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SCHOOL OF POLITICAL AND SOCIAL SCIENCES
Bandar Lampung University, Indonesia

Icon-LBG 2016

**The Third International
Conference on Law,
Business and Governance**

PROCEEDINGS

Hosted by
Faculty of Law, Faculty of Economics and Faculty of Social Science
Bandar Lampung University (UBL)

Icon-LBG 2016

THE THIRD INTERNATIONAL CONFERENCE
ON LAW, BUSINESS AND GOVERNANCE 2016

20, 21 May 2016
Bandar Lampung University (UBL)
Lampung, Indonesia

PROCEEDINGS

Organized by:



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PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the Third International Conference on Law, Business and Governance (3th Icon-LBG 2016) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 46 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Unika ATMA JAYA, Shinawatra University, Universitas Sebelas Maret, Universitas Timbul Nusantara, Universitas Pelita Harapan, Universitas Bandar Lampung, Universitas Lampung.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also grateful to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

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DIFFERENCES STOCK RETURN BETWEEN COMPANY WHICH HAS HIGH ACCOUNTING CONSERVATISM LEVEL AND LOW ACCOUNTING LEVEL TO COMPANY REGISTERED AT STOCK EXCHANGE OF INDONESIA PERIOD 2010-2014

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Abstract

This research has aims to analyze difference stocks *return* toward company with high conservatism level and low to company that is registered at Stock Exchange of Indonesia (BEI) period year 2010-2014. Hhypothesis that is submitted is including difference stock *return* between company with high accounting conservatism level and low. Sample in this research is company LQ45 that is registered at Stock Exchange of Indonesia (BEI) period year 2010-2014. Sampling technique which is used *purposive sampling* so it is reached amount sample as much as 155 companies. Data that is used in this research including net profit plus depreciation, cash flow from operational activity, and operational closing price, and stock closing price. Analysis technique for examination hypothesis using average difference test (*Independent Sample t-Test*). Test Result *Independent Sample t-Test* showed that is not include difference stock *return* between company which has high conservatism level and low.

Keywords: Accounting Conservatism, Stock *Return*

1. BACKGROUND

This study aims to determine whether there are differences in stock returns for companies with high and low level of conservatism in the company . This study contributes important for investors can be used as one of the considerations in the decision to invest , and the company can be taken into consideration in applying accounting principles in financial reporting .The results with different test average (independent samples t -test) showed no difference stock returns between companies that have a level of conservatism high and low , thus demonstrating that the principles of conservatism is not the only consideration investors in investing but many other factors such as total assets , profits and return on investmen .

Finance report constitute main media deliver information because finance report which is made by company illustrate management performance in organize resource of its company. Information that is delivered trough this finance report is used by internal site pihak internal although external site company. Profit information is main focus in finance report to provide information about performance some company during one period certainly. User of finance report especially external site that is investor and creditor, can use profit information sn its component for help them (1)evaluation company performance, (2) estimation effort to reach profit in long distance, (3) To predict profit in the future , and (4) to estimate investation risk or loan to company (Juanda, 2007).

Presentation this finance report has aim, aim to serve finance report provide finance information from some company that can responsible and benefit for user of finance report in take decision. In order to realize benefit and these aim,so necessary principles of accounting which will result numbers relevance and reliable. One of principle embraced in process finance report is principle conservatism.

FASB Statement of concept No 2 to define conservatism as careful reaction (*prudent reaction*) to face uncertainty and risk attached to some business. Using of this conservatism principle base on at assumption that company faced to of uncertainty economicat the future., then measurement and acknowledge for these numbers are done carefully and accountable. (Suwardjono, 2010) defined conservatism as attitude to face uncertainty for take action or decision which is worst from these uncertainty. Base on principle conservatism, if there is uncertainty about loss,so management site vulnerable make note these lossother

side if there is uncertainty about advantage, so company must not make note these advantage, if really has been realize. Then can make conclusion that principle conservatism is concept which acknowledge fee and loss faster, also acknowledge income and profit slower.

Economic condition always opposite to uncertainty at the future, we can not know what will be happen at condition economical future, for example like economic crisis that happen at the year 1998 ago. Impact from economic crisis at year 1998 ago many company which undergo loss also collapse, these thing impact to stock price and stock return, stock price and stock return will be weakness, if stock price and stock return weakness make investor will not do investment activity.. In this situation like this, recommended for manager can implement principle conservatism in finance report, because fundamentally using this principle conservatism faced uncertainty economic at the future then manager must be carefully to faced uncertainty economic and risk which can happen at company.

Principle this accounting conservatism still pretended as principle that controversial (Mayangsari and Wilopo, 2002). In one site, conservatism pretended as obstacle which influence finance report quality. Although in other site, with existence finance report which is conservatism meaning profit that is produced will more quality because the report will not *overstatement* and accounting conservatism benefit for avoid behavior opportunistic manager (Watts, 2003). Therefore conservatism can help for user of finance report for instance investor to make decision investment because principle accounting conservatism present profit which quality and not *oversate*.

Beside that implementation conservatism can benefit for investor then increase market price for company stock (Gunanta, 2003 dalam Viny, 2014). With increasing price stock, then stock return which will be got become higher because stock return constitute difference from stock price now and stock price previously (Jogiyanto, 2011). If stock *return* that is produced high so can make the investor become more interesting for doing investment activity.

Although conservatism constitute one of principle in finance report, but not all company implement principle conservatism in present report because effected by pressure manager to prepare finance report of company. Manager perhaps has commitment which consistently to use conservatism accounting in order to keep reputation to avoid risk from counterfeit behavior opportunistic. In other side, manager more priority essential his self will be vulnerable use aggressive accounting to appear company performance which is good (Juanda, 2007).

Base on explanation background above, so the writer interest for doing research with title **“Differences Stock Return Between Company Which Has High Accounting Conservatism Level And Low To Company Registered at Stock Exchange of Indonesia (BEI) Period 2010-2014.”**

2. LITERATURE REVIEW

THEORETICAL BASIS

AGENCY THEORY

Theoretical of agency explanation correlation between shareholders and manager. Theoretical of agency declare company constitute *nexus of contract* that is place to meet contract between various site which potentially appear essential conflict (Remon, 2010). This essential conflict happen between manager (*agents*) and shareholders (*principals*) because there is difference essential..

THEORETICAL OF SIGNALING (SIGNALING THEORY)

Signalling Theory emphasizes to important information which is issued by company to external site of company. (Hendrianto, 2012) emphasizes that *Signalling theory* explanation that giving signal is done by manager for reduce information asymmetry. Manager giving information through finance report that company implement policy conservative accounting that produce qualified profit because principle this conservatism prevent company do action exaggerate profit and help user of finance report to serve profit that is not *overstatement* (Watts, 2003).

Understanding Accounting Conservatism

FASB Statement Of Concept No 2 defined accounting conservatism is principle carefully (*prudent*) toward uncertainty. According to (Suwardjono, 2010), defined accounting conservatism as attitude or circulation in face uncertainty for taking action or decision base on appearing which worst from these

uncertainty. Accounting conservatism as traditionally is defined as “anticipate no profit, but anticipate all loss” its mean anticipate toward all loss but not anticipate profit (Watts, 2003).

CONCEPT OF ACCOUNTING CONSERVATISM

Using conservatism principle is intended for acknowledge and measurement asset also profit is done by really carefully. That's thing is caused by uncertainty which involved economic activity and business. Then company which implement policy conservative accounting vulnerable make faster acknowledge load that is possible happen and make slower or delay acknowledge income that is possible happen. Using these principle base on to assumption that company faced to economic uncertainty at the future, so that measurement and acknowledge these numbers is done carefully.

STOCK RETURN

Return constitute result or advantage level which is reached from some investation that is done, meanwhile stock is precious letter that showed part ownership in some company. So stock return is advantage that is reached by investor from some investatio that has been done.

THEORETICAL INTELLECTION FRAMEWORK

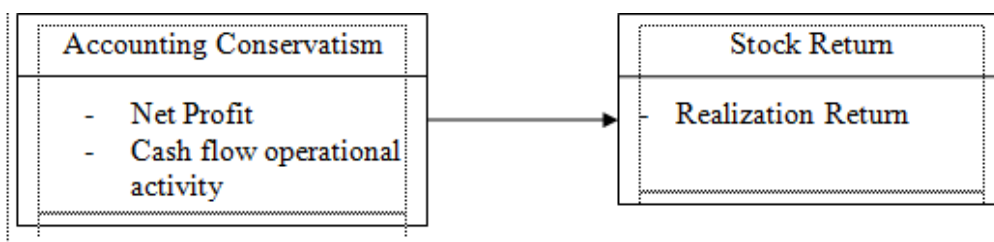


Figure 1
Theoretical Intellection Framework

HYPOTHESIS

Differences stock return on company with high accounting conservatism level and low

Conservatism can explanation from perspective agency theory. Agency theory declare company constitute *nexus of contract* that is place to meet contract between various site that potentially appear essential conflict between *principals* and agents (Jensen and Meckling, 1976). This essential conflicts happen between company owner and manager which has difference essential and information asymmetry. Theory of *signaling* declare that giving signal that is done by manager to reduce information asymmetry. Manager is giving information through finance report that company implement principle conservative accounting.

Implementation conservatism will give positive signal for investor that can increase stock price of company. (Gunanta, 2003 dalam Viny, 2014). With increasing stock price of company, then stock return that is reached will become higher. Accounting conservatism level will different between company, because is effected by pressure manager to prepare finance report of company. Company which is implement conservatism principle in finance reporting will result profit which is vulnerable smaller comparing with company which is not implement conservatism principle, because conservatism principle that make faster acknowledge load and slower acknowledge income.

There is several research ago that do research about effect accounting conservatism accounting and stock return. The research that has been done by (Remon, 2010) declare that accounting conservatism effected positive toward stock return, meanwhile research that have been done by (Penman and Zhang, 2002) declare that accounting conservatism effected negative toward stock return saham. Based on from result different research, so that this research want to proof again is there difference stock return between company with high conservatism level and low. There is hypothesis which is submitted as following below “Including difference stock return between company with high accounting conservatism level and low.”

3. RESEARCH METHOD

Kind of research which is used in this research is comparative research. In this research, data that is used involve secondary data, that is data such as finance report of company LQ45 which is registered at Stock Exchange Of Indonesia (BEI) period February – July year 2010-2014 and data price stock during period observation. The Data in this research obtainable from *IDX data base* (www.idx.co.id) and www.finance.yahoo.com. Population that is used in this research are all companies that is registered at Stock Exchange of Indonesia (BEI) period 2010-2014. Sampling technique in this research is using method of purposive *sampling*

OPERATIONAL DEFINITION AND VARIABLE MEASUREMENT

This research containing from 1 variable, that is accounting conservatism and stock *return*. In this research, measurement accounting conservatism used counting that has been done by Givoly and Hayn (2000), that is with formula as following below:

Ket: CONACC_{it} : Conservatism Level
 NI_{it} : Net profit plus depreciation

$$\text{CONACC}_{it} = \text{NI}_{it} - \text{CFO}_{it}$$

CFO_{it} : Cash flow from operational activity

- If value CONACC_{it} ≤ 0, its mean the company has high accounting conservatism level.
- If value CONACC_{it} ≥ 0, its mean the company has low accounting conservatism level.

In this research, stock *return* that is used realization *return*. Measurement stock *return* is done with formula as follow below: (Jogiyanto 2010:64).

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

In this research using average *return* during 11 days, that is 5 days before date finance reporting and return to the t- day.

DATA ANALYSIS MEHTOD DESCRIPTIVE STATISTIC

Descriptive statistic Analysis is used for analyze difference expression stock *return* between company has high accounting conservatism level and low. Descriptive Statistic giving illustration or description some data look at from average (mean), standard deviation, maximal, minimal (Ghozali 2011:19).

TEST AVERAGE DIFFERENCE TEST (INDEPENDENT SAMPLE T TEST)

In this research, examination hypothesis using Average Difference Test (*Independent Sample t Test*). Test of Difference t-test is done with way comparing difference between two value average with standard error from average difference two sample or as formula is written as follow here: (Ghozali 2011:64)

$$t = \frac{\bar{x} \text{ of first sample} - \text{average of second sample}}{\text{Standard error average difference of both sample}}$$

Standard error difference in average value distributed as normally. If probability ≤ 0,05 ,so that including difference stock *return* between company with high conservatism and low (Hypotesis accepted), if probability ≥ 0,05 , so that not including difference stock *return* between company with high conservatism and low (Hypothesis refused).

4. RESULT AND DISCUSSION
DESCRIPTIVE STATISTIC

Table 1.
 Test Result Descriptive Statistic
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Conservatism	155	-6.E13	5.E13	8.07E11	8.224E12
Stock return	155	-.01449	.01975	.0007475	.00528443
Valid N (listwise)	155				

Source : Secondary data which is processed, 2016

HYPOTHESIS EXAMINATION

AVERAGE DIFFERENCE TEST (INDEPENDENT SAMPLE T-TEST)

Examination hypothesis in this research using Average Difference Test (*Independent Sample t-Test*). This Average Difference Test (*Independent Sample t-Test*) is used for to know whether there difference stock *return* between company which has high conservatism level and low. Follow this result of examination hypothesis on this research:

Table 2
 Average Difference Test (*Independent Sample t-Test*)

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Retu rn	Equal variances assumed	.104	.747	.685	153	.494	.000598	.0008729	-.0011265	.0023225
	Equal variances not assumed			.698	133.094	.487	.000598	.0008570	-.0010972	.0022932

Source : Secondary data which is processed, 2016

Result Examination hypothesis of average difference test (*independent sampel t-test*) This has result that not including difference stock return between company which has high conservatism level and low. This thing can look at table 4.2 above that showed value t to *equal variances assumed* as large as 0,685 with probability as large as 0.494, where result probability larger than 0,05 so that hypothesis in this research refused. Result of this result is not correspondent with result of research Remon (2010) which declare that including impact between accounting conservatism with stock *return*, but result of this research correspondent with result of research Tara (2009) which declare that not including difference coefficient respond profit to finance report which conservative and optimize.

Based on these result showed that principle accounting conservatism constitute something is not always considered by investor in take decision for doing investation activity. According to Sonya (2005) the investor in take decision to invest vulnerable attention the other factorss for instance total asset., net profit, *return on investment*, capital structure. Company vulnerable has low accounting conservatism level in serve finance report of company. Company vulnerable using accounting which is optimize for appear large profit and illustrate good company performance. In take decision for doing investation, investor vulnerable look company performance and net profit of company.

5. CONCLUSION AND SUGGESTION

CONCLUSION

Based on result of research that has been explained in previous capture, so that researcher take conclusion as follow below:

1. Base on result of descriptive statistic above, can be concluded that company LQ45 vulnerable has low accounting conservatism level in serve finance report, because manager vulnerable using accounting which optimize and appear high profit for illustrate good company performance.
2. Base on result of average difference test (*independent sampel t-test*) above, can be concluded that there is no difference stock *return* between company with high accounting conservatism level and low. Result of this research is not correspondent with research of Remon (2010) which declare including effected between accounting conservatism with stock *return*. In effort investation activity the investor less attention principle accounting conservatism in finance report. The investor for doing investation activity attention other factor for instance factor of total asset, net profit, *return on investment*, capital structure.

SUGGESTION

Based on result of research above, so the suggestion that can researcher given as following here:

1. For company, base on result of research which is proof that there is no difference perbedaan stock *return* between company with conservatism level and low, so that researcher give suggestion to company for more accentuate the other factors for instance factor of total asset, net profit bersih, *return on investment*, capital structure because the investor not always attention principle accounting conservatism for taking decision to invest.
2. For next researcher is recommended can add other variable which influence stock *return* also add time span observation longer until getting good analysis result.

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