According to the fatwa of the National Sharia Council, which is the supervisory agency of Islamic banks, No. 87/DSN-MUI/XII/2012 income smoothing in Islamic banks may be done by forming a reserve fund (*Profit Equalization Reserve*) to reduce excessive frustration over profit-sharing between the bank and the owner of the funds (customers). The reserve fund established by the sharia bank is derived from the allowance for the difference in profit of the sharia bank that exceeds the rate of return/yield projected for the adjustment of the profit-sharing of the *muthlaqah (muthlaqah) funds*. If the customer's funds are deposited using a *mudharabah muqayyadah contract*, if agreed by the parties, the formation of a profit-sharing adjustment reserve can also be derived from the allowance for customer profits that exceed the projected profit-sharing rate. In addition to using the *Profit Equalization Reserve instrument*, income smoothing in Islamic banks can also be done by setting the recognition and reporting of profits from time to time to regulate profit sharing between Islamic banks and customers without the formation of reserves (DSN Fatwa No. 87/DSN-MUI /XII/2012).

Based on the DSN fatwa, the practice of income smoothing is allowed by Islamic banks to provide stable profit sharing for Islamic bank customers. Profit-sharing to customers is an important thing that must be considered by Islamic banks because it is related to the *going concern* of Islamic banks. Customers who save their money in Islamic banks certainly expect a stable profit sharing to continue to want to keep their money in Islamic banks. Islamic bank customers usually compare their income from profit sharing with interest in conventional banks. This of course poses a problem because interest has been set based on the BI interest rate (BI rate) regardless of the profit level of conventional banks, while profit sharing is given based on the profits earned by Islamic banks, which can fluctuate sharply. Therefore, to avoid the volatility of profit-sharing for customers, Islamic banks are allowed to perform income smoothing as decreed by DSN.

Comparison of Income Smoothing Behavior of Islamic Banks With Conventional Banks

Based on the operational principles, banks are divided into two, namely commercial banks and Islamic commercial banks. In everyday terms, Islamic commercial banks are



better known as Islamic banks, while commercial banks are more familiar with the term conventional banks. Another theme of income smoothing research is the comparison of income smoothing behavior between Islamic banks and conventional banks. The studies conducted found varying results. There is research that finds there is no significant difference in income smoothing behavior between Islamic banks and conventional banks (Sari, et.al., 2018). Other studies have found that there are differences between the two (Apridasari, et.al., 2019). Even though they both carry out income smoothing, the level of earnings management carried out by Islamic banks is smaller than the level of earnings management carried out by conventional banks (Apridasari, et.al., 2019).

Research on this theme then develops towards comparing Islamic banks and conventional banks between countries. In this case, the countries used as research subjects are Indonesia and Malaysia. The research findings show that Islamic banks in Indonesia and Malaysia both perform income smoothing as conventional banks in the two countries also do the same thing. Interestingly, the results of this study found that there are differences in the income smoothing practice of conventional banks between Indonesia and Malaysia, while the income smoothing practices of Islamic banks have no differences between the two countries. Based on the test results, it was found that the level of earnings management of conventional banks in Indonesia is higher than the level of earnings management of conventional banks in Malaysia (Syahputri, 2019).

This difference is caused by the concept of earnings management itself which is a management action by exploiting gaps in accounting techniques and standards. The accounting standards used by conventional banks in Malaysia fully adopt IFRS, while conventional banks in Indonesia use PSAK. Currently, the adoption of Indonesian PSAK is in the form of harmonization or part, not yet fully adopted. This difference can cause differences in earnings management practices between the two countries. In Indonesia, many types of earnings management practices are carried out and there are many underlying motives for carrying out earnings management because the accounting standards used still have some gaps to do so. In Malaysia, earnings management is getting lower along with the number of disclosures made by management because of the demands of the IFRS standards adopted by Malaysia in full. Unlike the case with Islamic banks. The similarity in the level of earnings management between Islamic banks in Indonesia and Malaysia is because Indonesia and Malaysia both use sharia standards and international accounting standards AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) as the basic guidelines for developing sharia standards and sharia accounting standards. Although Indonesia has PSAK Syariah, basically the standard is an adoption of AAOIFI which was also adopted by Malaysia.

Income Smoothing in Sharia Perspective

Income smoothing is an action taken by the company to reduce fluctuations in profit in a certain period. This action is carried out by moving profits from periods of high profit to periods of low profits to present stable profits in each period. According to the sharia perspective, income smoothing behavior is an act that violates sharia. This is because the behavior of income smoothing is an action that is contrary to the rules of fiqh muamalah . Muamalah in Islamic legal principles emphasizes the values of honesty, justice, truth, responsibility, and trust in reporting (Rahmatika, et.al., 2020).

If we look closely, the practice of income smoothing contains elements of fraud (tadlis) and obscurity (gharar) arising from the presence of a party hiding information from another party (unknown to one party) to intentionally deceive another party for their ignorance of the information. If this action is proven, then this is prohibited in Islam, because it violates the principle of "an taraaddin minkum" (equally pleased) in muamalah (Suwandi, 2017). Tadlis and gharar occur due to concealment (defect) of information that is not known by one of the transacting parties and the lack of clarity, causing information asymmetry among users of financial statements. This means that there are parties who intentionally hide the "defects" in the financial statements and on the other hand there are those who do not know the "defects" in the financial statements. For those who are not aware of these "defects", this situation can have a fatal impact on the strategic decisions taken by users of these financial statements.

Departing from the concept of Islamic law in muamalah, Islamic business ethics is very relevant to continue to be developed as a solution to the problem of income smoothing. Ethics are expected to be able to create a clean and healthy business that can provide benefits to many parties. The principles of aqidah, worship, and muamalah are related entities. Islam regulates all aspects of life not only to create benefits for oneself but more than that how so that all the work carried out provides benefits for the benefit of the people and in the end as a provision for the hereafter.

CONCLUSION

Income smoothing is an action taken by the company to reduce fluctuations in profit in a certain period. This action is carried out by moving profits from periods of high profit to periods of low profits to present stable profits in each period. According to the sharia perspective, income smoothing behavior is an act that violates sharia. This is because the behavior of income smoothing is an action that is contrary to the rules of fiqh muamalah . According to the fatwa of the National Sharia Council, which is the supervisory agency of Islamic banks, No. 87/DSN-MUI/XII/2012 income smoothing in Islamic banks may be



done by forming a reserve fund (Profit Equalization Reserve) to reduce excessive frustration over profit-sharing between the bank and the owner of the funds (customers).

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