

The Effect of Cash Flow and Profitability on Accounting Conservatism in Technology and Health Companies on the Indonesia Stock Exchange

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Abstract

This study aims to analyze the effect of cash flow and profitability on accounting conservatism listed on the Indonesia Stock Exchange in 2018-2022. The type of data in this study uses quantitative data with the population being technology and health companies listed on the Indonesia Stock Exchange (IDX). The sample selection method used is purposive sampling so the total selected sample is 34 companies with observer data for the last five years, namely in the 2018-2022 period so that the total sample is 170 data. Data analysis in this study is panel data modeling with the EVIEWS 12 program. The results of this study found that Cash Flow and Profitability have a positive effect on Accounting Conservatism in technology and health companies listed on the Indonesia Stock Exchange.

Keywords: Accounting Conservatism, Cash Flow, Profitability

INTRODUCTION

Financial statements are a form of management accountability in managing company resources in a certain period. Financial reports are a reflection of good or bad company performance and become an assessment for interested parties, both internal and external parties of the company (Abdurrahman & Ermawati, 2018). Financial reports must meet accounting objectives, rules, and principles in accordance with applicable standards in order to be accountable and useful for users (Verawaty at all, 2017).

Financial reports are prepared based on Financial Accounting Standards (SAK) that have been prepared by the authorized body, namely the Indonesian Institute of Accountants (IAI). Financial Accountant Standards (SAK) provide flexibility for management in

determining accounting methods and estimates that can be used in preparing financial statements. The flexibility for management will affect the behavior of managers in recording accounting and reporting company financial transactions (Andreas at all, 2017). The principle of prudent reporting or often called accounting conservatism, is one of the company's considerations in its financial statements to anticipate unstable economic conditions and uncertain company activities. The concept of conservatism that applies to SAK refers to US GAAP (Generally Accepted Accounting Principles), while in IFRS (International Financial Reporting Standards) the term conservatism is renamed the principle of prudence (Aristiani at all, 2017).

Conservatism is a precautionary principle in financial reporting where companies do not rush to recognize and measure assets and profits, and immediately recognize losses and debts that are likely to occur. The application of the principle of conservatism results in the choice of accounting methods being appointed to methods that report lower profits or assets and report higher debts (Sari at all, 2017). Suwardjono (2014: 245) defines conservatism as an attitude or flow in the face of uncertainty to take action or decisions on the basis of the worst outcome of the uncertainty.

Cash Flow is a report that presents information on historical changes in an entity's cash and cash equivalents, showing separately the changes that occurred in a period of operating, investing and financing activities. The cash flow statement from operating activities shows the company's performance as well as the quality of its profits. The higher operating cash flow indicates better company performance and is predicted to generate better profits in the next period, so that it will attract investors to invest which results in the company will be more conservative when the operating cash flow generated is high (Martani and Dini, 2020).

Profitability is the company's ability to generate profits and reflects financial investment returns (Jessica & Prasetyo, 2019). The profitability of the enterprise is used as one of the bases for assessing the condition and performance of the company's management. Low company profitability will tend to apply conservative accounting, because conservatism is used by managers for profit management so that profits do not fluctuate so much.

Based on index data published by the Indonesia Stock Exchange in 2021, the technology sector is the sector that has experienced the highest increase compared to other sectors, amounting to 707.560%. This is because technology sector stocks are considered attractive because they have good business prospects in terms of digital business progress which is indeed very promising. One of the factors is the high interest of information technology service users to welcome the era of digitalization (Katadata.co.id 2022). In

addition, restrictions on social activities caused by the spread of the Covid-19 virus are one of the factors that massively encourage the development of technological digitalization. However, the good performance inscribed by the technology sector could not last long. 2022 is disastrous for the technology sector in the capital market. From the domestic market, the technology sector is the main ballast for the growth of the Jakarta Composite Index (JCI). Citing data from the Indonesia Stock Exchange, throughout 2022 the technology sector was cut almost by half or experienced a correction of 42.61% in a year (CNBC Indonesia), the lowest compared to other sectors.

On the other hand, the Covid-19 outbreak also has an impact on the demand for improved services in the health sector. This is due to the use of inventory of goods produced by health sector companies which has increased dramatically such as the use of syringes, medicines and other health facilities which has caused an increase in cash inflow and cash outflow in operational activities. Increasing operating cash flow can result in profits as well as increased stock returns. Shares of companies engaged in the healthcare sector showed the highest increase in stock returns since the emergence of the Covid-19 virus outbreak compared to business sectors in other fields of companies listed on the Indonesia stock exchange. The comparison of stock returns in healthcare sector companies is seen to provide higher returns in the last 1-year period of 17.8%, and higher than stock indices in other sectors (Kadata.co.id 2022).

LITERATURE ANALYSIS AND METHODOLOGY

Literature Analysis

According to (Savitri, 2016) the principle of conservatism is a concept that immediately may recognize obligations and expenses even though they have not occurred, but recognize income and assets when they are sure to be accepted. The view of this principle of conservatism, when a loss occurs, the loss is immediately recognized even though it has not been realized, but if there is a profit, the unrealized profit will not be recognized, with this principle when the accountant is faced with a situation to choose one of two or more accounting methods that are equally accepted or generally accepted, then an accountant must choose the accounting method that has the least profit effect on Equity. Thus, from this description, the application of the principle of accounting conservatism will present low profits because it slows down the recognition of income but accelerates the recognition of expenses. The principle of accounting conservatism demands a pessimistic attitude of an accountant in the presentation of financial statements, the principle of

conservatism is also applied as a way to deal with situations of uncertainty, related to the tendency of excessive optimism from managers and investors.

Accounting conservatism is also useful to avoid opportunistic behavior of managers related to contracts that use financial statements as a medium for conservative financial statement contracts can prevent information asymmetry, because the application of the principle of conservatism will encourage managers not to exaggerate the presentation of profits in financial statements and include all losses that have been included in the financial statements (Ramadhani & Sulistyowati, 2019). Conservatism is important to apply to the Company as a preceptive effort in dealing with business uncertainty.

METHODOLOGY

Research on the effect of cash flow and profitability on accounting conservatism is a research with quantitative data types with the population being technology and health companies listed on the Indonesia Stock Exchange (IDX). The sample selection method used is purposive sampling so that the total selected sample is 34 companies with observer data for the last five years, namely in the 2018-2022 period so that the total sample is 170 data. Data analysis in this study is panel data modeling with EVIEWS 12 program.

RESEARCH AND RESULTS

Descriptive Statistics

Table 1.Descriptive Statistical Test Results

Date: 05/03/24 Time: 10:53

Sample: 2018 2022

	Y	X1	X2
Mean	0.166921	718.1353	288.7706
Median	0.170817	464.5000	428.5000
Maximum	1.019018	19507.00	9210.000
Minimum	-3.553407	-4203.000	-37639.00
Std. Dev.	0.338433	2642.204	3244.427
Skewness	-7.722655	4.341237	-9.494017
Kurtosis	87.42833	28.10198	112.0680
Jarque-Bera	52180.80	4997.255	86815.95
Probability	0.000000	0.000000	0.000000
Sum	28.37653	122083.0	49091.00
Sum Sq. Dev.	19.35674	1.18E+09	1.78E+09
Observations	170	170	170

The following description related to the results of the descriptive analysis of research variables in Table 4.1 is as follows:

1. The dependent variable, namely Y in this study is the value of Accounting Conservatism has a maximum value of 1.019018 at PT Anabatic Technologies Tbk and a minimum value of -3.553407 PT Distribusi Voucher Nusantara Tbk, and has a mean value of 0.166921, a median value of 0.170817 and a comparable deviation value of 0.338433.
2. The independent variable, namely X1 in this study, is the cash flow value has a maximum value of 19507,5000 at PT. Metro Healthcare and a minimum value of -4203,000 at PT Diagnos Laboratorium, and has a mean value of 718.1353, a median value of 464.5000 and a half-deviation value of 2642.204.
3. The independent variable, namely X2 in this study, is the Profitability value has a maximum value of 9210,000 at PT Hensel Davest Indonesia Tbk and a minimum value of -37639.00 PT Kioson Komersial Indonesia Tbk and has a mean value of 288.7706, a median value of 428.5000 and a comparable deviation value of 3244.427.

Panel Data Regression Model

Results 2. Chow Test Results

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	20.013247	(33,134)	0.0000
Cross-section Chi-square	302.564990	33	0.0000

Based on table 2, the probability of cross-section F with Probability is obtained. 0.0000 is less than the significance level of 0.05 ($0.0000 < 0.05$). So it can be concluded that the results of the Chow test receive H1 or Fixed effect model better than the common effect model, and then proceed to the Hausman test.

Table 3. Hausman TEST Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.225400	2	0.8934

Based on table 3, the probability of cross-section F with Prob is obtained. 0.8934 is greater than the significance level of 0.05 ($0.8934 > 0.05$). So it can be concluded that the results of the H1 hausman test or random effect model model are more appropriate to be used in this study, and then proceed to the Lagrange Multiplier test.

Table 4. Lagrange Multiplier (LM) results

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects

Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	210.7715 (0.0000)	0.242755 (0.6222)	211.0143 (0.0000)
Honda	14.51797 (0.0000)	-0.492702 (0.6889)	9.917364 (0.0000)
King-Wu	14.51797 (0.0000)	-0.492702 (0.6889)	4.308172 (0.0000)
Standardized Honda	15.02907 (0.0000)	-0.194606 (0.5771)	6.520856 (0.0000)
Standardized King-Wu	15.02907 (0.0000)	-0.194606 (0.5771)	1.862555 (0.0313)
Gourieroux, et al.	--	--	210.7715 (0.0000)

Based on Table 4, the result of the Breusch-pagan cross-section of 0.0000 is less than the significance level of 0.05 ($0.0000 < 0.05$). So it can be concluded that the results of the LM test are a random effect model model more appropriate to be used in this study.

Based on the results of the three tests that have been carried out, the three stated that the random effects model was selected as the regression model in this study. The probability value is $0.0000 < 0.05$, then the random effect model chosen is

Classical Assumption Test

Uji normality

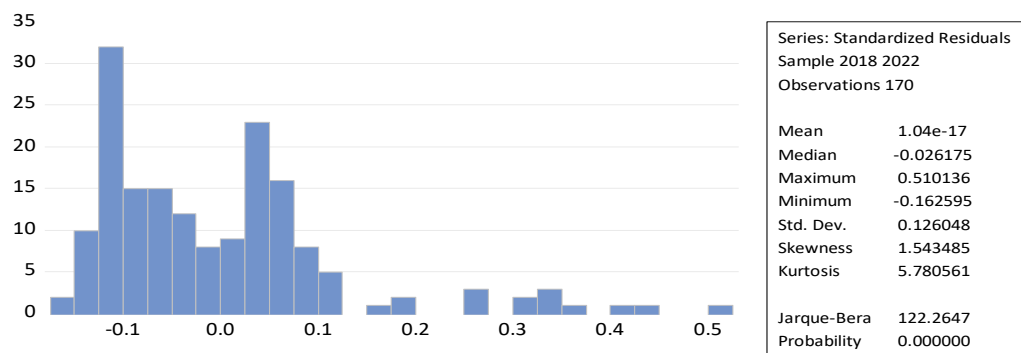


Figure 1. Normality Test Results

The results of the normality test estimate show that the test is abnormally distributed because the Jarque-Bera value is greater than 2, which is 122.2647 and the probability value is smaller than 0.05, which is 0.000000. According to Wing Wahyu Winarno (2011), if the data is abnormally distributed, it can be overcome with Log Transformation. With the formulas $\text{Log } y = \text{Log}(y)$ and $\text{Log } x = \text{Log}(x)$, where y is the bound variable and x is the independent variable. Where to estimate the data by writing $\text{log } y$ and $\text{log } x$. The results of Log Transformation can be seen in figure 2

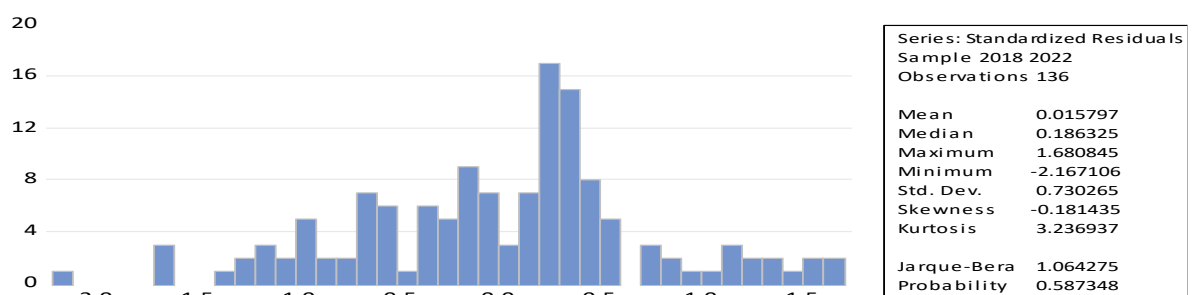


Figure 2. Normality Test Estimation Results

Based on the figure it can be seen that the jarque-Bera value of $0.983655 < 2$ (meaning not significant), and the probability value of $0.611508 > 0.05$, it can be concluded that the equation in this study does not have normality problems or normal distribution.

Multicollinearity Test

Table 5. Multicollinearity test results

	X1	LOGX2
X1	1.000000	0.191805
LOGX2	0.191805	1.000000

Based on the table above, it shows that none of the results of the four independent variables resulted in a correlation coefficient of more than 0.8. So it can be concluded that in this model there is no multicollinearity.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Dependent Variable: RESABS

Method: Panel Least Squares

Date: 05/03/24 Time: 11:07

Sample: 2018 2022

Periods included: 5

Cross-sections included: 33

Total panel (unbalanced) observations: 136

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	3.48E-05	1.61E-05	2.170944	0.0323
LOGX2	-0.172159	0.031645	-5.440268	0.0000
C	1.598781	0.195372	8.183264	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.661792	Mean dependent var		0.567375
Adjusted R-squared	0.547940	S.D. dependent var		0.455097
S.E. of regression	0.305986	Akaike info criterion		0.686619
Sum squared resid	9.456395	Schwarz criterion		1.436200
Log likelihood	-11.69011	Hannan-Quinn criter.		0.991230
F-statistic	5.812734	Durbin-Watson stat		1.817185
Prob(F-statistic)	0.000000			

The results obtained from the heteroscedasticity test using the Glejser test show that variables X1 and X2 occur heteroscedasticity with an absolute residual value (RESABS) of less than 0.05. Thus, it is concluded that the regression model occurs in heteroscedasticity.

Uji Autokorelasi

Table 7. Autocorrelation Test Results

R-squared	0.661792	Mean dependent var	0.567375
Adjusted R-squared	0.547940	S.D. dependent var	0.455097
S.E. of regression	0.305986	Akaike info criterion	0.686619
Sum squared resid	9.456395	Schwarz criterion	1.436200
Log likelihood	-11.69011	Hannan-Quinn criter.	0.991230
F-statistic	5.812734	Durbin-Watson stat	1.817185
Prob(F-statistic)	0.000000		

DL value = 1.6902

- Value 4-DL = 2.3098
- Niali DU = 1.7498
- Value 4-DU = 2.2502
- DW value = 1.817185

$DU < DW < 4-DU = 1.7498 < 1.817185 < 2.2502$

Based on the calculation of the results of the table above shows that the value of Durbin - Waston is 1.817185, this shows the value of Durbin - Waston is in $du < dw < 4-du$ thus it can be concluded that there is no autocorrelation.

Panel Data Regression Analysis

Table 8. Panel Data Regression Analysis Test Results

Dependent Variable: LOGY
 Method: Panel Least Squares
 Date: 05/03/24 Time: 11:12
 Sample: 2018 2022
 Periods included: 5
 Cross-sections included: 33
 Total panel (unbalanced) observations: 136

LOGY = -	Variable	Coefficient	Std. Error	t-Statistic	Prob.
3.92181981606 +	C	-3.921820	0.309801	-12.65915	0.0000
	X1	4.58E-05	2.23E-05	2.056035	0.0417
	LOGX2	0.340277	0.049654	6.852919	0.0000

$$4.5827629477e-05 * X1 + 0.340276937623 * LOGX2$$

1. If X1 (Cash Flow), and X2 (profitability) are ignored the accounting conservatism constant is -3.9218
2. The regression coefficient for X1 (Cash Flow) is 4.5827. This indicates that accounting conservatism will increase by 4.5827 units for every increase in cash flow and vice versa. That's assuming the other variables are constant.
3. The regression coefficient for X2 (Profitability) is 0.3402. This indicates that Accounting conservatism will increase by 0.3402 units for every increase in Profitability and vice versa. That's assuming the other variables are constant.

Hypothesis Testing

Table 9. T Test Results

Dependent Variable: LOGY
 Method: Panel Least Squares
 Date: 05/03/24 Time: 11:13
 Sample: 2018 2022
 Periods included: 5
 Cross-sections included: 33
 Total panel (unbalanced) observations: 136

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.921820	0.309801	-12.65915	0.0000
X1	4.58E-05	2.23E-05	2.056035	0.0417
LOGX2	0.340277	0.049654	6.852919	0.0000

T tabel = TINV (Probability: DEG_FREEDOM)

Probability = 0,05

DEG_FREEDOM = number of samples – number of variables

T tabel = TINV (0,05: (136-3) =1,977

1. The effect of the independent variable on the dependent variable is as follows:
 The results of the t-test on the Cash Flow variable (X1) obtained a t value of 2.056035 > t table which is 1.977 and a sig value. 0.0417 < 0.05, then Ha is accepted and H0 is rejected, meaning that Cash Flow has a positive effect on accounting conservatism.
2. The effect of the independent variable on the dependent variable is as follows:
 The results of the t-test on the Profitability variable (X3) obtained a t value of

6.852919 > t table, which is 1.977 and a sig value. 0.0000 < 0.05, then H_a is accepted and H_0 is rejected, meaning that Profitability has a positive effect on accounting conservatism.

Table 10. F Test Results

R-squared	0.306412
Adjusted R-squared	0.295982
S.E. of regression	0.734441
Sum squared resid	71.74073
Log likelihood	-149.4831
F-statistic	29.37818
Prob(F-statistic)	0.000000

F Tabel = F.INV. RT(PROBABILITY:DEG FREEDOM1;
DEG_FREEDOM2)

Probability = 0,05

DEG_FREEDOM1= Number of variables -1

DEG_FREEDOM 2: number of samples – number of variables

T tabel = F.INV. RT (0,05; 3; 133)
= 3.064234

The F value is calculated at 29.37818 > F table is 3.064234 and the value of sig.0.00000 < 0.05 then H_0 is rejected and H_a is accepted, meaning that the variables Cash Flow, and Profitability, have a significant overall (simulated) effect on accounting conservatism.

Table 11. Test R Results

R-squared	0.306412
Adjusted R-squared	0.295982
S.E. of regression	0.734441
Sum squared resid	71.74073
Log likelihood	-149.4831
F-statistic	29.37818
Prob(F-statistic)	0.000000

The adjusted R square value is 0.295982 or 29.5982%. The value of the termination coefficient shows that the independent variable consisting of Cash Flow, and Profitability is able to explain the dependent variable or Accounting conservatism of 29.5982% while the system of 70.4018% (100 - adjusted R squer value) is explained by other variables that are not included in the research model.

The Effect of Cash Flow on Accounting Conservatism

Based on the results of research conducted on the t test table shows that the cash flow value of 0.0447 is smaller than 0.05, so from these results it can be concluded that H1 received means that cash flow has a positive effect on accounting conservatism because high *operating cash flow* indicates good performance of the company. This causes an increase or decrease in the percentage of cash flow will not affect the magnitude of the application of the principle of corporate accounting conservatism. This theory is explained by Ross (2019) which reveals that cash flow is the cash inflow obtained by companies from the operational activities they do. The higher the cash flow value shows the achievement of the company's efficacy in managing the company's operational activities. Thus, a high cash flow value will create high accounting conservatism. The results of this study are supported by research by Harini et al. (2020), Hita (2022), puspita & rasuli (2017), which states that cash flow has a positive effect on accounting conservatism.

The Effect of Profitability on Accounting Conservatism

Based on the results of research conducted in table 4.9 shows that the probability value of 1.978 is smaller than 0.05, then H1 is accepted meaning that it can be concluded that profitability has a positive effect on accounting conservatism. Profitability is a financial ratio used to assess a company's ability to make a profit. High profitability will provide additional value in competition between companies. A high level of profit indicates that the company is experiencing growth. Companies with higher profitability will have a better chance of competing with the same type of company. Profitability has an influence on accounting conservatism, the higher the profitability of a company, the management will tend to choose conservative accounting. The results of this study are supported by research by Kalbuana (2020), Lailatul (2020), Egi putra (2018), Verawaty (2017), which state that profitability has a positive effect on accounting conservatism.

CONCLUSION

Cash flow has a positive effect on accounting conservatism. This is evidenced by the significant value of cash flow, which is 0.0447 which is smaller than $\alpha = 0.05$, so that it can be formulated $0.0447 < 0.05$. The results are in accordance with hypothesis 1 which states that cash flow has a positive effect on accounting conservatism. Higher operating cash flow indicates better company performance and is predicted to generate better profits in the next period.

Profitability positively affects accounting conservatism. This is evidenced by the significant value of cash flow, which is 1.978 which is smaller than $\alpha = 0.05$, so that it can be formulated $1.978 < 0.05$. The results are in accordance with hypothesis 1 which states that profitability positively affects accounting conservatism. The higher the level of profitability, the company tends to choose conservative accounting.

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