

Analysis of Factors Affecting Accounting Conservatism

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Abstract. The motive of this study is to determine the effect of growth possibility, debt covenants and managerial ownership on accounting conservatism, research on pharmaceutical groups listed at the Indonesia stock exchange in 2016-2020. In this study the usage of purposive sampling method to decide the sample with a total of 20 groups and a sample of seven corporations. The analytical approach used is more than one regression analysis with SPSS model 21 software. Partly, the outcomes display that growth possibility has a significant and full-size effect on accounting conservatism. Meanwhile, debt covenants and managerial ownership have a poor and extensive impact on accounting conservatism. Concurrently, the results display that increase possibilities.

Keywords: Growth Opportunities, Debt Covenants, Managerial Ownership, Accounting Conservatism.

1. Introduction

The financial statements are prepared based on what has been determined by the Financial Accounting Standards (SAK) and has been determined by the Indonesian Institute of Accountants (IAI). SAK has provided flexibility for management in choosing the accounting and estimation methods that can be used. (Wardhani) stated that this flexibility will affect the behavior of managers in accounting and reporting the company's financial transactions.

Numerous other phenomena were found because of the conservatism accounting phenomenon. This kind of peculiarities is the reception of traditionalism's standards with the aid of employees for enhancing cash. Consequently, when a company has robust values and employs conservatism in a manner that is greater effective at decreasing fees, a well-mounted principle of conservatism can be implemented. That is an example of someone who does not uphold the conservatism in governance ideas. This demonstrates that conservatism is both a technique of governance and a situation of mass manufacturing due to the fact conservatism is a shape of governance in the U.S. The company can assure a regular supply of uncooked substances by using this kind of accounting strategies. Monetary statements may be less probable to be manipulated by means of management if conservative financial reports are used. As an end result, the wide variety of monetary statements can be envisioned the use of the greatest economic statements, with the intention to produce a hope this is absent from the beginning.

The tendency of managers to govern economic statements. Consequently they consider that the existence of conservatism in accounting is beneficial as one of the company governance mechanisms. The life of this mechanism can lessen the possibility for managers to manipulate and overstate monetary statements, especially associated with financial performance. The goal is to increase the cash go with the flow and fee of the corporation. In detail, the application of conservative is as follows: The overly constructive mind-set of the managers and pinnacle brass

of the corporation can motive the monetary statements to be displayed excessively. The lifestyles of conservatism as a pessimistic attitude is wanted to atone for it. Overstatement in earnings and valuations may be dangerous for the company in comparison to understatement (understatement of data) due to the fact there may be a greater hazard of proceedings due to wrong reporting.

Monetary file manipulation will be used to reinforce worker productiveness inside the occasion that it is gift. This demonstrates that human peril as a bodily hazard, a psychological threat, and a lingering effect are all elements that contribute to a a success final results. The PSAK-IFRS popular, which emphasizes the significance of ensuring the economic record is of high first-rate, the organisation's management must be ensured and guided so that it does no longer fail, and the impartial auditor who's accountable for the report can all be used to determine whether or no longer the management strategy can be carried out. There are a few things that need to be performed to save you manipulation of the financial file. consequently, it must be finished in a methodical manner so that any employee who's required to do so can decrease the manipulation of the economic statements, in spite of the reality that it can not be decreased.

Accounting conservatism is an accounting mind-set and view primarily based on a pessimistic mindset inside the face of income or loss uncertainty that's accomplished with pronounced ideas through slowing down recognition, cost reputation, asset conduct and growing debt valuation. Accounting conservatism is an mind-set or drift in the face of uncertainty to take action or decisions on the worst emergence (outcome) of the uncertainty. standing mindset also implies being careful in managing risk via decreasing some thing to reduce or cast off danger. in step with FASB statement of idea No. 2, accounting conservatism is a careful response to the uncertainty inherent in the business enterprise to ensure that the internal uncertainties and risks within the business surroundings are taken under consideration. those uncertainties and risks have to be pondered in the financial statements so that price predictions and neutrality may be progressed. Reporting based on prudence will offer the great gain to all customers of monetary statements. Conservatism is the tendency for accountants to require a higher level of leverage in recognizing suitable news as profits than awful information as losses. in order that it may be interpreted that an boom in the difference among bad news and good information in the business enterprise means that the economic statements issued by using the business enterprise.

The concept of accounting conservatism is based on the assumption that companies are faced with various economic uncertainties in the future. Conservatism is one component of financial statements that has been around for a long time. In the conceptual framework, conservatism is an attitude or principle in dealing with all risks of uncertainty in actions or decisions on the basis of the emergence of the worst possible outcome of the uncertainty. Conservative attitude also implies being careful in the face of risk by being willing to sacrifice everything to reduce or divert if a risk occurs. In responding to something that is uncertain, Accounting adheres to a system of basic concepts of conservatism, which is the basic principle in determining the choices used by accounting based on circumstances, expectations, results or events.[1][2][3][4].

Conservatism is also influenced by debt covenants, the debt covenant hypothesis explains that company managers who violate credit agreements tend to choose accounting methods that have an impact on increasing profits. Debt agreements predict that managers want to increase profits and assets to reduce the costs of renegotiating debt contracts. This is certainly done to avoid a bad reputation in the eyes of external parties, so that management tends to ignore the principle of conservatism. A debt agreement is a contract made to a borrower by a creditor to limit activities that could impair the value of the loan and the recovery of the loan. Companies

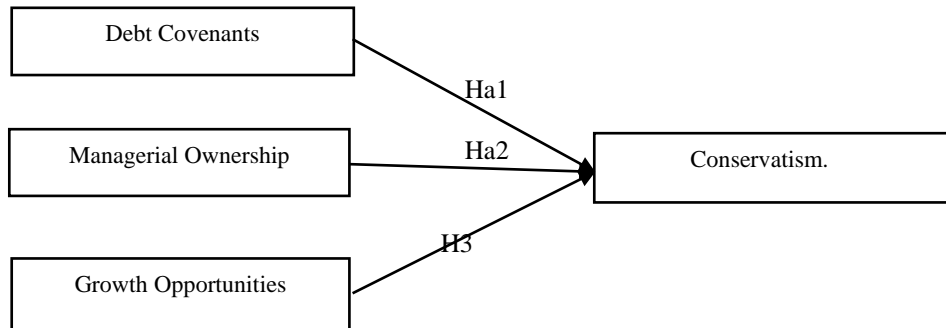
that have gone public will certainly not be free from debt that can be used to develop their business. Regarding debt contract renegotiation, debt covenants tend to be guided by accounting numbers. Furthermore, debt covenants indicate that managers tend to overestimate earnings and assets in order to reduce the renegotiation costs of debt contracts. There are differences in the results of research related to debt agreements against accounting conservatism[5][6][7][8].

Research on managerial ownership of accounting conservatism has been widely carried out, while the variables that affect accounting conservatism have not been consistent and have various variations. Managerial ownership is one of the company's internal factors that determine the company's progress. Business decisions made by managers are decisions to maximize the company's resources that have been entrusted to investors. There are differences in the results of research related to managerial ownership whether or not it has an effect on accounting conservatism[9][10][11].

Another factor that affects conservatism is the growth opportunity or the company's opportunity to develop. Developing companies tend to choose accounting conservatism because of lower profit calculations than using optimistic accounting in calculating higher profits. This can happen because companies use hidden reserves to increase investment indirectly hidden reserves can be used to increase investment and reduce profits. The company's growth can be seen from the growth opportunities. Companies to grow and develop need opportunities or opportunities, companies also need funds where there is challenges for managers to balance between income and use of cash. The higher the opportunity to develop the company, the greater the need for funds needed by the company. The amount of funds needed by the company causes managers to apply the principle of conservatism so that investment financing can be fulfilled, namely by minimizing profits. There are differences in research results that growth opportunities have an effect or not on conservatism.[12][13][14].

The importance of knowing the relationship between the variables of managerial ownership, debt covenants and growth opportunities is the basis for accounting conservatism because each of these variables has a great influence on valuation in a company to anticipate the uncertainty contained in the economic activities carried out by the company, so that the measurement is carried out very carefully. careful. In this explanation, conservatism is carried out by a company so that in the presentation of financial statements it can be accounted for and can be useful for its users, therefore financial statements must meet every generally accepted purpose, rule and principle. This study aims to determine whether managerial ownership, debt covenants and growth opportunities affect accounting conservatism.

The theory used for previous research is related accounting conservatism very diverse. Agency theory or agency theory is a theory that explains the cooperative relationship between the principal and the agent. Principal is an investor who gives authority to the agent, namely the manager as the party who receives the authority. Based on agency theory, the agent (manager) acts as a controller of the company who has more and better information than the principal or investor.[15]. Research that has been conducted using Signaling theory which is a theory that explains why companies have the urge to disclose financial statement information to external parties. The urge is to reduce information asymmetry between companies and investors and become a medium of communication with investors, both those who have invested and/or will invest, creditors, and other outside parties who need this information [16]. Positive accounting theory explains that managers have incentives or incentives to maximize their welfare [17].



Figures.1. Hypothesis framework

Hypothesis

H1: Growth possibility has an effect on Accounting Conservatism.

H2: Debt Covenant has an impact on Accounting Conservatism.

H3 : Managerial possession has no effect on Accounting Conservatism.

2. Method

The population in this examine were forty seven pharmaceutical organizations indexed at the Indonesia stock alternate from 2014 to 2020. decided on 7 organizations that had met the standards on this examine and elevated by 5 years of research from 2014 to 2020, the variety of this study changed into fifty two .The data series approach in this examine is the documentation method, specifically statistics collection by using reading, classifying, analyzing enterprise facts, information or documents according with the required facts within the shape of independent auditor reviews, economic reports and data associated to research through the internet site at<http://www.idx.co.id>by downloading the desired company economic statements. The technique used for hypothesis testing in this studies is multiple linear regression evaluation technique. multiple regression analysis is used to check the connection among one established variable and or extra dependent variables. The statistics turned into processed the usage of Microsoft Excel and SPSS version 28 software program. The records used in this examine became panel statistics. Panel records is a aggregate of time series and cross segment facts.

3. Research result

Among Accounting Conservatism, Growth Opportunities, Debt Agreements and Managerial Ownership as follows:

3.1 Descriptive Statistical Results

Table1. Test results

	N	Minimum	Maximum	Meaning	Std. Deviation
Accounting Conservatism	49	-0.1257	0.0950	-0.0118	0.0390

Growth opportunities	49	-0.0735	0.3523	0.0799	0.0662
Debt Agreement	49	0.0692	0.7884	0.2857	0.1772
Managerial ownership	49	0.0000	0.3240	0.0532	0.1073

Based totally at the table from the consequences of data processing, the accounting conservatism calculation technique makes use of accrual measurement on this observe. If the value of conservatism is poor, the level of conservatism can be better. From the take a look at effects in desk 4.three above, the minimal value of -zero.1257 from the Pyridam Farma Tbk agency means that the corporation has a high stage of conservatism. even as the maximum fee of zero.0950 turned into obtained from the corporation Prodia Widyahusada Tbk, which means the organization has a low level of conservatism. The average fee of conservatism is -0.0118 which shows that the common sample company has a high level of conservatism or prudence in the monetary statements, while the same old deviation value is 0.0390.

The debt covenant as measured by way of the debt to asset ratio (DAR) shows a minimum price of 0.0692 obtained from the Sido herbal and Pharmaceutical industry business enterprise Tbk, this means that that the corporation has a low degree of debt in comparison to its asset price. even as the maximum price of zero.7884 became acquired from the business enterprise Prodia Widyahusada Tbk, which means the company has a excessive degree of debt compared to the value of its property. The common debt covenant fee is zero.2857 and the standard deviation value is zero.1722.

Managerial ownership is acquired from the department of the number of shareholdings with the aid of control via the quantity of stocks based totally on a variable scale, suggests a minimum cost of zero.0000 this indicates that a few companies do not have a managerial possession shape in them. whilst the maximum price of zero.3240 changed into obtained from the Sido herbal and Pharmaceutical industry enterprise Tbk, this means that the company has a excessive level of managerial possession structure in it. The average cost of managerial ownership is zero.0532 and the same old deviation cost is 0.1073.

The boom possibility variable records acquired from the sales increase price or the boom and decrease in sales every 12 months, suggests a minimum price of -0.0735 acquired from the Sido natural and Pharmaceutical industry agency, which means that the organization has a low growth rate each year. . whilst the maximum cost of zero.3523 is acquired from Kimia Farma Tbk, because of this the organization has a high boom rate every yr. The average cost of boom possibilities is 0.0799 at the same time as the usual deviation fee is 0.0662.

The normality test using the Kolmogorov-Smirnov statistical take a look at above indicates that the importance price > zero.05 is 0.200 > 0.05, which means the data is commonly dispensed.

Table 2. Normality

1.		Non-Standard Residual
N		49
Normal Parameters,b	means	.0000000
	Std. Deviation	.037999926
The Most Extreme Difference	Absolute	.066
	Positive	.064
	negative	-.066
Test Statistics		.066

The multicollinearity test in this study uses the value of variance inflation factor (VIF) and tolerance. The test results in table 4.6 above show that each variable has a tolerance value of 0.10 and a VIF value of 10. Based on these results, it can be concluded that each independent variable has no relationship or it can be said that there is no multicollinearity between independent variables.

Table 3. Multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Growth opportunities	.733	1.364
Debt Agreement	.742	1.348
Managerial ownership	.978	1.022

From the test results using the run test above, it shows that the asymp value. Signature. (2-tailed) > 0.05, i.e. 0.998 > 0.05, which means that the sample data used is quite random so that there is no autocorrelation.

Table 4. Run test

	Non-Standard Residual
Test Score	.00366
Case < Test Value	24
Case >= Test Value	25
Number of Cases	49
Number of Runs	26
Z	.003
sour. Signature. (2-tail)	0.998

Based on the analysis shown in table 5, it is known that the calculated F significance of 0.001 is smaller than the 5% significance level, which is $0.000 < 0.005$, the conclusion is to reject H_0 and accept H_a , which means that growth opportunity, debt covenants and managerial ownership have a significant effect on accounting conservatism. by the company.

Table 5. F Uji test

Model	Number of Squares	df	Square Average	F	Signat ure.
1 Regression	.050	3	.017	5,975	.001b
Remainder	.144	52	.003		
Total	.194	55			

Based on the results of the partial regression analysis (t test) in table 4.9, the following results are obtained:

The growth opportunity variable has a significance level (sig t) of 0.000. This value is smaller than 0.05, namely $0.000 < 0.05$, the decision is to reject H0 and accept H1 which means that the growth opportunity variable affects the accounting conservatism variable as measured by the company's total accruals.

The debt covenant variable has a significance level (sig t) of 0.523. This value is greater than 0.05, namely $0.523 > 0.05$, then the decision is to accept H0 and reject H2, which means that the debt covenant variable has no effect on the accounting conservatism variable as measured by the company's total accruals.

The managerial ownership variable has a significance level (sig t) of 0.349. This value is greater than 0.05, namely $0.349 > 0.05$, then the decision is to accept H0 and reject H3 which means that managerial ownership variable has no effect on the accounting conservatism variable as measured by the company's total accruals.

The growth opportunity variable has a statistically negative effect on accounting conservatism. This shows that every increase and decrease in the growth opportunity variable has a negative effect on the increase and decrease in the company's accounting conservatism.

The debt covenant variable does not statistically have a positive effect on accounting conservatism. This shows that every increase and decrease in the debt covenant variable does not affect the increase and decrease in the company's accounting conservatism.

The managerial ownership variable does not statistically have a negative effect on accounting conservatism. This shows that every increase and decrease in managerial ownership variable has no effect on increasing and decreasing the company's accounting conservatism.

Table 6. t test

Model	Non-standard		Standard	T	Signatu re.
	coefficient	Std. Error	Coefficient		
1 (Constant)	-.003	.013		-.205	.838
Growth opportunities	-.126	.032	-.549	-3.929	.000
Debt Agreement	.022	.035	.089	.642	.523
Managerial ownership	-.067	.071	-.114	-.945	.349

4. Conclusion

According to the findings of this study, accounting conservatism is negatively affected by statistical growth. This demonstrates that the accounting conservatism of the company is adversely affected by every increase or decrease in the growth opportunity variable. The debt covenant therefore has no statistically significant impact on accounting conservatism. This demonstrates that the company's accounting conservatism does not change in response to changes in the debt covenant variable. In addition, accounting conservatism is unaffected

statistically by managerial ownership. This demonstrates that the company's accounting conservatism does not change as the managerial ownership variable changes or decreases. The findings of this study, according to the researchers, should encourage investors to exercise greater caution when interpreting the data contained in a company's financial statements. It is recommended that further research be conducted over a longer time period because it is anticipated that more periods will yield better results and include additional research variables.

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