THE INFLUENCE OF COMPANY SIZE, PROFITABILITY, AND LEVERAGE ON ACCOUNTING CONSERVATISM

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Abstract*: Accounting conservatism is the principle of prudence profits in financial reporting, where companies do not rush to recognize and measure assets and immediately recognize losses and debts that have the possibility of occurring. The purpose of this study is to determine the development of company size, profitability, leverage, and accounting conservatism in retail trade sub-sector companies listed on the Indonesia Stock Exchange in 2017-2021, and also to determine the effect of company size, profitability , and leverage partially and simultaneously on accounting conservatism in retail trade sub-sector companies listed on the Indonesia Stock Exchange in 2017-2021. The sample in this study was 7 companies listed on the Indonesia Stock Exchange in 2017-2021. The data analysis used is multiple linear regression analysis techniques. The results showed that company size has a significant effect on accounting conservatism in retail trade sub-sector companies on the Indonesia Stock Exchange, while profitability and leverage variables partially have no significant effect. At least one independent variable of firm size, profitability, and leverage simultaneously affects the dependent variable of accounting conservatism. Therefore, it indicates that there is a joint influence of these variables on accounting conservatism in retail trade sub-sector companies on the Indonesia Stock Exchange.*

Keywords: Accounting Conservatism, Firm Size, Leverage, and Profitability

INTRODUCTION

Financial reports are the result of processing a number of transactions or other events that are classified according to their nature or function. The final stage of the merger and classification process is presentation in the financial statements. PSAK 1 establishes the basis for presenting general purpose financial statements, hereinafter referred to as financial reports, so that they can be compared both with previous period financial statements and with the financial reports of other entities. This statement regulates requirements for the presentation of financial reports, the structure of financial reports, and minimum requirements for the content of financial reports (IAI, 2009).

Accounting conservatism is the principle of prudence in financial reporting where companies do not rush to recognize and measure assets and profits and immediately recognize losses and debts that have the possibility of occurring (Savitri, 2016). According to (Devi dan Mulatsih, 2021)conservatism is a principle of exception or modification in the sense that the principle acts as a limitation to the exception or modification in the case that the principle acts as a limitation to the presentation of relevant and reliable accounting data. Meanwhile, according to (Octavia, 2022) Conservatism is an act of caution or a pessimistic attitude carried out by accountants in facing future uncertainty by using the principle of slowing down revenue recognition, speeding up expense recognition, lowering asset valuation and increasing debt valuation in order to reduce or eliminate risk.

Company size is a scale that shows the size of a company. Company size can be expressed in total assets, sales and market capitalization. Company size through total assets tends to be more stable than through sales, this is because sales tend to fluctuate more each year than total assets (Hery, 2017).

According to (Hery, 2018) profitability is a ratio that describes a company's ability to generate profits through all its capabilities and resources, namely those originating from sales activities, use of assets, and use of capital. According to (Kasmir, 2017) leverage is a ratio used to measure how much a company's debt affects asset management.

Accounting Conservatism

According to (Savitri, 2016) accounting conservatism is a principle of prudence in financial reporting where companies do not rush to recognize and measure assets and profits and immediately recognize losses and debts that may occur.

$$CONACCit = \frac{(NIO + Dep - CFO)x(-1)}{TA}$$

(Givoly dan Hayn, 2000)

Company Size

According to (Hery, 2017) company size is a scale that shows the size of a company. Company size can be expressed in total assets, sales and market capitalization. Company size through total assets tends to be more stable than through sales, this is because sales tend to fluctuate more each year than total assets.

$$SIZE = Ln \ (Total \ Assets)$$

(Hery, 2017)

Profitability

According to (Hery, 2018) profitability is a ratio that describes a company's ability to generate profits through all its capabilities and resources, namely those originating from sales activities, use of assets, and use of capital.

$$Return \ On \ Assets = \frac{Laba \ bersih}{Total \ Aset}$$

Leverage

According to(Kasmir, 2017) leverage is a ratio used to measure the extent to which company assets are financed with debt.

$$DER = \frac{Total \ Debt}{Total \ Equity} x \ 100\%$$

Table 1. Data on the Development of Accounting Conservatism in Retail Trade Sub-Sector Companies Listed on the Indonesian Stock Exchange 2017-2021

Year	Net profit	Depreciation	Cash flow	Total Assets	CONACCit
2017	1,907,663,171,659	1,746,741,766,780	4,731,510,156,784	48,820,312,930,340	0.022
2018	3,177,091,817,341	1,867,925,529,524	5,277,412,198,866	55,465,630,773,979	0.004
2019	3,501,987,275,650	1,817,580,392,737	11,664,856,045,301	57,017,494,526,991	0.111
2020	2,832,391,342,809	2,030,343,687,736	13,000,767,587,174	64,670,311,476,289	0.126
2021	4,566,238,867,335	2,227,512,173,889	9,871,433,080,123	67,736,166,202,594	0.045

Source :(Indonesian Stock Exchange, 2023)

From the results of table 1, it can be seen that the development of accounting conservatism in Retail Trade Sub-Sector Companies in 2017-2021 experienced fluctuations. The highest conservatism was in 2020 at 0.126 and the lowest accounting conservatism was in 2018 at 0.004.

Table 2. Data on Company Size Development in Retail Trade Sub-Sector Companies
Listed on the Indonesian Stock Exchange 2017-2021

Year	Total Assets	*SIZE*
2017	48,820,312,930,340	31.52
2018	55,465,630,773,979	31.65
2019	57,017,494,526,991	31.67
2020	64,670,311,476,289	31.80
2021	67,736,166,202,594	31.85

Source :(Indonesian Stock Exchange, 2023)

From the results of table 2 it can be seen that the development of company size in Retail Trade Sub-Sector Companies in 2017-2021 experienced fluctuations. The highest company size was in 2021 at 31.85 and the lowest company size was in 2017 at 31.52.

Table 3. Profitability Development Data in Retail Trade Sub-Sector Companies
Listed on the Indonesian Stock Exchange 2017-2021

Year	Net profit	Total Assets	Profitability
2017	1,907,663,171,659	48,820,312,930,340	0.039
2018	3,177,091,817,341	55,465,630,773,979	0.057
2019	3,501,987,275,650	57,017,494,526,991	0.061
2020	2,832,391,342,809	64,670,311,476,289	0.044
2021	4,566,238,867,335	67,736,166,202,594	0.067

Source :(Indonesian Stock Exchange, 2023)

From the results of table 3, it can be seen that the development of profitability in Retail Trade Sub-Sector Companies in 2017-2021 experienced fluctuations. The highest profitability was in 2021 at 0.067 and the lowest profitability was in 2017 at 0.039.

Table 4. Leverage Development Data in Retail Trade Sub-Sector Companies
Listed on the Indonesian Stock Exchange 2017-2021

Year	*Total Debt*	*Total Equity*	*Leverage*
2017	32,462,712,877,165	48,820,312,930,340	0.66
2018	35,069,099,430,609	55,465,630,773,979	0.63
2019	33,682,291,761,980	57,017,494,526,991	0.59
2020	39,137,857,886,951	64,670,311,476,289	0.61
2021	39,151,764,947,049	67,736,166,202,594	0.58

Source :(Indonesian Stock Exchange, 2023)

From the results of table 4 it can be seen that the development of leverage in Retail Trade Sub-Sector Companies in 2017-2021 experienced fluctuations. The highest leverage was in 2017 at 0.66 and the lowest leverage was in 2021 at 0.58.

The aim of this research is to determine the development of company size, profitability, leverage, and accounting conservatism in retail trading sub-sector companies listed on the Indonesia Stock Exchange in 2017-2021, and also to determine the partial influence of company size, profitability, and leverage. and simultaneously on accounting conservatism in retail trade sub-sector companies listed on the Indonesia Stock Exchange in 2017-2021.

METHODS

Object of research

The object of this research is the financial reports of retail trade sub-sector companies listed on the Indonesia Stock Exchange 2017-2021. The locus of this research is the retail trading sub-sector companies listed on the Indonesia Stock Exchange 2017-2021.

Population and Sample

The population in this study were 27 retail trade sub-sector companies listed on the Indonesia Stock Exchange. Determining the sample in this research used the Purposive Sampling technique. Purposive Sampling is a technique for determining samples with certain considerations or predetermined criteria. Based on the sample criteria, 7 retail trade sub-sector companies were obtained which were listed on the Indonesia Stock Exchange for 2017-2021. The sample criteria in this study are as follows:

1. Retail trade sub-sector companies listed on the IDX for the 2017-2021 period.
2. Retail trade sub-sector companies that did not publish financial reports consecutively during the 2017-2021 period.
3. Retail trade sub-sector companies that experienced losses during the 2017-2021 research year.

Research methods

The method used in this research is a quantitative research method. This method is a process of finding knowledge that uses data in the form of numbers as a tool to analyze information about what you want to know (Sugiyono, 2019).

Data analysis method

The data analysis method used in this research is descriptive and verification.

1. To answer the problem formulation, the first steps taken are to analyze the development of each variable (company size, profitability and leverage).
2. To answer the second problem formulation, the steps taken were to model the relationship between the variables Company Size (X1), Profitability (X2), and Leverage (X3) on Accounting Conservatism (Y) using multiple linear regression and conducting a Partial Test (T Test) .
3. To answer the third problem formulation, the steps that must be taken are to carry out a Coefficient of Determination Test (R2) and to carry out a Simultaneous Test (F Test).

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

Results of multiple linear regression analysis based on SPSS software output ver. 22 in table 5, the multiple linear regression equation is obtained as follows:

$$Y = \alpha + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + e$$

Information :
Y = Accounting Conservatism
α = Constant
X1 = Company Size
X2 = Profitability
X3 = Leverage
β1, β2 , β3 = Regression Coefficients of Variables Independent
e = Error

Table 5. Results of Multiple Linear Regression Analysis
Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
	B	Std. Error	Beta		
(Constant)	,387	,149		2,599	.014
Company Size	-.016	,006	-.480	-2,565	,015
Profitability	-.964	,509	-.468	-1,894	,068
Leverage	-.003	,020	-.028	-.128	,899

Source: Data processed in 2023

1. A constant value of 0.387 means that if all the independent variables (Company Size, Profitability and Leverage) have a value of 0 then the dependent variable (Accounting Conservatism) will have a value of 0.387.
2. The Company Size Coefficient value is 0.016 (with a negative value). This value shows that if company size increases by 1 unit, accounting conservatism will increase by 0.016 units assuming other variables are constant. On the other hand, if company size decreases by 1 unit, accounting conservatism will decrease by 0.016 units assuming other variables are constant.
3. The Profitability Coefficient value is 0.964 (with a negative value). This value shows that if profitability increases by 1 unit it will increase accounting conservatism by 0.964 units assuming other variables are constant. On the other hand, if company size decreases by 1 unit, accounting conservatism will decrease by 0.964 units assuming other variables are constant.
4. The Leverage Coefficient value is 0.003 (with a negative value). This value shows that if profitability increases by 1 unit it will increase accounting conservatism by 0.003 units assuming other variables are constant. On the other hand, if company size decreases by 1 unit, accounting conservatism will decrease by 0.003 units assuming other variables are constant.

Partial Test Results (T Test)

From the results of the output testing, tcount is -2.565 with a significance of 0.015 and ttable which can be seen in the statistical table at a significance of 0.05/2 = 0.025 with degrees of freedom df = n – k – 1 or 35 – 3– 1 = 31, the results obtained for ttable of 2.03951. So the value of tcount < ttable (-2.565 < 2.03951) and significance < 0.05 or (0.015 < 0.05), then H0 is rejected or HA is accepted. This shows that the company size variable partially has a significant effect on accounting conservatism in retail trade sub-sector companies on the Indonesia Stock Exchange. This is also in line with research(Andani dan Nurhayati, 2021)which states that company size influences accounting conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange. Increasing company size can reduce accounting conservatism and vice versa assuming other variables are constant.

From the results of the output testing, tcount was -1.894 with a significance of 0.068 and ttable which can be seen in the statistical table at a significance of 0.05/2 = 0.025 with degrees of freedom df = n – k – 1 or 35 – 3– 1 = 31, the results obtained for ttable of 2.03951. So the value of tcount < ttable (-1.894 < 2.03951) and significance > 0.05 or (0.068 > 0.05), then H0 is accepted and rejects HA. This shows that the profitability variable partially has no effect on accounting conservatism in retail trade sub-sector companies listed on the Indonesia Stock Exchange. This is in line with research(Efendi dan Handayani, 2021)which states that profitability has no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange. Each company has its own choice of accounting practices in relation to the resulting profitability. Some companies prefer to apply accounting conservatism when generating high profitability so that the profits presented are smaller in

order to reduce the political costs that must be borne. However, some other companies prefer not to apply accounting conservatism in order to present profits that appear large. This is done by some companies because there is an opportunity to exist in the eyes of investors by presenting large profits.

From the output test results, it can be seen that tcount is -0.128 with a significance of 0.899 and ttable which can be seen in the statistical table at a significance of 0.05/2 = 0.025 with degrees of freedom df = n – k – 1 or 35 – 3– 1 = 31, the results are obtained for ttable is 2.03951. So the value of tcount < ttable (-0.128 < 2.03951) and significance > 0.05 or (0.899 > 0.05), then H0 is accepted and rejects HA. This shows that the leverage variable partially has no effect on accounting conservatism in retail trading sub-sector companies listed on the Indonesia Stock Exchange. This is in line with research(Halim, 2021)which states that leverage has no effect on accounting conservatism in consumer goods industry sector companies listed on the Indonesia Stock Exchange. The results of this research prove that leverage is not a supporting factor in accounting conservatism. The company will always try to show good performance to creditors even though it has high debt. Management believes the debt can be repaid by the company.

Coefficient of Determination

Table 6. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.476a	,227	,152	.09318

Source: Data processed in 2023

Based on table 6, the coefficient of determination R^2 (R Square) is 0.227 (22.7%). This shows that the variables company size, profitability, leverage have an influence on accounting conservatism of 22.7% while the remaining 77.3% (100% - 22.7%) is influenced by other factors (variables) not included in this research. Likewise, the Adjust R Square value is 0.152 (15.2%) which shows an influence contribution of 15.2%.

Simultaneous Test Results (F Test)

Table 7. Simultaneous Test Results (F Test)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	,079	3	.026	3,028	.044b
Residual	,269	31	,009		
Total	,348	34			

Source: Data processed in 2023

Based on the simultaneous test results in table 7, the Fcount result is 3.028 and Ftable which can be seen in the statistical table with a significance level of 0.05 with df1n = (number of variables – 1) or 3 -1 = 2, df2n = (n – k) or 35-3 = 32, Ftable is 2.901. Thus it can be concluded that Fcount > Ftable or (3.028 > 2.901) with a significance level < 0.05 or (0.044 < 0.05). So H0 is rejected from accepting HA. This means that there is at least one independent variable company size (X1), profitability (X2), leverage (X3) which influences the dependent variable accounting conservatism (Y). The results of this research are in line with research conducted by(Kalbuana dan Yuningsih, 2020)with the title The Influence of Leverage, Profitability and Company Size on Accounting Conservatism in Mining Companies in Indonesia, Malaysia and Singapore. The research results show that company size, profitability and leverage simultaneously influence accounting conservatism where there is at

least one independent variable company size (X1), profitability (X2), leverage (X3) which simultaneously influences the dependent variable accounting conservatism (Y).

CONCLUSION

Company size has a significant effect on accounting conservatism in retail trading sub-sector companies on the Indonesia Stock Exchange, while profitability and leverage variables partially do not have a significant effect. At least one independent variable from company size, profitability, and leverage simultaneously influences the dependent variable accounting conservatism. Therefore, the null hypothesis is rejected, indicating that there is a joint influence of these variables on accounting conservatism in retail trading sub-sector companies on the Indonesian Stock Exchange.

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