

THE EFFECT OF PROFITABILITY, LEVERAGE, COMPANY SIZE AND MANAGERIAL OWNERSHIP ON ACCOUNTING CONSERVATISM (Empirical Study of Manufacturing Firms Listed on the Indonesia Stock Exchange for the Period 2017-2020)

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Abstract: The purpose of this research is to examine the influence of profitability, leverage, firm size, and managerial ownership on accounting conservatism. This research uses quantitative methods and secondary data. The population in this research are manufacturing industry firm listed on the Indonesian Stock Exchange (IDX) in 2017-2020. The sample used on this research was 128 with a sampling technique using purposive sampling method. . The analytical technique used on this study is classical assumption test, multiple linear regression analysis, and hypothesis testing. The outcome of the research declare that profitability and managerial ownership are affects accounting conservatism. Meanwhile, leverage and company size do not affect the accounting conservatism.

Keywords: *accounting conservatism, profitability, leverage, company size, managerial ownership*

1. Introduction

In choosing the accounting method applied in preparing financial statement, it must be in accordance with the needs of the firm. The financial reporting is presented by the firm must meet the applicable principles so that they can be accounted for in making a decision. Financial statements are one of the important information and are needed by all parties of the company in making decisions (Anisa et al, 2021). The principle of conservatism is one of the basic in the financial reporting. The principle of conservatism is the basic in the recognition of profits, losses, expenses and revenues that will occur. In the event of conditions that may cause losses, the costs or debts must be recognized immediately. However, if there are conditions where it is possible to generate profit, income, then the profit and income should not be recognized immediately, until the condition is actually realized. Accounting conservatism affects values reported in balance sheets, income statements, and other financial statements. Therefore, in terms of conveying the conditions that occurred at that time, great attention must be paid and must be very careful.

Application of the principle of conservatism in a company is influenced by many factors. The factors that will be used as variables to be examined in this study are profitability, leverage, firm size, and managerial ownership. Profitability is considered as one of the factors that influence accounting conservatism. Profitability is the firm's capability to deliver advantage and reflect the benefits of financial investment (Jessica & Prasetyo, 2019). Leverage measures how much the firm's assets are financed from debt. This ratio is used as

an indicator for creditors to see the firm's ability to pay off debt and interest. Companies with large sizes are estimated to have large amounts of assets and income levels so that they have high profits. According to (Helena & Endang, 2018) companies with large sizes tend to apply of accounting conservatism so that the profits generated are not too high in order to avoid high tax burdens due to high profits. Managerial ownership of the firm's shares is greater, the firm tends to apply accounting conservatism. The proportion of managerial ownership in the company is low, so management decisions do not really influence the company's decision to apply accounting conservatism.

Several previous studies that examined the influenced of profitability, leverage, firm size and managerial ownership on accounting conservatism, namely Tavia and Kurnia (2021) and Kusuma (2021), Trias et. al. (2020), Helena & Endang (2018), Esa & Vidya (2018). In this study, there are differences that lie in the variables, subjects, and years used in the study. Based on this description, the first hypothesis, namely profitability has an effect on accounting conservatism. The second hypothesis is that leverage are not Influenced on accounting conservatism. The third hypothesis is that firm size are not influenced on accounting conservatism. The fourth hypothesis is that managerial ownership has an influence accounting conservatism.

2. Research Method

Manufacturing firm listed on the Indonesia Stock Exchange (IDX) in 2017-2020 are population used on this research. The sampling method is done by using *purposive sampling*, namely the sampling technique based on a criterion. The research has a sample of 128 companies. The data on this research uses secondary data in the form of financial statements of manufacturing firm listed on Indonesia Stock Exchange in 2017-2020. The source of this data is obtained from Indonesia Stock Exchange (IDX) www.idx.co.id.

Table 1. Sampling Criteria

Sample Criteria	Number of Sample
Registered manufacturing company on the Indonesia Stock Exchange for the period 2017-2020.	162
Unregistered manufacturing company on the Indonesia Stock Exchange for the period 2017-2020.	(20)
Companies that publish financial statements not expressed in rupiah.	(23)
Non-profit company during the 2017-2020 observation period.	(53)
No related data with research variables.	(34)
Total companies that meet the criteria.	32
Total companies that meet the criteria x 4 years of observation.	128
Total samples processed.	128

3. Results and Discussion

3.1. Results

a. Description of Statistics Test

Descriptive statistics in this research to describe the data in the variables seen from the minimum, maximum, *mean* and standard deviation.

Table 2. Descriptive Statistic Result

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Accounting Conservatism	128	-0.0802	10.428	0.403648	0.2425296
Profitability	128	0.0006	2.44513889	0.107563	0.0792488
Leverage	128	0.59722222	5.4375	0.366310	0.1663890
Company Size	128	240.858	334.945	28.613.456	16.927.901
Managerial ownership	128	0.0000	6.55902778	0.150823	0.2223833

Based on table 1, it is known that the number of samples (N) is 128 companies. Accounting conservatism has a minimum value of -0.0802, namely the Buyung Poetra Sembada Tbk company, which means the company has the lowest conservatism and the maximum value is 1.0428 at the Trias Sentosa Tbk company, meaning the company has high accounting conservatism. The profitability variable has a minimum value of 0.0006, namely the Chitose International Tbk company, which means the company has the lowest profitability while the maximum value is 0.3521, namely the Mark Dynamics Indonesia Tbk company, which means the company has high profitability. The leverage variable has a minimum value of 0.0860, namely the Emdeki Utama Tbk company, meaning that the company has the lowest leverage, while the maximum value of 0.7830 is the Indal Alumunium Industry Tbk company, which means that the company has the highest leverage. The company size variable has a minimum value of 24.0858, namely the Betonjaya Manunggal Tbk company, meaning that the company has the lowest company size, while the maximum value is 33.4945, namely the Astra International Tbk company, meaning that the company has the highest company size. The managerial ownership variable has a minimum value of 0.0000, namely the Semen Baturaja (Persero) Tbk company, meaning that the company has the lowest managerial ownership, while the maximum value is 0.9445, namely the Betonjaya Manunggal Tbk company, which means that the company has the highest managerial ownership.

b. Classic assumption test

1. Normality test

Purpose of this test to know data from every variable has a normal distribution or not. CLT (Central Limit Theorem) is used in this study, this test is used if the population is greater $n > 30$, the the assumption of normality is ignored (Gujarati, 2003). This study shows n of $128 > 30$. So it can be concluded that the data is normal.

2. Multicollinearity Test

Table 3. Multicollinearity Result

Variable	Tolerance	VIF	Description
Profitability	0.964	1.037	Multicollinearity does not occur
Leverage	0.807	1.239	Multicollinearity does not occur
Company Size	0.784	1.276	Multicollinearity does not occur
Managerial ownership	0.845	1.184	Multicollinearity does not occur

After looking at table 2, it can be seen that in this study there was no multicollinearity. This is indicated by the Tolerance > 0.1 and the VIF < 10.

3. Heteroscedasticity Test

Table 4. Heteroscedasticity Result

Variable	Sig	Information
Profitability	0.985	There is no Heteroscedasticity
Leverage	0.149	There is no Heteroscedasticity
Company Size	0.907	There is no Heteroscedasticity
Managerial ownership	0.405	There is no Heteroscedasticity

From the above results, it is found that the significance of every independent variable bigger than 0.05, so the data result that heteroscedasticity does not occur.

4. Autocorrelation Test

Table 5. Autocorrelation Result

DW	Information
0.747	Autocorrelation does not occur

From the table, it can be concluded that the DW value is 0.747. According to (Santoso, 2012), if the DW value lies between -2 to +2, it means that there is no autocorrelation. This means that $-2 < 0.747 < +2$, it can be concluded that this research is exempt from autocorrelation problems.

c. Hypothesis Test Results

1. Multiple Linear Regression Test

Table 6. Multiple Linear Regression Analysis

Model		Unstandardized		Standardized	T	Sig
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-0.4	0.363		-1.102	0.272
	Profitability	1.1	0.252	0.359	4.372	0
	Leverage	-0.018	0.131	0.012	-0.137	0.891
	Company Size	0.023	0.013	0.158	1.737	0.085
	Managerial ownership	0.283	0.096	0.259	2.953	0.004

$$KA = -0.400 + 1.100 \text{ Prof} - 0.018 \text{ Lev} + 0.023 \text{ UP} + 0.283 \text{ KM} + e$$

KA = Accounting Conservatism

Prof = Profitability

Lev = Leverage

UP = Firm Size

KM = Managerial Ownership

E = Error

- 1) The constant is -0.400 with a negative influence direction. Shows that if the independent variables (Profitability, Leverage, Firm Size, and Managerial Ownership) do not change or are 0 (zero) then accounting conservatism will remain.

- 2) Profitability variable regression coefficient value has a positive relationship with accounting conservatism of 1.100, which means that if there is an increase in 1 unit of profitability, it will increase accounting conservatism.
- 3) Leverage has a negative relationship with accounting conservatism of -0.018, it means that if there is an increase of 1 unit of leverage, it reduces accounting conservatism.
- 4) Firm Size variable has a positive relationship with accounting conservatism of 0.023, which means that if there is an increase of 1 unit of firm size, it will increase accounting conservatism.
- 5) The regression coefficient value of managerial ownership variable has a relation with accounting conservatism of 0.283, which means that if there is an increase in 1 unit of managerial ownership, it will increase accounting conservatism.

2. T Uji test

Table 7. T Test T

Variable	T	Sig.	T	Information
	Count		Table	
Profitability	4.372	0.000	1.978	H ₁ accepted
Leverage	-0.137	0.61875	1.978	H ₂ rejected
Company Size	1.737	0.085	1.978	H ₃ rejected
Managerial ownership	2.953	0.004	1.978	H ₄ accepted

1) T Test Results (profitability)

Based on table, it is obtained that t count is 4.372 with a significant value of 0.000, meaning that t count is greater than t table ($4.372 > 1.978$) with a significance value less than 0.05 ($0.000 < 0.05$), then H₁ is accepted. So it can be concluded that profitability has an effect on accounting conservatism.

2) T Test Results (Leverage)

Obtained that t count is -0.137 with a significance value of 0.891, meaning that t count is smaller than t table ($-0.137 < 1.978$) with a significance value greater than 0.05 ($0.891 > 0.05$), then H₂ is rejected. So it can be concluded that leverage has no effect on accounting conservatism.

3) T-Test Results (Firm Size)

After looking the table, know that t count is 1.737 with a significance value of 0.085, meaning that t table is bigger than t count ($1.737 < 1.978$) and the significance value is bigger than 0.05 ($0.085 > 0.05$), then H₃ is rejected. So the conclusion is the firm size has no influence on accounting conservatism.

4) T Test Results (Managerial Ownership)

After looking the table, obtained t count of 2.953, the significance value is 0.004 that mean t count is bigger than t table ($2.953 > 1.978$) and the significance lower than 0.05 ($0.004 < 0.05$), then H₄ is accepted. So the conclusion is the managerial ownership has influence on accounting conservatism.

3. F Uji test

If the significance level is less than 0.05 that means this model is fit.

Table 8. F Test Result

Model		Sum of	Df	Mean	F	Sig.
		Squares		Square		

1	Regression	1.483	4	0.371	7.614	.000 ^b
	Residual	5.988	123	0.049		
	Total	7.47	127			

The calculated F value in this model is 7.614 with a significance of 0.000 ($\alpha=0.05$), it can be concluded that the variables of Profitability, Leverage, Firm Size, and Managerial Ownership simultaneously affect accounting conservatism.

3.2. Discussion

3.2.1. Profitability Influence on Accounting Conservatism

The calculation of the results of the research on the profitability variable shows the value of 4.372 with a significance value of 0.000 so that $> (4.372 > 1.978)$ with $\text{sig} < 0.05$ ($0.000 < 0.05$) it can be concluded that profitability has an effect on accounting conservatism.

The results showed that companies that have a high level of profitability will cause the number of company profits to increase. This encourages managers of a company to apply the principle of conservatism to regulate the company's financial statements. The results of this study are in line with research conducted by Tavia and Kurnia (2021) and research by Kusuma (2021) which states that profitability has an effect on accounting conservatism.

3.2.2. The Influence of Leverage on Accounting Conservatism

The calculation of the results of the research on the leverage variable shows the value of -0.137 with a significance value of 0.891 so that $< (-0.137 < 1.978)$ with $\text{sig} > 0.05$ ($0.891 > 0.05$) it can be concluded that leverage has no effect on accounting conservatism.

High leverage makes the company alert when decisions are made. This is because creditors are lacking in supervising the management of the company's operations and accounting. The results of the study are in line with the research conducted by Trias et. al. (2020) which states that leverage has no effect on accounting conservatism.

3.2.3. Company Size Effect on Accounting Conservatism

The calculation of the results of the research on the firm size variable shows the value of 1.737 with a significance value of 0.085 so that $< (1.737 < 1.978)$ with $\text{sig} > 0.05$ ($0.085 > 0.05$) it can be concluded that firm size has no effect on accounting conservatism.

Small companies tend to receive a fairly large impact with political costs, therefore small companies tend to be conservative compared to large companies. This study is not in line with research by Helena & Endang (2018).

3.2.4. Managerial Ownership Influence on Accounting Conservatism

The calculation of the results of the managerial ownership variable research shows the value of 2.953 with a significance value of 0.004 so that $> (2.953 > 1.978)$ with $\text{sig} < 0.05$ ($0.004 < 0.05$) it can be concluded that managerial ownership has an effect on accounting conservatism.

This result is not in line with the research of Esa & Vidya (2018) which states that managerial ownership has no effect on accounting conservatism. Managerial ownership of each company tends to be low so that the sense of ownership of the company is not high, so management decisions do not affect the company's decision to apply accounting conservatism. With low managerial ownership also makes the company more concerned with the profits earned on the financial statements only.

4. Conclusion

4.1 Conclusion

After doing the research, the authors can draw the following concluded that profitability and managerial ownership has an influence on accounting conservatism, meanwhile leverage and firm size has no influence on accounting conservatism.

4.2 Limitations

The limitations of this study are, first this research is restricted to one type of company, namely manufacturing firm in 2017-2020. So the results cannot be used as a reference for all types of companies. Second, This research is only limited to one dependent variable and four independent variables, other variables are needed to know more about the factors that influence accounting conservatism.

4.3 Suggestion

Based on the conclusions and limitations of this study, the suggestions that can be given are, First, the next researcher is expected to add types of companies such as state-owned companies, various industrial sectors, etc., and add a longer period of time. Further researchers are advised to add other variables such as bonus plan, growth opportunity, public ownership, financial distress, etc.

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