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The existence of liquidity, profitability, and leverage in accounting conservatism

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ABSTRACT

This study examines the impact of liquidity, profitability, and leverage on accounting conservatism in trading, service, and investment companies listed on the IDX from 2017 to 2019. Financial statements are crucial in depicting an entity's financial performance and aiding decision-making. Accounting conservatism, a principle aimed at mitigating optimistic management behavior, involves recognizing expenses promptly while delaying revenue and asset recognition. Based on a sample of 265 companies, the research utilizes descriptive statistical analysis, pooling tests, and multiple linear regression analysis. The findings indicate that the data is suitable for the study. Hypothesis testing reveals a positive effect of profitability on accounting conservatism, rejecting the first hypothesis. In contrast, the second and third hypotheses are accepted, relating to the negative impact of leverage on accounting conservatism and the inconclusive effect of liquidity. This study contributes to understanding the dynamics of accounting conservatism in the context of diverse company types and market conditions.

INTRODUCTION

A company management has duties that are carried out carefully, taking responsibility for its activities while carrying out the management process. One form of accountability is financial reports. Financial reports are reports that present financial information about an entity as a form of depiction and assessment of the entity's management performance. There are three main financial reports, namely the profit and loss report, balance sheet, and cash flow report. Profit information and its components can function to (1) evaluate company performance, (2) estimate long-term profit power, (3) predict future profits, and (4) estimate the risk of investment or loans to the company. Financial reports are also expected to help both internal and external users make decisions.

According to Juanda (2007), quality profit information can be produced through the use of accounting principles as a control so that financial reports present relevant and realistic figures. One of the accounting principles that is widely used in preparing financial reports is conservatism. Conservatism is a precautionary principle applied by an entity to deal with conditions of uncertainty that are always experienced by an entity. In the face of uncertainty in the business environment, parties with interest in the use of financial reports demand that financial reports be made more transparent in the sense that the presentation of every figure contained therein is calculated and its origin is clearly known. According to Ghozali & Chariri (2007), the accounting principle of conservatism must immediately recognize expenses that may occur and instead delay recognition of income, profits, and assets that have not yet occurred, resulting in high costs and liabilities and low income and assets. The aim of the company in implementing the principle of conservatism is to limit management's opportunistic behavior, increase company value, and minimize lawsuits (Watts, 2003)

Financial Accounting Standards (SAK) in Indonesia are regulated by PSAK (Statement of Financial Accounting Standards), which gives each company the freedom to choose the accounting methods or principles used according to their conditions. One of these accounting principles is the principle of accounting conservatism. The rules regarding the application of conservatism were adopted from IFRS (International Financial Reporting Standards) by IAI (Indonesian Association of Accountants). IFRS itself opposes and criticizes the principle of conservatism because it is considered to conflict with the relevance of financial reports. However, in reality, the application of conservatism is still needed.

In Indonesia itself, there are cases related to the lack of attention to the principle of accounting conservatism, one of which is the company PT Kimia Farma. This company operating in the pharmaceutical sector is suspected of manipulating financial reports by increasing the company's profits in the 2001 report. In 2001, PT Kimia Farma recorded a profit of IDR 132 billion even though it should have been IDR 99.594 billion. PT Waskita Karya Persero carried out another case of manipulation of financial reports. PT Waskita Karya inflated its assets in 2005. Assets were recorded at IDR 1.6 trillion, which was actually inflated by 0.3% from what it should have been (Triani, 2017).

There are cases involving foreign companies operating in the electronics sector regarding the lack of application of accounting conservatism principles, one of which is the Toshiba company. The report manipulation carried out by this company was to present an additional income of ¥151.8 billion (equivalent to IDR 15.85 trillion) (Putri, 2017). Since 2008, it has overstated operating profit of 780 million Euros (Susanto & Ramadhani, 2016). After the truth of this case was revealed, in April 2015, shares of the Toshiba company fell by 20%, and its market value fell by ¥1.67 trillion (equivalent

to IDR 174 trillion). According to researchers, seeing a large number of cases of overstatement of profits by companies, similar cases may occur again both in the research period and in the future.

Based on the cases above, we can see that the company did not pay attention to the principle of conservatism by making errors in recording financial reports, even though this could reduce the credibility of the financial reports and provide wrong information to decision-makers. This problem can also have an impact on the public's view of the company and ultimately affect the survival of the company itself. Therefore, to overcome that problem and prevent the same problem in the future, a company needs a system, namely a system that applies the principle of conservatism.

Several factors can influence the application of the principle of conservatism itself. The first factor that can affect accounting conservatism is the level of debt (leverage). Debt level (leverage) is one of the ratios that companies widely use to determine the amount of debt used to finance company assets (Mayangsari, 2015). This ratio can be measured by comparing the company's total liabilities with the total assets owned by the company. The higher the level of leverage, the greater the possibility that the company will violate credit agreements so that the company will try to report higher current profits, which can be done by reducing existing costs. It is clear that the higher the use of debt to finance the company's assets, the higher the financial risk in the future. This premise is in line with the results of research from Noviantari et al. (2015), which states that debt levels have a negative effect on accounting conservatism.

The second factor that can influence accounting conservatism is liquidity. Liquidity is one of the factors that influences company management in implementing the principle of accounting conservatism. According to Putri (2018), the results of her research stated that liquidity has a significant influence on accounting conservatism. Liquidity is an indicator that measures a company's ability to fulfill all its short-term obligations (Moeljadi, 2006). The higher the level of liquidity (healthy) of a company, it can be said that the company has enough current assets to meet its short-term obligations and vice versa. This is in line with research by Nasir et al. (2014), who stated that high levels of liquidity cause companies to use accounting conservatism, while high levels of short-term liabilities cause companies to avoid implementing accounting conservatism.

The factor that influences the application of the principle of accounting conservatism is profitability. According to (Mahpudin, 2016), profitability is the company's ability to earn profits in relation to sales, total assets, and own capital. Companies that have a high level of profitability will tend to choose conservative accounting to manage profits so that they appear even and do not fluctuate too much. One measuring tool for measuring profitability is ROA, which is usually called the result of the return on total assets. Research results from (Pratanda & Kusmuriyanto, 2014) state that profitability has a simultaneous effect on conservatism.

The fourth factor that can influence the application of the principle of accounting conservatism is that company growth is one of the things that both internal and external parties expect as an indication of improving a company's performance. One commonly used measuring tool for company growth is sales growth. Sales growth is often used as a measuring tool because it can affect the company as a whole, starting from company revenue, inventory, accounts receivable, and so on, so sales growth is an important aspect that management needs to pay attention to when taking action. So, in applying the principle of conservatism, company management will make sales growth a factor that needs to be considered. In their research, Risdiyani &

Kusmuriyanto (2015) stated that sales growth has a positive effect on the application of the principle of conservatism,

Capital intensity factors can also influence companies to implement accounting conservatism. Capital intensity shows the amount of assets used by a company to obtain its income. Companies with intensive capital are indicated by their high capital intensity ratio Parrino & Kidwell (2009). Companies with a high level of capital intensity will tend to be less careful in carrying out their financial reporting. This is similar to what was stated by Sari & Adhariani (2009), namely, that capital intensity has a positive effect on the implementation of company accounting conservatism.

Based on the description of the problem above, the objectives of this research are as follows: (1) To determine the effect of liquidity on accounting conservatism. (2) To determine the effect of profitability on accounting conservatism, and (3) To determine the effect of leverage on accounting conservatism.

The benefits of this research are: (1) For companies, it is hoped that the results of this research can be taken into consideration in making company decisions regarding the financial reports presented by the company so that the company's performance in managing its finances will be better, (2) For investors, it is hoped that this research can provide an overview of liquidity, profitability, and leverage in a company, especially those related to the principle of accounting conservatism so that it can be a consideration for investors in making decisions to invest in a company, and (3) For readers and future research, it is hoped that this research can be used as a reference in making subsequent research regarding accounting conservatism.

LITERATURE REVIEW

1. Agency Theory

Agency theory explains the relationship between company managers and *principals* (shareholders) as bound owners. The relationship between *principal* and *agent* can lead to less complete information (*asymmetrical information*) because the manager (*agent*) has more information about the company than the company owner (*principal*) (Elqorni, 2009). The relationship between agency theory and conservatism is that the principle of conservatism can prevent companies from committing fraudulent acts by *agents,* which can cause conflict between *the principal* and *the agent*. The application of conservatism in the company's financial reports is expected to provide confidence in the agent in managing the owner's wealth, and the owner can be more confident that *the agent* is not committing fraud for the *agent's welfare*.

2. Signal Theory

This theory explains how a company provides signals to users of financial reports in the form of information regarding management's performance in realizing the owner's wishes. The relationship between signal theory and conservatism is that the principle of conservatism implemented by companies will help investors make decisions because this principle reduces earnings management practices that are usually carried out by company managers on financial reports so that the contents of financial reports with the principle of conservatism show the actual performance carried out by the company. The financial report will be a positive signal from company managers to investors that the company has implemented the principle of conservatism and generated quality profits.

3. Accounting Conservatism

Savitri (2016) states that conservatism is a concept that recognizes expenses and liabilities as quickly as possible, even though there is uncertainty about the results. It only recognizes income and assets when they are certain to be received. According to Givoly & Hayn (2000), conservatism is related to criteria in choosing between accounting principles, which also postpone profits and recognize costs directly. This view is often called *unconditional conservatism* or what is also known as ex-ante conservatism. *Unconditional* conservatism, which is also called the principle of conservatism based on accounting, has an independent nature, which means it does not depend on the good or bad news that occurs in the environment around the company but is related to the balance sheet. The second type of conservatism, namely *conditional conservatism*, was coined by Basu. *Conditional* conservatism is conservatism that is based on market conditions, is related to earnings, and depends on good or bad news.

4. The Influence of Liquidity on Accounting Conservatism

Liquidity is the ability of a company to fulfill all its financial obligations. Of the three other liquidity ratios, researchers appointed *the current ratio* as an indicator of liquidity. The current ratio shows the company's ability to pay its short-term obligations with its current assets. Liquidity is said to be good if it is still within a reasonable figure because if it is too high, it means the company has too many idle current assets, but if it is too low, it means the company will not be able to meet its short-term obligations. In line with this research, the results of research conducted by Nasir et al. (2014) also reveal that liquidity has a significant positive influence on accounting conservatism.

H_1: Liquidity has a positive effect on accounting conservatism.

5. The Influence of Profitability on Accounting Conservatism

Profit is an indicator of a company's performance. The presentation of profit information is an important focus of a company's performance. Profit can provide a positive signal regarding the company's prospects regarding company performance. With profit growth continuing to increase from year to year, it will provide a positive signal regarding the company's performance. The results of research conducted by Susilo & Aghni (2017) state that profitability has a significant positive effect on accounting conservatism.

H_2: Profitability has a positive effect on accounting conservatism

6. The Effect of *Leverage* on Accounting Conservatism

Leverage has an influence and relationship on the application of the principle of conservatism. The debt level shows the size of the company's assets financed by debt and is a benchmark for creditors to see the level of security. Thus, companies whose assets are mostly financed by debts from creditors need to pay attention to the level of security of the funds lent by these creditors. In the end, creditors as stakeholders will tend to encourage management to apply the principle of conservatism to guarantee the

level of security. Research results (Aryani & Muliati, 2020) state that debt levels have a negative influence on accounting conservatism.

H_3: *Leverage* has a negative effect on accounting conservatism.

RESEARCH METHODS

1. Population and Sample

The population used in this research is 185 manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2019 period. From the population obtained, researchers took samples using *judgment sampling techniques*, which resulted in 95 companies. The sample criteria used are Companies that publish annual reports that have been completely audited. Companies that did not delist during the observation period. Companies that publish annual reports in the rupiah currency. The financial reports obtained are used as a source of information to obtain data regarding company conservatism, liquidity, profitability, and *leverage*. With an observation period of 3 years and the exclusion of distorted data, the amount of data analyzed amounted to 265 data.

2. Research variable

The dependent variable in this research is accounting conservatism, which is measured using the accrual measurement method of the Givoly & Hayn model. The accrual method calculates the difference between net income before depreciation and amortization and the company's operational cash flow. The independent variables in this research are liquidity, profitability, and *leverage*. The liquidity variable in this research is measured using the current ratio, *namely* current *assets/current liabilities*. The profitability variable in this research is measured using ROA (*return on assets*), namely EAT/*total assets*. The *leverage* variable in this research is measured using *the debt ratio*, namely *total liabilities/total assets.*

3. Data Analysis and Techniques

Descriptive Analysis

According to Budiwanto (2017), descriptive statistics is a data analysis method used to describe research variables obtained through test and measurement results using numbers. This method aims to describe phenomena related to research through the data that has been collected. Descriptive statistical analysis techniques that will be used in this research include the average value (mean), maximum value, minimum value, and standard deviation.

Coefficient Equality Test (*Pooling*)

Pooling testing is carried out to determine whether or not research data can be combined (*cross-sectional* with *time series*). To test this, researchers used *dummy variables* and the SPSS 22 to analyze the data. The decision-making criteria are as follows: If the p-value < 0.05, then there are differences in coefficients, and pooling cannot be done. So, research data testing must be carried out annually. If the p-value > 0.05, then there is

no difference in coefficients, and pooling can be done. So, research data testing can be carried out during the research period in 1 test.

Classic assumption test

This test was carried out to determine whether or not the regression model used in this research was feasible. The classical assumption tests that will be used are the normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test.

Hypothesis testing

The tests carried out in this research used **multiple linear analysis**. This analysis is a statistical method used to examine the relationship between a dependent variable and independent variables. **Coefficient of determination test.** The coefficient of determination (R2) aims to measure the ability of the multiple linear regression model to explain variations in the dependent variable. The measure of whether the multiple linear regression model is good or not can be seen by the magnitude of the R2 value, which has a range of zero (0) to one (1). The smaller the R2 value, the more limited the ability of the independent variables to explain the dependent variable. On the other hand, if the R2 value is close to 1, then the independent variables can explain almost all the information needed to estimate variations in the dependent variable. **Simultaneous Significance Test F.** The purpose of carrying out the F test is to find out whether the independent variables (liquidity, profitability, and *leverage*) contained in the research model influence the dependent variable (accounting conservatism) together. **t test.** The t-test is used to determine how significant the influence of each independent variable is on the dependent variable partially.

RESULTS

1. Descriptive Statistical Analysis

Based on Table 1, the following results were obtained. The independent variable liquidity is measured using the *current ratio formula*, namely total current assets / total current debt. The independent variable liquidity has a minimum value of 0.08609, while the maximum value is 12.63370. The average value (*mean*) is 2.2491629, and the standard deviation is 1.66630997. Independent variable profitability is measured by the ROA *(Return of Assets*) formula, namely net profit / total assets. Independent variable profitability has a minimum value of -0.40142, while the maximum value is 0.52670. The average value (*mean*) is 0.0474675, and the standard deviation is 0.10008739. The independent variable *leverage* is measured using the *debt ratio formula*, namely total debt /total assets. The independent variable *leverage* has a minimum value of 0.09038, while the maximum value is 0.99873. The average value (*mean*) is 0.4403680, and the standard deviation is 0.21339813. The dependent variable accounting conservatism is measured by calculating net income plus depreciation and minus cash flow from operating activities. If the calculation results are negative, then conservatism is applied to the financial statements. The dependent variable accounting conservatism has a minimum value of -1.99386. Meanwhile, the maximum value is 0.57688. The average value (*mean*) is -0.2132378, and the standard deviation is 0.28689712. The dependent variable accounting conservatism is measured by calculating net income plus depreciation and minus cash flow from operating activities. If the calculation results are negative, then conservatism is applied to the financial statements. The dependent

variable accounting conservatism has a minimum value of -1.99386. Meanwhile, the maximum value is 0.57688. The average value (*mean*) is -0.2132378, and the standard deviation is 0.28689712

Table 1
Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
LIQ	265	0.08609	12.63370	2.2491629	1.66630997
ROA	265	-0.40142	0.52670	0.0474675	0.10008739
LEV	265	0.09038	0.99873	0.4403680	0.21339813
CONACC	265	-1.99386	0.57688	-0.2132378	0.28689712
Valid N (listwise)	265				

Source: Results of Research Data Processing with the SPSS 22 Program

2. Test pooling

Based on Table 2, all *dummy* variables have sig values. > p-value (0.05), so *pooling can be done.* DT1_LIQ 0.683 > 0.05 data can be *pooled*, DT1_ROA 0.712 > 0.05 data can be *pooled*, DT1_LEV 0.929 > 0.05 data can be *pooled*, DT2_LIQ 0.885 > 0.05 data can be *pooled*, DT2_ROA 0.101 > 0.05 data can be *pooled*, DT2_LEV 0.657 > 0.05 data can be *pooled*.

Table 2
Coefficient Equality Test

Variable	*Unstandardized* B	Criteria	Sig	Information
DT1	0.004	Sig > 0,05	0.988	Getaway
DT2	0.124		0.609	Getaway
DT1_LIQ	0.017		0.683	Getaway
DT1_ ROA	-0.170		0.712	Getaway
DT1_ LEV	-0.029		0.929	Getaway
DT2_LIQ	-0.007		0.885	Getaway
DT2_ ROA	-0.759		0.101	Getaway
DT2_ LEV	-0.150		0.657	Getaway

Source: Results of Research Data Processing with the SPSS 22 Program

3. Classic assumption test

Normality test

Based on Table 3, the Asymp value is obtained. Sig. < a (0.05), The results of this normality test use the *sample Klomogorov-Smirnov statistical test.* If the significance value is greater than 0.05 (α), then the data is normally distributed. However, if the significance value is smaller than 0.05, it can be said that the data is not normally distributed. From the test results using *the sample Klomogorov-Smirnov* statistical test, it can be seen that the significance value is 0.003 or smaller than 0.05, so it can be concluded that the data is not normally distributed.

Multicollinearity Test

Based on Table 3, all independent variables have a *tolerance value* > 0.1 and a VIF value < 10. From these results, it can be concluded that all independent variables do not have multicollinearity.

Heteroscedasticity Test

Based on Table 3, all Sig. Variable> 0.05, so it can be concluded that this research passed the test and heteroscedasticity did not occur.

Autocorrelation Test

Based on the results of the autocorrelation test in Table 4, it can be seen that the Watson Durbin (d) value is 2.148. This value is located between the dU value = 1.8122 and the 4-dU value = 2.1878, where the dU value is obtained from the Durbin Watson table with a significance level of 0.05, number of samples (n) = 265, and number of independent variables (k) = 3. From these results, there is no autocorrelation in the regression model of this research.

Table 3
Classic Assumption Test Results

Classic Assumption Test Type	Criteria	Test results			Information
Normality	Asymp.Sig ≥0.05	0.143			Getaway
Multicollinearity	*Tolerance* > 0.1 VIF < 10	Variable	*Tolerance*	Multicollinearity	*Tolerance* > 0.1 VIF < 10
		LIQ	0.430	2.324	
		ROA	0.893	1.120	
		LEV	0.412	2.429	
Autocorrelation	du < d < 4 - du	1.8122 < 2.148 < 2.1878			Getaway
Heteroscedasticity (*Scatterplot*)	The distribution of points does not form a pattern or flow	The distribution of points does not form a pattern or flow			Getaway

Source: Data Processing Results with the SPSS 22 Program

Multiple Linear Regression Analysis

Based on Table 4, the regression coefficient for leverage is 0.266. This means that for every 1% increase *in leverage*, the value of accounting conservatism will decrease by 0.266, assuming the other independent variables are constant. The regression coefficient for profitability is 0.570, which means that every 1% increase in profitability will increase the company's accounting conservatism value by 0.570, assuming the other independent variables are constant.

The regression coefficient for liquidity is equal to, 0.022which means that every 1% increase in liquidity will reduce the company's accounting conservatism value by 0.022, assuming the other independent variables are constant.

$$CONACC = -0.073 - 0.022\ LIQ + 0.570\ ROA - 0.266\ LEV$$

Table 4
Results of Multiple Linear Regression Analysis

Variable	Unstandardized B
Constant	-0.073
LIQ	-0.022
ROA	0.570
LEV	-0.266

Source: SPSS 22 Program Research Data Processing Results

Coefficient of Determination Test

Based on Table 5, the test results regarding the coefficient of determination obtained from the *Adjusted R Square column* in the *Summary Model table* are 0.069. This value shows that the three variables in the research, namely liquidity, profitability, and *leverage,* influence the company's accounting conservatism by 6.9%. Meanwhile, the remaining 93.1% is influenced or explained through other variables outside the researcher's research model.

Table 5
Coefficient of Determination Test Results

Model	Criteria	R^2	Information
1	Adjusted R^2 0-1	0.069	Getaway

Source: Results of Research Data Processing with the SPSS 22 Program

Simultaneous significance test F

Based on Table 6, the F test results seen in the table show a calculated F value of 6.473 with a significance probability (p-value) of 0.000. Thus, the p-value is smaller than the significance level (α) of 0.05 or 5%, where the test results can be said to be sig. So, it can be concluded that Ho is rejected and Ha is accepted. This means that there is at least one variable among liquidity, profitability, and *leverage* that influences accounting conservatism. One of the independent variables that influence accounting conservatism can be tested via the t-test, namely a partial test.

Table 6
F Test Results

Model	Criteria	Sig	Information
1	Sig < 0.05	0,000	Getaway

Source: Data Processing Results with the SPSS 22 Program

Test the Significance of Individual Parameters

Based on Table 7, the results obtained are as follows:
In the research results, the liquidity variable has a t-value of -1.419 and a p-value of 0.0785 (a value of 0.157 divided by 2). Because the p-value is greater than the significance level (α) of 0.05 or 5%, where the test results can be said to be not sig, it can be concluded that Ho1 is accepted and Ha1 is rejected. Therefore, liquidity does not have a negative effect on accounting conservatism.

From the research results, the profitability variable has a t-value of 3,150 and a p-value of 0.001 (value 0.002 divided by 2). The p-value is smaller than the significance level (α) of 0.05 or 5%, where the test results can be said to be sig, so it can be concluded that profitability influences accounting conservatism. This finding shows that profitability has a positive effect on accounting conservatism.

From the research results table, the *leverage* variable has a t-value of -2.123 and a p-value of 0.0175 (a value of 0.035 divided by 2). Because the p-value is smaller than the significance level (α) of 0.05 or 5%, where the test results can be said to be sig, with a calculated t value of -2.123, it can be concluded that the hypothesis H03 is rejected

and Ha3 is accepted. This decision shows that *leverage* has a negative effect on accounting conservatism.

Table 7
t Test Results

Variable	Criteria	Q	Sig	Information
LIQ	Sig < 0.05	-1,419	0.157	Did not pass
ROA		3,150	0.002	Getaway
LEV		-2.123	0.035	Getaway

Source: Results of Research Data Processing with the SPSS 22 Program

DISCUSSION

1. Liquidity versus accounting conservatism

The initial hypothesis developed in this research states that liquidity has a positive effect on accounting conservatism. The test results for the liquidity variable have a calculated t-value of -1.419 and a p-value of 0.0785 or 7.85%. (value 0.157 divided by 2). Because sig > 0.05 or 5%, the test results can be said to be not sig. So, this research shows that liquidity does not have a negative effect on accounting conservatism. Thus, hypothesis Ha $_1$ is rejected. Liquidity is a company's ability to fulfill its obligations and reflects good company performance. In this research, the *current ratio is used*. *The current ratio* is a ratio to measure a company's ability to pay off its short-term obligations. The higher the liquidity ratio, the better because it means that the current assets used to pay current debt are greater.

Researchers suspect that this high liquidity ratio may occur because cash is not used as well as possible. Apart from that, this can also happen because the company provides easy receivables so that current assets look very high. Basically, liquidity is related to creditors' trust in the company, meaning that the higher the liquidity, the higher the creditors' trust in the company. So, the company will continue to try to maintain its company performance so that it continues to gain the trust of creditors. Apart from being supported by several samples, the results of this research are also in line with those carried out by Pratanda & Kusmuriyanto (2014), which shows that liquidity has no effect on accounting conservatism.

2. Profitability against accounting conservatism

The initial hypothesis developed in this research states that profitability influences accounting conservatism. The test results for the profitability variable have a calculated t-value of 3,150 and a p-value of 0.001 or 0.1% (value 0.002 divided by 2). Sig < 0.05 or 5%, where the test results can be said to be sig, so this research shows that profitability has a positive effect on the application of accounting conservatism. Thus, hypothesis Ha $_2$ is accepted.

The higher the profitability, the company will tend to apply conservative accounting principles to ensure that profits do not fluctuate. Companies with a high level of profitability are identified as having a small amount of equity. The low retained earnings are caused by large dividend distributions, causing the amount of retained

earnings to be small. This research is also in line with Susilo and Aghni (2017), who state that profitability has a significant positive effect on accounting conservatism.

3. *Leverage* against accounting conservatism

The initial hypothesis developed in this research states that *leverage* affects accounting conservatism. The test results obtained using the t-test showed that the debt level variable had a calculated t-value of -2.123 and a sig value of 0.0175 (a value of 0.035 divided by 2). Because the sig value is 0.0175 < 0.05, this research shows that *leverage* has a negative effect on the application of accounting conservatism. Thus, hypothesis H_{a3} is accepted.

The greater the level of debt of a company, the lower the level of conservatism in that company. Managers tend to present less conservative financial reports by increasing income as much as possible in order to convince lenders that the loans provided are guaranteed. There is research that supports it, such as research by Aryani and Muliati (2020) and Hambali et al. (2021), which state that the level of debt *has a* negative effect on accounting conservatism.

CONCLUSION

There is not enough evidence that liquidity has a positive effect on accounting conservatism. b) There is sufficient evidence that profitability has a positive effect on the application of accounting conservatism. c) There is sufficient evidence that *leverage* has a negative effect on the application of accounting conservatism.

In this study, the researcher uses a proxy calculation of accounting conservatism with Givoly and Hayn's (2000) measurements, which are based on an accrual approach. For future researchers, it is hoped that they can use different proxies for calculating conservatism so that they will produce variations or consistencies that occur. b) This research shows that the total influence of the independent variables (liquidity, profitability, and *leverage*) can only explain 6.9% of the dependent variable, so further research uses other independent variables so that the dominant factors that influence it will be obtained. c) Investors/potential investors should pay attention to differences in profitability and the existence of debt (leverage) because it has been proven to influence conservatism in financial reporting so as to avoid potential risks in decision-making.

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