International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 06 - Issue 05, 2023
www.ijlrhss.com || PP. 290-296

Determining Accounting Conservatism in Financial Industry Classification Companies on the Indonesia Stock Exchange

Riza Maulidya[1], Shinta Permata Sari[2*]
[1]*Faculty of Economic and Business, Universitas Muhammadiyah Surakarta, Indonesia*
[2]*Faculty of Economic and Business, Universitas Muhammadiyah Surakarta, Indonesia*
**Coressponding Authors*

Abstract: The company's financial statements are prepared using a basic concept. One of the basic concepts in preparing financial statements is accounting conservatism. Accounting conservatism as a precautionary principle in financial reporting to recognize and measure assets and profits and recognize losses and debts Watts (2003). This study aims to determine the factors that influence accounting conservatism. In this study accounting conservatism is proxied as leverage, managerial ownership, institutional ownership, company size and board of commissioners size. The data used in this study is secondary data obtained from the company's annual financial statements. The population used is a financial industry classification company listed on the Indonesia Stock Exchange in 2019-2021 and determined by the purposive sampling method with a sample of 75 companies that meet the criteria. The results show that leverage and company size have a significant effect on accounting conservatism. While managerial ownership, institutional ownership, and the size of the board of commissioners do not have a significant effect on accounting conservatism.

Keywords: Accounting Conservatism, Board Size, Company Size, Institutional Ownership, Leverage, Managerial Ownership.

1. Introduction

Global competition is an inevitable challenge for businesses in Indonesia. Globalization and advances in data innovation are creating dead ends in business that allow managers to carefully monitor and provide detailed information about the financial condition of companies generated by accounting systems. Financial statements prepared by companies must meet the objectives, rules and principles of accounting according to generally accepted standards in order to produce financial statements that are responsible and beneficial to each user (Alfian and Sabeni, 2013).

The principle of accounting conservatism is controversial because there are many criticisms that arise over the application of this principle, but there are also those who support it (Mayangsari and Wilopo, 2002). In Indonesia, financial statements must be prepared based on the Statement of Financial Accounting Standards (PSAK) issued by the Indonesian Institute of Accountants (IAI).PSAK as a standard for recording accounting documents in Indonesia. Conservatism is considered controversial with many critics saying that its application can affect financial reporting results and to address various criticisms that arise,as well as to improve existing standards in Indonesia by issuing new standards that apply International Financial Reporting Standards (IFRS). The concept of accounting conservatism in financial reporting does not fit into the theoretical framework of IFRS.

A fraud case in Indonesia that indicates the low level of accounting conservatism is PT Asuransi Jiwasraya (Persero)in 2017 there were irregularities in the net profit bookkeeping carried out by Jiwasraya Net profit recorded at Rp360.3 billion is considered by BPK there is a shortage of reserves of Rp7.7 trillion. If the reserves are carried out according to the provisions then the company should suffer losses. Then in 2018 Jiwasraya recorded an unaudited loss of Rp15.3 trillion and until the end of September 2019, it is estimated to lose IDR 13.7 trillion.

Watts (2003), conservatism as a concept of recognition of future cash flows and as conservative accounting generally states that accountants should report accounting information that is the lowest of several possible values for income assets, as well as the highest of several possible values of liabilities and expenses. Accounting conservatism can be measured by one measurement model, market to book, which reflects market value relative to the company's book value (Beaver and Ryan, 2000). This ratio is a comparison between the market value of equity and the book value of equity. Therefore, this study reveals several factors that allegedly influence accounting conservatism, namely leverage or leverage, managerial ownership, institutional ownership, company size, and the size of the board of commissioners. The selection of these variables is due to differences in results in previous researchers and further research needs to be done.

2. Literature Review and Hypothesis

Agency Theory

Weston and Brigham (1998), agency relationships occur between shareholders (owners) and managers as well as shareholders (through managers) and creditors. The relationship between agency theory and accounting conservatism can reduce agency costs, improve financial statement information, and shareholders expect company management to act in accordance with interests. Managers in achieving good relations between companies and investors will apply conservatism.

Signaling Theory

Signaling theory explains that signaling is done by managers to reduce information asymmetry. One of the steps to reduce the imbalance of information is to provide positive signals to parties outside the company which is reflected in the existence of financial information that can be accounted for and can reduce uncertainty about the company's future outlook (Yuliarti and Yanto, 2017).

Positive Accounting Theory

According to Chariri and Ghozali (2007), positive accounting theory adheres to the notion of wealth-maximisation and individual self-interest. The idea of a positive approach is to develop hypotheses on factors affecting accounting practice to test the validity of the hypotheses. These hypotheses will explain the factors to management whether to implement accounting conservatism in the company or not.

Accounting Conservatism

Watts (2003) defines conservatism as the principle of prudence in financial reporting where companies are not in a hurry to recognize and measure assets and profits and immediately recognize losses and debts that have a possibility that occurs. Conservatism holds that accountants should make reports of the lowest accounting information of some possible value for assets and income, as well as the highest of several possible liabilities and burdens.

Leverage

According to agency theory, there can be conflicts of interest between managers, shareholders, and creditors when a company uses debt as one of its sources of financing. The conflict is reflected in dividend policy, investment policy and the addition of new debt (Juanda, 2007). Leverage shows how much of a company's assets are financed by debt and is an indication of how safe the lender is. Companies with relatively high levels of debt, creditors have more rights to know and monitor the company's operations. Greater right to reduce information asymmetry between creditors and entrepreneurs. The higher the level of payables or payables, the more conservative the accounting behavior of managers is affected. This is clarified by research by Rana, et al. (2019) and Sulastri et al. (2018) which states that levers affect accounting conservatism.
H1: Leverage affects accounting conservatism.

Manajerial Ownership

The Managerial ownership is the ownership of company shares by managers or in other words managers and shareholders play an active role in company decision making. The bonus planning hypothesis in positive accounting theory states that managers will act in accordance with the bonuses awarded. The higher the level of shares owned by managers in a company, the more careful the preparation of financial statements will be because managers no longer only act as agents but also as agents of shareholders. Therefore, in order to receive bonusses through financial statetment manipulation, managers aim to demonstrate performance result (Watts and Zimmerman, 1990). This is clarified by the research of Andini et al. (2020) and (Hotimah and Retnani, 2018), which states that managerial ownership affects accounting conservatism.
H2: Managerial ownership affects accounting conservatism

Institutional Ownership

Consistent with agency theory, institutional ownership increases the role of institutional parties in monitoring managers' performance. This has been revealed by Ahmed and Duellman (2007) who stated that with high institutional ownership, these institutional shareholders can replace or strengthen the monitoring function of the board in the company. This is clarified by research by Afriani et al. (2020) and (Risdiyani and Kusmuriyanto, 2018), which states that institutional ownership affects accounting conservatism.
H3: Institutional ownership affects accounting conservatism.

Company Size

Free The size of company is a measure of the amount of assets owned by the company, the larger the company, the greater the total assets (Sunarto and Budi, 2009). The size of the company is an indicator of the political costs incurred by the company. The political cost hypothesis in accounting theory asserts that the larger the firm, the greater the political cost the government will allocate. Political costs can be caused by the imposition of taxes by the government, with large amounts of government assets imposing tax rate increases also on businesses. The higher the tax burden imposed on a company, the higher the state revenue, and companies with large assets are said to be able to pay more taxes. This is clarified by research by Suhaeni et al. (2021) and (Noviantari and Ratnadi, 2015), which states that company size affects accounting conservatism.
H4: Company size affects accounting conservatism.

Size of the Board of Commissioners

Maimiati (2017), state whether the size of the board of commissioners determines whether management has achieved its responbilyty to establish and maintain internal control. The size of the Board of Commissioners is an important factor in the characteristics of the Board of Commissioners that affects the level of accounting conservatism. Agency theory explains that the board of commissioners is expected to minimize agency problems that arise between directors and shareholders so that companies apply conservative accounting principles to prevent deviant behavior from directors and managers. Signalling theory explains that the larger the size of the board of commissioners will give a positive signal to investors related to the service function and control of the board of commissioners as a corporate governance mechanism (Ahmed and Duellman, 2007). Thus, the larger the size of the board of commissioners, the greater the power of the board of commissioners in terms of supervision, so the prudent use of conservative accounting will also be higher. This is clarified by the research of Dita and Heri (2017) and Yustina (2012), which states that the size of the board of commissioners has an effect on accounting conservatism.
H5: Size of the board of commissioners affects accounting conservatism.

3. Methodology

This research is a quantitative research. The sample is determined by purposive sampling method. The population used is a financial industry classification company listed on the Indonesia Stock Exchange in 2019-2021, with financial statements that have met the criteria. Some of these criteria are (1) Financial industry classification companies listed on the Indonesia Stock Exchange for the period 2019-2021(2) Companies that publish complete annual financial statements during the period 2019-2021 (3) Companies that do not experience losses during the period 2019-2021 (4) Companies that have managerial ownership and institutional ownership. This research uses data sources listed on the Indonesia Stock Exchange accessed from the official website of IDX www.idx.co.id. The dependent variable in this study is accounting conservatism. Conservatism is a corporate principle of being careful in determining every value in the financial statements, so that the value in financial items has a value that can be accounted for.

This study use the following for each variables measurements:

Table 1 Variable Measurement

Variable	Indicator	Source
Accounting Conservatism (AC)	Market to book = $\frac{\text{Market price per share}}{\text{Book value per share}}$	Agustina et al., 2015
Leverage (LV)	LV= $\frac{\text{Total Equity}}{\text{Total Ammount of Debt}}$ x100%	Noviantari and Ratnadi, 2015
Managerial Ownership (MO)	MO= $\frac{\text{Number of Manajerial}}{\text{Outstanding Stock}}$ x 100%	Dewi and Suryanawa, 2014
Institutional Ownership (IO)	IO= $\frac{\text{Number of Institutional Shares}}{\text{Outstanding Stock}}$ x 100%	Brilianti, 2013
Company Size(CZ)	CZ= Size is measured from LnTotal Assets	LoFond and Watts 2008
The Size of the Board of Commissioners (BC)	BC= is the number of boards responsible for overseeing the implementation of the company	Zulaikha and Wulandini, 2012.

Data Analysis Technique

In this study, hypothesis testing used multiple linear regression analysis. This analysis is a regression model that involves more than one independent variable. Multiple linear regression analysis is used because it is intend to determine the direction and how much influence the independent variable has on the dependent variable. The feasibility of the regression model is determined from the results of the model feasibility test (F test) and the coefficient of determination used by the coefficient of determination (R^2) test. The regression model equation in this study is as follows:

$$AC = a+b1\ LV+b2\ MO+b3\ IO+ b4\ CZ+b5\ BC+e$$

4. Results and Discussion

Descriptive Statistical Analysis

Table 2 Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	75	0.08	0.89	0.6715	0.20855
Managerial Ownership	75	0.00	0.62	0.0571	0.12978
Institutional Ownership	75	0.03	0.94	0.6815	0.19937
Company Size	75	26.01	35.08	31.2317	2.22864
The Size of the Board of Commissioners	75	2.00	10.00	5.0133	2.18405
Accounting Conservatism	75	0.00	0.88	0.2266	0.23145

Source: Data process, 2022.

Based on the descriptive statistical test results in Table 2, the number of data or N in this study was 75 companies. The minimum value of leverage (LV) is 0.08, the maximum value is 0.89, has an average value of 0.6715, and the standard deviation value is 0.20855. The minimum value of managerial ownership (MO) is 0.00, the maximum value is 0.62, has an average value of 0.0571, and a standard deviation value of 0.12978. The minimum value of institutional ownership (IO) is 0.03,the maximum value is 0.94, has an average value of 0.6815, and a standard deviation value of 0.19937. The minimum value of company size (CZ) is 26.01, the maximum value is 35.08, has an average value of 31.2317, and a standard deviation value of 2.22864. The minimum value of the board of commissioners (BC) size is 2.00, the maximum value is 10.00, has an average value of 5.0133, and a standard deviation value of 2.18405.The minimum value of accounting conservatism (AC) is 0.00, the maximum value is 0.88, has an average value of 0.2266, and a standard deviation value of 0.23145.

Discussion

Based on the results of the multicollinearity test shows that multicollinearity does not occur because all VIF values produced have a value of less than 10, and the tolerance value is greater than 0.10, thus it can be concluded that the multiple linear regression model in this study does not occur symptoms of multicollinearity. Based on the test result of auto corelation , researchers use assumptions from (Santoso, 2019) which states that Durbin-Watson numbers between -2 to +2 mean no autocorrelation occurs.

Based on the results of multiple linear regression tests, it can be concluded that the value of the constant is 4.485. The value of the leverage variable coefficient is 1.353. The valueof the variable coefficient of managerial ownership is 0.853. The value of the variable coefficient of institutional ownership is 0.230. The value of the variable coefficient of enterprise size is 3.407. The value of the variable coefficient of sizeof the board of commissioners is 0.520.Based on the results of the test significance f is 0.000 which is smaller than the α significance level of 0.05. The regression model is a fit model. The value of the coefficient of determination intended with the value of adjsted R square is 0.232. This can be interpreted that the variables of leverage, managerial ownership, institutional ownership, company size, and the size of the board of commissioners can explain the independent variable (accounting conservatism) of 23.2% while the rest is explained by other variables not observed in this study. From testing using Spearman's rho test, a significance value can be obtained for each independent variable of more than 0.05 (< 0.05), it can be concluded that the multiple linear regression model in this study does not occur heteroscedasticity.

Table 3. Multiple Linear Regression Analysis Results

Variable	Unstandardized B	t-value	Sig.	Description
LV	-0.157	-1.353	0.181	H1 rejected
MO	0.178	0.853	0.397	H2 rejected
IO	-0.031	-0.230	0.819	H3 rejected

CZ	-0.045	-3.407	0.001	H4 accepted
BC	-0.007	-0.520	0.605	H5 rejected

Source: Data process, 2022
*Significance 0.05

Based on the results of multiple linear regression analysis, the leverage variable (LV) obtained a significant value of 0.181 which means greater than 5% or 0.05. This means that leverage variables does not affect accounting conservatism. It can be concluded that **H1 is rejected**. This shows that if the company has high or low debt, it will not make the company more conservative because it is likely that the company will always use the principle of conservatism to deal with uncertain circumstances so that high and low debt levels will not affect conservatism. The results of this study are in accordance with research conducted by Suhaeni et. al (2022) and Haryadi et. al (2020)) which states that leverage does not have a significant effect on accounting conservatism.

Based on the results of multiple linear regression analysis, the managerial ownership variable (MO) obtained a significant value of 0.397 which means greater than 5% or 0.05.This means that managerial ownership variables does not affect on accounting conservatism. It can be concluded that **H2 is rejected**. The amount of public share ownership can be a consideration for company managers to try to present financial statements with better profit information, that managers will present financial statements conservatively. The results of this study are in accordance with research conducted by Alfian and Sabeni (2013) and Risdiyani and Kusmuriyanto (2015) which states that managerial ownership does not have a significant effect on accounting conservatism.

Based on the results of multiple linear regression analysis, the institutional ownership variable (IO) obtained a significant value of 0.819 which means greater than 5% or 0.05. This means that institutional ownership variables does not affect accounting conservatism. It can be concluded that **H3 is rejected**. Institutional investors are very concerned about the level of current earnings where changes in earnings can affect institutional investors' decisions about the company in the future. If there is a change in earnings that is considered unfavorable for institutional investors, then institutional investors can liquidate their shares which will certainly affect the value of the company. The results of this study arein accordance with research conducted by Jao and Ho (2019) and Nanda and Yunilma (2021) which states that institutional ownership does not have a significant effect on accounting conservatism.

Based on the results of multiple linear regression analysis, the company size (CZ) obtained a significant value of 0.001 which means smaller than 5% or 0.05. This means that the variable size of the company affects accounting conservatism. It can be concluded that **H4 is accepted**. The size of the company indicates that the company's efforts to keep the company in the face of competition by increasing the company's total assets each year. The greater the company's total assets, the company's condition can be said to be good and can be a positive signal to attract investors. The results of this study are in accordance with the research conducted by Sari et. al (2020) and Natalias (2021) who stated that the size of the company has a significant effect on accounting conservatism.

Based on the results of multiple linear regression analysis, the size variable of the board of commissioners (BC) obtained a significant value of 0.605 which means greater than 5% or 0.05. This means that the variable size of the boardo f commissioners does affect accounting conservatism. Thus it can be concluded that **H5 is rejected**. The large size of the Board of Commissioners will indicate more effective supervision in a company. Thus, companies with a strong board of commissioners will make the process of making financial statements get supervision or monitoring by company management properly as well. The results of this study are in accordance with research conducted by Suharni et. al (2019) and Maharani and Kristanti (2019) who stated that the size of the board of commissioners does not have a significant effect on accounting conservatism.

5. Conclusion

The results of this study can be concluded that company size affects on accounting conservatism. While other variables such as leverage, managerial ownership, institutional ownership, and the size of the board of commissioners do not affect accounting conservatism. This research states that the company size is important to implement the accounting conservatism especially is financial industry. Based on the conclusions of this study, the researcher provides the following suggestions: first, the researcher can then use the population of other company sectors. Second, researchers can add other independent variables such as: financial distress, profitability, capital intensity and others. Third, researchers can use data with a longer period of time as well as the latest data that the data produced is could be more accurate.

6. References

[1] Afriani, N. (2021). Factors Affecting Accounting Conservatism. Jurnal Buana Akuntansi, 6(1), 40-56.

[2] Ahmed, A.S & Duellman, S., (2007). Accounting Conservatism and board of director characteristics: An empirical analysis. wwww.ssrn.com

[3] Alfian, A., & Sabeni, A. (2013). Analysis of The Factors That Influence The Choice of Accounting Conservatism. Diponegoro journal of Accounting, 123-132, Vol. 2.

[4] Andini, N. (2020). Analysis of Factors Influencing Accounting Conservatism in Companies Registered on the Jakarta Islamic Index (JII) for the Period December 2015-November 2018.Jurnal Al Iqtishad, 16(2), 73-99.

[5] Angkasawati, P., Sulistyawati, A. I., & Santoso, A. (2022). Empirical Study Of Determinants Of Accounting Conservatism In Indonesia Stock Exchange. BBM (Buletin Bisnis & Manajemen), 8(2), 114-127.

[6] Beaver, W. H., & Ryan, S. G. (2000). Biases and Lags in Book Value and Their Effects on The Ability of The Book-to-Market Ratio to Predict Book Return on Equity. Journal of Accounting Research, 38(1), 127-148.

[7] Brilianti, D. P. (2013). Factors that influence the application of Company Accounting Conservatism. Accounting Analysis Journal, 2(3),268-275.

[8] Chariri, A., & Ghozali, I. (2007). Accounting Theory. Semarang: Badan Penerbit Universitas Diponegoro, 409.

[9] Dewi, N. K. S. L., & Suryanawa, I. K. (2014). Effect of Managerial Ownership Structure, Leverage, and Financial Distress on Accounting conservatism. E-Jurnal Akuntansi Universitas Udayana, 7(1), 223-234.

[10] Hotimah, H. H. H., & Retnani, E. D. (2018). Effect of Managerial Ownership, Firm Size, Leverage Ratio, Capital Intensity on Accounting Conservatism. Jurnal Ilmu Dan Riset Akuntansi (JIRA), 7(10).

[11] Haryadi, E., Sumiati, T., & Umdiana, N. (2020). Financial Distress, Leverage, Profit Persintence and Company Size Against Accounting Conservatism . Competitive Jurnal Akuntansi Dan Keuangan, 4(2), 66-77.

[12] Jao, R., & Ho, D. (2019). Effect of ownership structure and debt covenants on accounting conservatism. Jurnal Riset Akuntansi Jambi, 2(2), 1-13.

[13] Juanda, A. (2007). The Influence of Litigation Risk and Type of Strategy on the Relationship Between Conflicts of Interest and Accounting Conservatism. Simposium Nasional Akuntansi X, 3(2), 54-67.

[14] Lo, E.W, (2005). The Effect of Differences in Corporate Financial Levels on Accounting Conservatism. Simposium Nasional Akuntansi VIII, hal: 396-440.

[15] Maharani, S. K., & Kristanti, F. T. (2019). Company Size, Managerial Ownership, Capital Intensity, and Board of Commissioners Size on Accounting Conservatism, as well as to find out whether there is a simultaneous and partial effect between. JASA (Jurnal Akuntansi, Audit, Dan Sistem Informasi Akuntansi), 3(1).

[16] Mayangsari, S., & Wilopo, W. (2002). Accounting Conservatism, Value Velevance and Discretionary Accruals: Empirical Implications of the Feltham-Ohlson Model (1996). The Indonesian Journal of Accounting Research, 5(3), 685-708.

[17] Nanda, P. L., & Yunilma, Y. (2021). The Effect Of Ownership Structure, Capital Intensity, Dividend Payout Ratio, Financial Distress and Debt Covenant On Accounting Conservatism. Abstract of Undergraduate Research, Faculty of Economics, Bung Hatta University, 19(1).

[18] Natalia, I. (2021). Analysis of the Influence of Institutional Ownership, Capital Intensity, Debt Covenant and Company Size on Accounting Conservatism in Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Fin-Acc (Finance Accounting), 5(10).

[19] Noviantari, N. W., & Ratnadi, N. M. D. (2015). Effect of financial distress, firm size, and leverage on accounting conservatism. E-Jurnal Akuntansi, 11(3), 646-660.

[20] Rada, E. R., Sunarya, H., & Amalo, F. (2019). Analysis of Factors Influencing the Implementation of Accounting Conservatism in Mining Companies Listed on the Indonesia Stock Exchange. Jurnal Akuntansi Universitas Muhammadiyah Kupang, 6(03), 19-31.

[21] Risdiyani, F., & Kusmuriyanto, K. (2015). Analysis of Factors Influencing the Implementation of Accounting Conservatism. Accounting Analysis Journal, 4(3), 1-10.

[22] Sari, N. M. D. K. M., Gayatri, G., Wirama, D. G., & RM, K. M. Impact Factors of Conservatic Accounting. International Research Journal of Management, IT and Social Sciences, 7(4), 57-64.

[23] Suhaeni, S., Hakim, M. Z., & Abbas, D. S. (2021). The Effect of Debt Covenant, Company Size, Profitability, Liquidity, and Leverage on Accounting Conservatism (In Various Industrial Sector Companies Listed on the Indonesia Stock Exchange in 2016-2019). Proceeding of Social Economic and Business, Seminar Nasional Ekonomi Dan Bisnis (pp. 500-513).

[24] Suharni, S., Wildaniyati, A., & Andreana, D. (2019). Effect of the number of commissioners, leverage, profitability, capital intensity, cash flow, and company size on conservatism (Empirical study of manufacturing companies listed on the Indonesia Stock Exchange 2012-2017). JURNAL EKOMAKS Jurnal Ilmu Ekonomi Manajemen dan Akuntansi, 8(1), 17-24.

[25] Sulastri, A., Mulyati, S., & Icih, I. (2018). Analysis of the Influence of the ASEAN Corporate Governance Scorecard, Leverage, Size, Growth Opportunities, and Earnings Pressure on Accounting Conservatism (Case Study on the Top Rank 50 Companies of the ASEAN Corporate Governance Scorecard in Indonesia which are Registered. Accruals (Accounting Research Journal of Sutaatmadja), 2(1), 41-67.

[26] Santoso, S. (2019). Proficient in parametric statistics. Elex Media Komputindo.

[27] Watts R.L. (2003). Conservatism in Accounting Part I: Explanations and Implications. Working Paper. University of Rochester

[28] Weston, J. F., & Brigham, E. F. (1998). Essentials of financial management.

[29] Wulandini, D., & ZULAIKHA, Z. (2012). The Effect Of The Characteristics Of The Board Of Commissioners And The Audit Committee On The Level Of Accounting Conservatism (Empirical Study of Manufacturing Companies Listed on the IDX in 2008-2010). (Doctoral dissertation, UNDIP: Fakultas Ekonomika dan Bisnis).

[30] Yuliarti, D., & Yanto, H. (2017). The Effect of Leverage, Firm Size, Managerial Ownership, Size of Board Commissioners and Profitability to Accounting Conservatism. Accounting Analysis Journal, 6(2), 173-184.