

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The main vision of every company when they start their businesses is to continuously growth over the year. It shows company's hope to maintain it's life sustainability (*going concern*). *Going concern* is a theorem that assumes that an entity is not expected to be liquidated in the future or that entity will always continue it's operation until indefinite period (Belkaoui, 2006).

The definition of *going concern* is also define by Ikatan Akuntan Indonesia (2007) that *going concern* is the life sustainability of business entity and an assumption in company's financial reporting. This assumption requires the company to have the ability to maintain it's life sustainability and to continue it's operation in the future.

The fluctuation of economic condition gives many impact on company or business entity (Rahman and Siregar, 2011). This kind of condition has affected social and political situation which causes the difficulty for company to do it's business activity so that the cost of production increase and the sales decrease continously. In the long run, the company will experience a lack of funds to continue it's operation. In order to survive and continue it's operation, the company needs the additional funds that can be fullfilled by third parties.

One of the external party that can help company in funding activity is investors. Investors are either individual parties or institutions that come from within or outside the country who engage in long-term or short-term investment

activities (Nasarudin and Surya, 2004). Investor invest in a company in hope of getting a profit in the future. So, in doing investment activity, investor need to be sure that their money can be a positive investment . In this matter, investors will consider many things before making their investment decision. One of the most important things is about company's ability to maintain it's life sustainability (*going concern*). The need to know about company's financial condition is become basic assumptions for investors in determining their investment, especially regarding the ability of company to maintain it's life sustainability (*going concern*) (Rahman and Siregar, 2011).

The information regarding company's ability to maintain it's life sustainability (*going concern*) can be obtained by investors from auditor's opinion on company's financial statement. When the economic condition is become uncertain, investors expects the auditor to give them an early warning regarding company's ability to going concern. It is because the assessment of company's success degree in maintaining it's life sustainability (*going concern*) is the task of public auditor. Nowadays, auditor responsibility is not only focus on the assessment to the fairness of financial statement and detecting fraud, but also assess company's ability in maintaining continuity of it's business (Praptitorini and Januarti, 2011).

When the auditor has hesitation on company's ability to maintain it's life sustainability (*going concern*), it will affect auditor's decision whether to issue *going concern* audit opinion. *Going concern* audit opinion is an opinion issue by external auditor to evaluate whether there is any hesitation regarding company's ability to maintain it's life sustainability (Ikatan Akuntan Indonesia, 2007). *Going concern* audit opinion accepted by the company influenced to reducing of share

value, difficulty on increasing capital charges, investor's untrusthty, creditor, customer, and empolyee to company management (Puspitasari and Cahyono, 2010). Auditor should consider if there is any event or condition indicated that may cause a significant hesitation on the ability of company to maintain it's life sustainability (*going concern*).

To assess whether the company will accept *going concern* audit opinion, there are several factors that must be considered by auditors. Those factors are liquidity, profitability, solvency, prior year audit opinion, and company's growth.

The first factor is liquidity. Liquidity measures the ability of an entity to pay it's liabilities in a timely manner, as they come due for payment under their original payment terms (Kasmir, 2008). The lower liquidity value means that company is less liquid so it can be assume that the company will have difficulties in fulfilling it's obligations to creditors in short-time period (Setyawan and Suryono, 2015). This kind of condition will cause the company to have a higher chance to accept *going concern* audit opinion. Otherwise, the higher company's liquidity will make the company more able to pay its short-term obligation in a timely manner and have lower chance to accept *going concern* audit opinion (Januarti, 2009).

Profitability become the next consideration factor by auditor in issuing *going concern* audit opinion. Profitability is the ability of company to obtain profit related to sales, total assets, and owner's equity (Sartono, 2009). The higher profitability shows the more effective of company in managing their assets to obtain profit. Company with high value of profitability indicates that the company is able to run the business well enough so that the company can maintain it's life sustainability. In other words, it can be stated that the higher profitability will cause

the lower probability of company to accept *going concern* audit opinion (Kristina, 2012).

The next factor to be considered is solvency. Solvency ratio measures the ability of a company to pay its long-term debt and the interest on that debt. Solvency ratio help the auditor determine the chances of a company's long-term survival (Kasmir, 2008). It is because solvency ratio refers to the amount of funding derived from the company's debt to creditors. The higher solvency ratio will cause auditor's hesitation on company's ability to maintain it's life sustainability because most of the funds earned by company will be used to finance the debt (Setiawan and Suryono, 2015).

Another factor regarding the acceptance of *going concern* audit opinion is company's prior year audit opinion. *Going concern* opinion accepted by company in previous year will become an important consideration factor for auditor to issue a *going concern* audit opinion in the current year. Auditee that accepted *going concern* audit opinion in prior year will assumed to have a problem in maintaining it's life sustainability, it will cause the higher probability for auditor to issued the same opinion in current year. Muchler (1984), did an interview with auditor practician who stated the company which get audit opinion going concern at the previous year is more inclinable to get the same opinion at the year of work. The company should be able to increase their financial performance significantly in order to prevent auditor to issue *going concern* audit opinion in the current year.

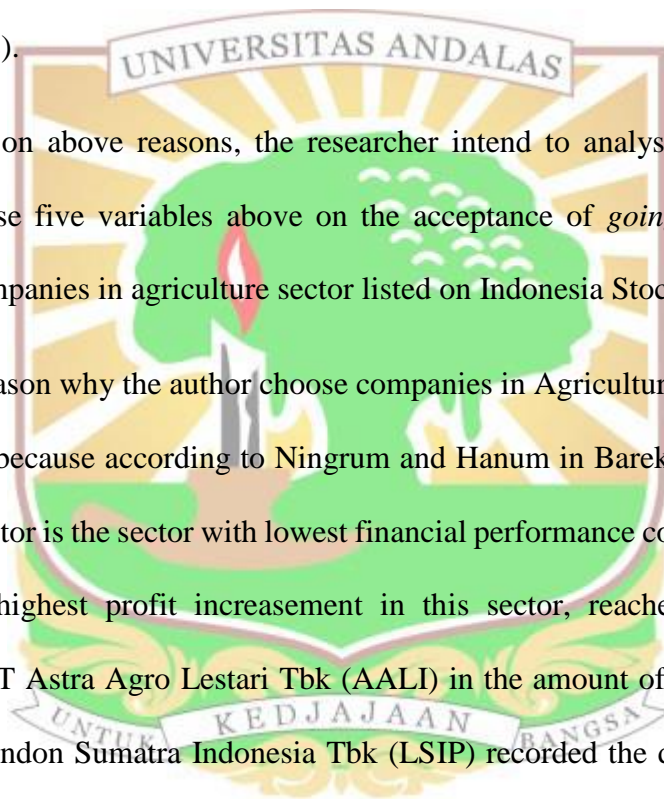
Company's growth is also become one of the factors that determine the acceptance of *going concern* audit opinion. This is because company's growth



indicates the ability of company in maintaining it's life sustainability. Company's growth is used to measure the degree of company's effectiveness in maintain it's economic position, both in industry and overall economic activity (Weston dan Copeland, 1992 in Setyarno et al., 2006). Company's that continuously grow over time show that the company's operational activities run properly so that the company is able to maintain it's economic position and life sustainability, while the company with negative growth indicates the higher tendency to bankruptcy (Altman, 1968).

Based on above reasons, the researcher intend to analyse and attest the impact of those five variables above on the acceptance of *going concern* audit opinion in companies in agriculture sector listed on Indonesia Stock Exchange.

The reason why the author choose companies in Agriculture sector become the sample is because according to Ningrum and Hanum in Bareksa.com (2016) , agriculture sector is the sector with lowest financial performance compared to other sectors. The highest profit increasement in this sector, reached 167 percent, recorded by PT Astra Agro Lestari Tbk (AALI) in the amount of Rp 427 billion. But PT PP London Sumatra Indonesia Tbk (LSIP) recorded the deepest earnings slumps, reached minus 67 percent, from Rp 153 billion in 1<sup>th</sup> quarter of 2015 become Rp 50.4 billion in 1<sup>th</sup> quarter of 2016. This kind of condition makes the companies in agriculture sector have higher tendency to accept going concern audit opinion compared to the other sectors.



## 1.2 Problem Definitions

Based on the background of the problems that the author has been described earlier, this research will formulate the problems to be solved, those are:

- a. Does liquidity have a significant effect on the acceptance of going concern audit opinion on companies in agriculture sector listed on the Indonesia Stock Exchange?
- b. Does profitability have a significant effect on the acceptance of going concern audit opinion on companies in agriculture sector listed on the Indonesia Stock Exchange?
- c. Does solvency have a significant effect on the acceptance of going concern audit opinion on companies in agriculture sector listed on the Indonesia Stock Exchange?
- d. Does prior year audit opinion have a significant effect on the acceptance of going concern audit opinion on companies in agriculture sector listed on the Indonesia Stock Exchange?
- e. Does company's growth have a significant effect on the acceptance of going concern audit opinion on companies in agriculture sector listed on the Indonesia Stock Exchange?

## 1.3 Scope of Problems

So that the problem in this research has a clear scope and direction, the author provide the following problem limits:

- a. The author use 5 independent variables in this research such as: liquidity, profitability, solvency, prior year audit opinion and company's growth.

- b. Companies that choosed as sample are companies in agriculture sector that published an audited financial statement during research period, which is 2013 until 2016.

#### 1.4 Research Objectives

According to problem definitions that mentioned earlier, in this research there are several things that the author would like to achieve such as:

- a. To find out and analyze the impact of liquidity to the acceptance of *going concern* audit opinion on companies in agriculture sector listed on indonesia stock exchange.
- b. To find out and analyze the impact of profitability to the acceptance of *going concern* audit opinion on companies in agriculture sector listed on indonesia stock exchange.
- c. To find out and analyze the impact of solvency to the acceptance of *going concern* audit opinion on companies in agriculture sector listed on indonesia stock exchange.
- d. To find out and analyze the impact of prior year audit opinion to the acceptance of *going concern* audit opinion on companies in agriculture sector listed on indonesia stock exchange.
- e. To find out and analyze the impact of company's growth to the acceptance of *going concern* audit opinion on companies in agriculture sector listed on indonesia stock exchange.

## 1.5 Research Benefits

The results of this research will provide some of the following benefits:

1. Academic benefits, in term of academic results this study are expected to contribute to the development of theory in Indonesia, particularly in the issue of *going concern* audit opinion. This research is also expected to serve as a guidance for researchers in the future.
2. For the company especially for manager , this research is expected to help management in making decicion that related with economic benefits of the company in the future.
3. For the author, this study is one of the requirements to obtain a degree at the Accounting Department of Economic Faculty , Andalas University. It will also use to broaden the knowledge and understanding about the effect of liquidity, profitability, solvency, prior year audit opinion and company's growth to the acceptance of *going concern* audit opinion.

## 1.6 Writing Systematic

### 1. INTRODUCTION

This chapter outlines the background of the problem, problem definitions, scope of problems, research objectives, research benefits and writing systematic.

### 2. LITERATURE REVIEW

This chapter provides theoretical basis on topic, previous research, conceptual framework and hypothesis development.



### 3. METHODOLOGY

This chapter contains research design, population, sample and acquiring sample technique, data type and data collection method, operational definitions and variables measurement, and data analysis method.

### 4. RESULT AND DISCUSSION

This chapter contains overview of research object, overview of research variables, and analysis of research results

### 5. CONCLUSION

This chapter contains conclusions, research limitations, and suggestions.

