

## The Effect Of Growth Opportunities, Company Size And Profitability On Accounting Conservatism In Lq45 Companies For The Period 2019-2021

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### Abstract:

This research aims to ascertain how the result of growth opportunities, company size and profitability on accounting conservatism. The object of this study is companies included in the LQ45 index for the years 2019 to 2021. The information used in this study comes from the financial statements listed for the 2019–2021 period on the Indonesia Stock Exchange. The number of LQ45 companies sampled was 13 companies with a three-year observation period. The total sample of this study with the purposive sampling research method was 39. The dependent variable in this study is accounting conservatism, while the independent variables are growth opportunities, company size and profitability. In this work, multiple linear regression analysis is used for hypothesis testing. The findings of this research are growth opportunities have a significant negative effect on accounting conservatism, company size has a negative and insignificant effect on accounting conservatism and profitability has a positive and insignificant effect on accounting conservatism.

**Keywords:** Growth Opportunities, Company Size, Profitability, Accounting Conservatism

**JEL Classification:** G30; G34

## INTRODUCTION

Financial statements are a crucial informational tool for account users when making financial decisions. Information from the financial statements can be used to predict what will happen in the future. According to Azizah (2021) the financial statements of a company contain various information which are divided into five financial statements, namely the balance sheet or balance sheet, income statement, cash flow statement, statement of changes in equity and notes to financial statements. Further processed financial reports can help the process of analyzing financial statements which tend to be used as a basis for assessing the potential success of a company in the future. Analyzing financial statements means evaluating company performance both internally and compared to other companies in the same industry (Margono, 2020). Financial statement analysis can also be a reference for users of financial statements to determine the strengths and weaknesses of a company by using information obtained through financial statements, so it is required to be careful (conservatism) when analyzing financial statements. The application of the concept of conservatism is expected to produce quality financial statements.

According to FABS Statement of Concept No. 2, conservatism in accounting is a cautious response to the risks a business faces naturally that aims to guarantee uncertainties and hazards

in the corporate environment are adequately addressed. The conservative accounting principle is the principle of prudence in the preparation of financial statements. This rationale means that potential expenses or losses are recognized but future income or gains are not immediately recognized even though the likelihood of realization is great (Islami et al, 2022).

In this study, growth opportunities are the first factor that affects accounting conservatism. Growth Opportunities are opportunities to grow. High growth opportunities are compensated by the company's large financial needs, to enable it to encourage managers to follow the principle of conservatism in order to cover investment financing (Susanti in El-Haqq et al, 2019). The second factor in this study is business size. Company size measures the amount of assets owned by the business, the bigger the company, the greater its total assets (Sunarto and Budi in Sari, 2021). Profitability is the third factor in this study. Profitability is used to determine The capacity of the business to make money over a specific time period, as well as to describe the efficiency with which management conducts activities (Padmawati and Fachrrurizie in Islami et al, 2022). According to the background described above, The following describes how the study's problem was formulated: "How does company size, profitability and growth opportunities affect accounting conservatism".

## LITERATURE REVIEW

### Signal Theory

The concept behind this study is signal theory. This signaling theory explains the behavior of two parties when receiving different information. Signaling theory explains the actions taken by signal transmitters to influence the behavior of signal receivers. Signaling theory is often used in accounting, auditing, and financial management studies, which explain that management sends signals about the company by disclosing various financial information that can be considered as signals by investors. In general, a signal is characterized as a signal issued by the business (manager) to outsiders (investors) and can take various forms, both those that can be observed directly and those that must be examined more (Ghozali, 2019).

### Accounting Conservatism

Conservation conservatism is the principle of responding to the uncertainty of future realization by reducing values, accelerating cost recognition, and delaying revenue recognition, and increasing liability valuations to reduce excessive optimism and management of company owners (Hendriyanto in Sari, 2021). According to Resikno and Vemiliyarni in Haryadi et al (2018) to measure accounting conservatism using the following formula:

$$CON\_MKT = \frac{\text{Total Equity}}{\text{Closing Price} \times \text{Issued Shares}}$$

### Growth Opportunities

Growth Opportunity is a growth metric that measures The capacity of a business to hold onto its position amid economic growth and globalization. Fast-growing companies prefer debt as a source of financing than slow-growing companies (Sodiki, 2020). The growth opportunities variable in the research to be carried out uses market to book value measurements. According to El-Haq et al (2019) the formula for measuring Growth Opportunities is as follows:

$$MTBV = \frac{\text{Issued Shares} \times \text{Closing Price}}{\text{total equity}}$$

### Company Size

According to Putra et al (2021) Company size is a size, dimension a variable that gauges a company's size using a variety of criteria, eg. B. Total Assets, Tree Size, Market Capital, Shares, Total Sales, Total Sales, Total

Capital and others. According to Islami et al (2022) the size variable is proxied by the Natural Logarithm of total assets with the subsequent formula:

$$\text{Company size} = \ln (\text{Total Assets})$$

### Profitability

According to Cashmere (2019) Profitability ratio is a metric used to evaluate the capability of the business to turn a profit. Measurements can be made for several methods. The goal is to see the company's development fall or rise over a period of time and look for reasons for these changes. In this measurement, profitability is approximated by return on assets (ROA), according to Adnyana & Lambang (2021) measuring ROA using the following formula:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total assets}} \times 100\%$$

### Research Model

In order to better understand the result of company size, profitability and growth opportunities, on accounting conservatism, the following is a picture of the research model:

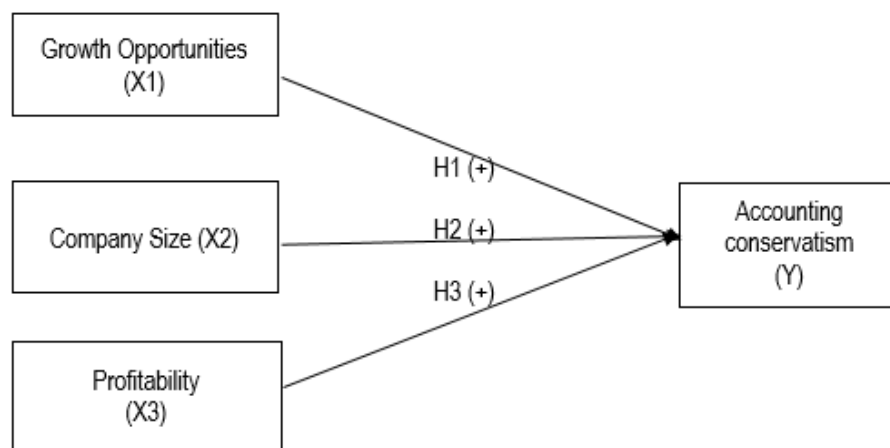


Figure 1: Research Model

### Hypothesis

The hypotheses that can be obtained from the research model above are:

- H1: Growth Opportunities has a significant positive effect on accounting conservatism.
- H2: Company size has a significant positive effect on accounting conservatism.
- H3: Profitability has a significant positive effect on accounting conservatism.

## RESEARCH METHOD

### Object of Research

Companies that are members of the LQ45 index for 2019 to 2021 are the object of this research.

### Population and Sample

Each and every LQ45 company has an Indonesia Stock Exchange listing are the population of this study. The sample in this research were companies that consistently joined the LQ45 index in the 2019-2021

observation year. Companies that were sampled were chosen for this investigation based on certain criteria such as: (1) Companies that are consistently included in the 2019–2021 LQ45 index observation period. (2) LQ45 companies that consistently publish financial reports in the 2019–2021 period. (3) LQ45 companies that provide the data needed in the study, namely data on accounting conservatism, growth opportunities, company size and profitability. Of the 45 companies that are members of the LQ45 index, 13 companies meet the criteria and are sampled.

### Data Collection Technique

Secondary data is the source of data for the quantitative research methodology used. The financial statements were where the study's data came from of companies that are consistently included in the 2019–2021 LQ45 index observation period which are accessed via the corporate website [www.idx.co.id](http://www.idx.co.id) in the form of growth opportunities, company size and profitability.

### Data Analysis Technique

The method utilized for this study is the multiple linear regression method. To ascertain how the independent variables affect the dependent variable, a multiple linear regression approach is applied. The multiple linear regression equation looks like this:

$$\text{CON\_MKT} = \alpha + \beta_1 \text{GROWTH} + \beta_2 \text{SIZE} + \beta_3 \text{ROA} + \varepsilon$$

Keterangan:

CON\_MKT : Accounting conservatism

$\alpha$  : Constant

$\beta_1; \beta_2; \beta_3$  : Regression coefficient of each independent variable

GROWTH : Growth opportunities

SIZE : Company size

ROA : Return on asset

$\varepsilon$  : Standard error

## RESEARCH RESULTS AND DISCUSSION

### Descriptive Statistical Test Results

Descriptive statistics of the research variables can be seen in table 1 below:

**Table 1. Descriptive Statistics Test Results**

	N	Minimum	Maximum	Mean	Std. Deviation
CON_MKT	39	.07	1.56	.4974	.34168
Growth	39	.17	15.01	3.5036	3.35253
Size	39	23.73	28.54	25.9997	1.53488
Profitabilitas	39	.01	.22	.0767	.04294
Valid N (listwise)	39				

Source: Secondary Data Processed

Growth opportunities during the study period had a mean (average) value of 3.5036, a minimum value of 0.17, a maximum value of 15.01, and a value in between of 0.17 and a standard deviation of 3.35253 times. The deviation value is smaller than the average with a difference of 0.15107 times, which means that growth opportunities have small data variations. During the research period, the size of the company ranged from 23.73 to 28.54 times, with an average value (mean) of 25.9997 and a standard deviation of 1.53488 times. The deviation value is smaller than the average with a difference of 24.46482 times, which means that the company size has a small data variation. Profitability during the study period has a minimum value of 0.01, a maximum

value of 0.22 times, an average value (mean) of 0.0767 and a standard deviation of 0.04294 times. The deviation value is smaller than the average with a difference of 0.03376 times, which means that profitability has a small data variation. Accounting conservatism during the study period has a minimum value of 0.07, a maximum value of 1.56 times, an average value (mean) of 0.4974 and a standard deviation of 0.34168 times. The deviation value is smaller than the average with a difference of 0.15571 times, which means that accounting conservatism has a small data variation.

### Normality Test Results

The non-parametric statistical test Kolmogorov-Smirnov (K-S) is used to assess residual normality. If the asymp. Sig. is more than 0.05, a residual is normally distributed; however, if the asymp. Sig. is less than 0.05, it is not (Ghozali, 2018). The outcomes of data output using the Kolmogorov-Smirnov (K-S) non-parametric test is shown in table 2 below, as follows:

**Table 2. Normality Test Results**  
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		39
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.24651668
Most Extreme Differences	Absolute	.152
	Positive	.145
	Negative	-.152
Kolmogorov-Smirnov Z		.948
Asymp. Sig. (2-tailed)		.330

a. Test distribution is Normal.

b. Calculated from data.

The value of Asymp. Sig (2-tailed) of 0.330 whose value is greater than 0.05. Thus, the data regression model can be inferred to be regularly distributed.

### Autocorrelation Test Results

In this study utilizing the run test to determine whether autocorrelation exists or not. An indication of a residual data residual occurs randomly or not (systematic), The asymp value, if any If the asymp value is Sig (2-tailed) > 0.05, then there is no autocorrelation. When Sig (2-tailed) 0.05, autocorrelation happens. The outcomes of data output by the run test is shown in table 3 below, as follows:

**Table 3. Autocorrelation Test Results**  
Runs Test

	Unstandardized Residual
Test Value <sup>a</sup>	-.05075
Cases < Test Value	19
Cases >= Test Value	20
Total Cases	39
Number of Runs	15
Z	-1.620
Asymp. Sig. (2-tailed)	.105

a. Median

Based on the outcomes of the autocorrelation test there is no autocorrelation because the Asymp. Sig. (2-tailed) of 0.105 is greater than 0.05

#### Multicollinearity Test Results

A tolerance value of less than or equal to 0.10 and a VIF value of at least 10 is the standard cutoff value for the presence of multicollinearity. If the tolerance value is greater than or equal to the VIF value and less than 10, there is no multicollinearity. The results of data output using the tolerance value or VIF value is shown in table 4 below, as follows:

**Table 4. Multicollinearity Test Results**

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.441	.980		1.470	.150		
Growth	-.068	.013	-.663	-5.180	.000	.907	1.103
Size	-.024	.036	-.107	-.668	.509	.575	1.738
Profitabilitas	-1.107	1.232	-.139	-.898	.375	.621	1.611

a. Dependent Variable: CON\_MKT

Considering the test outcomes shown in table 4 above, it shows that all independent variables in this study do not occur multicollinearity. All tolerance values of the growth opportunities, company size and profitability variables are > 0.01 and the VIF value is < 10.

#### Heteroscedasticity Test Results

The Park test was applied in this study's test, if the significance level is <0.05 then it can be said that there is heteroscedasticity, if > 0.05 then it can be said that there is no heteroscedasticity (Ghozali, 2018). Table 5 below shows the outcomes of data output using the Park test:

**Table 5. Heteroscedasticity Test Results**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.684	.598		1.144	.260
Growth	.001	.008	.020	.115	.909
Size	-.016	.022	-.156	-.724	.474
Profitabilitas	-1.130	.751	-.312	-1.504	.142

a. Dependent Variable: ABS\_RES

Table 5 demonstrates that all independent variables have sig values greater than 0.05, indicating that there is no heteroscedasticity.

### Hypothesis Test Results

Hypothesis testing is done by comparing the significance level  $\alpha$  of 5%. Table 6 below shows the outcomes of the hypothesis test. They are as follows:

**Table 6. Hypothesis Test Results**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.938	2.997		.980	.334
LN_Growth	-.809	.052	-.928	-15.642	.000
LN_Size	-.915	.971	-.071	-.942	.353
LN_Profitabilitas	.065	.087	.056	.750	.459

a. Dependent Variable: LN\_CON\_MKT

Based on table 6 above, it can be explained that growth opportunities have a coefficient value of -0.809 with a significance value of  $0.000 < 0.05$ , so it can be said that growth opportunities have a significant negative effect on accounting conservatism. Thus the first hypothesis which states that growth opportunities have a significant positive effect on accounting conservatism is rejected (H1 is rejected). Company size has a coefficient value of -0.915 with a significance value of  $0.353 > 0.05$ , so it can be concluded that company size has a negative and insignificant effect on accounting conservatism. Thus the second hypothesis which states that company size has a significant positive effect on accounting conservatism is rejected (H2 is rejected). Profitability has a coefficient value of 0.065 with a significance value of  $0.459 > 0.05$ , so it can be concluded that profitability has a positive and insignificant effect on accounting conservatism. Thus the third hypothesis which states that profitability has a significant positive effect on accounting conservatism is accepted (H3 accepted).

### Determination Test Results

The determination test (R<sup>2</sup>) in essence is to measure how much of the variation in the dependent variable can be explained by the model. There is a range of 0 to 1 for the coefficient of determination. The ability of the independent variables to explain the dependent variable is severely hampered when the (R<sup>2</sup>) value is low. When the value is near to 1, the independent variables almost entirely satisfy the requirements for predicting the dependent variables (ghozali, 2018). The following results of the determination test are shown in table 7 below:

**Table 7. Determination Test Results**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944 <sup>a</sup>	.891	.881	.26209

a. Predictors: (Constant), LN\_Profitabilitas, LN\_Growth, LN\_Size

b. Dependent Variable: LN\_CON\_MKT

Because this study uses regression analysis with many variables, the adjusted R square value is used to determine the contribution of the independent variable to the dependent variable. The modified R square value is 0.881, which indicates that the variance in the three independent variables can account for 88% of the variation in accounting conservatism, namely growth opportunities, company size and profitability. While 12% is explained by additional elements not examined in this research.



## **Discussion**

Growth opportunities have a significant negative effect on accounting conservatism in LQ45 companies, so the hypothesis that growth opportunities have a significant positive effect is rejected. This means that if growth opportunities increase, the level of accounting conservatism decreases, with a significant effect. Vice versa, if growth opportunities decrease, it will have an impact on how accounting conservatism rises. The findings of this study conflict with research done by El-Haq et al (2019) which states that growth opportunities have a significant positive impact on accounting conservatism. This is because the high level of company growth (growth opportunities) is not necessarily able to put the accounting conservative principle into practice to the fullest. Companies with high growth rates tend to have large assets and profits, the amount of profit they have can influence management to recognize the revenue or profit that occurs, thereby leaving the idea of caution conveyed by anticipating costs or losses but deferring recognition of revenue or profit.

Company size has a negative and insignificant effect on accounting conservatism in LQ45 companies, so the hypothesis stating that company size has a significant positive effect on accounting conservatism is rejected. This means that if the size of the company is getting bigger, the level of accounting conservatism will be lower, with an insignificant effect. Vice versa, if the company size gets smaller, the level of accounting conservatism will increase. The findings of this study conflict with previous research by Sari (2021) which states that company size has a significant positive effect on accounting conservatism. This could be due to the large size of the company, the assets owned are also getting bigger. The large assets owned by this company affect management in acting, such as management will focus more on how to manage existing assets to get maximum profit, so that any profit generated will be immediately compiled in the financial statements without thinking about the concept of prudence which does not hasten the recording of profits to anticipate the uncertainty of risks that may occur in the future.

Profitability has a positive and insignificant effect on accounting conservatism in LQ45 companies, so the hypothesis stating that profitability has a significant positive effect on accounting conservatism is accepted. This implies that as the business's profitability rises, the level of accounting conservatism will also increase. Vice versa, if the level of profitability decreases, additionally, accounting conservatism will decline. The findings of this investigation are consistent with previous research by Azizah and Kurnia (2021) which states that profitability has a significant positive effect on accounting conservatism. This occurs as a result of investors' increased interest in profitable enterprises. Consequently, management will take greater care while creating financial reports by applying the concept of accounting conservatism. Investors in determining investment decisions will look at the financial statements presented by the company, so companies with quality financial reports will be more attractive to potential investors.

## **CONCLUSIONS AND SUGGESTIONS**

### **Conclusion**

Judging from the presentation for the study results that have been carried out, it can be concluded that: (1) Growth opportunities have a significant negative implication for accounting conservatism in LQ45 companies for the 2019-2021 period. (2) Company size has a negative and insignificant effect on accounting conservatism in LQ45 companies for the 2019-2021 period. (3) Profitability has a positive and insignificant effect on accounting conservatism in LQ45 companies for the 2019-2021 period.

### **Suggestion**

Some suggestions that researchers can submit considering the limitations of this study are for aspiring researchers who wish to carry out additional research it is recommended to add independent variables or other factors that can affect accounting conservatism. Future research can use other research objects besides the LQ45 index, it can use businesses that are listed on the Indonesia Stock Exchange (IDX) such as the mining sector, food and beverages, banking and others. It is also advisable to extend the observation period (for example five years). Furthermore, potential investors can determine decisions by analyzing the level of accounting conservatism by paying attention to other factors besides growth opportunities, company size and



profitability, because these variables cannot be used to measure accounting conservatism precisely. Other factors can be internal factors of the company as well as external factors of the company, political, economic and other conditions. Finally, for the business to draw investors to make investments in the business, the thing that the company can do is to issue a complete financial report. Investors can gauge how conservative the accounting environment is and the ability to generate profits through financial statements.

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