International Journal of Social Science, Educational, Economics, Agriculture Research and Technology (IJSET) | ISSN (e) : 2827-766X
Volumes 4 No. 8 (2025)

ANALYSIS OF PROFITABILITY, SOLVABILITY, TOTAL ASSET TURNOVER AND COMPANY SIZE ON GOING CONCERN AUDIT OPINION

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Received	: 29 May 2025	Published	: 30 July 2025
Revised	: 10 June 2025	DOI	: https://doi.org/10.54443/ijset.v4i8.1013
Accepted	: 27 June 2025	Publish Link	: https://www.ijset.org/index.php/ijset/index

Abstract

This study aims to determine the effect of profitability, solvency, total assets turnover and company size on going concern audit opinion in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. This study uses a purposive random sampling method which will be used to determine the number of samples, the sample in this study is 100 companies, this company data is secondary data obtained from the company's annual financial reports for the 2017-2021 period with a total sample of 500 company financial reports. The data analysis technique used in this study uses logistic regression analysis. The results of this study indicate that (1) ROA has a significant negative effect on going concern audit opinion, (2) DAR has a significant positive effect on going concern audit opinion, (3) TATO has a significant negative effect on going concern audit opinion, (4) SIZE has a significant negative effect on going concern audit opinion.

Keywords: ***Profitability (ROA), Solvency (DAR), Total Assets Turnover, Company Size***

INTRODUCTION

Maintaining its going concern status is a company's goal. A good company must have competent management to effectively manage its operations, encouraging investors to invest their funds. Every investor has a basis for making decisions based on the company's financial statements. Good financial statements will attract investors to invest in the company. Good financial statements require a company opinion report issued by an auditor. The auditor's role significantly impacts the company's actual condition. Profitability is one way to determine whether a company can optimize its viability. Profitability reflects a company's ability to generate profits. The level of profitability a company generates can influence the acceptance of a going concern audit opinion. By examining a company's profits, it can be seen that the company is able to generate increasing profits, thus enabling the company to perform well, preventing an auditor from issuing a going concern audit opinion. In addition to considering profitability, companies must also consider their liabilities, such as solvency. Solvency refers to a company's financing through debt. Companies with high debt are more likely to be unable to maintain their viability. A high solvency ratio can negatively impact a company's financial condition.

The higher the solvency ratio, the more it indicates the company's poor financial performance and can create uncertainty regarding the company's survival, this causes the company to be more likely to get a going concern audit opinion (Andreas Vernando and Arif Sapta, (2021). In addition to paying attention to solvency, companies must also pay attention to the company's net sales level with a proxy for Total Assets Turnover. The activity ratio proxied by Total Assets Turnover (TATO) shows the company's condition in asset management activities. Management performance can be measured from the company's efficiency and effectiveness in using company assets and achieving company goals optimally. The higher the total assets turnover, the lower the acceptance of going concern audit opinions (Andreas Vernando and Arif Sapta, (2021). In addition to sales, companies can optimize the company's financial condition through total assets by using company size. Company size is a financial condition that can be seen from the size of a company. The financial condition of a large company will be more likely to be able to manage its total assets well, in addition, management in large companies will pay more attention to the level of financial condition more carefully, therefore an auditor will believe that large companies can resolve financial difficulties faced than smaller companies. This is because the larger the company size, the lower the likelihood of receiving a going-concern audit opinion issued by the auditor (Erlin Dwi and Windratno, 2020).

LITERATURE REVIEW

Agency Theory

According to Jensen and Meckling (1976), agency theory is a relationship between the owner (principal) and management, where the agent is given greater authority to run the company's operations and is accountable for the resources entrusted to management. An independent third party is needed as a mediator in the relationship between the principal and agent. This third party functions to monitor the behavior of the manager (agent) to ensure that it aligns with the principal's wishes. Auditors are considered capable of bridging the interests of the principal (shareholder) and the manager (principal) in managing the company's finances. Auditors are tasked with providing an opinion on the fairness of financial statements.

Audit Opinion

An audit opinion is an auditor's statement regarding the fairness of the financial statements of an audited entity. This fairness concerns materiality, financial position, and cash flow. The audit opinion serves as an interpreter of the financial statements, used by users of the financial statements in making decisions about the company's survival. The audit opinion is also beneficial for the company's sustainability because it represents a professional statement reflecting the auditor's conclusion regarding the level of fairness of the information presented in the financial statements.

Going Concern

Going concern refers to the continuity of an entity's operations. A going concern ensures that an entity will be able to maintain its business operations in the long term and will not be liquidated in the short term. A going concern audit opinion is issued by an auditor to determine whether a company is capable of continuing its operations. In this case, an auditor can evaluate whether there is any doubt about the company's ability to continue as a going concern.

The Influence of Profitability on Going Concern Audit Opinion

The profitability ratio is used to measure a company's ability to generate profits and measure the level of business efficiency. Companies experiencing low profits will experience financial difficulties, thus increasing the acceptance of going-concern audit opinions. Financial statements reflect management performance. Management will strive to disclose profits in the company's financial statements. Auditors, as independent parties, will strive to examine management performance. The lower management's profitability, the higher the going-concern acceptance. Companies are required to generate profits to maintain their survival. The higher the profitability value, the lower the acceptance of going-concern audit opinions.
H1: Profitability has a significant negative effect on Going Concern Audit Opinion

The Influence of Solvency on Going Concern Audit Opinion

The solvency ratio is a measure of a company's total assets financed by creditors. The higher a company's solvency, the higher the likelihood of receiving a going-concern audit opinion. The relationship between solvency and the going-concern audit opinion is that the higher the solvency ratio, the more the company is financed by debt from creditors. Companies with high debt are more likely to experience financial difficulties. This indirectly raises doubts among auditors about the company's ability to continue as a going concern.
H2: Solvency has a significant positive effect on Going Concern Audit Opinion

The Effect of Total Asset Turnover on Going Concern Audit Opinion

Total asset turnover is part of the activity ratio that measures an organization's effectiveness and efficiency in utilizing its assets to generate sales and various other assets. A high total asset turnover indicates that the company is serious about conducting sales or its core activities effectively, or that the company has the ability to sell all its assets. A high asset turnover indicates that the company is in good condition to maintain its sustainability, thus reducing the chance of obtaining a going-concern audit opinion.
H3: Total Assets Turnover has a significant negative effect on Going Concern Audit Opinion

The Influence of Company Size on Going Concern Audit Opinion

Company size is the size of a company as measured by its total assets. A company is considered large if it has a large total assets, as this indicates positive cash flow and good long-term prospects. A large company has good management, allowing an auditor to be confident that the company is capable of overcoming financial difficulties, thus avoiding a going-concern audit opinion.

H4: Company size has a significant negative effect on Going Concern Audit Opinion

RESEARCH METHODOLOGY

This study aims to examine the effect of profitability, solvency, total asset turnover, and company size on the Going Concern Audit Opinion, as measured by Price to Book Value, in manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021. This study uses an associative/relationship research method. Associative research aims to determine the relationship between two or more variables. This research will enable the development of a theory that can function to explain, enliven, and control a phenomenon. (Syofian, p. 7)

Research Population and Sample

The population of this study was companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period. The sample used was companies engaged in the manufacturing sector. The sample selection method used in this study was purposive sampling to obtain a representative sample based on certain criteria. The company criteria in this study were:

1. Manufacturing sector companies listed on the Indonesia Stock Exchange in 2017-2021.
2. Companies that publish audited financial reports as of December 31 and have complete financial data.
3. Companies whose financial reports use the rupiah currency

Types, Sources and Collection of Data

The type of data used for this study is secondary data. Secondary data is data published or used by organizations other than those processing it. (Syofian, p. 16) The types of data used by the author are relevant to this study, for example annual reports, financial statements, and others. The data source used in this study is historical data in the form of annual financial reports of companies engaged in the manufacturing sector listed on the Indonesia Stock Exchange for the period 2017-2021. The data was obtained from the official IDX website (www.idx.com), IDN Financial (www.idnfinancials.com), and related literature sources were obtained from journals and books. The data collection method in this study was a library research method. This was done by reading and studying literature related to the research, such as books and scientific journals. In addition, data collection in this study was obtained from audited financial reports from the annual financial reports of banks listed on the Indonesia Stock Exchange through the official website of the Indonesia Stock Exchange (www.idx.co.id) in 2017-2021.

Dependent Variable

Going Concern Audit Opinion

A going-concern audit opinion is an audit opinion that, in the auditor's opinion, there is a significant inability or uncertainty regarding the company's continued existence. The variable used is a dummy variable, meaning that manufacturing companies that receive a going-concern audit opinion are coded 1, while manufacturing companies that do not receive a going-concern audit opinion are coded 0.

Independent Variables

Profitability

Profitability is a measure of a company's ability to generate profits in relation to sales, assets, and equity. In this study, profitability is measured using Return on Assets (ROA), which is formulated as follows:

$$\mathbf{ROA} = \frac{\textbf{Net Profit After Tax}}{\textbf{Total Asset}}$$

Solvency

Solvency reflects a company's ability to meet its long-term liabilities or the liabilities of a company in liquidation. In this study, solvency is measured using the Debt-to-Asset Ratio (DAR), which is formulated as follows:

$$\mathbf{DAR} = \frac{\textbf{Total Debt}}{\textbf{Total Asset}}$$

Total Asset Turnover

Total asset turnover is part of the activity ratio. The activity ratio itself measures the effectiveness and efficiency of asset management. Total asset turnover is a calculation based on a company's sales divided by its total assets. The formula for total asset turnover is as follows:

$$\mathbf{TATTOO} = \frac{\textbf{Sale}}{\textbf{Total Asset}}$$

Company Size

Company size is a measure of a company's size, used to categorize it as large or small, as determined by its total assets and net sales. In this study, company size is measured using the natural logarithm of total assets, which is formulated as follows:

$$\mathbf{SIZE} = \textbf{(Ln) Total Asset}$$

Descriptive Statistics

Table 1
Descriptive Statistics

	GC	ROA	DAR	TATTOO	SIZE
Mean	0.130000	0.032346	0.500124	0.855892	28.43412
Median	0.000000	0.030665	0.468308	0.829812	28.14735
Maximum	1,000,000	0.607168	1.988846	1.997561	33.53723
Minimum	0.000000	-0.796499	0.063029	0.000000	24.68989
Std. Dev.	0.336640	0.117511	0.299065	0.424704	1.611160
Skewness	2.200394	-0.495496	1.723564	0.212944	0.713733
Kurtosis	5.841733	13.53338	7.904488	2.657528	3.309676
Jarque-Bera	571.7162	2331.961	748.6813	6.222228	44.44907
Probability	0.000000	0.000000	0.000000	0.044551	0.000000
Sum	65,00000	16.17312	250.0621	427.9462	14217.06
Sum Sq. Dev.	56.55000	6.890642	44.63065	90.00655	1295,323
Observations	500	500	500	500	500

Wald Test Results (t-Test)

Tabel 2
Hasil Regresi Model
Analisis Profitabilitas, Solvabilitas, Total Assets Turnover, dan Ukuran Perusahaan Terhadap Opini Audit Going Concern

Going Concern = a + β1 ROA + β2 DAR + β3 TATO + β4 Ln + e

Variabel	Prediksi	Variabel Dependen = (Going Concern)	
		Coefficient	*Significant*
Konstanta		7.331876	0.0259
ROA	-	-4.611831	0.0022***
DAR	+	3.711782	0.0000***
TATO	-	-2.363381	0.0000***
SIZE	-	-0.348370	0.0080***
McFadden R-squared		0.407820	
LR Statistik		157.5760	
Prob (LR-Statistik)		0.000000	

***sig pada a=1%, **sig pada a=5%, *sig pada a=10%

Deskripsi Variabel

Opini Audit Going Concern adalah opini audit terhadap suatu entitas yang menyatakan bahwa entitas dapat melanjutkan dan bertahan dalam usahanya dalam jangka waktu tertentu, **ROA** adalah rasio keuangan yang diukur dengan membandingkan laba bersih setelah pajak dengan total aset, **DAR** adalah rasio yang digunakan untuk mengukur seberapa besar perusahaan dalam mengandalkan hutang untuk membiayai asetnya, **TATO** adalah rasio yang digunakan untuk mengukur seberapa besar penjualan perusahaan yang dihasilkan dari total aset perusahaan, **SIZE** adalah ukuran perusahaan yang diukur dengan menggunakan Logaritma total aset.

Discussion

1. The Influence of Profitability on Going Concern Audit Opinion

The regression results table from the previous model shows that the coefficient value of the profitability variable is -4.611831, with a significance level of 0.0022. These results indicate that profitability has a significant negative effect on going-concern audit opinions. This means that the higher the profitability value of a company, the lower the likelihood of receiving a going-concern audit opinion. Companies with high profitability reflect a company's health and are considered capable of maintaining their going concern status. Furthermore, companies with high profitability have a lower risk of receiving a going-concern audit opinion. These results align with research conducted by Ni Luh Putu Widhiastuti and Putu Diah Kumalasari (2022), Erlin Dwi Ratnasari and Windratno (2020), which states that profitability has a negative effect on going-concern audit opinions. The higher the profitability, the less likely a company is to receive a going-concern audit opinion.

2. The Influence of Solvency on Going Concern Audit Opinion

The previous regression table shows the coefficient value of Solvency at 3.711782, with a significance level of 0.0000. This means that the positive direction indicates that solvency has a positive effect on the going-concern audit opinion. A high solvency value indicates that the company relies too much on debt and interest payments. Companies with high debt are more likely to experience financial difficulties. A company's operational activities depend not only on its assets but also on its debt. Companies that continuously engage in activities financed by debt will fail to pay off their long-term obligations, indicating that the company is experiencing business difficulties. This will raise questions about the company's viability. The results of previous studies are consistent with those of Felix and Hendang (2020) and Christian Lie et al. (2016), who found that the solvency ratio has a significant positive effect on the going-concern audit opinion.

3. **The Effect of Total Asset Turnover on Going Concern Audit Opinion**
   In the previous regression results table, the coefficient value for total asset turnover is -2.363381 with a significance level of 0.0000. This means that the negative direction indicates that the total asset turnover value has a significant negative effect on the going-concern audit opinion. The higher the TATO value, the lower the acceptance of the going-concern audit opinion, because the company is able to carry out sales activities as its main activity well. The company's high sales financial condition indicates that the company is able to increase sales from its assets. The results of this study are in line with the research of Damanhuri and Putra (2020), Cornelia Tria et al. (2020) which stated that total asset turnover has a significant negative relationship with the going-concern audit opinion.

4. **The Influence of Company Size on Going Concern Audit Opinion**
   In the previous regression results table, the coefficient value for Company Size is -0.348370 with a significance level of 0.0080. This means that the negative direction indicates that the value of company size has a significant negative effect on the going concern audit opinion, because the higher the value of company size, the lower the acceptance of the going concern audit opinion. A high value of company size indicates that the company is a large company that can manage its management better than small companies. Large companies have larger assets so that when experiencing financial problems, the company can overcome these problems more easily than companies that are classified as small. The results of this study are in line with the results of research by Rizka Ardhi Pradika (2017) and Pradesa (2019) which stated that company size has a significant negative effect on the going concern audit opinion.

CONCLUSION

Based on the description of the results of this study, namely the Analysis of Profitability, Solvency, Total Asset Turnover and Company Size on Going Concern Audit Opinions, it can be concluded that:

1. The profitability variable measured using Return On Asset (ROA) by comparing net profit after tax with total assets, has a significant negative influence on going concern audit opinion with a coefficient value of -4.611831 and a significance of 0.0022 <0.01 (at α = 1%), which means that the higher the profitability value, the lower the acceptance of going concern audit opinion.
2. The solvency variable measured using the Debt to Asset Ratio (DAR) by comparing total debt with total assets, has a significant positive influence on the going concern audit opinion with a coefficient value of 3.711782 and a significance of 0.0000 <0.01 (at α = 1%), which means that the higher the solvency value, the higher the acceptance of the going concern audit opinion, because the company uses too much debt for company funding.
3. Total Asset Turnover is part of the activity ratio. Total Asset Turnover is measured to compare net sales with total assets, has a significant negative effect on going concern audit opinion with a coefficient value of -2.363381 and a significance of 0.0000 <0.01 (at α = 1%), which means that total asset turnover has a significant negative effect on going concern audit opinion, indicating that the higher the TATO value, the lower the acceptance of going concern audit opinion. This is because the company is able to manage sales well from the total assets it owns.
4. Company size measured using the Natural Logarithm of total assets, has a significant negative influence on going concern audit opinion with a coefficient value of -0.348370 and a significance of 0.0080 <0.01 (at α = 1%), which means that the higher the company value, the lower the acceptance of going concern audit opinion, because large companies that have greater financial conditions than small companies are better able to overcome financial conditions if financial problems occur.

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