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by Dwiarso Utomo

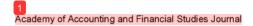
Submission date: 06-Dec-2018 10:26PM (UTC+0700)

Submission ID: 1051946780

File name: ting-Conservatism-and-Quality-of-Earnings-1528-2635-22-6-306.pdf (265.67K)

Word count: 5047

Character count: 28836



THE MODERATING EFFECTS OF MANAGERIAL OWNERSHIP ON ACCOUNTING CONSERVATISM AND QUALITY OF EARNINGS

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ABSTRACT

Quality of earnings is one of the information that influences stakeholders in making decisions about the company in question. To analysis the quality of earnings revealed by the company, it is important to know the determinants of quality of earnings. The purpose of this study was to empirically examine the effects of accounting conservatism on quality of earnings and to examine the oderating effects of managerial ownership, independent commissioners and audit committees on the relationship between accounting conservatism and quality of earnings.

This research includes correlational research and is a untitative. The population that is the object of this study is all companies in LQ 45 that are on the Indonesia Stock Exchange (IDX) during 2014-2016. The sampling technique uses posive sampling method with a total sample of 39. Hypothesis testing is carried out using the multiple linear regression analysis. The results show that accounting conservatism has a 42 sitive effect on quality of earnings. Managerial ownership as a moderating variable has a significant effect on accounting conservatism relationship to quality g earnings. Independent commissioners and audit committees as moderating variables do not have a significant influence on the relationship of accounting conservatism to quality of earnings.

Keyword: Managerial Ownership, Accounting Conservatism, Quality of Earnings.

INTRODUCTION

Earning is considered as the most significant information that can guide the decision making process by interested parties. Given the importance of earnings information contained in the company's financial statements, it causes managers to try in all ways to prepare financial statements tha 32 re good in the eyes of internal parties and external parties. This has triggered the emergence of information asymmetry between the management of the company and the principal known as agency conflict. According Basu (2009), accounting conservatism is a practice that reduces earning when the company faces bad news and does not increase earning when the company faces good news. Companies with good corporate governance use accounting conservatism to protect investors by providing information about bad news at the right time (Lara et al., 2009).

Companies that have good corporate governance are expected to be able to present information in an accurate, relevant and timely manner so that every information conveyed by the company, especially earning, will be trusted by investors. Generally, good corporate governance mechanisms can be classified into two groups. First is the company's specific internal mechanism which consists of ownership structure and management structure. Second is a country-specific external mechanism that consists of the rule of law and the corporate control

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market. This study will incorporate the company's specific internal mechanism as a moderating variable.

For the ownership structure, the managerial ownership variable will be used with the thought that management's sensitivity to the influence of shareholders will depend on the level of management ownership control. For the management structure, the independent commissioner variable will be used. Among the various factors that can encourage the creation of effective corporate management, independent commissioners and audit committees are the main factors that influence the behaviour of managers in managing the company, including in the application of accounting conservatism policies. For the management structure in Indonesia this function tends to be more run by the board of commissioners based on their proximity to information sources. Accounting conservatism has a positive managerial and significant effect on quality of earnings (Veronica, 2013). Its lependent commissioners have a positive effect on quality of earnings (Riswandi, 2013). Mats gerial ownership has a positive effect on quality of earnings. (Muid, 2009). Febiani (2012) managerial wnership partially has a positive effect on quality of earnings. However, managerial ownership has a negative effect on quality of earnings (Veronica, 2013).

Based on inconsistencies in research results and previous research gaps related to the influence of accounting conservatism on quality of earnings, further research is needed to overcome these problems. The purpose of this study was to examine the effect of accounting conservatism on quality of earnings and to examine the moderating effects of managerial ownership, independent commissioners and audit committees on the relationship between accounting conservatism and quality of earnings.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Jensen & Meckling (1976) stated that ownership managerial will reduce agency problems because more and more shares are owned by the management, the stronger their motivation to work in improving the value of the company's stock. Based on agency theory, the greater ownership by the inside directors (affiliated commissioners/commissioners other than independent commissioners) will direct on the suitability of objectives between management and shareholders. However, on the other hand as the owner of an inside directors can use the power of his voting to do expropriation of the company.

In the context of conservatism, managerial ownership has two different arguments. This managerial ownership can acts as a monitoring function in the financial reporting process, and can also be driving factors for expropriation of minority shareholders. If managerial objectship performs its monitoring function properly, then it will requires information from financial reporting that has high quality so that they are will demand the use of a higher conservation principle. However, if their ownership actually encourages expropriation of the company, then they will be more inclined to use more liberal accounting principles (more aggressive).

Lafond and Roychowdhury (2007) stated that conservatism is in reporting, this finance is one of the mechanisms in overcoming agency problems when they arise separation between ownership and control. They hypothesized that by increasingly small managerial ownership, the agency problems that arise will be even greater so the demand for conservative reports will increase. Consistent with this hypothesis, they found a negative relationship between ownership managerial with conservatism as measured by the size of asymmetric timeliness from the recognition of profit and loss.

Signal theory explains that signals are given by managers to reduce information asymmetry. Managers provide information through financial reports that they implement conservatism accounting policies that produce higher quality of earnings. This principle prevents companies from exaggerating earning and helping users of financial statements by presenting earning and assets that are not overstated. In practice, management applies a conservative accounting policy by calculating a high depreciation that will result in a relatively permanent low earning which means that it does not have a temporary effect on the decline in earning that will reverse in the future. Watts (2(33)) stated that understatement of systematic or relatively permanent net assets is a sign of accounting conservatism. Thus it can be said that accounting conservatism generates higher quality of earnings because this principle prevents companies from exaggerating earning and helping users of financial statements by presenting earning and assets that are not overstated.

HYPOTHESES

Accounting Conservatism on Quality of Earnings

Accounting conservatism is used as one of the principles in accounting. Accounting conservatism is an attitude taken by accountants in the face of two or more alternatives in the preparation of financial statements. If more than one alternative is available, this conservative attitude tends to choose an alternative that will not make assets and income too large. The principles of conservatism that favor investors tend to protect investors from the mistakes of investing due to errors in analysis company earnings information (Tuwentina and Wirama, 2014). When associated with earning, company managers tend to use accounting that is not conservative (optimistic) because accounti 37 conservatism is considered to be able to limit the opportunistic actions of managers. These is in line with the research of Kazemi et al. (2011) which states that the principle of conservatism is considered an advantage because it can minimize the optimistic nature of management and avoid attitudes that tend to be excessive in financial statements. Therefore, if management is carried out on quality of earnings, accounting conservatism will be a barrier for managers to manage earnings. This results in managers who tend to be less conservative and tend to report higher earning. This is because it will bring earning to the company through in 15 ors in investing. This is what drives managers to report greater earning. This study suspects that there is a positive influence of accounting conservatism on quality of earnings. This is due to the principles of conservatism siding with investors by tending to protect investors from mistakes investing due to errors in analysis earnings information company so the hypothesis formulated is:

H1: Accounting Conservatism has positive influence on quality of earnings.

Managerial Ownership on the Relationship of Conservatism Accounting toward Quality of Earnings

Implementation of good corporate governance is carried out by all parties in the company. With the existence of a board that manages and oversees the company's performance. Companies with good governance use accounting conservatism to protect investors by providing information about bad news at the right time (Lara et al., 2009). Corporate governance is a mechanism that can control the behaviour of stakeholders, so corporate governance can influence management choices in applying accounting principles related to the principle of conservatism (Fala, 2006). The higher managerial ownership of shares in the company will encourage

managers to choose conservative accounting. The feeling of having a manager towards a company makes the

manager not only think of the bonus that will be gained if the earning is high but the manager is more concerned with the company's continuity in the long term so that managers are interested in developing the company. The greater the managerial ownership proxy by the percentage of ownership of the company, the managerial will be more concerned about the percentage of ownership so that the policy taken is more conservative. Conversely, when managerial ownership is low, managers tend to be less conservative or tend to report higher earning, because it will bring earning to managers who are received through commissions in accordance with the amount of earning. This is what drives managers to report greater earning.

H2: Managerial Ownership has Moderation on the relationship of Accounting Conservatism toward Quality of Earnings.

Independent Commissioners on the Relationship of Accounting Conservatism toward Quality of Earnings

Independent commissioners consist of commissioners who are not affiliated with the controlling shareholders, and is free from business relationships or which can affect its ability to act independently or act solely for the benefit of the company. One of the main functions of independent commissioners is to supervise the performance of the company's management (Wardhani, 2008). The existence of an independent commissioner in a company is very important. Wardhani (2008) research states that the higher the proportion of independent commissioners to the total numbers of commissioners, the greater the level of accounting conservatism as measured by market size. The more proportions of independent commissioners in a company will show a strong board of commissioners, the higher the level of conservatism is desired because of the requirements of higher quality financial information. If the proportion of independent commissioners is less supervision carried out will be so that the company managers have the opportunity to use accounting principles that are more aggressive and less conservative (Ahmed and Duellman, 2007). This means that the greater the proportion of independent commissioners will increase the level of conservatives or tend to report smaller earning.

H3: Independent Commissioner has moderation on the relationship of Accounting Conservatism toward Quality of Earnings.

Audit Committee on the Relationship of Accounting Conservatism toward Quality of Earnings

The audit committee serves to assist the board of commissioners in ensuring the implementation of corporate governance, which includes tasks to review audit planning by both internal and external parties. Next, review internal and external audit reports. With supervision by the audit committee, it is expected to minimize fraud com 20 ted by management so that earnings management occurs (Anggit and Shodiq, 2014). The audit committee is one of the elements of good corporate governance that is expected 7 overcome the increasing trend of various fraud and negligence scandals of management. The management is not always associated with data manipulation efforts but is more likely to choose conservative accounting methods to get earning that are indeed permissible according to accounting regulations. That the more members of the audit committee in a company, the smaller the errors in the financial statements.



This shows that the more the number of audit committee members, the higher the level of conservatives and tend to report a smaller earning.

H4: Audit Committee has Moderation on the Relationship of Accounting Conservatism toward Quality of Earnings.

RESEARCH METHOD

Sample Selection

This 18 udy included correlational research. Quantitative research, namely research with secondary data obtained from the official website of the Indonesia Stock Exchange at http://www.idx.co.id. The population that became the object of this study were all companies in LQ 45 on the Indonesia Stock Exchange during 2014-2016 (Table 1). The sampling technique used is purposive sampling, which is a group of objects taken based on certain considerations as follows:

- 1. Companies listed on LQ 45 on the Indonesia Stock Exchange in 2014-2016.
- 2. Companies registered in LQ 45 during the 2014-2016 periods respectively.
- 3. The company issued annual reports for three consecutive years.
- 4. Have complete data needed in the research process.

Table 1 SAMPLE SELECTION PROSEDURE			
No	Descript 61	Total	
1	The number of companies listed on LQ 45 on the Indonesia Stock Exchange in 2014-2016.	45	
2	The number of companies not registered in LQ 45 during the 2014-2016 periods respectively.	(13)	
3	Number of companies that have not issued annual reports for three consecutive years.	(4)	
4	Number of companies that do not use rupiah.	(2)	
5	The number of companies that do not have complete data needed in the research process.	(13)	
6	Number of companies according to criteria.	13	
	Total Sample	39	

Operational Definition Variables



Independent variable

Accounting conservatism (X1) is measured using total accruals in the model Givoly and Hayn (2000). If the accrual value becomes more negative, then the earning becomes more conservative. The formula used to calculate accruals:

TAcit=NIit-Cfit

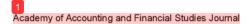
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TAcit: Total accrual of company *i* in year *t*. Niit: Net income of company *i* in year *t*.

CFit : Cash flows operating activities of company i in year t.

Dependent variables



Quality of earnings (Y) recognizes the fact that the economic impact of the transactions will vary between companies as a function of the basic character of their business, and is variously formulated as earning levels which indicate whether the underlying economic impact is better in estimating cash flows, or conservative. Discretionary total accruals are calculated using Modified Jones' Models. Modified Jones' Models can detect earnings management better than various other models (Dechow, 1995). The value of positive discretionary accruals indicates low quality of earnings, while the negative value of discretionary accrual indicates high quality of earnings. The calculation model is as follows:

TACit=Niit-Cfit

TACit: Total accruals of company *i* in year *t*. NIit: Net income of company *i* in year *t*.

CFit: Cash flows operating activities of company i in year t.

DACit=(TAC_{it}/SALES_{it})-(TAC_{it}-1/SALES_{it}-1)

 DAC_{it} : Directionary accruals company *i* in year *t*.

 TAC_{it} : Total company accruals in year t. SALES_{it}: Sales of company i in year t.

T: Test period. t-1: Previous period.

Moderating variables

Managerial ownership: Managerial ownership (X2) can be calculated by the percentage of shares owned by the company management (Wardhani, 2008). The calculation can be formulated as follows:

Number of shares owned by the director and commissioner/number of shares x 100%.

Independent commissioner (X3): The number of independent commissioners can be calculated by the percentage of the composition of independent commissioners in the company (Wardhani, 2008). The calculation can be formulated as follows:

Number of Independent commissioners/number of commissioners x 100%.

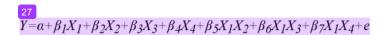
Audit committee (X4): Based on the JSX Circular, SE-008/BEJ/12-2001. Membership of the audit committee consists of at least 3 people including the chairman of the audit. The Audit Committee is measured by the formula:

$KA=\Sigma Member of the Audit Committee$

Data Analysis Method

The moderating variables of this study are negative and audit committee. This study analysis managerial ownership, independent commissioners and audit committees as moderating variables in the relationship of accounting conservatism on quality of earnings Table 2. This research model tests together or separately as follows:

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Where,

X₁: Accounting Conservatism.
X₂: Managerial Ownership.
X₃: Independent Commissioner.

X₄: Audit Committee.Y: Quality of Earnings.

α : Constants.

β: Regression Coefficient.

e : Error.

Table 2 HYPOTHESIS TEST RESULT					
24 Model 1	Unstandardized Coefficients B	Standardized Coefficients Std. Error	Unstandardized Coefficients B	T- value	Sig.
(Constant) Accounting	0.266	0.184		1.441	0.160
Conservatism	1.057E-014	0.000	0.374	0.324	0.748
Managerial Ownership	0.029	0.120	0.041	0.243	0.809
Independent Commissioner	0.000	0.002	-0,030	-0.183	0.856
Audit Committee	-0.077	0.040	-0.371	-1.918	0.064
Moderat 1	1.404E-013	0.000	0.618	3.272	0.003
Moderat 2	3.883E-016	0.000	0.578	0.537	0.595
Moderat_3	-6.573E-015	0.000	-1.090	-1.320	0.197

Based on the results of the calculation of multiple linear regression analysis using SPSS, the following equation is obtained:

Quality of earnings=0.226+1.057E-014 Accounting Conservatism+0.029 Managerial Ownership+0.000 Independent Commissioner-0.077 Audit Committee+1.404E-013 Accounting Conservatism*Managerial Ownership+3.883E-016 Accounting Conservatism*Independent Commissioner-6.573E-015 Accounting Conservatism*Audit Committee+e

DISCUSSION

Accounting Conservatism on Quality of Earnings

Based on the results of testing the hypothesis shows that accounting conservatism and significant effect on quality of earnings. This is seen from the significance level of 0.997 because the significance as jel of 0.997>0.05, it can be concluded that the accounting conservatism variable does not have a significant effect on the quality of earnings in the negative direction can be seen from the t count of -0.004. This shows that the company is less implementing conservatism because of the company's obligation to conduct IFRS convergence since 2012. Large companies are more affected so that large companies are more sensitive to the state of the market environment. By using a sample of LQ 45 companies that have high market

capitalization, it seems likely that accounting conservatism has less influence on quality of earnings.

The reason that underlies the results of this study is the possibility of company managers not to make optimistic financial statements based on company policies that tend to be less conservative, causing managers to report higher or less conservative earnings. This underlies accounting conservatism not being overlooked by the company manager. The next thing is that companies are not implementing conservatism because of the company's obligation to conduct IFRS convergence since 2012. Large companies are more affected so that large companies are more sensitive to the state of the market environment. By using a sample of LQ 45 companies that have high market capitalization, it seems likely that accounting conservatism has less influence on quality of earnings. Judging from the level of conservatism accounting cash flows, the average yields positive returns. The results of this study are in accordance with the research conducted by Helina and Meiryananda (2017) that accounting conservatism does not affect quality of earnings.

Managerial Ownership Moderate Accounting Conservatism Relationship to Quality of Earnings

Based on the results of the hypothesis testing shows that managerial ownership moderate the accounting conservative relationship to quality of earnings. This is seen from the significance level of 0.005 because of the significance level of 0.005<0.05, it can be concluded that managerial ownership has a significant effect between accounting conservatism relationship to quality of earnings. This shows that managerial ownership has an influence, perhaps because managerial ownership is used by directors and board of commissioners as certain motives that can affect accounting conservatism on quality of earnings. The managerial ownership structure by several researchers is believed to be able to influence the course of the company which ultimately affects the company performance. Jensen and Meckling (1976) form a theory which states that managers' share ownership can influence the level of accounting conservatism. This can be seen through two different views on ownership owned by the director and management. The first view is that the director and manager carries out a good supervisor role and function. the resulting financial report has a higher quality, so that it will demand the use of the principle of conservatism. Conversely, if the existence of managerial ownership is actually used to appropriate companies, it will be more likely to use more aggressive accounting principles. If this happens, the supervisory function carried out by affiliated commissioners becomes effective.

The underlying reason for the results of this study is the possibility that managers have shares with a certain percentage; the managerial will be more concerned about the percentage of ownership so that the policy taken is more conservative. The policy taken is a marker that the managerial will see how far the sustainability of the company is. It is also influenced by the sense of belonging to the manager of the company which makes the manager report is maller earning with the attitude of caution that refers to the development of the company. This is related to the agency theory that managers have a responsibility to develop the company. These shows that managerial ownership has an influence, perhaps because managerial ownership is used by directors and commissioners as certain motives that can affect accounting conservatism on quality of earnings. High levels of managerial ownership even until there are companies whose ownership structures have ownership of commissioners and directors may also be a factor in this matter. This can be seen from the average number of independent commissioners in the company ranging from 0.167%. This figure shows a high level of managerial ownership that tends to

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affect quality of earnings. The results of this study are in accordance with the research conducted by Aulia Rifani (2013) that managerial ownership influences quality of earnings.

Independent Commissioner Moderate the Relationship of Accounting Conservatism to Quality of Earnings

Based on the 16 sults of testing the hypothesis shows that independent commissioners cannot moderate the relationship between acquining conservatism and quality of earnings. This is seen from the significance level of 0.751 because the significance level of 0.751>0.05, it can 34 concluded that the independent commissioner variable does not significantly influence the relationship between accounting conservatism and quality of earnings. This shows that independent commissioners by the company are only used to fulfill formal provisions or are merely regulations and are not intended to uphold the implementation of good corporate governance. In addition, it is possible that the strength of the company's founding control lies with the internal company. The underlying reason for the results of this study is probably due to the composition of independent commissioners by the company only used to fulfill formal provisions or just regulations and not intended to uphold the implementation of Good Corporate Governance. In addition, it is possible that the strength of the company's founding control lies with the internal company. Besides that, it is likely that the structure of the company's commissioners in Indonesia is very small and not dominated by institutions and government. Companies in LQ 45 which have an average independent commissioner of 46.15% show that the company is dominated by internal parties and very few are owned by external parties. The results of this study are consistent with the research conducted by Veronica (2013) that independent commissioners have no effect on quality of earnings.

Audit Committee Moderate the Relationship of Accounting Conservatism to Quality of Earnings

Based on the results of hypothesis testing shows that the audit committee has an insignificant influence that is not able to modera accounting conservatism on quality of earnings. This is seen from the significance level of 0.693 because the significance level of 4293>0.05, it can be concluded that the audit committee variable has no significant effect on accounting conservatism on quality of earnings. This shows that the managem 22t structure in Indonesia such as the existence of cross-directorship or connectedness between members of the company's audit committee and members of the audit committee of other companies may weaken the service function and audit committee control. If investors know that an audit committee member of a company becomes an official in another company, investors will give a low assessment of the company. The weld that underlies the results of this study is the possibility that companies that tend not to comply with the policy of an audit committee membership total three people make the results of the audit committee unable to moderate accounting conservatism on quality of earnings, besides the audit task the xamines audit planning both by internal parties or externally does not significantly affect the quality of earnings reported by the financial statements at the end of the period. This is reasonable considering that in Indonesia these conditions are considered as collusion and nepotism which tend to be negative. However, this still requires further research. Another possibility is that the requirements of independent audit committee members and finagial and accounting education backgrounds as required by the regulations are not met. The results of this study are in accordance with the research

conducted by Muid (2009) that the audit committee has no significant effect on quality of earnings.

CONCLUSION AND RECOMMENDATION

The results of this study indicate that accounting conservatism has a positival effect on quality of earnings. Managerial ownership as a moderating variable has a significant influence on the relationship of accounting conservatism to quality of earnings. Independent commissioners and audit committees as moderating variables do not have a significant influence on accounting conservatism relationship to quality of earnings. A short observation period cannot show a systematic or relatively permanent reduction in net assets and income as a characteristic of better conservatism. The number of samples is limited to LQ 45 companies, so there is no comparison between the types of industries that apply accounting conservatism and do not apply accounting conservatism. Suggestions for further research can extend the research period to reduce the bias of research results, and try to test other independent or moderating variables such as the Earnings Response Coefficient.

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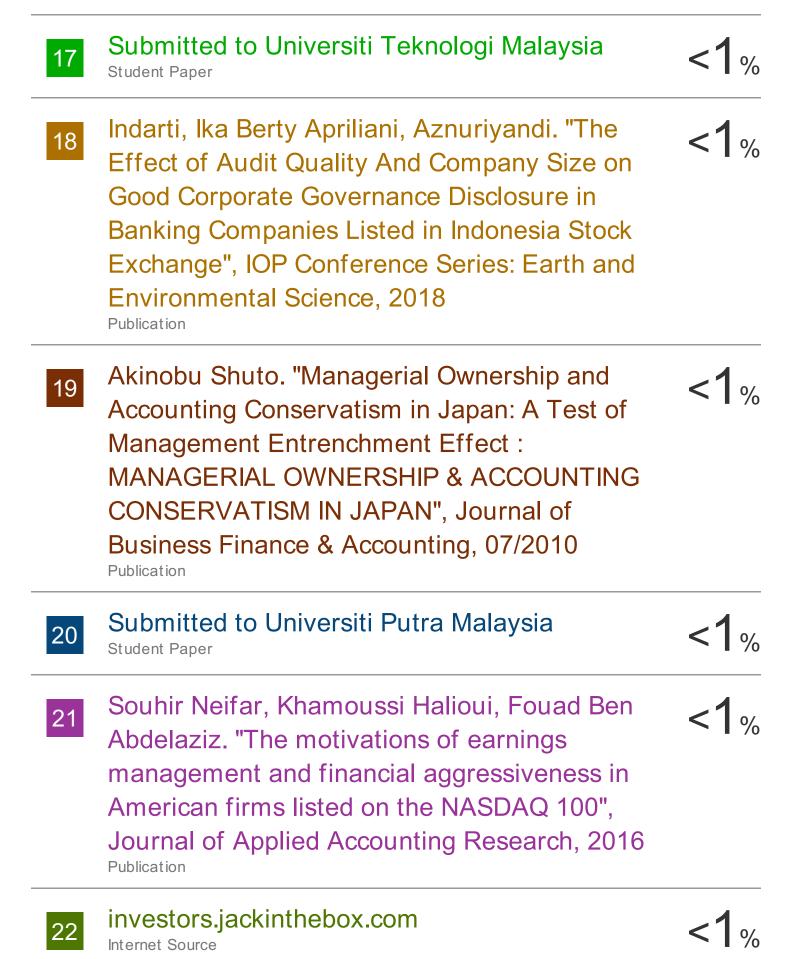
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