

THE IMPACT OF FIRM SIZE, ACCOUNTING CONSERVATISM ON EARNINGS QUALITY MODERATED BY INDEPENDENT COMMISSIONER

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ABSTRACT

This research was conducted with the aim of obtaining real information about earnings quality which is influenced by firm size variable and accounting conservatism with moderated variable, namely independent commissioners in manufacturing companies on the IDX for the 2018-2020 period. Descriptive research design with quantitative data properties where the data used in this study were measured and presented in the form of numbers. The sampling technique used is purposive sampling with a panel data approach followed by 153 sample data from 51 companies for 3 years, from 2018-2020. In addition, in this study, the data collected to test the hypothesis using the panel data regression model was processed using EViews version 11. The results obtained from this test showed that accounting conservatism had no significant effect on earnings quality. While the size of the company has a significant impact on earnings quality. Furthermore, the moderating variable is the independent commissioner in this study cannot moderate the effect of earnings quality and firm size but can moderate the effect of accounting conservatism on earnings quality

Keywords: *Earnings Quality, Accounting Conservatism, Firm Size, Independent Commissioner*

1. INTRODUCTION

Lately, competition between organizations is getting tougher, especially with the issue of a pandemic that is currently hitting and making the economy weaken. The weakening economy is urging organizations to maintain their monetary activities and make progress at this critical time. The achievement of the organization's monetary activities can be weighed against how the organization uses its data. One of the data used by organizations is profit data, where profit for external users is used as a tool for projecting future benefits and surveying organizational performance [1]. Earnings quality represents the nature of earnings data that is introduced to the public that can reveal the level of influence of earnings in navigation and is used to survey organizations by investors [2]. The higher the earnings quality of the given earnings data, the more attractive the organization is to investors. This is the explanation that drives organizational administrations to adopt different ways of creating big profit data, which results in higher levels of data manipulation. Obstacles contained in financial statements can also cause financial statement data errors. One of the limitations of financial statements is that they are conservative. The conservative notion of financial reporting expects bookkeepers to carefully plan budget summaries and analyze bookkeeping records appropriately. Perspective on the conservative report shows how the influence of income data on the financial statements of the organization in determining the choice of the organization to expand investor interest in the organization. Another component that also influences investors' decisions is the size of the organization. Organizational size can indicate a positive or negative appearance of an organization [3]. Large organizations will be described more often to continuously improve the appearance of their organization. Data provided to large organizations is also valued more than smaller organizations. Independent commissioners are

part of a group of leading officials originating from public organizations or outside the guarantor. Independent commissioners are responsible for promoting the use of good corporate administrative standards (Nomor 33/POJK.04/2014 pasal 1 ayat 4).

Data manipulation is a problem that can occur in any organization, both small and large organizations, because these organizations need to maintain a good organizational image and attract more interest from financial supporters. The disparity of data that is known by the administration and related parties will cause a problem called an office issue [4]. One of the manipulation cases in Indonesia is PT Kimia Farma which added total compensation to the financial statements in 2001. Data inequality is a condition that arises because the owner or principal does not have satisfactory data on the existence of the administration or specialist.

This exploration is relied on to provide benefits to its users, either to assist investors in making business choices or comparable options. Likewise, this exploration is also expected to assist organizations in introducing more precise financial reports, further developing organizational performance and increasing organizational value to attract more financial supporters who will put resources into the organization.

Related Work

Agency Theory

Agency theory was proposed by Jensen and Meckling [5]. Explain that the relationship between management as agent and shareholders as principal. The owner (principal) delegates its power, including in terms of decision making to the management (agent) through a contract which will eventually produce something. Management is contracted for the purpose of doing work for the benefit of the owner and not for his own personal benefit.

Management provides services in the interests of owners and is also involved in decision-making power. However, both owners and management are assumed to be motivated only by self-interest, namely to maximize their subjective interests and also realize their common interests. The management will try their best to fulfil the interests of the owner, one of which is to stabilize profits every period and the owner will get maximum results for the management services, namely good financial reports.

Signalling Theory

Signal theory states that the management of the company who has better information about the company will be encouraged to increase the company's stock price by conveying the information to potential investors.

Explained in signal theory that the signal given by the management is expected to reduce information that is biased and asymmetrical. Information provided by.

Earnings Quality

Earnings quality perspective according to several points of view reveals that income must cope with changes in assets stably. Furthermore, the investigative perspective on earnings quality also reveals that major gains occur when value gains offer innate benefits to the organization appropriately [6].

Accounting Conservatism

Conservative accounting is the point at which the accountant has concerns about the vulnerability in gains or losses that may be experienced by deciding to use a perspective or approach that may delay revenue recognition, recognition of increased costs, reduced asset valuation, and increased debt valuation. Conservatism is an arrangement in which the recognition of costs and liabilities is carried out immediately even though the results are still unclear, while income and assets are recognized when the level of confidence in granting approval is high [7] [8].

Firm Size

Firm size, benefits, and sustainability generally vary from one firm to the next in a market economy. This raises the question of the elements that determine the diversity to be considered and how these variables work. Organizations with a very large scope tend to have more significant capabilities than small organizations.

Independent Commissioner

Independent commissioners are individuals from the board of commissioners who are outside the public or supporting organizations who have completed their term of office as independent commissioners (No.33/POJK.04/2014 pasal 1 ayat 4; Limantauw [9]; Mathoval [10]). The reality of the action of the board of commissioners taking part in the continuity of supervisory activities, especially in the problems identified with the information delivery system. The autonomy of the board of commissioners encourages the contribution of supervisory activities, a good information delivery process, so that assumptions for the reliability and accuracy of bookkeeping reports become more prominent [9]; [11].

Accounting Conservatism related with Earnings Quality

There is a strong relationship between earnings quality and accounting conservatism, where information imbalance can be a condition that affects earnings quality and accounting conservatism rules are the answer to prevent information distortion between agents and owners. Tuwentina & Wirama [12] directs a review of the impact of accounting conservatism on earnings quality. There is a strong relationship between earnings quality and accounting conservatism

The results show that there is a critical impact between accounting conservatism on earnings quality So, the possibility that accounting conservatism affects earnings quality is very large.

Firm Size related with Earnings Quality

Naimah dan Utama [13] stated that larger organizations that provide more and more complete information from time to time may provide more complete clarification of the fiscal reporting information by clients, thereby reducing vulnerabilities and more accurate forecasting of future earnings. Dira [14] in his exploration results traced that there was a positive effect of organizational size on earnings quality. The larger the size of an organization illustrates that the organization can expand its monetary activities so that the organization does not feel pressured to manipulate company profits or profits.

Accounting Conservatism related with Earnings Quality with Independent Commissioner as a moderating variable

Veronica [15] said that organizations with countless boards of commissioners show the influence of the components of the commissioners so that information about monetary values is arranged. In her study, Veronica [15] observes that independent commissioners have no impact on the correlation that arises between accounting conservatism and earnings quality, which is considered to occur on the grounds that the proportion of independent commissioners is only used as the implementation of the provisions of good corporate governance. The results of this study are consistent with research of Razak et al [16]. Pratama [17] in his research, he researched that independent commissioners affect the relationship between accounting conservatism and earnings quality, if the proportion of independent commissioners is higher, then accounting conservatism on earnings quality will have a large impact.

Firm Size related with Earnings Quality with Independent Commissioner as a moderating variable

Alves [18] in his research examining the relationship between independent commissioners and firm size, Alves proposed that firm size affects the number of independent commissioners in the organization. As demonstrated by Putra and Subowo [19], Firm size affects earnings quality, where large organizations quickly complete business activities that generate higher benefits than small organizations. Study of Purnamasari and Fachrurrozie [20] states that independent commissioners can moderate the relationship between firm size and earnings quality, but firm size on earnings quality has decreased due to the presence of independent commissioners.

Hypotheses

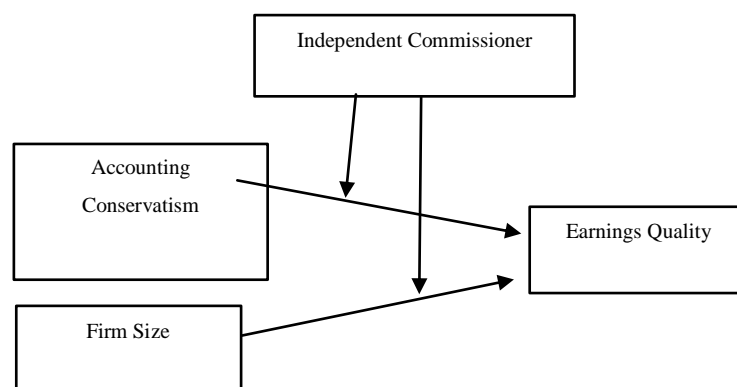


Figure 1 Framework of Thinking

The hypotheses in this research were formulated as follows:

H1: Accounting conservatism has an influence on earnings quality.

H2: The size of the company has an influence on the quality of earnings.

H3: The relationship between accounting conservatism and earnings quality can be moderated by independent commissioners

H4: The relationship between firm size and earnings quality can be moderated by independent commissioners

Our Contribution

This review aims to examine what accounting conservatism and firm size mean to earnings quality and the effect of independent commissioners on the correlation between accounting conservatism with firm size and earnings quality in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020. The tests in this review were carried out using a purposive testing strategy in which information was obtained from 51 organizations during 2018 to 2020. Likewise, the information in this review was handled using the EViews 11 programming variant. The results obtained from the tests carried out indicated that accounting conservatism had no significant impact on earnings quality. While the size has a significant effect on the quality of income. the relationship between accounting conservatism and earnings quality can be moderated by independent commissioners but the relationship between firm size and earnings quality cannot be moderated by independent commissioners

Paper Structure

The research method in this study is a quantitative descriptive research design [21]. The panel data approach is an approach from a cross-sectional combination with time series as the approach used with data from manufacturing companies on the IDX for a period of three years, from 2018 to 2020 [22]; [23]. The sampling technique used in this study is carried out with a specific evaluation from the reviewer or known as purposive sampling [24].

The assessment in this study is based on various criteria, namely 1) Information received from manufacturing companies for the 2018-2020 period and can be obtained on the IDX, 2) researchers use Rupiah (Rp) for submission, 3) For information taken from fiscal reports, the presentation must consistently end on December 31. The exact number of samples used is 153 samples from 51 companies.

2. METHODS

In this study using descriptive statistical tests Chow test, Hausman test, classical assumption test and t-Test. Operational variables and measurements used are:

Table 1 Operational and Measurement Variables

Variable	Scale	Measure	Source
Earnings Quality	Ratio	$QIR = \frac{CFO_{it}}{NI_{it}}$	Eva and Fachrurrozie (2017)
Accounting Conservatism	Ratio	$CONACC_{it} = \frac{(NP_{it} + Depreciation_{it} - CFO_{it})}{TA_{it}} \times (-1)$	Givoly and Hayn (2002)
Firm Size	Ratio	$SIZE_{it} = Ln. Total Assets_{it}$	Eva and Fachrurrozie (2017)
Independent Commissioners	Ratio	$KI = \left(\frac{TKI}{Tcom} \right) \times 100\%$	Eva and Fachrurrozie (2017)

3. FINDINGS AND DISCUSSIONS

Descriptive Statistics

Based on descriptive statistical testing of 153 sample data, the results obtained are as follows;

For the earnings quality variable, the minimum value is -2.333600 and the maximum value is 3.506100, the average value is 0.812122 and the standard deviation is 1.109330.

For The accounting conservatism variable has a minimum value of -0.246100 and a maximum value of 1.298000, an average value of 0.034146 with a standard deviation of 0.152081.

For the company size variable, the minimum value is 25.31020, the maximum value is 32, the average value is 28.37144 with a standard deviation of 1.477994.

For the independent commissioner variable, the minimum value is 0.166700 and the maximum value is 0.666700, the average value is 0.406218 with a standard deviation of 0.095672.

Regression Analysis Results

Table 2 Model 1 (Multiple Regression Analysis)

Variable	Coefficient	Std. Error	t-Statistic
C	-4.988198	2.228146	-2.238722
CONACC	0.197161	0.550938	0.357864
SIZE	0.212133	0.076263	2.781578
KI	-0.553689	1.099207	-0.503717

Source: Data Processed with EViews version 11

Table 2 is a table of multiple regression test *results without adding moderating variables*. From the table above, it can be seen that the *accounting conservatism variable* obtained a significance value of 0.7210 where the value exceeds the value of 0.05. Thus, it is concluded that Hypothesis 1 is rejected because the accounting conservatism variables do not have a significant effect on the earnings quality variable.

These results are in accordance with the results of research proposed by Penman and Zhang [25], and Razak et al [16] where they found that accounting conservatism had no significant effect on earnings quality. Therefore, the application of accounting conservatism does not really have an impact on increasing or decreasing the quality of company earnings.

However, Penman and Zhang [25] state that the implementation of accounting conservatism in companies and changes in investment can lead to decreased earnings quality. The decline is believed to have occurred due to unstable profits where profits always experience a significant increase or decrease from accounting assessments with the principles used. Profit instability that occurs can be a problem for companies to project future profits where performance evaluation and company development efforts will be more difficult to do.

Meanwhile, research by Veronica [15] and Putra and Subowo [19] states that the application of accounting conservatism helps companies improve earnings quality.

For the *variable size* of the company obtained a significance value of 0.0061 where the value is lower than the value of 0.05. Thus, it is concluded that Hypothesis 2 is accepted because firm size has a significant effect on the earnings quality variable.

The results of this study are like those of Dira [14] and Putra and Subowo [19], that the larger the size of the company, the performance and operating activities of the company tend to be better in achieving greater profits.

Table 3 Model 2 (*Moderated Regression Analysis / MRA*)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.460636	7.743407	-0.317772	0.7511
CONACC	-15.57115	2.885089	-5.397114	0
SIZE	0.134664	0.272581	0.494034	0.622
KI	-4.238912	17.83701	-0.237647	0.8125
CONACC_KI	44.20747	7.965159	5.550106	0
SIZE_KI	0.101672	0.628687	0.161721	0.8717

Source: Data Processed with EViews version 11

Table 3 is a multiple regression test **result by adding the independent commissioner variable as a moderating variable**. The influence of the *Independent Commissioner on the relationship between Accounting Conservatism and Earnings Quality* shows a significance value of 0.0000 where the value is smaller than 0.05. So it can be concluded that independent commissioners are able to moderate the relationship between accounting conservatism variables and earnings quality variables. Thus Hypothesis 3 is accepted. Based on the results of this study, it can be concluded that the greater the number of independent commissioners, it can indicate the quality of existing earnings will also increase. This situation arises as a result of increased control by independent commissioners who are superior and impartial with the use of accounting conservatism guidelines in the provision of financial reports for the development of company quality.

The results of this study are similar to Pratama [17] which suggests that the relationship between accounting conservatism and earnings quality can be moderated by independent commissioners, where the more total independent commissioners there are, the stronger the relationship between accounting conservatism and earnings quality.

The results of table 3 also show the influence of the *Independent Commissioner on the relationship between Company Size and Earnings Quality* with a significance value of 0.8717 where the value is greater than 0.05.

So, it can be concluded that The relationship between firm size and earnings quality cannot be moderated by independent commissioners. Thus Hypothesis 4 is rejected.

The results of this study are inconsistent with the statements of Putra and Subowo [19] and Purnamasari and Fachrurrozie [20] which reveal that the relationship between firm size and earnings quality can be moderated by independent commissioners, the conclusion that independent commissioners are not able to be a moderating variable in the relationship

between firm size and earnings quality. This situation occurs because the supervision activities of independent commissioners are still ineffective, or the number of independent commissioners is still inadequate where the existence of independent commissioners is only used to fulfil official regulations in force. So that the higher the level of existing independent commissioners, the company's performance will decrease and the size of the company will also decrease.

The results of this study are inconsistent with the statements of Putra and Subowo [19] and Purnamasari and Fachrurrozie [20] which reveal that the relationship between firm size and earnings quality can be moderated by independent commissioners

4. CONCLUSIONS

The results of this study indicate that firm size has a significant effect on earnings quality, while accounting conservatism has no significant effect on earnings quality. While the size has a significant effect on the quality of income. the relationship between accounting conservatism and earnings quality can be moderated by independent commissioners but the relationship between firm size and earnings quality cannot be moderated by independent commissioners

The limitations of this study, the variables tested were limited to the independent commissioner variable as a moderating variable and 2 independent variables, namely accounting conservatism and firm size.

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