The Effect of Company Size on Accounting Conservatism in Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract. This study aims to determine whether the effect of company size on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange. The population in this study is pharmaceutical companies listed on the Indonesia Stock Exchange, while the sample in this study consists of 11 companies listed on the Indonesia Stock Exchange and published complete financial statements during the 2019-2021 period. The results of this data analysis study show that a simple linear regression test shows that a constant value of 10,193 means that if the size of the company is zero, then accounting conservatism in Pharmaceutical Sub-Sector Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019-2021 is 10,193. The regression coefficient value of 0.937 means that if the company size variable increases by 1%, accounting conservatism in Pharmaceutical Sub-Sector Manufacturing Companies Listed on the Indonesia Stock Exchange increases by 0.937. The results of the t-test obtained a sig value of 0.000 < 0.05, so it can be concluded that the size of the company has a significant effect on accounting conservatism in pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The results of coefficient determination get a value of 0.387 / 38.7 percent, this means that the size of the company has a contribution or influence on accounting conservatism in pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021 by 38.7 percent.

Keywords: Company Size, Accounting Conservatism

Abstrak. Penelitian ini bertujuan untuk mengetahui apakah pengaruh ukuran perusahaan terhadap konservatisme akuntansi pada perusahaan Manufaktur yang terdaftar di Bursa Efek Indonesia. Populasi dalam penelitian ini adalah perusahaan farmasi yang terdaftar di Bursa Efek Indonesia, sedangkan sampel dalam penelitian ini terdiri atas 11 perusahaan yang terdaftar di bursa efek indonesia dan mempublikasikan laporan keuangan secara lengkap pada selama periode 2019-2021. Hasil penelitian analisis data ini menunjukkan bahwa uji regresi linear sederhana menunjukkan bahwa nilai konstanta sebesar 10.193 hal ini berarti bahwa jika ukuran perusahaan nilainya nol, maka konservatisme akuntansi pada Perusahaan Manufaktur Sub Sektor Farmasi yang Terdaftar di Bursa Efek Indonesia tahun 2019-2021 sebesar 10.193. Nilai koefesien regresi sebesar 0,937 hal ini berarti bahwa jika variabel ukuran perusahaan mengalami peningkatan 1% maka konservatisme akuntansi pada Perusahaan Manufaktur Sub Sektor Farmasi yang Terdaftar di Bursa Efek Indonesia meningkat sebesar 0,937. Adapun hasil uji-t diperoleh nilai sig sebesar 0,000 < 0,05, sehingga dapat disimpulkan bahwa ukuran perusahaan berpengaruh signifikan terhadap konservatisme akuntansi pada perusahaan manufaktur sub sektor farmasi yang terdaftar di bursa efek Indonesia tahun 2019-2021. Hasil koefesien determinasi mendapatkan nilai sebesar 0,387 / 38,7 % hal ini berarti bahwa ukuran perusahaan memiliki kontribusi atau pengaruh terhadap konservatisme akuntansi pada perusahaan manufaktur sub sektor farmasi yang terdaftar di bursa efek Indonesia tahun 2019-2021 sebesar 38,7 persen.

Kata kunci: Ukuran Perusahaan, Konservatisme Akuntansi

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1.   Introduction

In today's era, the development of the business world has caused the high challenges faced so that the higher the uncertainty that must be faced by the company. As external parties of the company, creditors and investors need information related to the company, especially profit information in financial statements, which are used by these parties in making decisions on company finances.

Financial statements are a form of management accountability in managing company resources in a certain period. Financial statements are a reflection of good or bad company performance and become an assessment for interested parties, both internal and external parties of the company according to Abdurrahman &; Ermawati (2019:165). Financial statements must meet accounting objectives, rules, and principles in accordance with applicable standards in order to be accountable and useful to their users.

According to Sari (2021: 26), Company Size is the size of a company which can be measured by total assets or the size of company assets using the calculation of the logarithmic value of total assets. Companies with large sizes are assumed with a large number of assets and income levels so as to generate high profits. Conversely, if sales are smaller than variable costs and fixed costs, then the company will suffer losses. Therefore, large companies have more complex problems and risks than small companies, large companies will be charged high political costs so to reduce these political costs companies use accounting conservatism. If large-sized companies have relatively permanent high profits, then the government may be compelled to raise taxes and require higher public services to the company.

The risk arises due to the negligence of a company that makes the company lose. In avoiding losses, companies must create true financial statements. The company must be careful in preparing financial statements so that they can be accounted for by the company if there are problems or company risks. High company risk will make managers will be more careful or conservatism in disclosing financial statements. Thus, managers tend to report profits conservatively because overreporting profits can potentially lead to legal problems.

According to Savitri (2016: 23)

Conservatism is an accounting principle that if applied will produce low profit and asset figures, and cost and debt figures tend to be high, such a tendency occurs because conservatism adheres to the

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principle of slowing revenue recognition and accelerating cost recognition. As a result, reported earnings tend to be understatements.

Conservatism can generally be understood as prudent in uncertain conditions for future possibility, but some translate it as a tendency to report financial transactions pessimistically. If this is the case, then accounting no longer reveals the exact true value but tends to report lower accounting figures than they should. Many parties support and reject the concept of conservatism, because for them financial statements presented using the principle of conservatism will result in financial statements being biased so that they cannot be used as a tool to evaluate company risk.

Accounting conservatism is useful to avoid opportunistic behavior of managers related to contracts that use financial statements as a contract medium. Conservative financial statements can prevent information asymmetry, because the application of the principle of conservatism will encourage managers not to overestimate the presentation of profits in financial statements and include all losses that have been included in the financial statements. The principle of conservatism is important to be applied to companies as a preventive effort in dealing with business uncertainty. The manufacturing sector is one of the sectors that has high business uncertainty. The manufacturing sector is one of the largest sectors listed on the Indonesia Stock Exchange. There are many sectors of companies listed on the Indonesia Stock Exchange (IDX) with a wide variety of activities and different business fields and products with the aim of generating profits. One of these sectors is the consumer goods industry sector which is part of manufacturing companies that process raw materials into ready-to-sell finished goods. The sub-sector chosen by the author is the pharmaceutical sub-sector. Pharmaceutical is one of the mainstay manufacturing sectors that gets development priority because this industry plays a major role as the main driver of the national economy. Based on the description and data stated above, the author is then interested in conducting a research entitled "The Effect of Company Size on Accounting Conservatism in Pharmaceutical Sub-Sector Manufacturing Companies Listed on the Indonesia Stock Exchange.

2. Literature Review

2.1 Signal Theory

According to Yuniarti &; Syarifudin (2020:216) Suggesting that a signal or signal provides a signal, the sending party (owner of the information) tries to provide relevant pieces of information that can be utilized by the receiving party. The receiving party will then adjust its behavior according to its

understanding of the signal. *Signaling theory* Suggest how a company should signal users of financial statements. This signal is in the form of information about what has been done by management to realize the wishes of the owner. Signals can be promotions or other information stating that the company is better than other companies.

This theory explains why companies have the urge to provide financial statement information to external parties. Companies can increase the value of the company by reducing information asymmetry. One way to reduce information asymmetry is to provide signals to outside parties, one of which is financial information that can be trusted and will reduce uncertainty about the company's future prospects (Sari, et al 2017:17).

2.2 Company Size

According to: defines the size of the company as the size of a company indicated or assessed by total Safitri & Afriyenti (2020: 3796) *assets*, total sales, profits generated, tax expenses and others. Total assets in a company can be expressed as an illustration of the size of the company, the larger the total assets of a company the larger the size of the company.

According to stated asset size is used to measure the size of the company, the size of the asset is measured as the logarithm of total assets. The value of total assets is usually very large compared to other financial variables, for that the asset variable is refined into Log Asset or Ln Total Asset. Can be calculated using the formula: Adnantara &; Dewi (2016: 78)

$$\text{Company Size} = \text{Ln (Total Assets)}$$

2.3 Accounting Conservatism

The formal definition of conservatism is in SFAC No. 2 paragraph 95 which states: *Conservatism is a prudent reaction to uncertainty to try to ensure that uncertainties and risk inherent in business situation are adequately considered*. The measurement of accounting conservatism in this study was proxied using Zhang's *earning/accrual measure* model, adapted from Givoly and Hayn's (2002) model. The selection of proxies aims to facilitate an analysis. Thus, it is known that the lower the *accrual* value, the higher the application of conservatism and covers the entire process of company recognition of assets, debts, income and expenses. So this proxy is considered more accurate because it describes the components that are in the concept of accounting conservatism (Arsita &; Kristanti, 2019: 3400).

According defines Susanto & Ramadhani (2016:143) conservatism as the difference in verifiability

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required for the recognition of profit versus loss. The purpose of corporate conservatism is to limit opportunistic behavior, increase the value of the company and reduce lawsuits.

Accounting translates reporting that produces *true value* into fundamental qualities of accounting that must meet the characteristics: *faithful representation (*numbers and descriptions match what really existed or happened / reliability*) which is always also associated with another fundamental quality namely relevance (capable of making a difference in a decision*). In addition, there are also additional qualities of accounting information that must be met, namely comparable, verifiable, timely and understandable. These qualities are commonly discussed in research on accounting quality, *earnings quality, and accruals quality* (Savitri 2016: 20).

According to Savitri (2016:53) In the book Accounting Conservatism developed by Givoly and Hayn (2002) can be calculated using the formula:

$$Cit = NIit - CFOit$$

Where:

Cit : level of conservatism of the company i at time t.

Niit : net income *before* extraordinary (profit before tax) items deducted depreciation and amortization.

CFOit : cash flow from operating activities

3. Method, Data, and Analysis

The variables in this study consist of an independent variable, namely Company Size (X) and a dependent variable, namely Accounting Conservatism (Y). The population in this study is all pharmaceutical subsector companies listed on the Indonesia Stock Exchange for the 2019-2021 period as many as 11 companies. The sample in this study was as many as 11 companies selected using purposive sampling techniques. The data collection technique used in this study is documentation by collecting audited financial statements and published in full by pharmaceutical companies in 2019-2021 through the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The data analysis techniques used are classical assumption test, descriptive statistical analysis, simple linear regression analysis, t test, and coefficient of determination.
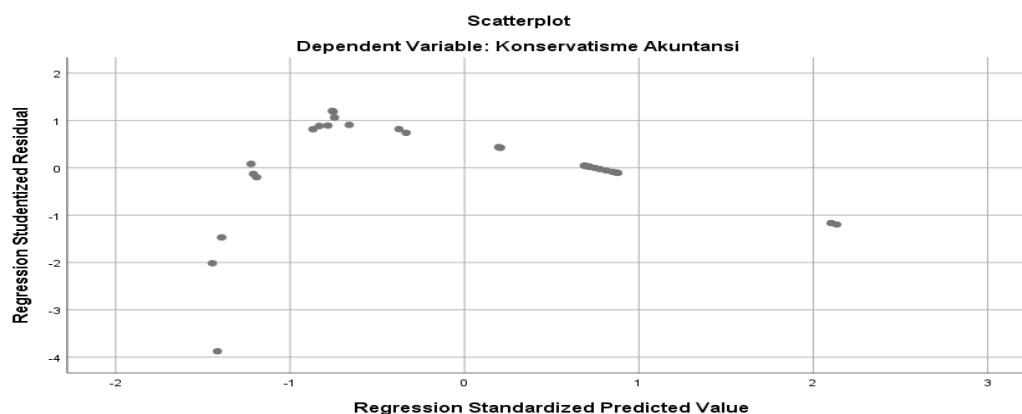
4. Result and Discussion

4.1. Test Classical Assumptions

a. Normality Test
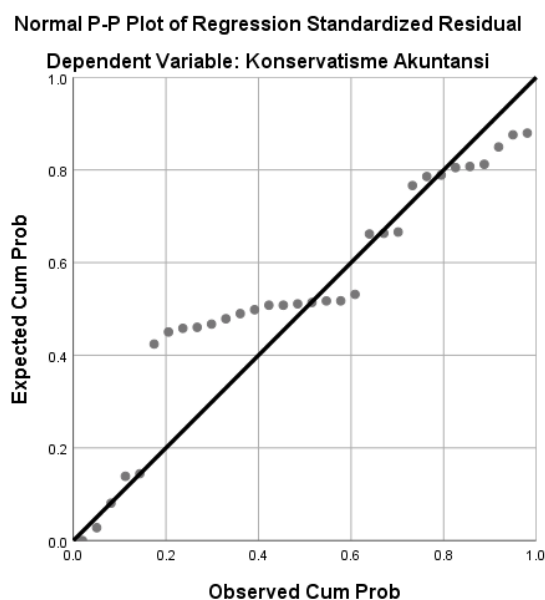
Source: Data Processing Results from SPSS 25

b. Heteroscedasticity Test

Source: Data Processing Results from SPSS 25

Based on the results obtained from the figure above, it shows that there is no certain pattern and the points spread above and below the zero on the Y axis, so it can be concluded that there is no heteroscedasticity.

c. Auto Correlation Test

Model Summaryb					
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin–Watson
1	.622a	.387	.366	7.130	1.674

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a. Predictors: (Constant), Company Size
b. Dependent Variable: Accounting Conservatism
Source: Data Processing Results from SPSS 25

Based on the table above, it shows Durbin Watson's statistical value (d) of 1.674. The lower bound value (dl) and upper bound value (du) with α = 5% at n=33 and k=1 are 1.373 and 1.502 respectively. The Durbin Watson value is located in the area between the values of du < d < 4 – du or 1.502 < 1.674 < 4 – 1.502 which means there is no positive autocorrelation. Thus, in this regression model no autocorrelation occurs.

4.2 Test the hypothesis

a. Simple Linear Regression Analysis

	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients		
Type	B	Std. Error	Beta	T	Sig.
1 (Constant)	10.193	8.585		3.709	.001
Company Size	.937	4.127	.622	4.349	.000

a. Dependent Variable: Accounting Conservatism
Source: Data Processing Results from SPSS 25

Based on the table above shows that the linear regression equation model is simple as follows:
$$Y= 10.193 + 0.937 X$$

Based on the equation model obtained, it is known that the constant value is 10,193, this means that if the size of the company is zero, then accounting conservatism in manufacturing companies in the Pharmaceutical Sub-Sector listed on the IDX for 2019-2021 is 10,193 units.

The regression coefficient value of 0.937 means that if the company size variable increases by 1%, accounting conservatism in pharmaceutical sub-sector manufacturing companies listed on the IDX increases by 0.937.

b. Coefficient Determination

	Model Summaryb				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.622a	.387	.366	7.130	1.674

a. Predictors: (Constant), Company Size
b. Dependent Variable: Accounting Conservatism
Source: Data Processing Results from SPSS 25

Based on the table above, a coefficient of determination of 0.387 or 38.7 percent was obtained. This means that the size of the company has a contribution or influence on accounting conservatism in

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pharmaceutical sub-sector manufacturing companies listed on the IDX in 2019-2021 by 38.7 percent while the remaining 61.3 percent is influenced by other factors not contained in this study.

b. T-test

Type	Sum of Squares	Df	Mean Square	F	Sig.
ANOVAa					
1 Regression	13.297	1	13.297	18.912	.000b
Residuals	2109.407	30	70.313		
Total	3439.1982	31			

a. Dependent Variable: Accounting Conservatism
b. Predictors: (Constant), Company Size

Based on the table above, it can be explained that the results of the t-test obtained the result of a sig value of 0.000. It can be concluded that the value of GIS 0.000 < 005 means that the company's size variable has a significant effect on accounting conservatism in pharmaceutical sub-sector manufacturing companies listed on the IDX in 2019-2021. Based on this, it can be concluded that the hypothesis proposed in this study is "accepted".

5.   Conclusion and Suggestion

Based on the results of research on the effect of company size on accounting conservatism in pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021, it was concluded that: The results of the description of the research variable, company size measured by Ln Total Assets in pharmaceutical sub-sector manufacturing companies listed on the IDX in 2019-2021, on average, have increased, but there are still several companies that experience fluctuations. The results of the description of accounting conservatism variables in pharmaceutical sub-sector manufacturing companies listed on the IDX in 2019-2021 on average have negative values. The size of the company affects the accounting conservatism of pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021.

Suggestions that can be given through the results of this study, in order to get better results are as follows: Investors should pay attention to the policies carried out by the company in decision making by considering the size of the company, which can affect the application of accounting conservatism. For future research, it is expected that researchers should use different populations and samples and the latest data to update and enrich the use of this method.

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