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The impact of income smoothing practices on stock prices

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Abstract : This research aims to know the extent of the existence of income smoothing practices in Iraqi commercial banks and what is its impact on stock prices and to know the motives and reasons for adopting the management of banks operating in the Iraqi Stock Exchange to practice income smoothing behavior, and to clarify the impact of income smoothing practices on stock prices in sample banks. The research aims to ensure that the banks in the research sample likely to practice income smoothing have reaped the benefits of positive changes in their stock prices. The research reached a set of conclusions, the most important of which is that the phenomenon of income smoothing clearly affects the stock prices of banks practicing income smoothing. This prompted the researcher to present a set of recommendations, the most important of which is working to expand the understanding and awareness of users of financial statements of income smoothing practices and their impact on distorting the image of financial statements, as well as urging accountants and auditors to follow supervisory and other methods to ensure the accuracy and validity of accounting work and work to reduce flexibility. Which are provided by the accounting rules and standards that departments exploit to practice income-smoothing behaviour.
Keywords: income smoothing practices - stock prices - commercial banks.

Introduction: It is known and self-evident that companies aim to maximize their profits and resources to help them survive in a strong market amidst fierce competition from other companies. Therefore, company managements seek to maintain a relatively stable and stable income for a number of years by various means available to them due to flexibility or gaps in generally accepted accounting principles and standards. It is necessary to influence the accounting information in the financial statements and thus achieve many purposes, including influencing the company's stock prices in the market. The research includes four sections; the first dealt with the research methodology and the most important previous research, while the second dealt with the definition of income smoothing, its motives and methods,

The third section covers stock prices, their types, and their risks. The fourth section deals with the application of Miller's model to uncover income smoothing practices and their impact on the stock prices of smoothing companies. The final section, the fifth, includes the conclusions and recommendations assumed by the researcher.

The first section

research methodology and previous research.

The section presents the research methodology and some previous research related to the research variables as follows:

First: Research methodology:

The research problem, objectives, importance, and hypothesis will be presented, as well as other pillars of the research methodology, as follows:

1- Research problem:

Income smoothing practices are one of the most important problems facing the process of showing the company's true and actual financial performance because they involve misleading and beautifying users of the company's financial statements. Accordingly, the research problem can be determined in the lack of knowledge of the extent to which commercial banks listed on the Iraqi Stock Exchange practice smoothing income in the financial statements to reach the incomes desired by those banks, the stability and non-fluctuation of these incomes, which are consistent with achieving their goals, and the lack of clarity of the extent of their impact on stock prices in The time period for announcing the financial statements. Accordingly, the research problem can be summarized by answering the following questions:

A - Do Iraqi commercial banks listed on the Iraq Stock Exchange practice income smoothing in their financial statements?

B - To what extent is this impact reflected in the stock prices of Iraqi commercial banks listed on the Iraq Stock Exchange?

2- Research objectives:

The primary objective of the research is to determine the impact of income smoothing practices by Iraqi commercial banks listed on the Iraqi Stock Exchange on their share prices.

In detail, this research aims to do the following:

A - Determine the extent of the practice of banking management for Iraqi commercial banks listed on the Iraqi Stock Exchange to smooth income in their financial statements.

B - Study the extent of the impact of the relationship between income smoothing practices and stock prices of Iraqi commercial banks listed on the Iraq Stock Exchange.

C - Identify the practice of income smoothing in terms of the concept, its motives, methods and techniques for practicing it, means of measuring it, and an introduction to stock prices, its types, and risk.

3-The importance of research:

Explaining the extent of the practice of income smoothing in Iraqi commercial banks listed on the Iraq Stock Exchange and its impact on stock prices, which benefits users of the financial statements of those banks, especially investors, in rationalizing their economic decisions in a better way, and also benefits the Iraq Stock Exchange in rationalizing the decisions and procedures for registering banks and trading their shares. It also benefits regulatory bodies in increasing their ability to detect misleading practices in financial statements, and also benefits bank management in abandoning this behavior and issuing financial statements that adequately and honestly express the financial position and results of the bank's activity. Therefore, what this research will reveal will provide positive results that contribute to ensuring the progress and continuity of the success of these banks in their performance. These results can also constitute an entry point for monitoring the conditions of these banks and stopping income smoothing practices.

4- Research hypotheses:

The research assumes the following two hypotheses:

The first hypothesis: Commercial banks listed on the Iraqi Stock Exchange practice income smoothing in their financial statements.

Hypothesis 2: Income smoothing practices have an impact on the stock prices of bootstrapped companies.

5- Research limitations:

A - Spatial boundaries: This research was applied to a number of private joint-stock companies registered in the Iraq Stock Exchange within the banking sector. This sector was chosen for its economic and financial importance because it constitutes the largest percentage of financial transactions in the Iraq Stock Exchange among the rest of the market sectors.

B - Time limits: They represent the years from (2016-2022) for the sample of selected banks, and the year 2023 was not covered because the financial reports for that year were not published for most banking sector companies.

6- Methods of collecting data and information:

In its theoretical aspect, the research relied on local, Arab and foreign sources and literature related to the research topic, including books, periodicals, research, dissertations and university dissertations. Reliance was also made on obtaining some scientific sources and research from the websites of the World Wide Web. As for the applied aspect of the research, to provide the necessary data, reliance was placed on the annual financial reports of the banks in the research sample, the directory of joint-stock companies listed on the Iraq Stock Exchange, and the management and auditors' reports for the years (2016-2022).

7- Financial analysis methods: Table (1-1) shows the measures that were used in the research, as Miller's model was adopted to measure income smoothing practices, in addition to the approved measure of banking stock prices for the banks in the research sample, as follows:

Table (1-1)Search indicators metrics

No.	Indicator	The scale used for the calculation
1	**(MR)Miller ratio**	**MR = (DWC / CFO)t-0 – (DWC / CFO)t-1**
2	**Stock prices**	**Based on the closing stock prices of the commercial banks in the research sample, published in the Iraq Stock Exchange**

Source: Issued by the researcher

Second: Previous research:

Studies that dealt with one or more of the research variables will be presented as follows:

A-Local research

(Study by Saeed and Hassan, 2019)	
Research Title	The effect of income smoothing policy on the quality of accounting profits
The research sample	Iraqi banks operating in Erbil Governorate for the period extending from 2013-2017, and the study was applied to a sample of 10 banks listed on the Iraqi stock market.
kind of search	Published research - Ge-Lai-Zanest Scientific Journal
Research Methodology	Analytical – exploratory
Research objective	The study aimed to demonstrate the effect of income smoothing on the quality of accounting profits represented by (the continuity of profits, the predictive ability of profits, and the quality of accruals).
The most important conclusions	The study found a statistically significant effect of income smoothing on the continuity of the flow of profits and predictive ability. Still, there is no statistically significant effect of income smoothing on the quality of profits represented by the quality of receivables.

B-Arabic research

(Bukhnaf and Hawalli study, 2021)	
Research Title	The effect of income smoothing practices on market value
The research sample	The study was conducted on a sample of 10 Saudi joint stock companies active in the basic materials manufacturing sector for the period extending from 2014 to 2017.
kind of search	Published research - Algerian Journal of Human Security
Research Methodology	Descriptive-analytical
Research objective	Determine the effect of income smoothing practices on market value by finding the relationship between income smoothing and market value
The most important conclusions	I concluded that there is no relationship between Saudi joint stock companies active in the basic materials manufacturing sector preparing their income and their market value for the period extending from 2014 to 2017.

C-Foreign research

study(Fatima et al,.2019)	
Research Title	Is there any association between real earnings management and the crash risk of stock price during uncertainty? Evidence from family-owned firms in an emerging economy
The research sample	Is there any correlation between real earnings management and the risk of stock price crashes during uncertainty? Evidence of family-owned Businesses in an emerging economy
kind of search	By applying family business data for the time period 2005-2018, the empirical results provide evidence that real manipulation has a significant impact on stock market crashes in a developing economy like Pakistan among family businesses.
Research Methodology	Published research
Research objective	Descriptive-analytical
The most important conclusions	This research aims to analyze the relationship between earnings management's manipulation of real activities and the collapse of stock prices. Furthermore, we analyze the indirect consequences of the collapse resulting from the application of real earnings management.

The second topic
income smoothing

First: Definition of income smoothing

The accounting literature deals with multiple definitions of income smoothing. The reason for this difference is due to the different viewpoints of researchers and writers, each of whom looks at it from a different perspective. The concept of income smoothing will be identified according to the chronological sequence of definitions as follows:

Koch's study referred to income smoothing as "the means used by management to reduce fluctuations in declared income figures compared to expected or targeted income by manoeuvring with imaginary (accounting) variables and real (operational) variables" (Koch, 1981:57).

Also, in the same context, Al-Shirazi believes that smoothing income is “to reduce the severity of the discrepancy and fluctuations in the income figures for different accounting periods” (Al-Shirazi, 1990:110).

Belkaoui believes that income smoothing is “an intentional adjustment of declared income to reach the required level and expresses management’s desire to reduce abnormal deviations in income to the extent possible or permissible under acceptable accounting and management principles” (Belkaoui, 2000:48).

(Bukhnaf and Hawalli, 2021: 515) indicated that income smoothing is management’s intervention when the achieved income is significantly far from the expected income, to reduce fluctuations in income using accounting techniques and methods by exploiting the flexibility provided by accounting rules and standards.

Income smoothing is defined as a behavior practiced by management to reduce fluctuations in income, to present the company’s performance in the most beautiful way to the users of the financial statements, to achieve its intended benefits (Al-Masoudi and Maghamis, 2023: 798).

The researcher believes that smoothing income is adjusting income through a deliberate intervention that suits management’s orientations and preserves its interests first by exploiting the flexibility available to it in accounting principles and standards, whether in making operational decisions related to the timing of the

company's actual transactions or in making accounting decisions related to applying a set of Accounting methods and procedures that would reduce the severity of fluctuations in declared income.

Second: Types of income smoothing:

Financial and accounting research and studies have classified income smoothing into two main types:

1- Natural smoothing: Although income smoothing is a type of profit management that is carried out deliberately, it includes natural smoothing, as natural smoothing results from the natural processes of generating income in the economic unit without any unnatural or intentional influence on it by the management (Al-Otaibi (2016:12).

2- Intentional smoothing: It is sometimes called designed smoothing, where managers smooth the income intentionally or deliberately by using one of two methods, which are:

A - Real smoothing: This type focuses on operational decisions related to economic events through a change in real activities or specific commercial transactions or changing the time of actual operations to achieve the goal of smoothing through the administrative flexibility that management enjoys to control some operational decisions. ,

The real boot is characterized by not being easily discovered by auditors due to several considerations, the most important of which are (Ismail and Karamah, 2016: 102)

First - This type of preliminary is not specific to a specific process, as it is the result of multiple processes that can be used at the same time, in addition to being far from matters of accounting evaluation.

Second - The difficulty of distinguishing between ordinary management decisions regarding economic events and its decisions regarding smoothing income. An example of this is in the case of selling part of the company's equipment; the reason may be to achieve gains that lead to adjusting profits to reach the desired numbers, or the reason may be to provide the necessary financing to replace this part.

B- Accounting smoothing: It is sometimes called in some literature artificial smoothing, which is represented by management's manipulation of the timing of income recognition by exploiting the flexibility available in generally accepted accounting policies and methods and in line with its desire to smooth income without an economic change in the performance of the economic unit. This means that the accounting smoothing does not directly affect cash flows, but rather some accounting numbers through a change in the accounting policies and methods used.

It is also possible to practice income accounting smoothing by reclassifying the income statement items, and in this case, the management depends on some smoothing variables that can be classified as normal items or extraordinary items within the permissible limits (Al-Duwairi, 2015: 19).

3- Classification smoothing: In addition to real smoothing and accounting smoothing, a number of researchers, such as (Al-Masoudi and Mughamis, 2023: 798) and (Al-Omrani, 2013: 263), added another form of income smoothing, which is classification smoothing, and classification smoothing depends mainly on the income statement paragraphs. ,

Management can benefit from some items in the income statement to reduce the fluctuation occurring in it and work to ensure its stability, as management in some companies classifies normal items into unusual items and vice versa, in accordance with its policy and the plans drawn up by it.

Third: Motives for income smoothing practices

Many motives push the administration to practice income smoothing in order to maintain a constant, stable, and non-fluctuating income from year to year, which must be explained as follows:

1- Motives related to financial markets:

The financial markets receive great attention in all countries of the world, and they are of great interest to economic units that seek to increase their capital. This is done by convincing those in the market of the efficiency of their performance, which is reflected in their stock prices through the information reflected in the financial statements, which are widely used by many market participants.

The motives for smoothing income related to the financial market are also related to inflating the profits of the economic unit to be consistent with the predictions of financial analysts or the predictions of management itself in order to prevent any fluctuations or fluctuations in stock prices in the short term (Ali, 2021: 17). These motives include the following:

A- Impact on stock prices:

The separation of ownership from management and the display of unit shares for public trading led to the units being exposed to problems of administrative agency, and the motives of the capital market based on shareholders' rights are one of the mechanisms used to reconcile the interests of management with the interests of shareholders in the long term.

Shareholder rights-based motives encourage managers to maximize the value of their shares (Al-Sakani, 2016: 39). Accounting information is widely used by investors and analysts to help evaluate stocks, creating an incentive for managers to manipulate profits and try to influence the price and valuation of stocks in the short term.

The studies recently conducted on the capital market's extreme motives for managed profits focused on the behavior of unexpected receivables during the accounting period when the possibility of capital market motives for income smoothing practices being high.

These include studies on income smoothing in the periods surrounding capital market transactions, when there is a gap between unit performance and the expectations of investors and analysts (Ali, 2021: 18).

B- Interviewing financial analysts' expectations:

The main goal in managing any company is to maintain a profit level in successive periods to increase its stock prices in the financial markets. Meeting the expectations of financial analysts about the company and its performance in the financial markets is considered one of the most important motivations in managing any company in practicing income smoothing methods.

The use of income smoothing methods is sometimes due to increasing the financial value related to the performance of institutions that do not have the appropriate conditions, whether in investment or operation, to achieve any increase in financial value naturally without intervention from management in the institution. If management does not intervene, a negative image will appear in The market, especially in front of shareholders, and therefore one of the primary motivations for using income smoothing practices is to positively impact the reputation of the institution and meet the expectations of financial analysts (Ali, previous source: 18)

2- Contractual motives:

Agency theory describes a firm as a set of contractual relationships, which is achieved through one or more contract agreements. Income smoothing carried out by managers can obscure information about actual profit. Agency theory states that agency relationships are a contract with one or more persons as principals and the appointment of other persons as agents to perform services for the benefit of the principals,

Including delegation of powers in making agent decisions (Lahaya, 2017), agency theory explains the differences in interests between agents and owners or shareholders, which is the case if management sometimes takes the best actions to achieve the interests of owners (Sellah & Herawaty, 2019) as executors. For the company, management tries to show the beautiful face of the company's performance to achieve specific goals.

A conflict of interest may arise between management, shareholders, and creditors, which leads to multiple contractual costs, such as the costs of monitoring the owner or management's behaviour and the costs incurred by management to reduce conflicts of interest. Accordingly, contracts are used to reduce the negative effects of conflicts of interest between management, shareholders, and creditors Jabbar, 2018:5). The most important of these contracts are as follows:

A- Borrowing contracts (debt): The debt-to-equity hypothesis states that the greater the company's debt-to-equity ratio, the greater the likelihood that the manager will choose appropriate accounting methods and policies, i.e., practice income smoothing (Langli, 2011: 8).

(Sheneen et al., 2018) indicated that one of the motives for smoothing income is to avoid violating borrowing contracts, and given the large number of disputes resulting from conflicts of interest between shareholders and creditors, borrowing contracts often include conditions for management's restrictions to limit these conflicts.

These restrictions include limiting management's ability to distribute profits to shareholders, issue new debt, or grant them the right to repay it early (Shanin et al., 2018: 27).

B- Management bonus contracts: The presence of a bonus in exchange for increasing profits allows management to use income smoothing practices, as they tend to use accounting methods that increase the company's profits to increase their bonus (Marantika et al, 2021:5078).

There is a great deal of knowledge that considers financial rewards as the motivator for income-smoothing practices. Poor business performance affects managers' pay and incentives, leading them to use income-smoothing practices to manipulate financial statements (Skoda et al. 2017).

C- Employment contracts: Many studies have indicated that managers in different economic units tend to use accounting means and methods that lead to reducing the company's declared income. This is because announcing high levels of income will push workers and trade unions to demand that the economic unit (the company) increase the Remuneration of workers and improve their conditions. Attention is drawn to the expectations of financial analysts regarding the profits expected to be achieved in the near future, in addition to the historical financial statements of those companies to determine their ability to pay wages and the levels of those wages. In this regard, managers should take the following into account when choosing means that work to smooth income (Al-Omrani, 2013: 28).

3-Organizational motives:

The work of joint stock companies imposes various legislations that may generate motivation for managers to practice income smoothing. These legislations may be specific to a specific sector, such as the banking sector, which is subject to special legislation, such as capital adequacy requirements, and they may be general legislation, such as anti-monopoly legislation or others.

The presence of these legislations motivates management to manipulate income so that companies appear to be committed to these legislations for the purpose of avoiding government intervention. Sometimes they work to reduce their profits to appear less profitable to reduce the possibility of attracting political attention (Nima, 2018: 17). There are forms of regulatory motives for smoothing income, including:

A- Political motives:

Political costs represent the burdens that the economic unit bears as a result of the laws and regulations imposed by the state, such as laws related to increasing workers' wages, improving working conditions, exercising price control on products, placing high burdens on the unit, and increasing tax rates.

Consequently, these factors will push the management in these companies towards working to reduce income in order to avoid the political costs imposed on the economic unit.

The reason for this is the presence of an unusually high income, which increases the possibility of exposure to external pressures and interference in the unit's affairs.

When financial managers believe that there is an impact of the company's declared profits on legislation makers and government agencies, they will follow accounting methods to reduce income in order to reduce political pressures in addition to reducing the impact of legislation on the organization. Examples of political costs include the following: (Hathout and Bourdima, 2022: 346).

First: The costs resulting from government intervention related to reducing the prices of the company's products to serve consumers

Second: Costs resulting from imposing new taxes on the company or increasing current taxes.

Third: Costs resulting from trade union demands to raise workers' wages or improve their living conditions.

B- Tax motives:

Taxes imposed on corporate profits depend directly on accounting numbers, which prompts management to choose alternative accounting methods and policies that reduce taxable profit. Also, a company that resorts to reducing its profit is motivated to pay lower taxes (Al-Tamimi, 2016: 12).

One of the methods used to achieve this purpose is the method of calculating the depreciation of fixed assets, as management chooses the method that increases the depreciation expense in the current period, which leads to a decrease in income and thus a decrease in tax payments (Marantika et al, 2021).

Tax payments are also directly related to the income or profit achieved, and therefore the tax evasion factor is one of the important factors in explaining the administration's behavior towards smoothing income.

When rational management makes decisions related to accounting methods and procedures for preparing financial statements, it should take into account the impact of following these methods on income, whether it increases or decreases, and thus the impact of that impact on the amount of tax owed by the company (Al-Omrani, 2013: 28).

4- Methods and techniques for smoothing income

Accounting literature has mentioned a number of the most important methods that can be used to smooth income, including the following: (Ali, 2021: 19), (Al-Masoudi and Mughamis, 2020: 106), and (Bukhnaf and Hawalli, 2021: 517).

- Accounting changes.
- Unusual paragraphs.
- Configure allocations.

The use of both accounting changes and the formation of provisions leads to a direct impact on net income, while the use of unusual paragraphs in the so-called classification smoothing of income leads to an impact only on ordinary income without affecting net income. The following is a review of these means and methods:

1-Accounting changes:

Accounting changes made by companies from one period to another affect the company's income in the period of change, and their impact may extend to the periods preceding the period of change.

There is no doubt that the multiplicity of accounting alternatives that management can choose from leaves ample room for management (within the limits of applicable rules and instructions) to intervene, whether in choosing the accounting policy followed in the company or in changing its accounting policy (Al-Masoudi and Maghamis, 2020: 106).

Accounting changes include more than one concept. They include changes in the accounting policy followed in the company, changes in accounting estimates, as well as changes in the accounting unit itself, while accounting changes do not include any change in the classification of paragraphs. When the paragraph is calculated in the same way, but it was disclosed in a similar way. Different from previous years, such a change is not considered an accounting change. In general, accounting changes can be classified into three types:

A- Change in accounting policy:

It includes any change in the application of a particular accounting method to another recognized method. Examples that express the impact of these policies on the company's declared income are through the change in policies regarding methods of depreciation of fixed assets, such as switching from the decreasing installment method to the fixed installment method or vice versa, and others (Ali, 2021: 19).

B- Change in accounting estimates:

As a result of the company's operation in an unstable environment surrounded by risks and a state of uncertainty, it is unable to calculate its financial statements accurately, and this requires an accurate estimation process due to the great importance of this process in many studies, as it requires providing the latest information and accounting estimates of future cash flows can be made. The fair value of the economic unit's assets accurately. Examples of accounting estimates that can be made are as follows: (Ali, previous source: 20).

First - Long-term assets: The useful life of the asset and its expiration value at the end of the period are calculated.

Second - Debtors: This is done by calculating the number of doubtful debts due to the inability of some debtors to fulfil their obligations.

Third - Natural Resources: The company's reserve amount is calculated from these resources in order to know the rate of their depletion. There are estimates that are calculated in order to fulfill some expected obligations. There are many examples, including warranty costs for products or losses resulting from some lawsuits filed by some parties against the company and others. .

C- Change in the accounting unit itself:

All changes that occur in the accounting units are reported publicly in the financial statements, as it requires the process of re-preparing the financial statements after making accounting changes. This ensures that the financial statements are continuously updated after any change. There must also be an explanation to the users of the financial statements about the nature of The reason for any change in the accounting unit to help them understand these changes when they want to buy or acquire a specific company. This requires that unified financial statements be prepared. This process does not affect the measurement of profits as much as it affects the process of reporting those profits. Examples of changes in the unit Accounting according to what follows: (Ali, 2021: 20).

First: Manipulating the valuation of assets of the merged companies.

Second: Integrating business results into the financial statements before the actual merger.

Third - Getting rid of the subsidiary: When profits decline due to the decline in the performance of a subsidiary, and there are expectations that the decline will worsen in the coming period, to get rid of this subsidiary there are means, including the following:

Fourth - Sale of the subsidiary: The profit or loss resulting from the sale is recorded in the income statement during the current period

Fifth - Changing the subsidiary company to an independent company: In which the share of the subsidiary company is distributed to the current shareholders, or is exchanged with them, as any negative results of the subsidiary company are eliminated from all financial statements, as accounting standards require re-preparing the previous period's data, as they Reflects the company's remaining results.

2-Unusual paragraphs:

Unusual paragraphs have gained great attention from the authorities authorized to set standards in terms of identifying them and methods of treating them because of their impact on the ability of information users to predict the future profitability of the company.

Unusual paragraphs represent the results of unusual events or transactions; that is, they do not arise as a result of the company's normal activities and operations. The Australian Accounting Standards Review Board (A.S.R.B.) has determined that The Accounting Standards Review Board (1989) provided the following definition for unusual paragraphs:

((Unusual paragraphs are paragraphs of income and expenses that can be attributed to events and transactions that do not fall within the normal activity or normal operations of the accounting unit and that are of a non-recurring nature)).

Based on the previous definition, events and transactions are treated as unusual items in the income statement if the following two conditions are met (Al-Shammari, 2016: 28):

A- That the event or transaction results from unusual circumstances, that is, that it is not related to the normal activity or normal operations of the company.

B- The occurrence of the event or transaction is infrequent, such that its occurrence cannot be predicted accurately.

However, if both conditions are not met in the event or transaction, they are not considered unusual events or transactions.

Also, if one of these two conditions is met and the amount of gains or losses resulting from it is large, it must be disclosed in the income statement as a separate paragraph within the company's normal activity paragraphs. Examples of unusual events and transactions include the following:

1- Write off large amounts of debtors' balances, inventory, rented equipment, or intangible assets.
2-Gains and losses resulting from the transfer or exchange of foreign currencies.
3-Gains and losses resulting from the sale of assets such as appliances and equipment.
4-Gains and losses resulting from the sale of investments.
The interest in identifying unusual paragraphs and disclosing them separately in the financial statements mainly aims to reduce the possibility of using them to manoeuvre income, especially since setting standards for defining and treating income resulting from unusual events and transactions reduces the scope for manoeuvring in those paragraphs.
The use of unusual paragraphs to manoeuvre income can be done in the following two ways (Buchnaf and Hawalli, 2021: 517).
First, unusual events or transactions are classified as regular or unusual items with the aim of affecting the company's regular income, or what is called income classification smoothing.
This method of maneuvering does not affect the company's declared net income, but rather affects the net income from (current) operational activities.
Secondly - through the timing of the occurrence of unusual transactions, as it is possible to time the occurrence of some unusual transactions such that their effect contributes to smoothing income, such as the timing of the sale of assets, the timing of the sale of investments, the timing of writing off debts, or the writing off of inventory...etc. This method of manoeuvring directly affects the company's declared net income.
There is no doubt that classifying the income of unusual activities and transactions as part of the company's regular activity income greatly affects the process of analyzing the financial statements and the expectations of financial analysts for the future profitability of the company, especially since the optional classification of unusual items leads to concealing the reality of the company's operational performance through its impact, on (normal) net operating income, which is an indicator of performance and an important element in predicting the company's future profitability (Al-Masoudi and Maghamis, 2020: 107).

3- Formation of allocations:

The purpose of creating provisions is to confront uncertain (potential) losses that affect the company's financial position and the outcome of its business, as the accountant faces a number of situations that result in some potential gains and losses. The general rule in accounting (which prevails among most accountants) stipulates that potential gains are not recognized, while potential losses are recognized in the application of the doctrine of reservation if these losses are expected to occur and the ability to estimate them with a reasonable degree of accuracy is available. Examples include amounts of doubtful debts, a decline in foreign exchange rates, a decline in investment prices, a decline in inventory prices...etc
This requires the formation of allocations to confront the resulting losses in the future, and among these allocations are the following: (Ali, 2021: 21).
A- Provision for doubtful debts.
B- Provision for the decline in investment prices.
C- Provision for the decline in foreign exchange rates.
Allocations are one of the elements of a subjective nature in the financial statements (that is, they are subject to personal estimates). This subjective nature in the formation of allocations gives management a degree of freedom in determining the amount of the allocation that achieves the desired level of income.
This is because the policy of determining allocation amounts directly affects the process of measuring income, as management may resort to reducing allocation amounts or even writing them off in years of poor performance with the aim of increasing income in those years. The use of the method of forming allocations in smoothing income depends largely on the degree of Flexibility available to management in this regard.
Many studies have proven the management's ability to use allocations to manoeuvre income (Al-Masoudi and Maghamis, 2020: 107).

The third topic

Stock prices

1- Definition of stock prices

Shares are among the most common and traded securities in the financial market. Shares are a source of long-term financing. They are a share in an institution that gives its holder the right to obtain a profit if the bank achieves profits.
Due to the importance of stocks, there have been many definitions around them, including:
A stock is a type of securities of equal value used in trading. Another is that its holder is entitled to obtain fixed returns from the company's profits, in addition to a share in the company's assets, which are recorded in the share certificate. These shares are issued during the incorporation stage. (Al-Wadiya, 26:2016)

On the other hand, (3: 2017, Aldaas) believes that the share price is defined as the total value of the share in the market in addition to all the costs that the investor pays for the share.

Both Suarka & Wingustini defined the stock as an instrument that proves its holder's ownership of a share in the invested capital. It is evidence of participation as an owner in companies. There is a variety of reliable information. Stock prices in the capital market are very necessary for investors because it will help investors obtain the maximum The amount of profits made on stock investing (Suarka & Wiagustini, 2019:3931).

The share is defined as a share within the company's shares that is subject to individual or collective ownership. The shares constitute a percentage of the company's capital and the percentage follows the amount of the share of the share by the investor (Jassem, 2021: 42).

2-Types of shares

Although most companies own only one type of stock, which is common stock, sometimes companies use a classification of stocks to meet their specific needs in general, and several classifications have been mentioned that can be summarized as follows (Hussein, 2019: 47) and (Jassem, 2021: 23). And (Chamoun, 2017: 23):

A - In terms of the right enjoyed by its owner, it is classified into:

First: Ordinary shares:-

It is a type of securities issued by companies to investors in exchange for their investments, where shareholders are granted ownership rights. Each shareholder must have at least one share. In general, there are no restrictions regarding the maximum number of shareholders in the entity, as well as in determining the total number of shares that may be issued by an entity. parameswararm,2011:97).

Ordinary shares are considered one of the company's main resources, especially at the beginning of the establishment, because they do not bear the company any costs and burdens or costs to others, as in preferred shares and bonds. The concept of the share is an ownership instrument that can be traded and its holder receives an unstable return in addition to a share of the company's profits (Abbas, 2018). : 77).

Second: Preferred shares: -

They are ownership rights because they are securities that grant ownership rights to shareholders, as is the case with ordinary shares, but they differ from them in that their owners possess some privileges that ordinary shareholders do not enjoy, including recovering the value of their shares if the company is liquidated before ordinary shareholders, and they also have priority in Obtaining dividends before ordinary shareholders, as the distributions of proceeds from the sale of assets are arranged in the following order (creditors, bondholders, preferred stockholders, common stockholders) (Glavan, 2014: 10, 11) (Brigham and Daves, 2016: 297).

Third: Enjoyment shares:

These are the shares that are given to the original shareholders in the company without compensation as compensation for their original shares that were consumed during the life of the company. There must be a law in the company that allows this procedure. These shares are granted by drawing a lottery to the shareholders. The purpose of giving these shares is in order to maintain the relationship with the shareholders. The old members whose shares in the company have been consumed, and the shares appear as a result of the reserves that were converted into capital, and the owner of these shares has the right to vote and other rights.

B- In terms of the share paid by the shareholder, it is classified into:

First: In-kind shares: They are in-kind shares (land, buildings, machinery, equipment) in the company's capital. The company issues these shares in exchange for the assets it owns (Balqt and Nahal, 2016: 15).

Second: Cash shares: - They are a cash share in the company's capital. This type of shares is not tradable in the financial markets beyond the final establishment of the company, and the subscriber must be able to pay their value in cash.

Third: Mixed shares: - These are the shares whose value is paid upon subscription in two forms, the first in cash and the second in kind, which is why they are called mixed (Hamisi and Balgarbi, 2016:8).

C- Classification of shares in terms of form: They are classified into:

First: Nominal shares: - They are the name of the shareholder mentioned in the records kept by the company that issued those shares, and when these shares are traded in the financial market, their ownership is transferred to the name of the new shareholder.

Second: Bearer shares: - These shares are not registered in the name of a specific person, and their ownership is transferred from one person to another, and their owner is the person who acquires them at the time.

Third: Warrant shares: - The company has the right to issue its warrant shares, which must be fully paid, i.e., all of their nominal value has been paid. The ownership transfer process takes place through the endorsement method. In this type of shares, the last shareholder cannot be identified and is not included in its records.

3- Types of risks

There are specific risks that investors must be aware of when investing in stocks, which can be explained as follows (More, 2021:1829):-

A - Risk of capital loss: The market's perception is negative towards the company with poor performance, which leads to the share price falling to less than the price you paid for the share.

Or it may reach zero in the event that the company stops practicing its activities and business, and consequently, its shares become non-tradable and it is possible that it will be delisted from among the companies listed on the financial market.

B- Volatility risks: These risks result from fluctuation in stock prices, and investors must be aware that the stocks they own may be exposed at any time to significant price fluctuations in short periods.

C- Market risks: Market risks are represented by a decline in the entire stock market, which results in an impact on the prices and values of all stocks and securities. These risks are affected by external factors such as political developments and changes in interest rates.

D- Sector-specific risks (industry-specific): This type of risk faces a specific sector, for example, tourism and transportation companies are affected by news of terrorist attacks, Covid-19, and others.

Recession periods can provide opportunities to buy, and investors must make a decisive decision in light of this type of risk.

Either to persevere and confront crises and difficult circumstances or to sell its shares to avoid further financial losses due to the continuous decline in its share prices.

The fourth section

Hypothesis testing results

1-Search procedures:

In this paragraph, the research procedures will be presented in terms of a description of the research sample and the research tool used to test the hypotheses, as follows:

A- Research sample:

For the purpose of applying the measurement model for the independent variable (income smoothing), one of the Iraqi commercial banks active in the Iraqi Stock Exchange was chosen. The following is an introductory overview of the research sample bank:

United Bank for Investment (BUND):

United Investment Bank in Iraq was established as a private joint stock company pursuant to the Certificate of Incorporation No. (M). No. 5762 dated 8/20/1994 (issued by the Companies Registration Department in the Ministry of Commerce in accordance with the provisions of Article (21) of the Companies Law (36) of 1983, as amended, with a capital of (1,000) million dinars. He obtained a license to practice banking in accordance with the provisions of Paragraph (1) of Article Forty-One of the Central Bank of Iraq Law No. (64) of 1976, as amended, and it began its activity in banking and investment operations in early 1995.

United Investment Bank is one of the leading Iraqi banks in the field of banking within the limits permitted by law in the field of providing various banking services that depend mainly on mutual trust for the benefit of both parties. With experience and full commitment to all instructions and using advanced banking technology, the capital has been increased by a percentage of 300% based on the decision of the General Authority of United Investment Bank taken at its meeting held on Monday, May 4, 2009, in accordance with the provisions of Article (55/First) of the Companies Law No. 21 of 1997 in force, so that the company's capital becomes (100) billion dinars,

Equivalent to (85) million US dollars. The bank's capital was also increased during the year 2010 to become (150) billion dinars, equivalent to (127.5) million US dollars. Then, the bank's capital was increased during the first half of the year 2011 to become (200) billion dinars, and then the capital was increased during the year (2012) to (250) billion dinars. The capital increased during the year (2013) to (300) billion dinars with the approval of the General Authority of Bank Management.

The bank aims to contribute to economic development and revitalize its activities by practicing comprehensive banking activities, which were approved by the General Assembly within the framework of the general policy of the state, by practicing commercial and specialized banking activities in addition to investment banking activities and financing operations with medium and long-term economic feasibility for private and mixed sector agricultural, industrial, commercial and tourism projects. Construction and services are under the supervision and control of the Central Bank of Iraq in accordance with the provisions of its Law No. (56) of 2004 and the instructions issued pursuant thereto, as well as the provisions of the Companies Law No. (21) of 1997 in force.

B- Search tool:

After the sample was selected, the necessary data was extracted from the bank's annual reports listed on the Iraqi Stock Exchange and the directory of joint-stock companies issued by the market. In the field aspect of this research,

we relied on the methods described below to analyze data for the banks in the research sample as a research tool and a means of testing its hypotheses: -
First: The researcher adopted the Miller model to measure income smoothing practices to measure income smoothing practices, which is calculated according to the following equation: -
IS = (DWC/CFO) t-0 – (DWC/CFO) t-1
Since:
IS: income smoothing.
DWC: Change in net working capital.
CFO: Net cash flow from operating activities
t-1: previous year. **t-0:** current year.
In light of the results of the income smoothing index (IS), the company can be classified as income smoothing or not. If the value of (IS) is equal to zero, then the company is classified as one of the companies that does not practice income smoothing.
However, if the value of (IS) differs from zero (either negative or positive), the company is classified as practicing income smoothing.
It is worth noting that the lower the income smoothing index according to the Miller model and the closer to zero, the more this indicates a low level of practice and vice versa. The researcher would like to point out that this model was chosen for the following reasons: -
1- This model is considered one of the most recent models and the most capable of detecting income smoothing practices in order to avoid the negatives and defects in other models.
2- It is characterized by objectivity because it is based on a statistical basis that provides a clear measure of income smoothing practices, as it does not include making estimates of expected income or some other variables necessary for measurement, but rather relies on actual data to avoid the possibilities of error, diligence, and personal judgment that accompany making estimates.
This model measures income smoothing by measuring the relationship between the change in working capital (current assets - current liabilities) divided by cash flow from operating activities,
It was determined whether there was a smoothing situation or not by comparing the smoothing percentage for the current year with the smoothing percentage for the previous year. Thus, it is inferred that there is smoothing if the difference is a number greater or less than zero (positive or negative). However, if the difference is equal to zero, the company is considered not to be smooth. for income,
The smoothing is positive when the aim of the smoothing is to increase the administration's rewards and incentives or improve its reputation, while the negative smoothing occurs when the administration's desire is to reduce political costs and avoid taxes, and the results were as follows:

Table (1-4) Results of applying the Miller model to the United Investment Bank for the period (2016-2022)

Year	Current year			last year			Income smoothing7 (6-3)
	Change in capital The Worker ΔWC (1)	Operating cash flow CFO (2)	(ΔWC / CFO) t-0 (2/1)3	Change in capital The Worker ΔWC (4)	Operating cash flow CFO (5)	(ΔWC / CFO) t-1 (5/4)6	
2016	-19411862307	-61836031902	0.3139	1180125753	75172459863	0.0156	0.2982
2017	-2915947694	9639433178	-0.3025	-19411862307	-61836031902	0.3139	-0.6164
2018	7730143289	-49700818870	-0.1555	-2915947694	9639433178	-0.3025	0.1469
2019	1051834400	-1246498760	-0.8438	7730143289	-49700818870	-0.1555	-0.6882
2020	-94177179300	112722642000	-0.8354	1051834400	-1246498760	-0.8438	0.0084
2021	98573922000	39375787000	2.5034	-94177179300	112722642000	-0.8354	3.3388
2022	211870000	3820139000	0.0554	98573922000	39375787000	2.5034	-2.448
Mean	-1276745658	7539235949	0.1050	-1138423408	17732424644	0.0993	5.6714

Source: Prepared by the researcher based on the calculator outputs of the bank's financial reports for the period 2016-2022.
Through the analysis in the table above, we notice that the bank practised income smoothing, whether positive or negative, as the average smoothing for the period 2016-2022 reached (5.6714), and the highest level of practice of positive income smoothing was in 2021, where it reached (3.3388), and the lowest level of practice of positive income smoothing was at In 2020, it reached (0.0084).
The highest practice level for smoothing passive income in 2022 was (-2.448), and the lowest practice level for smoothing passive income in 2017 was (-0.6164).

From the above, we conclude that the bank practised income smoothing and the presence of smoothing was confirmed in the bank of the research sample by 100%, whether smoothing was positive or negative. Based on the above, the first hypothesis is accepted.

secondly:

The second hypothesis:

There is an impact relationship of income smoothing on the stock price of the bank in the research sample by comparing the income smoothing ratio for each year of the sample and the stock price for the same period, as follows:

Year	INCOME smoothing indicator	smoothing classification	Opening price of the stock	The closing price of the stock
2016	0.2982	positive	0.370	0.310
2017	-0.6164	negative	0.310	0.230
2018	0.1469	positive	0.230	0.090
2019	-0.6882	negative	0.090	0.070
2020	0.0084	positive	0.070	0.080
2021	3.3388	positive	0.080	0.110
2022	-2.448	Negative	0.110	0.060

Source: (opening and closing prices published in the Iraq Stock Exchange SIX)

It is noted from the table above that the effect of the positive income smoothing exercise on the share price varied, as the share price increased in 2020 and 2021, respectively, and the share price decreased in 2016 and 2018.

On the other hand, it is observed that the stock price decreased in the years in which the smoothing was all negative, which indicates that management used income smoothing to avoid political influence and the tax motive.

We conclude from the above that there is an impact of the practice of income smoothing on the share price by 71% of the research sample, and based on the above, the second hypothesis is accepted.

The fifth section

Conclusions and recommendations

Conclusions

1- The multiplicity of alternatives and flexibility in accounting rules and standards provides the opportunity for corporate management to practice income smoothing, and among these alternatives is choosing an accounting policy, forming allocations, and setting estimates to allow management to use a reduction or increase in income.

2- The practice of companies smoothing income results in financial statements that are questionable to all parties that rely on them to make their decisions on those statements.

3- Management's motives vary when practising income smoothing. Some of them lead to benefits for the administration, such as administrative incentives and job stability, and some of them bring benefits to the company and management together, such as reducing political costs and tax motives, as the company benefits directly, while management benefits indirectly through... The skill and success you demonstrate in managing the company.

4- The results showed the presence of income smoothing practices in all years of the research sample during the study period, at a rate of 100%.

5- The results showed an impact of the practice of income smoothing on the company's share price by 71% of the research sample.

Recommendations

1- Working to expand the understanding and awareness of users of financial statements of income smoothing practices and their impact on distorting the image of financial statements, and not relying solely on the data and reports provided by companies and investigating the accuracy and validity of the data through accounting culture and developing skills for users.

2- Issuing appropriate laws and legislation to hold accountable the administration that practices income smoothing to reduce this

3- Practices.

4- Urging accountants and auditors to follow modern control methods to ensure the accuracy and validity of accounting work by developing their skills, professional competence and legislation that helps them complete their work.

5- Work to reduce the flexibility of accounting rules and standards and reduce and limit alternatives or accounting treatments that departments exploit to practice income smoothing behavior.

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