Advances in Economics, Business and Management Research, volume 201
International Conference on Sustainable Innovation Track Accounting and Management Sciences (ICOSIAMS 2021)

Accounting Conservatism and Earnings Management: Moderating Effect of the Corporate Life Cycle

Wahid Hartam[1], Etik Kresnawati[2*]

[1,2]*Accounting Department, Faculty of Economic and Business, Universitas Muhammadiyah Yogyakarta, Indonesia, 55183*
**Corresponding author. Email: etikkresnawati@umy.ac.id*

ABSTRACT
Accounting conservatism is a principle that calls for a high degree of verification before a company can make a legal claim to any profits. This principle is not intended to manipulate the amount or timing of reporting financial figures. Theoretically, it should be able to suppress management's opportunistic behavior to manage earnings. Therefore, this study aims to examine the influence of accounting conservatism on earnings management and determine the moderating effect of the corporate life cycle (CLC) in the relationship between them. The objects in this study were manufacturing companies listed on Indonesia Stock Exchange for the 2016-2019 period. This study employed 524 companies as samples selected by the purposive sampling method. Based on the analysis using the random effect model, it was found that accounting conservatism had a negative effect on earnings management, and the corporate life cycle could moderate the relationship between them. These results imply two things: 1) CLC is a factor that needs to be considered in research on the relationship between accounting conservatism and earnings management, and 2) CLC is an essential factor that investors should consider when assessing management in managing a company.

Keywords: *accounting conservatism, earnings management, corporate life cycle*

1. INTRODUCTION

The Regulation of the Minister of Trade Number 25 of 2020 concerning the Company's Annual Financial Report states that companies must report their financial data as a form of accountability in the form of financial reports issued periodically. In general, users of financial statements consist of internal and external parties of the company. The company's internal parties use the financial statements to make policies for the next period. Meanwhile, financial reports are employed for external parties to make investment and credit decisions [1].

For external parties, information about the company's profit is interesting because it can be used to assess the company's performance, predict future earnings, and assess investment and credit risk. For this reason, managers try to show good performance in financial statements, especially in the income statement. If it is not achieved, the manager will use several accounting methods available in accounting standards to manipulate the profits listed in the financial statements [2]. This behavior is called earnings management.

One example of earnings management cases in Indonesia is the case of financial statement manipulation by PT. Garuda Indonesia Tbk. The company had to restate its 2018 financial statements because it recorded a net profit of US$ 809,84 thousand. It is deemed unreasonable because it suffered losses in the previous two years. This significant increase in profit occurred because the company recognized debt originating from PT. Mahata Aero Technology as revenue. According to the commissioner of PT. Garuda Indonesia Tbk., who rejected the financial statements, it is contrary to PSAK [Statement of Financial Accounting Standards] Number 23 paragraphs 28 and 29 [3].

Furthermore, earnings management can be explained by agency theory. This theory arises because of differences in interests between company management (agents) and shareholders (principals). According to this theory, there is a difference in the information held by the two. The agent is assumed to have more information about the company than the principal [4]. This difference opens opportunities for agents to maximize their interests by conducting earnings management, which can harm the principal and make the information in the financial statements not in accordance with the company's actual state, thereby reducing the quality of financial statements.

On the other hand, generally accepted accounting principles allow management to choose the accounting method to prepare financial statements. The selection of the suitable method is adjusted to the economic conditions faced by the company. In the face of economic doubt and uncertainty, managers must also apply conservative accounting principles. Accounting conservatism is the principle of prudence in recognizing income and accelerating the recognition of losses [5].

Research [6] stated that accounting conservatism had a positive effect on earnings management. According to the study, the implementation of accounting conservatism would increase earnings management actions. However, this result is different from other studies [7]–[11], which found that accounting conservatism had a negative effect on earnings management. They argued that accounting conservatism could suppress management's opportunistic behavior in reporting overstated financial statements and reduce agency

conflicts. Although their research results revealed a negative effect [10], it was concluded that accounting conservatism would improve earnings management practices by doing income decreasing, namely lower reported earnings to get higher profits in the next period. In addition, some studies uncovered that accounting conservatism did not affect earnings management [12], [13]. They asserted that the implementation of the International Financial Reporting Standard in Indonesia could undermine the principle of conservatism with the existence of new policies, such as the revaluation of fixed assets.

The differences in the study results mentioned above are why this research is interesting to be re-examined. The researchers were motivated to add a moderating variable, namely the corporate life cycle. The corporate life cycle is likened to a human being, where each phase has different characteristics; the phase starts from start-up, growth, mature, and decline [14]. A study [15] affirmed that companies in the mature phase tend to have a lower level of conservatism than companies in the growth phase. The study also unveiled that companies in the decline phase tend to be more conservative than companies in the mature phase.

In the start-up phase, the company only starts its business and usually releases a new product or service. Sales are still low but slowly increasing at this stage. The company experiences an increase in sales in the growth phase and has already passed the break-even point. After that, the company enters the mature phase, which is when its revenue has peaked and begins to decline slowly. If this phase continues, the company enters the final phase, namely the decline phase. In this phase, sales, profits, and cash flow all decline. Because each phase that the company goes through is different and has different characteristics, it is assumed that it will affect the accounting policies that will be applied. It indicates that the treatment of financial reporting also varies or is different in each phase.

In this study, the corporate life cycle was divided into three phases: growth, mature, and decline, while the start-up phase was excluded. The company has not been listed on the Indonesia Stock Exchange in the start-up phase because it has not complied with the provisions. Companies in this phase do not sell for more than one year before going public, while the Indonesian Stock Exchange regulations stipulate that companies must earn profits for two consecutive years to be listed on the Indonesia Stock Exchange [16].

Moreover, the choice of the manufacturing industry is because this industry has an extensive and ever-expanding product portfolio. In addition, companies that can be described as having phases of the corporate life cycle depend on the product portfolio owned [17]. Therefore, it is expected that the selection of the manufacturing industry can reflect the corporate life cycle. The addition of the corporate life cycle moderating variable in the study is also expected to confirm previous research, in which the results were inconsistent. Besides, if the hypothesis is supported, investors should consider the corporate life cycle before investing in companies indicated to carry out earnings management.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. *Agency Theory*

Agency theory elucidates the relationship between principals and agents. In this theory, the agency relationship occurs when the principal, as the company owner, hires another person, in this case, the agent, to manage the company. The principal delegates some authority to the agent in making decisions related to the company's survival, which is expected to benefits the principal [4]. This theory presumes that the agent does not only act in the principal's interests but has other interests, arising agency problems. This problem emerges when the wishes or goals of the principal and agent conflict, and it is difficult for the principal to verify what the agent is essentially doing. Thus, there is a possibility that the agent will take actions that will harm the principal [18].

Agency problems also come up because of differences in the information held by agents and principals, which is called information asymmetry. The agent is considered to have more information about the company's prospects than the principal. There are two types of information asymmetry [19]:

1. Adverse selection is a type of information asymmetry in which one or more parties in a business transaction or potential transaction have an information advantage over other parties. In this case, managers have more information about the situation within the company than other parties, such as investors and creditors.
2. A moral hazard is a type of information asymmetry in which one or more parties to a business transaction or the potential transaction can observe their actions in fulfilling the transaction, but the other party cannot. In this regard, parties outside the company, such as investors and creditors, are not aware of all actions taken by the manager, which may violate the contract between them.

There is an assumption that the company's management has much information coupled with the agent's opportunistic behavior that wants to prioritize his interests, while the principal does not know what the agent is doing. These can motivate the company's management to take inappropriate actions, such as carrying out earnings management on financial statements.

2.2. ***Earnings Management***

According to the National Association of Certified Fraud Examiners, earnings management is defined as an act of intentional error or omission in making reports regarding material facts or accounting data so that it is misleading when all the information is used to make judgments, which will eventually cause people who read it to replace or change

opinion or decision. Earnings management is one of the factors that can reduce confidence and increase bias in financial statements, which will lead investors to make wrong decisions. It is because there are no other media that investors can utilize to assess the company's performance other than using financial reports [2].

In addition, earnings management occurs when managers use their judgment in preparing financial statements by changing the numbers in the financial statements to mislead users in the decision-making process and influence contracts related to reported accounting numbers [20].

2.3. *Accounting Conservatism*

Accounting conservatism involves reporting with the least optimistic view when faced with uncertainty in measurement. The most common thing in this concept is that the gain will not be recognized until it is truly realized, whereas the loss will be recognized immediately [1]. The official definition of conservatism is specified in Statement of Financial Accounting Concepts (SFAC) No. 8 that conservatism is a cautious reaction to uncertainty to ensure that the uncertainties and risks inherent in business situations are adequately considered. From that concept, it can be seen that conservatism is prudence against uncertainty in the future.

Moreover, conservatism is the principle of prudence in financial reporting, where the company will delay in recognizing assets and profits and immediately recognize debts and losses that may occur [5]. In other words, conservatism is the principle of delaying the acknowledgment of income and gains and instantaneously recognizing losses and expenses that will arise. The result of applying this principle is that profits and assets will appear lower, while debt will be reported higher [21].

Conservatism also adheres to the principle that recognizing assets and opinions can be made if there is a belief that they will be received but will admit expenses and liabilities as soon as possible even though there is no uncertainty that will occur [22]. The implication of accounting conservatism on financial reporting is that costs and losses will be recognized instantly, and gains or revenues are not recognized in advance even though the probability of occurrence is high [23]. Accounting conservatism encompasses conditional conservatism and unconditional conservatism.

2.4. Corporate Life Cycle

The corporate life cycle is the stage that the company goes through during its development. This corporate life cycle theory develops the product life cycle theory and likens companies to human beings that grow and develop [16]. The corporate life cycle is broadly divided into four phases: start-up, growth, mature, and decline. Companies in different stages of the cycle will exhibit different financial characteristics and require different management skills, priorities, and strategies [24].

In the start-up phase, the company is like a newborn baby. In this phase, the company introduces its products to the public so that the profit and sales level is still relatively slow. Companies spend more cash on developing products and expanding the market. It makes the company's net income tends to be negative. In this phase, the funds owned by the company also come from loans, which makes the liquidity level is likely to be low. Many companies fail at this phase due to the company owners not understanding the market needs [16]. However, the level of sales will begin to increase if the company is successful in surviving.

The next phase is the growth phase. In this phase, the company is considered as entering adolescence to adulthood. The company already has cash flow from operating activities, and revenue is gradually positive. Sales growth is higher than the start-up phase. Therefore, the company will make a high investment in fixed assets, which makes the company need many funds from investors and creditors [25].

The third phase is the mature phase. In this phase, the company is like an adult. The company experienced higher levels of revenue and liquidity compared to the start-up phase. The company's positive net income tends to be high, and the company can pay relatively high dividends. Management professionalism has increased so that the company's operational activities are more effective and efficient. Companies in this phase also no longer need external funds. In this phase, competitors begin to emerge, and it is the most prolonged phase experienced by the company [26]. Before entering the last phase, the company will enter a stagnant phase, which does not experience a drastic decline and increase in revenue [16].

The last phase is decline. In this phase, the company is likened to an older adult. Judging from the cash flow, the cash flow generated from operating and investing activities in this phase decreases. A lot of cash flow will come out to be used to pay off debt [26]. Besides, the company will experience many declines, such as decreased revenue levels caused by the number of competitors and increasingly fierce market competition. It will decrease market share, and dividend payments are also affected [25]. In order to avoid bankruptcy, the company will invest in new product lines [27].

2.5. *Accounting Conservatism and Earnings Management*

Agency theory declares that there is a conflict of interest that occurs between the agent and the principal. This conflict appears because of the difference in the information held by the agent and the principal, where the agent has more information related to the company than the principal, which is called information asymmetry [4]. With the information asymmetry and coupled with the opportunistic nature of the agent, the agent can manage company profits by using several choices of accounting methods to gain profits through

earnings management, which is usually to increase company profits. To minimize the occurrence of earnings management, conservatism is needed in financial reporting [28].

Under the principle of accounting conservatism, the company must immediately recognize the debt and losses that will occur but delay recognizing assets and profits. As a result, reported earnings would appear lower. It contrasts earnings management, which makes reported earnings appear higher. In addition, a high level of accounting conservatism will make managers less aggressive in recognizing earnings. A high level of prudence in recognizing earnings will also make reported earnings low.

Research [29] with a sample of manufacturing companies listed on the Indonesia Stock Exchange in 2001-2016 examined the effect of earnings management on accounting conservatism. In the study, accounting conservatism was measured using proxy net asset measures, namely using the ratio of the market value of equity to the book value of equity. Meanwhile, earnings management was calculated by discretionary accruals using the modified Jones model. The study results indicated that if managers carried out earnings management, they would avoid conservative accounting. Accounting conservatism would also limit the opportunistic behavior of managers.

Another study [11] investigated the effect of accounting conservatism on earnings management in manufacturing companies listed on the Indonesia Stock Exchange for 2011-2017. In the research, earnings management was gauged using discretionary accruals, while accounting conservatism was computed employing the developed C-Score measure [30]. The study results yielded that the application of accounting conservatism would suppress management behavior to benefit oneself so that earnings management practices can be reduced.

The research findings are the same as the other study results [7]. In the studies, both used a sample of manufacturing companies. The difference is that in this study, accounting conservatism was measured using non-operating accruals.

The application of conservative accounting will limit management's actions to benefit themselves by taking earnings management actions. The principle of accounting conservatism is to delay revenue recognition and accelerate expense recognition, making reported earnings low. It is inversely proportional to earnings management actions, which tend to increase profits. On the other hand, a manufacturing company is one of the companies with reasonably high capital intensity, meaning that most of the capital owned by the company is in the form of assets. According to a study [31], it was stated that in companies with high capital intensity, the accounting conservatism level is also high. Based on the explanation above and the previous study results, the hypothesis proposed in this study is:

H1: Accounting conservatism has a negative effect on earnings management.

2.6. *Accounting Conservatism, Earnings Management, and the Corporate Life Cycle*

Every company will go through a different life cycle, starting from being founded until the company is closed. The corporate life cycle is broadly divided into four phases: start-up, growth, mature, and decline.

In the growth phase, the company will experience an increase in sales compared to the start-up phase. Therefore, in this phase, the company will make a significant investment to expand its business further and gain a broad market share [32]. Companies need funds from investors and creditors to make significant investments because the need for funds will be enormous. Thus, companies tend to report high profits in attracting investors and creditors to invest and provide loans. Hence, at this stage, companies tend not to apply accounting conservatism.

A study [15] with a sample of companies listed on the Malaysian Stock Exchange for 1995-2010 used the C-Score to measure accounting conservatism, while the corporate life cycle was determined by 4 indicators, namely dividend payment, sales growth, capital expenditure value and companies' age. It was found that the company's growth phase tended to be less conservative. Companies in the growth phase also have high financing activity [33].

Furthermore, in the mature phase, the company experiences a high level of sales and more professional management so that the company's operational activities are more effective and efficient. In this phase, the company can carry out its financing, such as paying dividends to investors. To remain in the mature phase, companies tend to apply accounting conservatism. The application of accounting conservatism will make financial statements not overstated, where investors prefer such reports for litigation reasons [22].

At last, in the decline phase, the company will experience a decline in various ways due to the higher level of market competition. In order to avoid bankruptcy, the company will invest in new product lines. It will increase the need for funds from outside the company. Thus, at this stage, companies tend not to apply accounting conservatism. A study [15] asserted that the company's conservatism level is lower than the growth and decline phases in the mature phase.

The different levels of accounting conservatism in each phase of the corporate life cycle will make the conservatism's effect on earnings management also different. In addition, manufacturing companies have a diverse product portfolio so that the differences in the corporate life cycle are more visible [17]. Based on the explanation above, the hypothesis is put forward:

H2: The corporate life cycle moderates the relationship between accounting conservatism and earnings management.

3. RESEARCH METHODS

The data used in this study were data on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2019 period. The research data were taken employing the documentation method, namely the company's financial statements and a summary of the performance of the listed companies. All these documents were obtained from the IDX and IDNFinancials websites. The research samples were selected utilizing a purposive sampling technique, with the following criteria: manufacturing companies listed on the IDX and published financial reports for the years 2016-2019 ending on December 31, and the financial statements presented information related to research variables.

This study used five variables: earnings management as the dependent variable, accounting conservatism as the independent variable, the corporate life cycle as the moderating variable, and leverage and profitability as control variables.

Earnings management was calculated using discretionary accruals with a modified Jones approach [34].

$$DA_{it} = \frac{TAC_{it}}{A_{t-1}} - NDA_{it} \quad (1)$$

DA is a discretionary accrual; TAC is the company's total accruals; A is the company's total assets; NDA is non-discretionary accruals. The value of earnings management in this study was the absolute value of the discretionary accrual value. The point is without looking at the ways, and types of earnings management carried out by the company. The higher the absolute value of DA, the higher the earnings management carried out.

Accounting conservatism in this study was determined using the method of earning/accrual measures [21].

$$CONACC_{it} = \frac{(NI_{it}+DEP_{it})-CFO_{it}}{A_{it}} \times -1 \quad (2)$$

CONACC is accounting conservatism; NI is the company's net profit; DEP is depreciation expense; CFO is operating cash flow; A is total assets.

The corporate life cycle in this study was divided into three phases: growth, mature, and decline, grouped based on four indicators [14]:

- Dividend payment

$$DP_{it} = \frac{DPS_{it}}{EPS_{it}} \times 100 \quad (3)$$

- Sales growth

$$SG_{it} = \frac{SALES_{it}-SALES_{it-1}}{SALES_{it-1}} \times 100 \quad (4)$$

- Capital expenditure value

$$CEV_{it} = \frac{CE_{it}}{VALUE_{it}} \times 100 \quad (5)$$

- Company Age

$$AGE = Current\ year - Year\ formed \quad (6)$$

All data were divided into quintiles and scored based on the location of the quintiles [35]:

Table 1. Corporate Life Cycle Score

Quintiles	DP	SG	CE	AGE
80%-100%	3	5	5	1
60%-80%	3	4	4	2
40%-60%	3	3	3	3
20%-40%	4(2)*	2	2	4
0%-20%	5(1)*	1	1	5

*If the total SG, CE, and AGE scores in each sample are less than or equal to seven, the observation scores for DP are replaced by 2 and 1.

The four indicators of the corporate life cycle stage were calculated for each year in each sample. Companies with a total score of 16-20 were classified in the growth phase, companies with a total score of 9-15 were included in the mature phase, and companies with a total score of 5-8 were grouped in the decline phase.

Hypothesis testing in this study employed panel data regression test, as follows:

- To answer the first hypothesis (Equation I):

$$EM_{it} = \alpha - \beta_1 CONACC_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \varepsilon \quad (7)$$

- To answer the second hypothesis (Equation II):

$$EM_{it} = \alpha + \beta_1 CONACC_{it} + \beta_2 CLC_{it} + \beta_3 CONACC_{it} * CLC_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \varepsilon \quad (8)$$

4. RESULTS AND DISCUSSION

Of the total manufacturing companies listed on the Indonesia Stock Exchange, not all of them could be used as research samples because this study employed a purposive sampling technique, in which the samples were selected using specific criteria. In this study, the number of samples used was 524 samples. The following criteria were utilized in the sample selection:

Table 2. Sampling Process

Sampling Process	Total
Number of manufactures listed on the Indonesia Stock Exchange (IDX)	179
Newly listed manufacturing company on the Indonesia Stock Exchange in 2017	(11)
Newly listed manufacturing company on the Indonesia Stock Exchange in 2018	(10)
Newly listed manufacturing companies on the Indonesia Stock Exchange in 2019	(15)
Newly listed manufacturing companies on the IDX in 2020	(5)

Sampling Process	Total
Financial statements not ending on December 31	(2)
Manufacturing companies that do not issue financial statements for the 2016-2019 period	(4)
Does not provide information related to research variables	(1)
Number of companies that can be sampled	131
Number of observations in the 2016-2019 period	524

Descriptive statistical analysis was used to provide an overview or data state from the average, standard deviation, variance, maximum value, and minimum value. The data consisted of earnings management (EM), accounting conservatism (CONACC), corporate life cycle (CLC), leverage (LEV), and company profitability (ROA).

Table 3. Descriptive Statistics

Panel A

Variable	N	Minimum	Maximum	Mean	Std. Deviation
EM	524	4.48E-06	35.124	0.1764	1.6416
CONACC	524	-2.2423	0.7252	-0.0133	0.1327
LEV	524	0.0651	5.0733	0.5449	0.5415
ROA	524	-0.4014	2.2248	0.0459	0.1389

Panel B

Year	Corporate Life Cycle Phases			Total
	Growth	Mature	Decline	
2016	26	82	24	131
2017	24	83	25	131
2018	30	74	27	131
2019	24	85	22	131
Total	104	322	98	524

This study employed only two classical assumption tests: multicollinearity test and heteroscedasticity test. Multicollinearity test was used to detect correlation or relationship between independent variables in a regression equation. If the independent variables in a regression equation were not mutually correlated, the regression equation could be said to be good. The following are the multilinearity test results.

Table 4. Multicollinearity Test Results; Equation I

	CONACC	LEV	ROA
CONACC	1.000000	0.095163	-0.754166
LEV	0.095163	1.00000	-0.160070
ROA	-0.754166	-0.160070	1.00000

Based on the test results above, it can be seen that there was no single value between the correlations of each independent variable that exceeded 0.85. Therefore, it can be denoted that in the regression equation I, there was no problem or was free from multicollinearity.

Table 5. Multicollinearity Test Results; Equation II

	CONACC	CLC	CONACC* CLC	LEV	ROA
CONACC	1.000000	-0.147677	0.952644	0.095163	-0.754166
CLC	-0.147676	1.000000	-0.125148	-0.123446	0.047318
CONACC*CLC	0.952644	-0.125148	1.000000	0.054125	-0.742617
LEV	0.095163	-0.123446	0.054125	1.00000	-0.160070
ROA	-0.754166	0.047318	-0.742617	-0.160070	1.00000

Based on the test results above, it can be observed that only the correlation between CONACC*CLC and CONACC had a correlation value of 0.952644, where the value was more than 0.85. It signifies that in equation II, there was a multicollinearity problem.

Further, a heteroscedasticity test was carried out to test a regression equation whether there was a similarity of variance from the residuals in one observation to another. This study used the Glejser method for heteroscedasticity testing. The following are the heteroscedasticity test results.

Table 6. Heteroscedasticity Test Results

Variable	Prob.	
	I	II
C	0.2133	0.0347
CONACC	0.1370	0.3532
CLC		0.0004
CONACCXCLC		0.0780
LEV	0.0411	0.0057
ROA	0.0050	0.8854

Based on the table above, only the probability value of the accounting conservatism variable was more than 0.05. Meanwhile, the probability values of leverage and profitability variables were below 0.05. Thus, it can be signified that in the equation I, there was a heteroscedasticity problem.

Furthermore, only the probability values of accounting conservatism variables, the interaction of accounting conservatism and the corporate life cycle, and profitability were more than 0.05. Meanwhile, the probability values of the corporate life cycle and leverage variables were below 0.05, so it can be concluded that in equation II, there was a heteroscedasticity problem.

Then, hypothesis testing was performed to accept or reject the proposed hypotheses. Before testing the hypotheses, it began with the selection of panel data estimates.

Table 7. Chow Test Results

Cross-section Chi-Square			
Research Equations	Statistic	d.f	Prob.
Equation I	498.355039	130	0.0000
Equation II	458.715843	130	0.0000

Based on the Chow test results for equation I and equation II, it can be known that the probability values for both equations were 0.0000, less than 0.05. It means that the estimation model chosen was the Fixed Effect Model (FEM).

Table 8. Hausman Test Results

Cross-section random			
Research Equations	Chi-Sq.Statistic	Chi-Sq. d.f	Prob.
Equation I	42.645691	3	0.0000
Equation II	115.071753	5	0.0000

Based on the Hausman test results for equation I and equation II, it can be seen that the probability values for both equations were 0.0000, where the values were less than 0.05. It indicates that the estimation model selected was the Fixed Effect Model (FEM).

However, based on the classical assumption test in equations I and II, there was a heteroscedasticity problem. Therefore, the hypothesis testing in this study utilized the estimation of Random Effect Model (REM) or Generalized Least Squares (GLS). It is supported by Gujarati & Porter (2012), stating that if the N value (number of cross-section units) is large and T (number of time-series data) is small, and if the assumptions underlying REM are met, the REM estimator will be more robust than FEM. The following are the hypothesis testing results.

Table 9. Hypothesis Test Results; Equation I

Variable	Coefficient	Prob.
C	-0.216792	0.0346
CONACC	-4.060727	0.0000
LEV	0.195062	0.1163
ROA	5.071690	0.0000
Adjusted R-squared	0.587345	
F-statistic	249.1345	
Prob(F-statistic)	0.000000	

The table above presents the probability value of the accounting conservatism variable of 0.0000, less than 0.05, and the regression results showed a negative direction. These results indicate that hypothesis one was accepted. It means that accounting conservatism had a negative effect on earnings management, with a coefficient value of -4.060727. It also implies that every one-increase in accounting conservatism would decrease earnings management by 4.060727.

From the table above, it is also known that the Adjusted R-squared value was 0.587345. It denotes that the variables of accounting conservatism, leverage, and profitability could explain earnings management by 58.7345%, while other variables could explain the rest. In addition, the value of Prob (F-statistic) was 0.00000, more diminutive than 0.05, so it can be concluded that the variables of accounting conservatism, leverage, and profitability could jointly explain changes in earnings management.

Table 10. Hypothesis Test Results; Equation II

Variable	Coefficient	Prob.
C	-0.122973	0.4245
CONACC	9.580927	0.0000
CLC	0.006229	0.5588
CONACCXCLC	-1.104093	0.0000
LEV	-0.050282	0.5386
ROA	2.601349	0.0000
Adjusted R-squared	0.735799	
F-statistic	292.3113	
Prob(F-statistic)	0.000000	

The table above shows that the probability value of the interaction between accounting conservatism and the corporate life cycle variables was 0.0000, less than 0.05. These results signify that the second hypothesis was accepted so that the corporate life cycle could moderate the relationship between the influence of accounting conservatism on earnings management. Judging from the variable coefficient value of -1.104093, this means that the corporate life cycle could strengthen the negative influence of accounting conservatism on earnings management.

4.1. *Accounting Conservatism Has a Negative Effect on Earnings Management*

This study's results indicate that accounting conservatism as proxied by earnings/accrual measure [21] had a negative effect on earnings management. It means that the higher the level of accounting conservatism, the lower the earnings management action.

Accounting conservatism is a precautionary principle in financial reporting; namely, the company will delay recognizing assets and profits and immediately acknowledge debts and losses that may occur [5]. This accounting conservatism will make the profits displayed in the financial statements tend to be stable or not increase drastically. It contradicts earnings management, which tends to report higher visible earnings.

Viewed from the agency theory viewpoint, company managers have the opportunity to benefit themselves compared to shareholders [4]. In this case, the managers will report the profit according to their objectives because the profit is used to determine the bonus they will receive. In addition, the difference in the information held by managers and shareholders, or what is called information asymmetry, coupled with a lack of supervision from shareholders, makes managers able to cheat through earnings management. The existence of accounting conservatism will reduce the managers' desire and ability to manipulate financial statements and reduce information asymmetry between managers and shareholders [28].

This study's results align with previous studies [7] [11], in which these studies stated that accounting conservatism would reduce managers' actions to benefit themselves, and in terms of taking earnings management actions, managers cannot aggressively report a profit.

4.2. Corporate Life Cycle Moderates the Effect of Accounting Conservatism on Earnings Management

This study's results revealed that the corporate life cycle as measured using the model [35] developed could moderate the effect of accounting conservatism on earnings management. From the hypothesis testing results, it is known that the corporate life cycle could strengthen the negative influence of accounting conservatism on earnings management.

The corporate life cycle is the stage that the company goes through during the company's development. The stages start from the start-up, growth, mature, and decline phases, where at each life cycle phase, the company has different characteristics. This difference in characteristics makes the level of accounting conservatism in each phase also different.

In this study, the corporate life cycle could strengthen the effect of accounting conservatism on earnings management. It indicates that the higher the level of the corporate life cycle, the more significant the influence of accounting conservatism on earnings management. This study's findings are reinforced by research [15] which affirmed that in the growth phase, the level of accounting conservatism was lower than the mature phase, and in the decline phase, the level of accounting conservatism was higher than the mature phase. In the growth phase, companies need high enough funding to develop their companies [36]. It will require companies to be more aggressive in reporting earnings to attract investors and creditors, so they tend not to be conservative. Companies are more likely to carry out accounting conservatism in the mature phase with reasons to maintain their position, not to go into the decline phase.

From the explanation above, it can be grasped that the higher the level of the corporate life cycle, the higher the level of accounting conservatism applied by the company. It will make earnings management decline. To prove this, the researchers conducted additional tests to determine the level of accounting conservatism in each life cycle phase, with the following results:

Table 11. ANOVA Test Results on the Level of Accounting Conservatism

Variable	Coefficient	Prob.
C	-0.017132	0.0000
D_Growth	-0.004616	0.2445
D_Decline	0.025117	0.0000
Adjusted R-squared	0.041839	
F-statistic	12.41870	
Prob(F-statistic)	0.000005	

From the table above, the mature phase became the baseline. It can be seen that the growth phase did not have a significant relationship with accounting conservatism. Thus, it can be concluded that statistically, there was no difference in the level of accounting conservatism in the growth and mature phases. However, judging from the coefficient value, it can also be known that in the growth phase, the level of accounting conservatism was lower than the mature phase, and in the decline phase, the level of accounting conservatism was higher than the mature phase. It corroborates with the research [15].

5. CLOSING

The data analysis technique in this study used the Generalized Least Squares (GLS) method. Based on the data analysis results, it can be concluded that accounting conservatism had a significant effect, with a negative direction on earnings management. With accounting conservatism, managers did not aggressively report earnings. In addition, the corporate life cycle could moderate the effect of accounting conservatism on earnings management. Characteristic differences in each phase of the corporate life cycle would affect the accounting conservatism level in a company. These differences would affect accounting conservatism on earnings management would also be different in each phase.

However, this study did not divide accounting conservatism into two conditional conservatism and unconditional conservatism. Thus, some companies might prefer to use conditional accounting conservatism or vice versa. In addition, the observation period in this study was only from 2016-2019, whereas to see the consistency of the corporate life cycle, a more extended observation period is needed. This study also did not perform additional testing to perform regression for each corporate life cycle.

Suggestions that can be given from this research to be taken into consideration are as follows:

1. In addition to looking at the financial ratios owned by the company, investors should also look at the level of accounting conservatism owned by the company before investing.
2. The subsequent research is expected to add or use the research object of other companies, such as companies engaged in technology.
3. Future research is expected to divide accounting conservatism into two conservatism types and compare which one is more influential on earnings management.
4. Future research is expected to use other proxies in classifying the corporate life cycle, such as using the cash flow method and increasing the observation period.
5. Future research is expected to perform regression testing on each corporate life cycle.

REFERENCES

[1] K. R. Subramanyam, *Analisis Laporan Keuangan*, 11th ed. Jakarta: Salemba Empat, 2017.

[2] L. Setiawati and A. Na'im, "Manjemen Laba," *J. Ekon. dan Bisnis Indones.*, vol. 15, no. 4, pp. 424–441, 2000.

[3] CNN Indonesia, "Membedah Keanehan Laporan Keuangan Garuda Indonesia 2018," 2019. https://www.cnnindonesia.com/ekonomi/20190424204726-92-389396/membedah-keanehan-laporan-keuangan-garuda-indonesia-2018.

[4] M. C. Jensen and W. H. Meckling, "Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure," *J. Financ. Econ. 3*, vol. 3, no. 4, pp. 305–360, 1976, doi: 10.1177/0018726718812602.

[5] R. L. Watts, "Conservatism in accounting part I: Explanations and Implications," *Account. Horizons*, vol. 17, no. 4, pp. 287–301, 2003, doi: 10.2308/acch.2003.17.4.287.

[6] Krismiaji and R. P. Astuti, "Accounting Conservatism and Earnings Management-Indonesia Evidence," *J. Bisnis dan Akunt.*, vol. 22, no. 1, pp. 113–120, 2020.

[7] F. Arifiyati and M. Zaky, "Pengaruh Moderasi dari Good Corporate Governance pada Hubungan Antara Konservatisme Akuntansi dan Manajamen Laba," *J. Ris. Akunt.*, vol. 9, no. 1, pp. 9–18, 2019.

[8] H. Li, "Unconditional Accounting Conservatism and Real Earning Management," *Int. J. Financ. Res.*, vol. 9, no. 2, pp. 203–215, 2018, doi: 10.5430/ijfr.v9n2p203.

[9] I. G. A. A. Prabaningrat and W. A. A. GP., "Pengaruh Good Corporate Governance dan Konservatiseme Akuntansi pada Manajemen Laba," *E-Jurnal Akunt. Univ. Udayanna*, vol. 3, no. 10, pp. 663–676, 2015.

[10] I. Soraya and P. Harto, "Pengaruh Konservatisma Akuntansi Terhadap Manajemen Laba Dengan Kepemilikan Manajerial Sebagai Variabel Pemoderasi," *Diponegoro J. Account.*, vol. 3, no. 3, pp. 1–11, 2014.

[11] B. Wibisono, "Pengaruh Konservatisme Akuntansi Terhadap Manajemen Laba Pada Perusahaan Manufaktur Di Indonesia," *Diponegoro J. Account.*, vol. 8, no. 4, pp. 1–13, 2019.

[12] E. D. Saputri and H. Mulyati, "Pengaruh Konservatisme Akuntansi , Kepemilikan Manajerial dan Leverage Terhadap Manajemen Laba Profit Manajement," *J. Akunt. dan Keuang.*, vol. 17, no. 1, pp. 109–114, 2020.

[13] M. L. Sari, "Pengaruh Konservatisme Akuntansi Dan Good Corporate Governance Terhadap Earnings Management," *J. Akunt. AKUNESA*, vol. 7, no. 1, pp. 1–25, 2019.

[14] J. H. Anthony and K. Ramesh, "Association between accounting performance measures and stock prices. A test of the life cycle hypothesis," *J. Account. Econ.*, vol. 15, no. 2–3, pp. 203–227, 1992, doi: 10.1016/0165-4101(92)90018-W.

[15] A. A. Abdullah and N. Mohd-Saleh, "Impact of Firms' Life-cycle on Conservatism: The Malaysian Evidence," *Procedia - Soc. Behav. Sci.*, vol. 145, pp. 18–28, 2014, doi: 10.1016/j.sbspro.2014.06.007.

[16] S. Hastuti, "Titik Kritis Manajemen Laba Pada Perubahan Tahap Life Cycle Perusahaan: Analisis Manajemen Laba Riil Dan Manajemen Laba Akrual," *J. Akunt. dan Keuang. Indones.*, vol. 8, no. 2, pp. 107–122, 2011, doi: 10.21002/jaki.2011.07.

[17] Black, "Life-Cycle Impacts on the Incremental Value-Relevance of Earnings and Cash Flow Measures," *J. Financ. Statement Anal.*, pp. 40–45, 1998.

[18] K. M. Eisenhardt, "Agency Theory: An Assessment and Review," *Acad. Manag. Rev.*, vol. 14, no. 1, pp. 57–74, 1989.

[19] W. R. Scott, *Financial Accounting Theory*, 3rd ed. Toronto: Ont: Pearson Prentice Hall, 2003.

[20] P. M. Healy, "A Review of The Earnings Management Literature and Its Implications for Standard Setting," no. November, 1998.

[21] D. Givoly and C. Hayn, "The Changing Time-Series Properties of Earnings, Cash Flows, and Accruals: Has Financial Reporting Become More Conservative?," *J. Account. Econ.*, vol. 29, pp. 287–320, 2000.

[22] E. Savitri, *Konservatisme Akuntansi Cara Pengukuran, Tinjauan Empris dan Faktor-Faktor yang Mempengaruhinya*. Yogyakarta: Pustaka Sahila Yogyakarta, 2016.

[23] Suwardjono, *Teori Akuntansi Perekayasaan Pelaporan Keuangan*, Ketiga. Yogyakarta: BPFE-Yogyakarta, 2014.

[24] J. C. Hansen, K. P. Hong, and S. H. Park, "Accounting conservatism: A life cycle perspective," *Adv. Account.*, vol. 40, no. October, pp. 76–88, 2018, doi: 10.1016/j.adiac.2017.10.001.

[25] S. Karacaer and O. F. Gulec, "Corporate life cycle methods in emerging markets: evidence from Turkey," *Pressacademia*, vol. 4, no. 3, pp. 224–236, 2017, doi: 10.17261/pressacademia.2017.690.

[26] M. M. Hanafi and A. Halim, *Analisis Laporan Keuangan*, Edisi 4. Yogyakarta: UPP STIM YKPN, 2009.

[27] J. Aharony, H. Falk, and N. Yehuda, "Corporate Life Cycle and the Value Relevance of Cash Flow versus Accrual Corporate Life Cycle and the Relative Value - Relevance of Cash Flow versus Accrual Financial Information," 2006.

[28] R. Lafond and R. L. Watts, "The Information Rore of Conservatism," *SSRN Electron. J.*, 2007.

[29] F. Anggraini and I. Trisnawati, "Pengaruh Earnings Management terhadap Konservatisme Akuntansi," *J. Bisnis dan Akunt.*, vol. 10, no. 1, pp. 23–36, 2008.

[30] S. Basu, "The Conservatism Principle and The Asymmetric Timeliness of Earnings," *J. Account. Econ.*, no. 1, pp. 3–37, 1997, doi: 10.1111/j.1911-3846.2011.01151.x.

[31] B. Susanto and T. Ramadhani, "Faktor-faktor yang Mempengaruh Konservatisme (Studi pada Perusahaan Manufaktur yang Terdaftar di BEI 2010-2014)," *J. Bisnis dan Ekon.*, vol. 23, no. 2, pp. 142–151, 2016.

[32] Juniarti and R. Limanjaya, "Mana yang Lebih Memiliki Value-Relevant: Net Income atau Cash Flows (Studi Terhadap Siklus Hidup Organisasi)," *J. Akunt. dan Keuang.*, vol. 7, no. 1, pp. 22–42, 2005, doi: 10.9744/jak.7.1.pp.22-42.

[33] N. W. Yulianti, "Siklus Hidup Perusahaan Dan Konservatisme Akuntansi," *Esensi*, vol. 4, no. 2, pp. 224–230, 2015, doi: 10.15408/ess.v4i2.1967.

[34] P. M. Dechow, R. G. Sloan, A. P. Sweeney, R. G. Sloan, and A. P. Sweeney, "Detecting Earnings Management," *Account. Rev.*, vol. 70, no. 2, pp. 193–225, 1995, doi: 10.1002/9781119204763.ch4.

[35] Y. Park and K. H. Chen, "The effect of accounting conservatism and life-cycle stages on firm valuation," *J. Appl. Bus. Res.*, vol. 22, no. 3, pp. 75–92, 2006, doi: 10.19030/jabr.v22i3.1428.

[36] Y. Efrilita and S. Taqwa, "Pengaruh siklus hidup perusahaan terhadap konservatisme akuntansi," *J. Eksplor. Akunt.*, vol. 1, no. 4, pp. 1794–1809, 2019, [Online]. Available: http://jea.ppj.unp.ac.id/index.php/jea/issue/view/15.