AGREGAT: Jurnal Ekonomi dan Bisnis
Volume 8 (No 1), 2024
http://journal.uhamka.ac.id/index.php/agregat/
p-ISSN: 2549-5658 e-ISSN: 2549-7243
DOI: 10.22236/agregat_vol8.i1/15503
Pp 73-83

RESEARCH ARTICLE OPEN ACCESS

THE INFLUENCE OF PROFITABILITY, ACCOUNTING CONSERVATISM, AND LEVERAGE ON EARNINGS QUALITY WITH COMPANY SIZE AS THE MODERATING VARIABLE

Miranda Jennifer[1], Muhammad Fahmi[2], Sari Rusmita[3]

[1,2,3] University of Tanjungpura Pontianak, Pontianak
Corresponding Author: miranda.jennifer731@gmail.com

Article Info: Received: July 4, 2024; Revised: August 26, 2024; Accepted: September 18, 2024

Abstract: Profit information provides the needs for stakeholders in assesing management's success and company's profit targets. This research intends to examine the influence of profitability, accounting conservatism, and leverage on earnings quality, also the moderating role of company size. The study object was conducted at Non-Cyclical Consumer Companies on the BEI from 2018-2022. The research method uses moderated regression analysis using Eviews version 10. The test results show that profitability and accounting conservatism negatively impact earnings quality, while leverage has no effect. Company size is unable to play the moderating role to affect profitability, accounting conservatism, and leverage on earnings quality.
Keywords: Profitability, Accounting Conservatism, Leverage, Company Size, Earnings Quality

Abstrak: Informasi laba menyediakan kebutuhan bagi para pemangku kepentingan dalam menilai keberhasilan manajemen dan target laba perusahaan. Tujuan penelitian ini yaitu untuk mengetahui pengaruh profitabilitas, konservatisme akuntansi, dan leverage serta peran moderasi oleh ukuran perusahaan terhadap kualitas laba. Objek penelitian dilakukan pada Perusahaan Consumer Non-Cyclicals di Bursa Efek Indonesia tahun 2018-2022. Metode penelitian menggunakan analisis regresi moderasi dengan program Eviews versi 10. Hasil pengujian menunjukkan profitabilitas dan konservatisme akuntansi memiliki pengaruh negatif terhadap kualitas laba, dan leverage tidak berpengaruh. Ukuran perusahaan ditemukan tidak mampu berperan sebagai pemoderasi dalam pengaruh profitabilitas, konservatisme akuntansi, dan leverage terhadap kualitas laba perusahaan.
Kata Kunci: Profitabilitas, Konservatisme Akuntansi, Leverage, Ukuran Perusahaan, Kualitas Laba

INTRODUCTION

Profit quality is reflection of management's performance in efforts to achieve company success. To produce high-quality profits, appropriate accounting procedures are needed so that the profits obtained can accurately reflect the company's actual financial performance. The significance of profit information drives companies to consistently boost their profits and present appealing financial statements to investors. However, COVID-19 has created uncertainty in the financial outlook, challenging management to maintain the company's image and attract new investors. In some cases, this condition may encourage management to present seemingly profitable earnings information through earnings manipulation by utilizing discretionary accrual methods as a management policy choice (Beneish, 1999; Stolowy & Breton, 2004). In this context, a company is considered to have quality earnings if its earnings disclosure reflects management transparency, provides detailed information about financial performance, is relevant for specific decision-making, has predictive power regarding future earnings, is stable and consistent, and shows little variability (Bellovary et al., 2005; Dechow et al., 2010; An, 2017). On the other hand, a company is considered to have low earnings quality if the perceived disruption that affects earnings reporting is greater (Murniati et al., 2018; Maulita et al., 2022).

The company's success in creating quality earnings information can be supported by the factor of company size. Determinants of company size can be seen from factors such as stock market value, total sales, and total assets (Dang et al., 2018). Total assets are used as a reference to determine company size, indicating that assets are economic capital expected to generate profits in the future. Therefore, the greater the total assets, the more management can utilize these assets to support greater operational activities and maximize profits. Based on signal theory, a larger company shows more positive signals that are available to investors regarding the company's profit prospects. This is because large companies are considered more promising, so earnings quality is expected to be better through more comprehensive disclosure of financial information.

This research intends to examine the effect of profitability, accounting conservatism, leverage on earnings quality with company size as a moderating. The selection of Consumer Non-Cyclical Companies as research objects was based on the consideration that companies in this sector provide the primary daily needs of society. Demand tends to be stable, so these

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companies are considered able to survive despite fluctuating economic conditions. The following is the average increase in sales from 2018 to 2022:

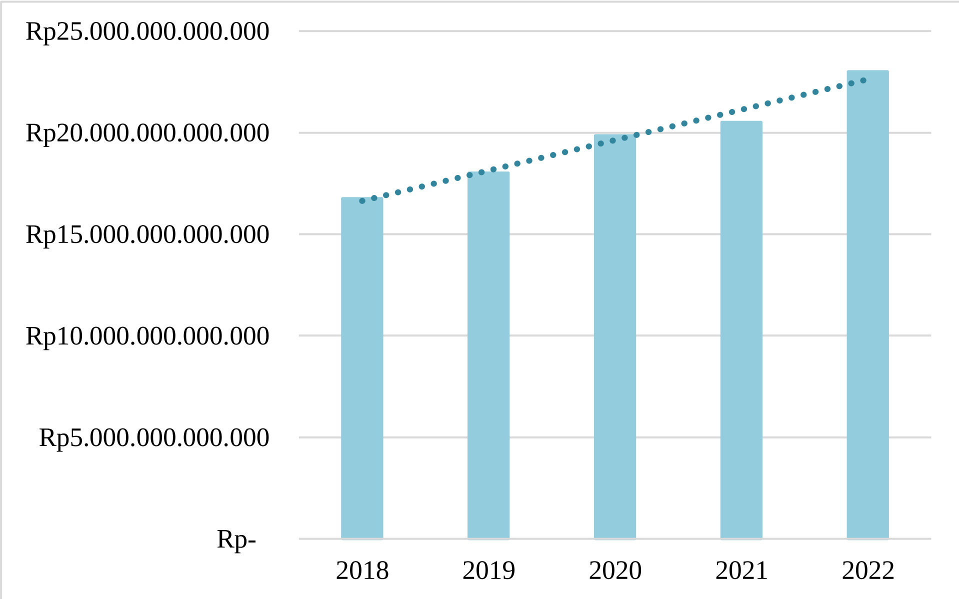

Figure 1. Average Sales of Consumer Non-Cyclical Companies

Source: Processed Data, 2024

On average, the company generated revenue from sales in 2018 of Rp16.768.588.978.344. In 2019, it increased by 7.40%. In 2020, it increased by 10.27%. In 2021, it increased by 3.34%, and in 2022, it increased by 12.06%, reaching Rp22.997.897.474.925.

Profit-oriented companies measure profitability as an indicator of their ability to generate profits using all potential and factors such as sales volume, cash flow, business branches, etc. (Harahap, 2020). Profitability can be measured by the ratio of net profit to total assets, offering insight into how effectively management generates profits through the utilization of assets. An increase in this ratio indicates that management was able to manage assets well, leading to improved financial performance and better earnings quality. Research by Anggraeni & Widati (2022) and Aslam & Tjakrawala (2023) states that profitability positively influences earnings quality. The other side, research by Masruroh & Apollo (2023) states that profitability has a negative effect on earnings quality. Meanwhile, Lestari & Khafid (2021) and Desyana et al. (2023) stated that profitability has no effect on earnings quality.

H_1: Profitability influences earnings quality.

Profit disclosure can use the accounting conservatism principle, which reflects the tendency of accountants to prioritize the recognition of liabilities and costs before assets and

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profits (Basu et al., 1997). According to the concept of agency theory, accounting conservatism can help shareholders reduce agency costs and conflicts. Additionally, a higher level of conservative accounting implementation indicates an increase in the deviations committed by managers in reporting earnings (Givoly & Hayn, 2000). Thus, this principle is considered to prevent managers' opportunism in reporting excessively high profits. Research by Anggraeni & Widati (2022), Halim (2022), Santoso & Khoyriyyah (2023), and Hariadi (2023) states that accounting conservatism has a positive effect on earnings quality. On the other hand, Kurniawan & Aisah (2020) stated that accounting conservatism negatively affect on earnings quality.

H_2: Accounting conservatism influences earnings quality.

Leverage is used to measure how much debt a company uses to fund all its assets (Harahap, 2020). Excessive debt can lead investors to assume that the company's finances are in an unstable condition. This is because debt payments will be prioritized to maintain financial balance. In such situations, managers may be encouraged to obtain more loans by reassuring investors with optimistic earnings reports. Research by Aslam & Tjakrawala (2023) states that leverage positively affect on earnings quality. On the other hand, Halim (2022) states that leverage has a negative effect. Meanwhile, Anggraeni & Widati (2022), Fedia (2019), Desyana et al. (2023), and Masruroh & Apollo (2023) states that leverage has no effect on earnings quality.

H_3: Leverage influences earnings quality.

Small-sized companies, compared to large-sized companies, tend to have lower market influence and attract fewer investors. Investors tend to believe that investments made in large companies have the potential for significant returns or even exceed expectations (Hasanuddin et al., 2021). Large companies with extensive operations produce complex financial reports, requiring more detailed disclosures. This condition creates challenges for management in ensuring the quality of earnings information. Large companies are generally equipped with good internal control systems to prevent profit engineering practices. Therefore, these companies can ensure transparency and accuracy of profit information, which increases investors' positive perceptions of company profitability. Masruroh & Apollo (2023) argue that company size does not moderate the relationship between profitability and earnings quality.

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H_4: Company size can moderate the effect of profitability on earnings quality.

Large companies with extensive operating activities often engage in complex and diverse transactions. Apart from reflecting actual financial performance, the principle of accounting conservatism helps companies identify potential losses early and reduces the risk of profit estimates being too high. In this way, companies can maintain relationships and trust with stakeholders and provide quality profit information.

H_5: Company size can influence the relationship between conservatism and earnings quality.

Large companies often utilize debt to fund assets because of the tax advantages that can be obtained. In addition, debt provides easier access to capital compared to shares, as well as flexibility in cash flow management. However, less than optimal management of debt can cause the debt ratio to become higher and reduce the quality of the profits. Aslam & Tjakrawala (2023) and Masruroh & Apollo (2023) states that company size cannot moderate the relationship between leverage and earnings quality.

H_6: Company size can moderate the effect of leverage on earnings quality.

Based on the literature review and the development of hypotheses outlined above, the research conceptual framework is constructed as follows:

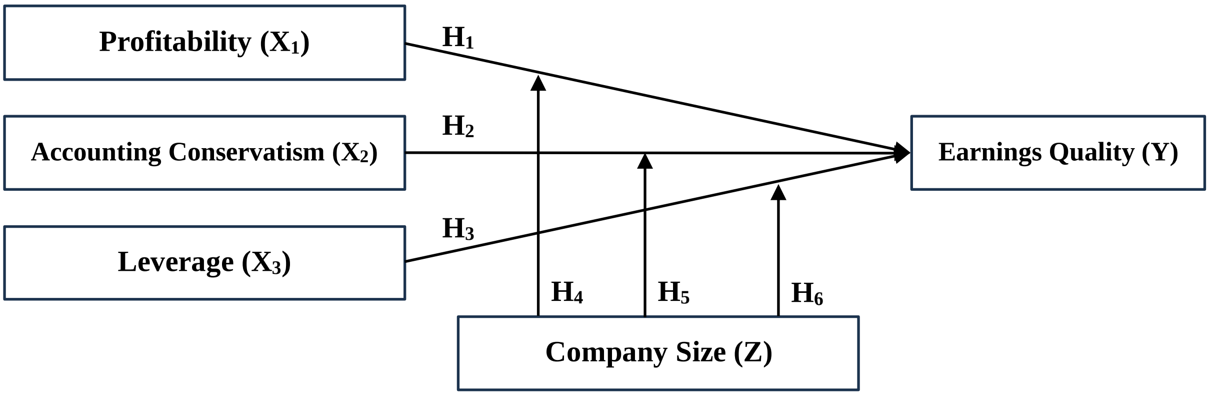

Figure 2. Research Conceptual Framework

METHOD

The population consists of Consumer Non-Cyclical Companies listed on the BEI from 2018 to 2022, totaling 125 companies. The sampling criteria used is purposive, specifically companies that had their initial public offering after 2017, did not experience suspension, and did not report losses for five consecutive years. These criteria resulted in fifty-three companies

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selected as research samples. After further excluding years with reported losses, the research processed data from two hundred and fourteen company-years. The research data were obtained from secondary sources downloaded via BEI website and the official websites of relevant companies. Data analysis was using the Eviews version 10 program.

This research employs the Return on Assets (ROA) ratio to measure profitability (Lestari & Khafid, 2021). Accounting conservatism is assessed using a conservatism model ratio based on accrued items (Savitri, 2016). The Debt to Assets ratio measures leverage (Kasmir, 2015). Total assets are transformed into natural logarithms to represent company size (Santoso & Khoyriyyah, 2023), and earnings quality is evaluated by the amounts of discretionary accruals modified by the Jones model.

RESULTS AND DISCUSSION

Descriptive statistics are carried out first to provide an overview of the research data. Below is a table of descriptive statistics results:

Table 1. Descriptive Statistics

	PROF	CONACC	DAR	DAC	TA
Mean	0.088894	-0.032950	0.484092	0.000188	29.49892
Median	0.061036	-0.025191	0.481951	0.000106	29.46923
Maximum	0.607168	0.187020	2.311944	0.004016	32.82638
Minimum	0.000247	-0.756459	0.097914	-0.004379	25.23118
Std. Dev.	0.095391	0.100293	0.266940	0.000931	1.433170
Observations	214	214	214	214	214

Source: Processed Data, E-views ver. 10, 2024

Based on Table 1, profitability exhibits a higher standard deviation compared to the mean value. This suggests significant variability in profitability among the analyzed companies, with some showing very high or very low profits. Accounting conservatism also shows varied data distribution, indicating that some companies are highly conservative, while others may implement less conservative accounting practices in financial reporting. Earnings quality also displays considerable variation, indicating that some companies have high-quality earnings, while others exhibit lower quality. Leverage and firm size, on the other hand, demonstrate lower standard deviations compared to their mean values. This suggests that the sample companies maintain relatively consistent levels of debt usage and company size.

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Table 2. Selection of Panel Data Regression Models

Regression Model Test	Decision
Chow	Common Effect (CE) Model
Hausman	Random Effect (RE) Model
Lagrange Multiplier	Common Effect (CE) Model

Source: E-views ver. 10, 2024

Based on the table above, the results of the regression model test to be used in this research are the Common Effect Model (CEM).

Table 3. R^2 and F Test

R-Squared	0.083021	F-Statistics	4,730584
Adjst. R^2	0.065471	Prob. (F-Stats)	0,001128
S. E. of Regression	0.000900	Ftable	2,414848

Source: Processed Data, E-views ver. 10, 2024

Based on Table 3, the coefficient of determination (Adjusted R-Squared) is 0,065471, indicating that profitability, accounting conservatism, leverage, and company size collectively explain 6,55% of the variation in earnings quality. This value indicates that the independent variables in this study have a limited capacity to explain changes in the dependent variable. The remaining 93,45% of the variation is attributed to other factors that not included in this research. Additionally, the Prob (F-Statistic) value is 0,001128, which is less than 0,05. Meanwhile, the F–Statistic (Fcount) value of 4,730584 is bigger than the F-table value 2,414848. Therefore, it is concluded that the regression model using profitability, accounting conservatism, leverage, and company size to predict earnings quality is suitable for testing and analysis.

Table 4. t-Test Results

Variable	Coefficient	t-Statistic	Prob.
C	0.000499	3.512995	0.0005
PROF	-0.002466	-3.119717	0.0021
CONACC	-0.003191	-4.148108	0.0000
DAR	-0.000406	-1.710293	0.0887

Source: Processed Data, E-views ver. 10, 2024

The coefficient of regression for profitability is -0,0025, probability 0,0021 ($p < 0,05$). These results demonstrate that profitability has a significant negative impact on earnings quality, resulting in the rejection of H_1. These findings are in contrast to the studies by Anggraeni & Widati (2022) and Aslam & Tjakrawala (2023), which propose that profitability positively affects earnings quality, as well as the research by Lestari & Khafid (2021) and Desyana et al. (2023), which shows no effect of profitability. However, the findings of this research are consistent with the research by Masruroh & Apollo (2023), which indicates that profitability negatively impacts earnings quality.

The regression coefficient for accounting conservatism is -0,0032, with a probability of 0,0000 ($p < 0,05$). These results indicate that accounting conservatism has a negative and significant influence on earnings quality, leading to the rejection of H_2. These findings contradict the research by Anggraeni & Widati (2022), Halim (2022), Santoso & Khoyriyyah (2023), and Hariadi (2023), which suggest that conservatism positively affects on earnings quality. However, the findings of this research align with the research by Kurniawan & Aisah (2020), indicating that accounting conservatism negatively affects earnings quality.

The coefficient of regression for leverage is -0,0004, probability 0,0887 ($p > 0,05$). These results indicate that leverage does not have a significant effect on earnings quality, leading to the rejection of H_3. These findings contradict the research by Halim (2022), Lestari & Khafid (2021) and Aslam & Tjakrawala (2023), which indicate a positive effect of leverage on earnings quality. However, the findings of this study are consistent with the research by Anggraeni & Widati (2022), Fedia et al. (2019), Desyana et al. (2023), and Masruroh & Apollo (2023), which find no significant effect.

Table 5. Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	t-Statistic	Prob.
C	0.005114	1.370199	0.1721
PROF*TA	0.000263	0.422391	0.6732
CONACC*TA	-0.000457	-0.662885	0.5081
DAR*TA	0.000323	1.304173	0.1936

Source: Processed Data, E-views ver. 10, 2024

The regression coefficient for the interaction of profitability and company size is 0,0003, with a probability of 0,6732 ($p > 0,05$). The test show that size does not moderate the effect of profitability on earnings quality, leading to the rejection of H_4. These findings contradict the studies by Lestari & Khafid (2021) and Aslam & Tjakrawala (2023). However, they are consistent with the research conducted by Masruroh & Apollo (2023).

The regression coefficient for the interaction of accounting conservatism and company size is -0,0005, probability 0,5081 ($p > 0,05$). The results indicate that company size does not moderate the impact of conservatism on earnings quality, leading to the rejection of H_5.

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The regression coefficient for the interaction of leverage and company size is 0,0003, with a probability of 0,1936 ($p > 0,05$). The test show that size does not moderate the effect of leverage on earnings quality, resulting in the rejection of H_6.

CONCLUSION

The results show that quality of earnings explained by this research model is 6.55 percent. Profitability and accounting conservatism are found to have a negative influence while leverage shows no effect. Meanwhile, company size is unable to play the moderating role to affect profitability, accounting conservatism, also leverage on quality of earnings. It is recommended that future research will be able to consider variations in other independent variables, observe more diverse populations, and use different earnings quality measurements from this research.

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