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The Influence of Profitability, Leverage, and Company Size on Financial Restatements in the Financial Sector

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Abstract:
This research was conducted to obtain empirical evidence about the influence of profitability, leverage, and company size on financial restatements in the financial sector. Based on the results and discussion of the research, this research can be concluded as follows: a. Profitability, leverage, and company size together can explain the possibility of a financial statement restatement. The influence of each variable is described as follows:b. There is not enough evidence that the greater the profitability, the more likely the company is to restate its financial statements. c. There is not enough evidence that the higher the leverage a company has, the more likely the company is to restate its financial statements d. There is not enough evidence that the larger the company size, the more likely the company is to restate its financial statements

Keywords:
Profitability, Leverage, Company Size, Financial Restatements, Financial Sector

BACKGROUND

Reported financial reports have a general purpose, namely providing information about the financial position at the end of the period, company profit and loss, changes in equity or capital, company performance and cash flow of a company which is useful for the majority of users of financial reports in order to make investment decisions. as well as showing management's accountability for the use of resources entrusted to them (PSAK No.1, 2021).

Apart from that, financial reports must have several characteristics, namely relevant, understandable, comparable and reliable. Reports can be said to be relevant if the information can influence users in making decisions and help them evaluate the decisions they have taken and will take. A report is said to be understandable if the financial report that is read can be understood not only by management but also ordinary people. Financial reports can be said to be comparable if the reports presented use the same systems, guidelines and basic accounting principles policies as other companies, apart from that the company also needs to include the previous year's value so that it can be compared with the value presented in the current year.

METHOD

The unit of analysis in this research is financial companies listed on the Indonesia Stock Exchange during the period 2018 to 2022. In this research the unit of analysis is focused on financial companies because there are questions regarding the presentation of financial reports of existing financial companies related to the case at Bukopin bank itself.

RESULT & DISCUSSION

In this research, the financial sector companies that are the object of research consist of 91 financial sector companies listed on the Indonesia Stock Exchange during the 2018-2022 period that meet the sampling requirements described in chapter III. A list of company names and codes can be seen in table 3.1, and sampling criteria can be seen in table 3.2, below is a general description of the research variables. The results of descriptive statistical testing to see an overview of the research variables are presented as follows.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	296	-.0870	.0964	.014945	.0217640
LEV	296	-.8808	12.1024	3.093553	3.0422227
SIZE	296	24.6325	35.6115	30.341603	2.2474186
F.Restate	296	0	1	.23	.421
Valid N (listwise)	296				

Uji Wald

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	ROA	11.679	7.076	2.724	1	.099	118016.915
	LEV	-.128	.066	3.810	1	.051	.880

	SIZE	.120	.072	2.802	1	.094	1.127
	Constant	-4.686	2.078	5.085	1	.024	.009

a. Variable(s) entered on step 1: ROA, LEV, SIZE.

Source :Researcher, 2024

Based on the results of the Wald test, it can be seen that profitability, leverage, and company size are not proven / there is not enough evidence to influence the dependent variable, namely financial restatement

The discussion of the results of this research is described as follows:
The results of the feasibility test on this research model show that profitability, leverage and company size together can explain the company's tendency to restate financial statements. The value of the explanatory power/coefficient of determination (R2) in this model is 0.063. This means that 6.3% of the variation in financial statement restatements can be explained by the variables profitability, leverage, company size, audit quality. The remaining 93.7% of financial statement restatements are explained by other variables outside the research model. The influence of each variable on the financial statement restatement:

a) The effect of profitability on restatement of financial statements

The test results show a significant value of 0.099 and a beta of 11.679, which means that profitability has no influence on the restatement of financial reports. This result is not consistent with the research hypothesis which states that the greater the profitability, the more likely the company is to restate its financial reports. The results of this study do not match the research results of Wang & Wu, 2011; Chi et al, 2011; Chi & Sun, 2014, who found that profitability influences the restatement of financial statements. This result is inconsistent with agency theory in its opportunistic form which explains that company managers who want high remuneration will choose accounting procedures that shift reported profits in the future period to the current period. As a result, reported income may violate applicable regulations, making it possible for a restatement of income recognition to occur.

The absence of a significant influence between profitability and restatement of financial statements could be caused by factors achieving a fairly low level of profitability in manufacturing companies during the 2014-2017 period, where on average the company's ability to generate profits was only around 6%. With an average profitability ratio of only around 6%, it can be concluded that the profitability level of manufacturing companies is not too high or is still below 10%. With profitability conditions that are not too high, this does not encourage company management to restate financial reports.

b) The effect of leverage on restatement of financial statements

The results of this research show a significant value of 0.051 and a beta value of -0.128, which means there is not enough evidence that leverage has an effect on Financial Statement Restatements. This result is inconsistent with the research hypothesis which states that the higher the level of leverage, the more likely a company is to restate its financial statements. The results of this research do not support previous research by Alfonso (2018) which found that there is an influence between debt levels and financial statement restatements.

There is insufficient evidence that leverage has an effect on restatement of financial statements, perhaps due to the company's debt activities, most of their funding levels are not obtained from debt. Therefore, leverage is not a significant factor in the occurrence of financial statement restatements.

c) The influence of company size on the restatement of financial statements
The test results show a significance value of 0.094 and a beta value of 0.120, which means there is not enough evidence that company size has an effect on financial statement restatement. These results are consistent with the research hypothesis which states that the larger the company size, the more likely the company is to restate financial reports. The results of this research are in accordance with research by Chi and Sun (2014) which found that company size influences the occurrence of restatement.
The results of this research are in accordance with the statement of Stolowy & Breton, 2000 which states that large companies, if seen from the profits reported in a stable position, will give a sense of more confidence to company owners accompanied by the aim of increasing shareholder satisfaction through levels of growth and stability. reported profit, but still within the limits of applicable accounting rules

CONCLUSION

Based on the results and discussion of the research, this research can be concluded as follows:

a. Profitability, leverage, and company size together can explain the possibility of a financial statement restatement. The influence of each variable is described as follows:

b. There is not enough evidence that the greater the profitability, the more likely the company is to restate its financial statements.

c. There is not enough evidence that the higher the leverage a company has, the more likely the company is to restate its financial statements.

d. There is not enough evidence that the larger the company size, the more likely the company is to restate its financial statements

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