

CHAPTER V

CONCLUSION

5.1. Conclusion

Based on the analysis and discussion in the previous chapter, this study has the objective to test the impact of conservatism principle to earnings quality. The earnings quality in this study is measured by accounting-based measurement for earnings quality, namely abnormal accruals or discretionary accruals. This study uses financials statements of 86 listed manufacturing companies in Indonesia from period 2010-2014 (5 years) as data. The total sample for this study is 430 samples.

The regression model used in this study is called multiple linear regression model. In order to meet the criteria of good regression model for parametric statistical hypothesis testing, the model should pass four classical assumption tests, which consist of normality, autocorrelation, multicollinearity, and heteroscedasticity. Based on the result of four classical assumption tests, the regression model used in this study meet the criteria of good regression model for parametric statistical hypothesis testing.

The result of the analysis shows that the hypothesis of this study is accepted. It means conservatism increase earnings quality of listed companies in Indonesia. In the context of earnings management as measurement for earnings quality, conservatism implementation will increase earnings quality by decreasing earnings management practice. From this result, the users of

financial statement can see that conservatism gives positive impact to the quality of information reported in financial statements, especially earnings information.

5.2. Limitations and Suggestions

The main objective of this study is to find answer along with empirical evidence whether conservatism gives impact to earnings quality of listed companies in Indonesia. Based on the result, it is proved that conservatism gives positive impact to earnings quality. However, this result is limited to one context of earnings quality, which is based on abnormal accruals. This measurement of earnings quality is one of accounting-based measurements of earnings quality. There are several other accounting-based measurements, such as accruals quality, persistence, predictability and smoothness. In addition, there are market-based measurements of earnings quality.

Some suggestion and idea that can be used by future researchers;

1. Subsequent studies may use other accounting-based measurement of earnings quality, such as accruals quality, persistence, predictability and smoothness. For more perspective, future researcher can combine two or more measurement to find the average result of accounting-based measurement.
2. For Conservatism variable, future research may use other measurement, such as Basu Asymmetric Timeliness and negative non-operating accruals.

3. The period of the research can be extended up to more than five years in order to achieve better result. The samples can be expanded to other type of company beyond manufacturing.



References

- Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics* 24, 3-37.
- Beaver, W. H., & Ryan, S. G. (2000). Biases and Lags in Book Value and Their Effects on the Ability of the Book-to-Market Ratio to Predict Book Return on Equity. *Journal of Accounting Research* 38, 127-148.
- Becker, C. L., Defond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The Effect of Audit Quality on Earnings Management. *Contemporary Accounting Research* 15, 1-24.
- Bedard, J., & Biggs, S. F. (1991). Pattern recognition, hypotheses generation, and auditor performance in analytical task. *The Accounting Review* 66, 622-642.
- Bellovary, J. L., Giacomino, D. E., & Akers, M. D. (2005). Earnings Quality: It's Time to Measure and Report. *The CPA Journal* 75, 32.
- Bonner, S., & Lewis, B. (1990). Determinants of auditor expertise. *Journal of Accounting Research* 28, 1-2.
- Chen, L. H., Folsom, D. M., Paek, W., & Sami, H. (2014). Accounting conservatism, earnings persistence, and pricing multiples on earnings. *Accounting Horizons* 28, 233-260.
- DeAngelo, H., DeAngelo, L., & Skinner, D. J. (1994). Accounting Choice in Troubled Companies. *Journal of Accounting and Economics* 17, 113-143.
- Dechow, P. M., & Schrand, C. M. (2004). Earnings Quality. *Research Foundation of CFA Institute Publications*, 1-152.
- Dechow, P. M., Ge, W., & Schrand, C. M. (2010). Understanding Earnings Quality: A Review of the Proxies, Their Determinants and Their Consequences. *Journal of Accounting and Economics Volume 50*, 344-401.
- Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting Earnings Management. *The Accounting Review* 70, 193-225.
- Dechow, P., & Dichev, I. (2002). The quality of accruals and earnings: The role of accrual estimation errors. *The Accounting Review* 77, 35-59.

- Francis, J., LaFond, R., Olsson, P., & Schipper, K. (2004). Cost of Equity and Earnings Attributes. *The Accounting Review* 79, 967-1010.
- Francis, J., Olsson, P., & Schipper, K. (2006). Earnings Quality. *Foundations and Trends in Accounting* 1, 259-340.
- Givoly, D., & Hayn, C. (2000). The changing time-series properties of earnings, cash flows, and accruals: Has financial reporting become more conservative? . *Journal of Accounting and Economics* 29, 287-320.
- Gore, P., Pope, P. F., & Singh, A. K. (2001). Non-Audit Services, Auditor Independence, and Earnings Management. *Working Paper, Lancaster University*.
- Guay, W., Kothari, S. P., & Watts, R. (1996). A market-based evaluation of discretionary accrual models. *Journal of Accounting Research* 34, 83-105.
- Haniati, S., & Fitriany. (2010). Pengaruh konservatisme terhadap asimetri informasi dengan menggunakan beberapa model pengukuran konservatisme. *Simposium Nasional Akuntansi XIII Purwokerto*, 1-28.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3, 305-360.
- Khan, M., & Watts, R. L. (2009). Estimation and empirical properties of a firm-year measure of accounting conservatism . *Journal of Accounting and Economics* 48, 132-150.
- Khrisnan, G. (2003). Does Big 6 auditor industry expertise constrain earnings management? *Accounting Horizons* 17, 1-16.
- Kim, Y., Liu, C., & Rhee, S. G. (2003). The Effect of Firm Size on Earnings Management. *College of Business Administration University of Hawai'i*.
- Kimmel, P. D., Weygandt, J. J., & Kieso, D. E. (1998). *Financial Accounting: Tools for Business Decision Making*. New York: John Wiley & Sons.
- LaFond, R., & Watts, R. (2008). The information role of conservatism. *The Accounting Review* 83, 447-478.
- LaFond, R., & Watts, R. L. (2006). The information role of conservatism. 1-57.
- Lara, J. M., Osma, B. G., & Penalva, F. (2012). Accounting conservatism and the limits to earnings management. 1-55.

- Li, Y. (2011). *Accounting Conservatism and the Consequences of Covenant Violations. Thesis for Doctor of Philosophy, University of Waterloo.*
- Llukani, T. (2013). Earnings Management and Firm Size: An Empirical Analyze in Albanian Market. *European Scientific Journal* , 135-143.
- Marshall, D. H., McManus, W. W., & Viele, D. F. (2002). *Accounting: What the Numbers Mean.* New York: McGraw-Hill.
- Mayangsari, S., & Wilopo. (2002). Konservatisme Akuntansi, Value Relevance, dan Discretionary Accruals: Implikasi Empiris Model Feltham-Ohlson (1996). *Jurnal Riset Akuntansi Indonesia*, 291-310.
- Nelson, M. W., Elliott, J. A., & Tarpley, R. L. (2002). Evidence from Auditors about Managers and Auditors Earnings Management Decision . *The Accounting Review* 77, 175-202.
- Pae, J., Thornton, D., & Welker, M. (2005). The link between earnings conservatism and the price-to-book ratio. *Contemporary Accounting Research* 22, 693-717.
- Palmrose, Z., Richardson, V. J., & Scholz, S. (2004). Determinants of market reactions to restatement announcements. *Journal of Accounting and Economics* 37, 59-89.
- Penmann, S., & Zhang, X. (2002). Accounting conservatism, the quality of earnings, and stock returns. *The Accounting Review* 82, 237-264.
- Permatasari, I. (2005). Manajemen Laba dan Status Keterlambatan Perusahaan dalam Menyampaikan Laporan Keuangan Tahunan. *Jurnal Akuntansi dan Keuangan Indonesia* , 49-72.
- Purbayu, A. (2005). *Analisis Statistik dengan Microsoft Excel & SPSS.* Yogyakarta: Penerbit Andi.
- Sari, N. H., & Ahmar, N. (2014). Revenue Discretionary Model Pengukuran Manajemen Laba: Berdasarkan Sektor Industri Manufaktur di Bursa Efek Indonesia. *Jurnal Akuntansi dan Keuangan*, 43-51.
- Scott, W. R. (2011). *Financial Accounting Theory.* New York: Prentice Hall.
- Srinidhi, B., Gul, F. A., & Tsui, J. (2011). Female Directors and Earnings Quality. *Contemporary Accounting Research Volume* 28, 1610-1644.

- Suranggane, Z. (2007). Analisis Aktiva Pajak Tangguhan dan AkruaI Sebagai Prediktor Manajemen Laba: Kajian Empiris Pada Perusahaan Manufaktur yang Terdaftar di BEJ . *Jurnal Akuntansi dan Keuangan Indonesia* 4, 77-94.
- Trisnawati, R., Wiyadi, & Sasongko, N. (2012). Pengukuran Manajemen Laba: Pendekatan Terintegrasi (Studi komparasi perusahaan manufaktur yang tergabung pada indeks JII dan LQ 45 Bursa Efek Indonesia periode 2004-2010). *Universitas Muhammadiyah Surakarta*.
- Vincent, L., & Schipper, K. (2003). Earnings Quality . *Accounting Horizons* 17, 97.
- Watts, R. L. (2003). Conservatism in Accounting Part I: Explanations and Implications. *Accounting Horizons* 17, 207-221.
- Watts, R. L. (2003). Conservatism in Accounting Part II: Evidence and Research Opportunities. *Accounting Horizons* 17, 287-301.
- Watts, R. L., & Zimmerman, J. L. (1986). *Positive Accounting Theory*. Prentice-Hall.
- Widya. (2004). Analisis Faktor-Faktor yang Mempengaruhi Pilihan Perusahaan Terhadap Akuntansi Konservatif. *Prosiding Simposium Nasional Akuntansi VII Bali* , 709-724.
- Wolk, H., Tearney, M., & Dodd, J. (2001). *Accounting Theory*. Cincinnati, OH: South-Western College Publishing.
- Wright, A., & Wright, S. (1997). An examination of factors affecting the decision to waive audit adjustments. *Journal of Accounting, Auditing and Finance* 12, 15-36.