The Effect of Firm Size, Profitability and Leverage on Accounting Conservatism

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Abstract

This study aims to determine the effect of Firm Size, Profitability, Leverage on accounting conservatism in property and real estate companies listed on the Indonesia Stock Exchange. This research is a quantitative type because it refers to the calculation of research in the form of numbers. The variables of this study include the dependent and independent variables. The sample in this study is property and real estate companies listed on the Indonesia Stock Exchange (IDX) in the 2017-2021 period. The sample selection used the purpose sampling method, with a total of 13 companies during the 2017-2021 period. The data analysis technique used the Classical Assumption Test, Multiple Linear Regression Analysis and Hypothesis Testing, this analysis was carried out with the help of the Eviews 9.0 software program. This study shows that the variables Firm Size, Profitability, Leverage simultaneously affect accounting conservatism. With a significance level of 0.020246 less than 0.05. and partially profitability has an effect on accounting conservatism, while Firm Size and Leverage have no effect on accounting conservatism

Key words: size, profitability, leverage, accounting conservatism

Introduction

The very rapid economic development in the current era of globalization requires companies to compete and produce financial reports that comply with standards in order to attract investors to apply their funds to the company. The high global competition is also a challenge for them, this is because many companies are allowed to enter openly, but not all companies are ready to face these conditions, this is indicated by the company’s awareness to face the standards set by accounting institutions in Indonesia. The financial statements of publicly listed companies in Indonesia must be prepared based on the 2020 revised PSAK 1 (Statement of Financial Accounting Standards) issued by the Indonesian Accounting Association (IAI). The company’s financial statements must be prepared by meeting the objectives, rules, and accounting principles in accordance with generally accepted standards so that financial statements can be produced that are accountable and useful for users. The purpose of financial reporting is to provide information about the financial position, financial performance and cash flows of an entity that is useful for making economic decisions of the company.

Accounting conservatism is a behavior that is cautious in dealing with uncertainty and ensuring that internal uncertainty and risks within a company have been properly considered. Conservatism arises because of the verification
requirement where to recognize revenue, a higher level of verification is needed than the verification level to recognize expenses. The application of accounting conservatism can minimize the occurrence of information asymmetry between the principal and the agent, which is indicated by the reporting of profits that are not exaggerated. The decision to adopt conservatism can prevent management from being overly optimistic. An overly optimistic attitude will have an impact on the presentation of financial statements, and can lead to demands from external parties as a result of poor reporting (Brigitta et al., 2021:12) The principle of accounting conservatism is controversial because there are many criticisms that arise over the application of this conservatism principle, but there are also those who support the principle of conservatism. Those who oppose the principle of conservatism argue that by applying the principle of accounting conservatism in preparing financial statements, it will be able to produce financial statements that tend to be biased because they do not reflect the actual financial condition of the company. But on the other hand, those who support the principle of conservatism argue that by applying the principle of accounting conservatism in preparing financial statements, it can be useful to avoid the opportunistic behavior of managers who want to manipulate earnings (Noviantari et al., 2015: 4).

The phenomenon that occurs in Indonesia regarding the lack of application of the concept of conservatism, among others, occurred in the case of PT Hanson Internasional Tbk, PT Hanson Internasional Tbk is one of the companies engaged in the property sector in Indonesia, where in 2016 the Financial Services Authority (OJK) imposed sanctions on companies and its main director is Benny Tjokro. In the examination conducted by the OJK, it was found that the accounting presentation related to the sale of ready-to-build lots (Kasiba) with a gross value of Rp. 732 billion, thus overstated the company’s income. And in the sale and purchase, Hanson International violated Financial Accounting Standard 44 concerning Accounting for Real Estate Activities (PSAK 44). Based on the Accounting for Real Estate Development Activities (PSAK 44) sales revenue can be recognized using the full accrual method, provided that the criteria have been met, including the completion of a Sale and Purchase Binding Agreement (PPJB) which cannot be proven by the company. According to OJK, by not submitting PPJB to the auditor who audited PT Hanson International Tbk’s LKT, the 2016 LKT income was overstated with a material value of Rp 613 billion. Due to the company’s actions that were too overstate towards revenue recognition in the financial statements that made the company’s profit increase in 2016, OJK imposed sanctions on PT Hanson International Tbk with a fine of Rp 500 million and an order to make improvements and restatements on 2016 LKT (money). (Kompas.com)

The motivation of researchers in conducting this research is the importance of knowing that accounting conservatism has an important role in the preparation of the financial statements of companies in Indonesia, besides this research was conducted because there are still differences in the results of research conducted by several previous researchers, and there are cases, namely PT Hanson Internasional Tbk, therefore researchers are interested in testing "The Influence of Firm Size, Profitability and Leverage on Accounting Conservatism (Empirical Study on Property and Real Estate Companies listed on the IDX for the period 2017-2021)

**Literature Review**

**Positive Accounting Theory**

Positive accounting theory is a theory that explains how accounting policies and practices are in the company and predicts what policies managers will choose under certain conditions in the future. The explanation of positive accounting theory itself cannot be separated from dissatisfaction with normative theory (Watts & Zimmerman, 2006:5).

Positive accounting theory proposed by Watts and Zimmerman in 1986 aims to describe and explain how the company's accounting policies and practices. Because the determination of accounting policies and appropriate practices is important, so that in determining accounting policies and their implementation can not be separated from the authorities and have an interest in the preparation of financial statements

**Signaling Theory**

Signaling theory is a theory that suggests how a company should give signals to users of financial statements. If the company has good conditions, the company’s management will deliberately give signals to the market or external parties of the company through the company’s financial statements. (SOLY & WIJAYA, 2018:5)

A good company can distinguish itself from a bad company by the presence of an incredible signal sent by the company to the capital market, which will describe the quality of the company (Spence, 1973: 6). Because basically signaling theory can determine the company’s good or bad prospects through accounting information received by the recipient of the information. If the financial information has a good assessment, then the information received by investors is good news, conversely if the financial information shows a bad assessment, then the information received by investors is bad news. (Khairudin & Wandita, 2017:4)
Accounting Conservatism

According to FASB Statement of Concept No. 2 of 1987 in Savitri (2016: 19) conservatism is a prudent reaction in the face of uncertainty inherent in the company to try to ensure that uncertainties and risks in the business environment have been considered. The application of accounting conservatism in principle will result in low profits and assets, and high costs and debts. This tendency occurs because conservatism has a principle that slows down revenue recognition and accelerates expense recognition (Hariyanto, 2020: 3).

Firm Size

Company size is a scale where the size of a company can be classified (Suharni et al., 2019: 2). According to Bahaudin and Wijayanti (2011) in Savitri (2016: 79) explaining that there are three categories of company size, namely large companies (large size), medium companies (medium size) and small companies (Small Size). Large companies have more complex systems and higher profits, and are faced with high political costs. So that large companies tend to use accounting principles that can reduce the value of earnings in financial statements to reduce the magnitude of political costs. This proves that the size of a company can affect conservatism in financial statements.

Leverage

The leverage ratio is one of the solvency ratios, namely the ratio that shows how much debt is needed to finance the company's assets. (Ursula et al., 2018: 4). High leverage will make the company more careful, because high leverage is a threat to the company's survival. If the company has high debt, creditors have the right to know and supervise the company's operational activities (Sulastri & Anna, 2018: 6).

Method

The type of research used is "Explanatory research" because it explains the relationship between research variables by testing hypotheses. And including quantitative research. The population determined in this study are Property and Real Estate companies listed on the Indonesia Stock Exchange for the period 2017 - 2021. The sampling technique used is purposive sampling. The data collection method used is document study by collecting, recording, and reviewing secondary data in the form of company financial reports published by the Indonesia Stock Exchange (IDX) for the period 2017 - 2021.

Dependent Variable

Accounting Conservation

\[
CONACC = \frac{(NIO+DEP–CFO)\times(-1)}{TA}
\]

Source: Savitri (2016:52)

Description

CONACC = Accounting Conservatism, NIO = Company’s Net Profit, DEP = Depreciation of the Company’s Fixed Assets, CFO = Operating Cash Flow, TA = Total Asset

Independent Variable

Firm Size

Company size in this study using the formula :

\[
Size = \ln \text{Total Asset}
\]

Source: Rahmadhani dan Nur (2015:3)

Description

Size = Company Size, Ln TA = Natural logarithm of total assets

Profitability

\[
ROA = \frac{\text{EarningAfterTax(EAT)}}{\text{TotalAsset}}
\]

Leverage
Leverage in this study using the formula:

\[
DAR = \frac{\text{Total Debt}}{\text{Total Asset}} \times 100\%
\]

Source: Rahmadhani dan Nur (2015:3)

a. Property and Real Estate Companies listed on the Indonesia Stock Exchange during the 2017 – 2021 research period.
b. Property and Real Estate Companies that publish annual financial reports consecutively during the 2017 – 2021 research period.
c. Property and Real Estate Companies that gain successively during the 2017-2021 research period.
d. Property and Real Estate Companies with a less volatile level of accounting conservatism during the 2017-2021 research period.

Results and Discussion

Based on the sampling criteria above, it can be seen that 13 companies can be sampled during the observation period. The research observation period used is from 2017 to 2022 or for 5 years so that the amount of data used is 65 data.

<table>
<thead>
<tr>
<th>No</th>
<th>Company Code</th>
<th>Company Name</th>
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<tbody>
<tr>
<td>1</td>
<td>BSDE</td>
<td>PT Bumi Serpong Damai Tbk</td>
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<tr>
<td>2</td>
<td>CTRA</td>
<td>PT Ciputra Development Tbk</td>
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<tr>
<td>3</td>
<td>DUTI</td>
<td>PT Duta Pertwi Tbk</td>
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<tr>
<td>4</td>
<td>PWON</td>
<td>PT Pakuwon Jati Tbk</td>
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<tr>
<td>5</td>
<td>SMRA</td>
<td>PT Summarecon Agung Tbk</td>
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<td>6</td>
<td>RDTX</td>
<td>PT Roda Vivatek Tbk</td>
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<td>7</td>
<td>JRPT</td>
<td>PT Jaya Real Property Tbk</td>
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<tr>
<td>8</td>
<td>KIJA</td>
<td>PT Kawasan Industri Jababeka Tbk</td>
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<td>PT Suryamas Dutamakmur Tbk</td>
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<td>13</td>
<td>PPRO</td>
<td>PT PP Properti Tbk</td>
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Source: www.idx.co.id Data processing, 2022

Based on testing of the three panel data regression models, it can be concluded that the Random Effect Model (REM) in panel data regression is used further in estimating the effect of Firm Size, Profitability and Leverage on Accounting Conservatism in property and real estate companies listed on the Indonesia Stock Exchange in 2017 – 2021.

Discussion

F Test
Based on the table above, it shows that the F-statistic value is 3.517313, while the F table with a level of = 5%, df1 (4-1) = 3 and df2 (65-4) = 61, the F table value is 2.74. Thus F-statistics (3.517313) ≥ F Table (2.61) and the value of Prob (F-statistics) 0.020246 ≤ 0.05, it can be concluded that Ha is accepted, which means that the independent variables in this study consist of Firm Size, Profitability and Leverage together have an influence on Accounting Conservatism.

T Test
a. If the value of t-statistic ≥ t Table and the value of prob. ≤ 0.05 then Ha is accepted, meaning that the independent variable (X) partially affects the dependent variable (Y) (Eksandy, 2018). The t-statistic Firm Size (SIZE) value is 1.317706 while the t-table with = 5%, df (65-4) = 61, the t-table value is 1.99962. Thus the t-statistic SIZE (1.317706) ≤ t-table (1.99962). And the Prob value of 0.1925 ≥ 0.05, it can be concluded that the Firm Size (SIZE) variable in this study has no effect on Accounting Conservatism. The coefficient value of the Firm Size (SIZE) variable is 0.059759, this illustrates that the Firm Size (SIZE) variable has a positive effect on Accounting Conservatism. H1 in this study was rejected.
b. Profitability t statistic (ROA) value is -2.684392, while t table with = 5%, df (65−4) = 61 obtained t table value of 1.99962. Thus, t statistic (ROA) (-2.684392) \leq t table (1.99962). And the value of Prob 0.0093 \leq 0.05, it can be concluded that the Profitability (ROA) variable in this study has an influence on Accounting Conservatism. The coefficient value of the Profitability variable (ROA) of -0.424813 illustrates that the Profitability variable (ROA) has a negative effect on Accounting Conservatism. H2 in this study is accepted.

c. 3) The t-statistic Leverage (DAR) value is -0.704423 while the t-table with = 5%, df (65−4) = 61, the t-table value is 1.99962. Thus the t statistic (DAR) is (-0.704423) \leq t table (1.99962). And the value of Prob 0.4838 \geq 0.05, it can be concluded that the Leverage (DAR) variable in this study has no effect on Accounting Conservatism. H3 in this study was rejected.

Conclusion

Effect of Firm Size on Accounting Conservation

Firm Size variable has no effect on Accounting Conservatism. These results indicate that the higher the value of company size or the larger a company does not affect the use of conservative accounting concepts. This is due to the possibility that not all companies avoid political costs by using the principles of accounting conservatism.

The results of this study are in line with research (Susanto Salim, 2020) which states that firm size does not affect accounting conservatism. Because the size of the company is more used to describe good performance and attract investors.

The Effect of Profitability on Accounting Conservatism

Profitability variables have a negative effect on accounting conservatism. This condition occurs because companies that have a high level of profitability will be a signal to the market indicating that the company is in good condition. In other words, high profitability will encourage management to tend to reduce the application of conservatism in the preparation of financial statements.

The results of this study are in line with research (Jayanti & Sapari, 2016) which states that profitability has a negative effect on accounting conservatism, supported by research (Abdurrahman & Ermawati, 2019), where when a company wants to give a signal to the market that the company is in good condition and wants to improve investors’ interest in investing, the company tends to present financial statements that are less conservative or optimistic.

The Effect of Leverage on Accounting Conservatism

The leverage variable has no effect on Accounting Conservatism. These results indicate that the higher the leverage value, the less influence on the use of conservative accounting concepts. the results of this study are in line with research (Suharni et al., 2019) which states that leverage has no effect on accounting conservatism.
References


