THE ROLE OF ACCOUNTING CONSERVATISM, LEVERAGE AND FIRM SIZE ON THE QUALITY OF BANKING PROFITS IN INDONESIA

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Abstract: *This study aims to determine the Effect of Accounting Conservatism, Leverage, and Company Size on Earnings Quality in banking companies in Indonesia. The population of this study is all banking companies listed on the Indonesia Stock Exchange for the 2019-2023 period, totaling 47 companies. Sample selection through the Purposive Sampling method. There are 229 observation data. The data analysis technique used is descriptive analysis, panel data regression analysis and hypotheses are tested using Stata 17. The results of this study indicate that Accounting Conservatism does not have a significant effect on Earnings Quality. Leverage has a negative effect on Earnings Quality, and Company Size does not have a significant effect on Earnings Quality*

INTRODUCTION

Financial reports are a communication tool that connects interested parties, both investors and the company's management itself. [2] stated that financial reports have many benefits that can be used by their users, both internal and external parties, one of which gets more attention is profit information. The importance of profit information for users of financial reports makes companies compete to increase profits. However, there are certain parties who do bad things to achieve their individual goals regarding the company's profit information, namely making profit manipulation practices that are often carried out by company management with the aim of attracting the attention of investors.

This will result in poor quality company profits. The net profit of giant banks in the Southeast Asian region

has been eroded because credit income has declined [20], for example, the four largest commercial banks in Thailand (Bangkok Bank, Siam Commercial Bank, Krung Thai Bank, and Kasikornbank) will increase provision costs in preparation for bankruptcy due to the COVID-19 pandemic [19]. In this study, there are several factors that can affect earnings quality, including accounting conservatism, leverage, and company size. Previous research on accounting conservatism conducted by [1] found that accounting conservatism has a significant negative effect on earnings quality. This study is different from [1], [5] who stated that accounting conservatism has a positive effect on earnings quality.

The results of previous research on leverage conducted by [9] found that leverage has a significant effect on earnings quality. Different from research by who stated that leverage

does not have a significant effect on earnings quality. Meanwhile, the results of [2] research on company size found that company size has a positive effect on earnings quality. This is different from research by [12], [10] who stated that company size does not have a significant effect on earnings quality. Then, research conducted by [17] stated that company size does not affect profit quality.

RESEARCH METHOD

The type of research used in this study uses quantitative research. The object of this study is banking companies listed on the Indonesia Stock Exchange for the 2019-2023 period. The dependent variable in this study is earnings quality, while the independent variables are accounting conservatism, leverage, and company size. The population of this study is all banking companies listed on the Indonesia Stock Exchange for the 2019-2023 period, which in this study amounted to 47 companies. Sample selection through the Purposive Sampling method. There are 229 observation data, while the data analysis techniques used are descriptive analysis, multicollinearity test, panel data regression analysis.

RESULTS AND ANALYSIS

Table 1. Descriptive Analysis Results

Variables	Obs	Mean	Std. dev	Min	Max
K. Profit	229	0.8484213	1.775576	-3.9474	3.7261
Conserv.	229	0.021128	0.0937049	-0.3679	0.3415
Leverage	229	1.326849	1,491,111	0.0316	6.9579
Size	229	29.66112	2,697,067	17.8663	333.6552

Source: processed secondary data (2024)

Table 1. illustrates the results of descriptive analysis of 229 observations of companies that are samples in the study. Earnings quality has a minimum value of -3.9474 and a maximum value of 3.7261 with an average value of 0.8484213 and a standard deviation of 1.775576.

Table 2. Multicollinearity Test

Variables	VIF	1/VIF
Conservats	1.00	0.998192
Leverage	1.00	0.998403
Size	1.00	0.999761
Mean VIF	1.00	

Source: processed secondary data (2024)

Based on table 2. the results of the multicollinearity test above, it can be concluded that the VIF value <10 and the 1/VIF value>0.10 indicate that there are no multicollinearity problems in this regression model and can be used for further analysis.

Table 3. Chow Test Results

Effect Test	Prob.
F (10.33)	1.98
Prob>F	0.0682

Source: processed secondary data (2024)

Based on table 3. the results of the chow test show that the Prob>F value in the Fixed Effect Model (FEM) estimation shows a figure of 0.0682, which means (Prob>F)> 5% so that H0 is accepted. Based on the test results, the Common Effect Model is more appropriate to use in this study.

Table 4. Lagrange Multiplier Test Results

Effect Test	Prob.
Chibair2(01)	0.00
Prob > chi2	1.0000

Source: processed secondary data (2024)

Based on table 4. test results*Lagrange Multiplier* known Prob Value > chibar2 in the estimated results *Lagrange Multiplier* shows the number 1.0000 which means (Prob>F) > 5% so that H0 accepted. Based on the test results, it was found that*Common Effect Model* more appropriate to use in this study.

Table 5. Results of Panel Data Regression Analysis

	Coeff.	Std.Err	t	P>[t]
Conserv.	1,714,426	2,650,423	-0.65	0.521
Leverage	-0.3614332	-0.1631235	-2.22	0.032
Uk.Per	0.1859502	-0.1076385	-1.73	0.091
Cons	680,557	3,208,167	2.12	0.040

Source: processed secondary data (2024)

Based on table 5, it can be seen that the panel data regression equation in this study is as follows:

Y = α + βX1 – βX2 + βX3 + βX4 + ε

The constant is 6.80557, meaning that if the independent variable remains constant, the dependent variable is 6.80557. Coefficientthe regression of accounting conservatism is 1.714426, which means boh every addition variable Accounting conservatism of 1% will reduce the earnings quality variable by 1.714426 assuming other independent variables are constant. Regression coefficient*leverage*is -0.3614332, meaning that every additional variable*leverage*by 1% will reduce the earnings quality variable by -0.3614332 assuming other independent variables are constant. The regression coefficient of company size is -0.1859502, meaning that every 1% increase in the company size variable will decrease the earnings quality variable by -0.1859502 assuming other independent variables are constant.

Table 6. t-Test Results

	Coeff.	Std.Err	t	P>[t]
Conserv.	1,714,426	2,650,423	-0.65	0.521
Leverage	-0.3614332	-0.1631235	-2.22	0.032

| Size | 0.1859502 | -0.1076385 | -1.73 | 0.091 |
| Cons | 680,557 | 3,208,167 | 2.12 | 0.040 |

Source: processed secondary data (2024)

Based on table 6, it is known that accounting conservatism (X1) have 0.521>0.05 was well as mark coefficient 1.714426 Which show number negative,It means conservatism accountancy proven to have no effectsignificant on earnings quality. So the hypothesis (H1) proposed by the researcher is rejected. Based on table 6, it is known that leverage (X2) has 0.032 < 0.05 and a coefficient value of -0.3614332 which shows the numbernegative, meaning that Leverage is proven to have a negative and significant influence on earnings quality. So the hypothesis (H2) proposed by the researcher is accepted. Based on table 6, it is known that the company size (X3) has 0.091> 0.05 and a coefficient value of -0.1859502 which shows a negative number, meaning that company size is proven to have no positive and significant influence on earnings quality. So the hypothesis (H3) proposed by the researcher is rejected.

CONCLUSION

Accounting Conservatism does not have a significant effect on earnings quality. Firm in implementing or not implementing the principle of prudence in financial reporting do not determine the amount of profit generated because there are other factors such as good company performance that play a greater role in generating market responses. *Leverage* has a negative impact on earnings quality. *Leverage* which is too high has a negative impact on the company's performance, because with a higher level of debt means the company's interest burden will be greater and will reduce profits. With a high level of debt causes low profit quality in the company. firm size does not have a significant effect on earnings quality. Large or small companies do not determine the amount of profit generated because other factors such as good governance play a greater role in generating market responses.

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HALAMAN INI SENGAJA DIKOSONGKAN