

Measurement and Analysis of Income Smoothing using the Eckel's Model and Analytical Procedures

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As a result of the gaps in the checking methods, multiple alternatives are available in accounting policies and accounting standards which are used in the areas of measurement and disclosure of the preparation of financial statements. Sometimes, these alternatives allow the economic units to improve the competitive position or the profitability of the company in the market to where it is not true in real life, which negatively affects the quality of declared earnings. The researchers conclude that some companies smooth their profit to improve their competitive position in the market. Therefore, the accounting information users needed to know the companies that smooth their income, and Eckel's model can determine which company is smoothing its income. If Eckel's indicators were less than one that means the company smooths its income, therefore there is a requirement for another procedure to detect income smoothing practices. The researcher concluded that one of the research samples (Ishtar Hotel) smooths its profits, as the Eckel's index showed less than one, which then required using the analytical procedures to know the details of income smoothing by this hotel, and the study indicates there are some distortions in the revenue side.

Key words: *Income smoothing, Eckel's model, Analytical Procedures.*

Introduction

Sometimes, economic unit administrations use the accounting practices to improve their competitive position in the market. Although this change is not real, either in profitability or in financial position, it is exploiting gaps in external auditing methods or taking advantage of the multiplicity of accounting standards alternatives that will allow the misuse in the areas of



measurement and disclosure in order to prepare the financial statements (Hoarau, 1995). The most recent example of these methods is Enron and the giant of telecommunications (WorldCom)(A. N. J. I. J. o. A. R. i. A. Obaidat, 2017). These businesses were either directly colluding with their auditors or there may be significant negligence the part of auditors causing significant misrepresentation of their business results and financial positions, which has led to a significant drop in the prices of their shares in the financial market. Consequently, the contributors and creditors of those units suffered from the significant losses. The problem of this study focuses on some corporations using the accounting methods to enhance their income in order to improve the financial situation in terms of profitability and financial position, in order to achieve their self-objectives.

This study is trying to answer the following questions;

-If using the "Eckel" model can measure income-levelling practices?

-If the analytical procedures can help in identifying the income smooth practices?

The Study Hypothesis Includes

H0: The nihilistic hypothesis: There are no significant statistical indicators of income smoothing practices in Iraqi companies during the period 2013-2016.

H1: The Alternative Hypothesis: There are significant statistical indicators of income smoothing practices in Iraqi companies during the period 2013-2016.

The Objective of this Study

The objective of this study is to identify the income-smoothing indicators by using the Eckel's model and analytical procedures.

The importance of this study comes from the importance of the income smoothing issue because some companies' administrations use this as their means of income enhancement. This could be achieved in an attempt to improve the financial situation both in terms of profitability and financial status to achieve their self-goals. This study is unique (as the researcher knows) in detecting the income-levelling practices through the use of both the Eckel's model and analytical procedures.

Literature Review

1-(Al-Taie, Flayyih, & Talab, 2017): this study confirmed that the accountant has achieved profits by doing some practices including accounting uncertainty. The study aims to clarify practices relating to the measurement of income and accounting reservations of economic units listed on the Iraqi Stock Exchange. The study recommended to design a model in order

to measure the impact of the income-smoothing exercises through the application of accounting reservations.

2. (Al Baaj, Al-Zabari, Al Marshedi, & Journal, 2018): the study confirmed that economic units, during economic disturbances, are able to change the accounting methods to the required level to avoid failure (loss). Consequently, management reaches the required level of income number, which is called income levelling. In similar circumstances, the administration prefers to set the income on the real (fluctuating) income. This opening income allows economic units to avoid the capital-market from declining and that leads to producing undesired outcomes for stakeholders. If management can classify profits or income-levelling as actual estimation and accounting practice in the actual estimate, the administration can reach the target income by changing transactions between the economic unit and the stakeholders, while the accounting practice allows the administration to change accounting policies or accounting estimations.

3. (Manukaji, 2018): the study confirmed that corporate governance and income-smoothing techniques were used in Nigerian banks after multiple cases of failure to make a deposit in these banks. Company size and leverage were entered as fixed rather than variable variables. The Eckel's model was used to determine the income smoothing in the sample banks for the period of (2012 to 2016). The study concluded that there was a relationship between income smoothing for bank deposits and governance mechanisms. Proprietary banks had a high indicator of income smoothing. These banks must adhere to the governance mechanisms to reduce income levels and thus improve the quality of accounting information.

4. (Amina & Engineering, 2018): this study measures the concept of income smoothing using the Eckel's model in 30 French companies. The study concluded that there is no statistical indication of the existence of income-levelling techniques in these French companies during the period of (2007-2009).

5. (Younis, 2018): Management may employ the income smoothing practices to establish cookie jar reserves and big bath accounting because the firm management has a prevalent range of alternatives from accounting choices in terms of the recognition and timing of the transactions, especially those which are related to revenues and expenses. Income smoothing is an essential issue in financial accounting because it widely influences the quality of accounting information. Moreover, the content of the financial reports has changed, so the users of these financial reports generally will not distrust them.

6. (Kartikawati, Yuliana, Tarmizi, & Issues, 2019): The study aims to analyse the impact of the size of the company, profitability, and leverage on the decline of company value that perform income-smoothing on the Indonesian stock market in 2012-2014. The study results

showed that the changes in the size of the company, the return on assets and the financial leverage, have no significant impact on the level of the decline in the stock price. Also, the results show that there is no difference in value between companies that are using income-smoothing and companies that do not.

7. (Salemi & Jamshidinavid, 2019): This research looks at the effect of profit smoothing on the formation of a pricing bubble. The study sample is 128 companies on the Tehran Stock Exchange for the period of (2012-2016). These samples were determined using the Eckel's model. The F test at 5% showed that the income smoothing and the profit margin does not affect the formation of a pricing bubble. One of the most important proposals is that managers should not deflate income because it creates a price bubble and thus affects the investment of shareholders in the financial market.

8. (Yanti, Dwirandra, & sciences, 2019): Profitability is one of the factors that affect income smoothing. Profitability is measuring the management effectiveness of a company. Moderating the effect of profitability on the income smoothing practices depends on the variables of a good corporate governance and dividend payout ratio. Seven companies with 5 years of observation were selected as a sample in this study. The Eckel index was used to measure the variable of income smoothing practice. The ROA (Return on Asset) ratio was used to measure the variable of profitability. The CGPI score was used to measure the Variables of good corporate governance. The dividend per share formula divided by earnings per share was used to measure the Dividend payout ratio. Logistical binary regression and Moderated Regression Analysis (MRA) was used as the analysis technique.

The Concept of Income-Smoothing Policy

The income smoothing policy is one of the undeclared policies of management used to control the quantity and quality of information that must be disclosed in the financial statements (Osma, Mora, Porcuna-Enguix, 2019). The adoption of this policy depends to a large extent on how management uses the flexibility available in the selection of accounting methods, policies, and estimations to minimise fluctuations in income across successive accounting periods.

Researchers have used other terms for income smoothing, including earning management, creative accounting, and accounting numbers game (Škoda, Lengyelfalusy, Gabrhelová, 2017). These concepts express the wishes of management to change, delete, or misrepresent the stated accounting figures to reach the desired results for the users of financial statements. Several concepts have emerged to regarding income smoothing.

Some studies have focused on the concept of income smoothing as intended interference by the management in order to reduce income distortions and fluctuations. Using certain accounting tools can achieve management wishes under the accepted accounting principles (Menicucci, 2020). While (Demerjian, Lewis-Western, McVay, 2017) have known income smoothing as the deliberate control by management to minimise extraordinary profit variability to the permitted extent by generally accepted accounting principles.

(Moses, O Douglas, 1987) defined income smoothing as the management desire to minimise unexpected deviations in income (increase or decrease) to keep profits within certain limits over consecutive years to maintain market share prices. Other studies focused on the methods that are used for income smooth using accounting methods and policies, which is known by (Rivard et.al, 2003, P288) as income smoothing as it is the practice of using accounting methods to reduce fluctuations in the net income. Other studies focused on accounting estimations for income smoothing as they were known (A Lambret, 1984) & (Acharya & Lambrecht, 2015) as the choice of accounting estimations to limit fluctuations in the income over consecutive years in an attempt to show more stable income.

Types of Income Smooth

1. Real Smoothing

It indicates that management are smoothing the actual or economic transactions to manoeuvre the revenues and expenses of the period to have the desired effect on the income. In other words, the control of the transaction timing and the reliance on financial events can contribute to reduce undesired deviations in income. This is often associated with accounting standards that determine when the transaction is recognised. This can thus be utilised through the advance or delay of revenue recognition (Al-Abdullah and Al-Hessenawi, 2006, p. 35).

2. Artificial smoothing

The management is doing accounting manipulation by changing the timing of income recognition, and the timing is achieved by exploiting the flexibility available in common accounting policies and methods without any economic change in the performance of the unit. This manipulation transfers costs or revenues from one accounting period to another and it does not affect cash flows. This manipulation affects accounting figures by changing the accounting methods and policies, and an example is the change of depreciation methods (ECKET, 1981, P29).

3. Smoothing of the financial statements items classification

This occurs when management uses its estimation to classify certain items of revenue and loss, either regular or unusual items. This estimation ensures that unexpected deviations in the unit's normal income are reduced (Barnea et. Al, 1994).

Tools and Methods for Income Smoothing

According to the accounting thinking, management is using several methods and tools to reach the desired results. The following are some of these methods and tools used to smooth the income.

1. Change of accounting policies

Some units may change accounting methods and estimations as part of their accounting policies. Accounting literature indicates that changes in accounting methods and estimations show management's desire to achieve specific objectives, including income smoothing. Sometimes the units find that the balance sheets are better if the accounting methods and measures that are currently used are changed to reduce agency costs and debt contracts. In both cases, it requires accounting disclosure in the balance sheet of the effect of those changes (Belkaoui, 2009, p110).

2. Change of accounting methods

It includes a change in the accounting method or a shift from a common method or policy to another method and policy. For example, change or shift in stock pricing methods or change in methods of depreciation. This change contributes to the increase or reduction of income achieved. The economic unit must be addressing the effects of change during the current period if one of the methods is changed, and the cumulative effect of previous years is calculated by re-preparation of the financial statements from the previous years according to the new method (Mulford and Comiskey, 2002, p287).

3. Change in items classification

Is using this classification to influence the reported income from operational activities (Osma et al., 2019). Its purpose is to reduce unexpected deviations of income by classifying unusual items within the regular activities of the unit.

4. Form of Provisions

Provision is a burden on revenues (Hines Jr, 2017). Also, it is considered to be an annual expense. The purpose of the provision form is according to the accounting standards (conservatism), and allowances of the assets or obligations with unrecognised risks are assigned, such as the allowances of fixed assets.

The accounting measurement alternatives are going through accounting standards at both the international and local levels and this has an impact on the significance of the financial statements, income statements and balance sheets and thus on the decisions that depend on the extracted accounting information from these financial statements. The researchers believe that the income-smoothing policies are the result of flexibility in the used accounting

standards, for example, the change in the accounting policies and methods and forming of provisions. Therefore, the researcher will use the Eckel model and the analytical procedures to measure the income smoothing indicators.

Eckel Model Concept

The 1981 Eckel model is based on the assumption that there is a linear relationship between revenue and costs (N. J. I. J. o. B. Obaidat, 2018). This relationship grows or falls at the same rate. Therefore, when this linear relationship is not observed, there is an intervention by the executives to smooth the results. To know the indicators of income smoothing according to this model, the coefficients are extracted for both profits and revenues. When the profit's coefficient is lower than the revenue coefficient, it indicates that the company has smoothed their income. The following relationship shows the income smoothing index (Younis, 2018):

$$\text{CVA\%Net Profit} \leq \text{CVA\%Sales} = \text{Smoothing}$$

Where

$$\text{CVA\%Net Profit} = \frac{\text{Net Profit} - \text{Net Profit}_{-1}}{\text{Net Profit}_{-1}}$$

$$\text{CVA\%Sales} = \frac{\text{Revenue} - \text{Revenue}_{-1}}{\text{Revenue}_{-1}}$$

From this data, income smoothing is estimated using Eckel's index formula (Schloegl, Schmidt, Boeckle, Weiss, & Kotrschal), this shows that if the index obtained is less than 0.9, the company performs income smoothing, and if the index is greater than 1.1, the company does not perform income smoothing.

The Concept of Analytical Procedures

Analytical procedures are the basic tests that the auditor uses for studying and evaluating the relationships between financial and non-financial data and comparing these relationships to find deviations (Mansour & Kalib, 2019). Then he/she sets hypotheses explaining these deviations and choosing the appropriate procedures to verify these hypotheses, according to the auditor's experience and his/her professional sense in auditing.

Analytical procedures serve as a guide for the auditor on the integrity of the results, the recorded values, and the significant changes in these results. This requires the auditor to focus on specific items to find the reasons why some given indicators are low or high.

Analytical procedures use statistical and mathematical tools such as financial ratios analysis and trend analysis. Besides these, it uses the regression analysis and indicators analysis (Valaskova, Kliestik, & Kovacova, 2018). The following is a definition of these tools:

Financial Ratios Analysis

Financial ratios are concerned with studying the values of the presented elements in the financial statements and accounting reports to add meaningful and important indications to the data. In other words, it is studying the relationship between one or several components (Munir Muhammad et al., 2005).

Trend Analysis

It is the analysis of changes in the balance of a specific item or items during a previous accounting period. The analysis generally focuses on a comparison between the balances of the previous year with the balances of the current year (Amin Lutfi, 2005).

Regression Analysis

It depends on the causal relationship and this means that the change in the independent variable is a major cause of the change in the dependent variable.

Analysis of Indicators

It is a comparison of the relationships between the accounts included in the financial statements. A comparison of an account with non-financial data, or a comparison of relationships between entities operating in the same industry,

Types of Analytical Procedures

Analytical procedures vary according to the types of data that the auditor compares. Here is the most important aspect in the use of analytical procedures to choose the most appropriate type of them. There are five main types of analytical procedures (Moolman & Journal, 2017):

1. Comparing the data of the audited entity with the industry data in which the company works helps provide useful information about the performance of the audited entity. This is done by comparing the difference between the natures of the financial information of the audited entity with the data that represents the total activities of other entities.
2. Comparing the data of the audited entity with the corresponding data in the previous period where the auditor compares the financial ratios and indicators of the audited entity

for the current fiscal year with the ratios and financial indicators for previous years. If a significant increase or decrease is observed in one of these ratios and indicators, she/he should foresee the reasons that may lead to that increase or decrease according to her/his experience. Then, she/he outlines the evidence she/he should collect to confirm these possibilities. Or in which analytical procedures vary in which the auditor compares the data of the audited entity with the corresponding data in a previous period or periods. Examples include:

1. Compare the balance of the current year with the equivalent in the previous year.
2. Compare the total balance of accounts with the corresponding amount in the previous year.

Comparing the Data of the Audited Entity with Its Expectations

This type of the analytical procedure is applied when the auditor is checking the government units (Ježovita, Tušek, & Žager, 2018). Most management units prepare the estimated budgets for accounting periods and then compare them with actual data.

Comparing the Data of the Audited Entity with the Auditor's Expectations

An auditor performs the calculations to expect the values of some of the balances in the financial statements. Then the auditor compares the results of these analytical procedures with the data of the audited entity. Then, the auditor identifies the balances that require examination and collect their evidence.

Comparing the Data of the Audited Entity with the Results of Non-Financial Data

This type is used to verify the balances of some accounts or to estimate some balances, such as the production cost of oil, which is represented by (the cost of producing a barrel x the amount of production). The auditor cannot rely on this type of analytical procedure unless she/he is sure of the accuracy of the non-financial data.

Efficiently and effectively applying the analytical procedures is an effective method to achieve the effectiveness of the audit process. The auditor achieves the objective of the audit process and reaches the material deviations in the financial statements in a faster manner. Also, the efficient and effective analytical procedures achieve the efficiency of the audit process. The auditor performs the audit process at the lowest cost and with the least possible effort.



The Third Section: Practical Aspect

Historical Background about the Study Sample, Measuring Income Smoothing Practices Using the Eckel Model and Analyses of the Income Statement through Analytical Procedures

This section deals with a brief history of the study sample company (Ishtar Hotel). The Eckel model is used to measure the income smoothing indicators. Also, the income statement is analysed using analytical procedures and financial indicators to detect the income smoothing practices in this statement. The researcher will perform the temporal comparison of previous years with the base year in the Ishtar Hotel for the period (2013-2016).

The year (2013) was considered a base year (because it is more stable compared to its predecessors) to know the changes that occurred between the financial indicators for that period and the base year. The Babylon Hotel and the National Hotel for Investment and Real Estate were chosen to compare the information of the study sample with the information of the same sector because they are similar to the Ishtar Hotel in their work. This choice is to make the comparison process closer in accuracy and objectivity to reach a fair and appropriate judgment for the performance of the economic unit.

A Brief History of the Study Samples Hotels

Ishtar Hotel was built-in 1982 and is the second tallest building in the Iraqi capital after the Baghdad Tower. It includes 16-stories with a height of 118 meters above sea level. The hotel is distinguished by the architectural style of Al Baghdadi, it is located on the side of Rusafa and is considered as one of the excellent hotels. The hotel contains 310 rooms and more than 50 private suites in addition to the presidential suites. It contains private conference and meeting rooms, a swimming pool, cafe, saunas and beauty salons. It is overlooking the Tigris River.

The Babel Hotel is also located in the Iraqi capital, Baghdad, on Karrada Street, also overlooking the Tigris River. The hotel was designed by Slovenian architect Eduard Ravincar to be built in the city of Boudoua in Montenegro in Yugoslavia. Then the project was cancelled and designs were taken for construction at the new site in Baghdad. The hotel was opened in 1982 as the Oberoi Hotel Babylon and was run by the Oberoi Hotels and Resorts Company. After the Gulf War in 1991, the hotel was managed locally till October 2014. The Babel Hotel joined the Warwick hotel chain that represents the international company that worked on the construction and development of the hotel to rise to the standards of modern international hotels around the world. The hotel contains 300 newly developed rooms and suites, eight restaurants, a spa, and indoor and outdoor swimming pools, and meeting rooms.



The company works in the field of managing and operating hotels for providing various services related to providing some services related to establishing tourist facilities.

The National Hotel for Tourism Investment and Real Estate Project

The National hotel works in the field of managing and operating hotels and providing various services to hotels, owners, and operators of hotels and tourist resorts. Also, it provides some services related to the establishment of tourist facilities. The hotel was established on May 08, 1978.

These hotels are listed on the Iraq Stock Exchange under the tourism sector.

Measuring of Income Smoothing Practices Using the Eckel Model

To test is to see whether or not the income-smoothing practices exist in the study sample. The mean (M) and the standard deviation (S) are determined. The variance coefficient for both the change in net income (ΔI) and the change in sales (Δs). Both are necessary to determine the value of the income-smoothing practices index (df) for the three study sample companies.

Table (1) shows the statistical analysis of data for the three research sample hotels, the Eckel's model is chosen because the required information for this model being available and the sobriety of this model, as it was used in many previous studies.

Table 1: Statistical analysis of the data of the study sample hotels

Companies	2013	2014	2015	2016	average	standard variance	C.V	DF
National for tourism investment and real estate project	2139661589	1665890981	1063548287	1163377706				
	22473860	55725564	79507105	307765492				
total revenue	2162135449	1721616545	1143055392	1471143198	1624487646	429647420.6	0.264482	
net income	1168168685	762180938	311821924	737359589	744882784	349794457.3	0.469597	1.775535
Ishtar Hotel	2798348084	275273000	2764624478	2775975571				
	3992507	26994537	44244000	52500000				
total revenue	2802340591	302267537	2808868478	2828475571	2185488044	1255529459	0.574485	
net income	1983286692	1823529806	943127640	1653027606	1600742936	458681181.6	0.286543	0.498782
Babylon Hotel	246971968	153114873	27531979	1243061469				
	35115051	17222038	1013019625	7622014				
total revenue	282087019	170336911	1040551604	1250683483	685914754.3	539638262.9	0.786742	
net income	8671852	8671852	694630946	936702686	412169334	476284311.3	1.155555	1.468784

It is clear from the statistical analysis of the data of the research sample companies shown in table (1) that the value of the income smoothing practices index (df) in the Ishtar Hotel is less than (1). So, the Ishtar Hotel is smoothed its profits, which requires additional analysis of the financial statements of the Ishtar Hotel and its comparison with other hotels to get more details of the income smoothing practices in the Ishtar Hotel. The result of the Eckel model is tested as the following:

Npar Tests

/Binomial (0.50) =Df

/Statistics Descriptives

/Missing Analysis

NPar Tests

Descriptive Statistics					
	N	Mean	Std. Deviation	Minimum	Maximum
df	3	.6667	.57735	.00	1.00

Binomial Test						
		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
df	Group 1	1.00	2	.67	.50	1.000
	Group 2	.00	1	.33		
	Total		3	1.00		

The results of the Binomial Test show that the studied sample of the Iraqi companies has practiced income smoothing during the period 2013-2016 by 33% with a total of 1 out of 3 views, while the percentage of non-practiced is 67% with the total of 2 out of 3 views. Because of the value of sig=1 is more than 0.05, thus, the alternative hypotheses were rejected and the H0 is accepted. We can conclude that there are no significant statistical indicators of income smoothing practices in Iraqi companies during the period 2013-2016.

Analysing the Financial Statements of the Study Sample Company to Detect the Income Smoothing Practices

The research sample company applies the unified accounting system and local accounting rules derived from the international accounting standards. Below are the most important results of the financial statements (income statement) of Ishtar Hotel:

Revenues and Expenses

Comparing the Expense Balances with Those of the Previous Years

With the financial statements of the research sample company, table (2) has been prepared as follows:

Table 2: Shows balances of current expenses for the period (2013 - 2016)

Statement/ year	2013	2014	2015	2016
Total balances of current expenses	819,053	656,737	1,865,740	1,175,430
Increase ratio %	-	116%	228%	144%

(Researcher prepared the schedule based on the financial statements of the Ishtar Hotel)

The tables above show a significant increase in current expense balances during the calendar years compared to the base year. Expenses Ratios is reached (116%, 228%, 144%) during the years from (2013 - 2016) respectively compared to the year 2013. The financial statements of

the company in the research sample show that the reason for the increase in the current expenses is the increase in salaries, wages, commodity requirements, and service requirements and other uses.

Comparing the Total Revenue Balances with Those of the Previous Years

Referring to the financial statements of the research sample company, table (3) has been prepared as follows:

Table 3: Shows balances of current revenues for the period (2013 - 2016) (million Iraqi dinars)

Statement/ year	2013	2014	2015	2016
Total balances of current revenues	2798348	275273	2764624	2775975
Increase ratio %	-	10%	99%	99 %

(Researcher prepared the schedule based on the financial statements of the Ishtar Hotel)

The above table shows an increase in the revenues of the current activity during the evaluation years. Revenues are reached to (10%, 99%, 99%) increase rates compared to 2013. This increase in the current activity revenues during the calendar years indicates that unusual matters that require verification during additional auditing procedures. According to the applied standards that include the flexibility in measuring revenues require the personal judgment of the accountant when:

- The amount of revenue is measured reliably.
- It is expected that the company will obtain the economic benefits associated with the measurement process.

Sales Trend Analysis Referring to the financial statements of the research sample company, table (4) has been prepared as follows:

Table 4: Shows sales ratios for the period (2013 - 2016)

year	The percentage of change from the previous year Ishtar Hotel	The percentage of change from the previous year Babylon Hotel	The percentage of change from the previous year National Hotel for tourism investment and real estate project
2013	-	-	-
2014	97%	62%	69%
2015	97%	2%	37%

2016	98%	595%	51%
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(Researcher prepared the schedule based on the financial statements of the Ishtar Hotel, Babylon Hotel and National Hotel for tourism investment and real estate project)

We note from the above table that an increase in sales of the Ishtar Hotel is greater than the increase in sales of the Babylon Hotel and the National Hotel. This gives an indicator to the auditor to investigate for the important reasons that lead to an increase in sales and to maintain the level it has reached.

Comparing the Percentage of Gross Profit with the Same Ratios in the Previous Years and with Industry Indicators

Referring to the financial statements of the research sample company, table (5) has been prepared as follows

Table 5: Shows profit gross ratios for the period (2013 - 2016)

Statement / year	2013	2014	2015	2016
Surplus of current operations	2197530	1850661	1618565	2014396
Total balances of current revenues	2798348	275273	2764624	2775975
Gross profit ratio	79%	672%	59%	73%
Industry ratio - Babylon Hotel	32%	13%	0.35%	79%
Industry ratio- National for tourism investment and real estate project	58%	48%	33%	48%

(Researcher prepared the schedule based on the financial statements of the Ishtar Hotel)

The above table shows the following:

First: An increase in the percentage of the gross profit of the research sample company.

Second: It is noted from the table (5) that there are unusual fluctuations in the gross profit in the study years.

Third: the gross profit ratios of the research sample company when comparing with its counterparts in the industry, it turns out that the gross profit ratios of the economic unit are very high compared to those in the same industry.

Fourth: The reason for the above fluctuations may be due to distortions in net sales. There are distortions in the cost of the sold goods, also, there is a difference in the selling prices of the products of the research sample company. These distortions occurred as a result of the flexibility in using the criteria to measure revenue reasonably. The company is expected to obtain the economic benefits associated with this process through the multiple revenue recognition points.



Conclusion

The Eckel model is one of the good examples of an income-smoothing index due to the simple mathematics processes that it includes. An additional analysis of the income statement is required to get the places of these practices through the use of the so-called analytical procedures. The researchers concluded that the Ishtar Hotel smoothed its income because the Eckel index is less than one, and this lead the researchers to analyse the main items of the Ishtar Hotel income statement to get to know where the spots of income smoothing practices are. Income smoothing practices occur as a result of the flexibility in the accounting standards that allow several options for the same accounting treatment. Especially in this study, the timing of recognition of revenue which depends on the personal judgment of management in classifying unusual activities within the normal activities. Also, the administration uses their personal judgment in applying an accounting policy that it believes leads to appropriate and reliable information. Furthermore, the weakness of the accounting staff of the research Sample Company or their ignorance of accounting technical matters.



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