



## The Determinant of Accounting Conservatism on Manufacturing Companies in Indonesia

Hening Vidyari Shinta Sugiarto\*<sup>1</sup> and Fachrurrozie<sup>2</sup>

<sup>1,2</sup>Accounting Department, Faculty of Economics, Universitas Negeri Semarang

### ARTICLE INFO

#### Article History:

Received January 9, 2018

Accepted March, 31 2018

Available March, 31 2018

#### Keywords:

Accounting Conservatism;

Financial Distress;

Leverage;

Investment Opportunity Set (IOS);

Managerial Ownership

### ABSTRACT

The aim of this research is to examine the influence of financial distress, leverage, investment opportunity set (IOS), and managerial ownership to accounting conservatism. The populations of this research were 143 manufacturing companies that listed in Indonesia Stock Exchange (IDX) for year 2013-2016. Technique to collect the sample was purposive sampling, and obtained 20 samples and 80 unit of analysis. The research used multiple regression analysis method by IBM SPSS 23. The result showed that financial distress and leverage significantly have positive influence towards accounting conservatism. Investment opportunity set (IOS) does not have influence towards accounting conservatism. Managerial ownership significantly have negative influence on accounting conservatism. Based on the research results, it can be concluded that financial distress and leverage can increase the implementation of accounting conservatism. While, managerial ownership can decrease the implementation of accounting conservatism.

© 2018 Published by UNNES. This is an open access article under the CC BY license (<http://creativecommons.org/licenses/by/4.0/>)

### INTRODUCTION

Financial accounting is a process that ends in the preparation of financial statements concerning the company as a whole. Financial statements should provide useful information to users of financial statements. Users of internal party financial statements include commissioners, directors, managers, and employees, while users of external party financial statements include investors, creditors, customers, government, to the public (Aderemi, David, Adetiloye, & Eriabie, 2017; Blessing & Onoja, 2015). For external parties, sometimes they need more than just financial information, therefore, companies react by providing information in other forms, one of which is annual financial statements (Agustina, 2012). The financial statements must also comply with accounting principles in accordance with generally accepted standards in order to produce a financial report that can be accounted for and beneficial to each user. Subramanyam & Wild (2010) mentioned there are four accounting principles that serve as the basis of measurement to recognize and include each element in the financial statements. These accounting principles

are accrual accounting, historical cost and fair valuation, materiality, and conservatism.

Conservatism is a prudential principle that can be considered in accounting of financial statements due to corporate activity when facing uncertainty (Măciucă, Hlaciuc, & Ursache, 2015; Pramudita, 2012). According to Ismaya (2015) conservatism is a concept which states that in choosing from so many choices, the method or procedure that produces the smallest amount of net profit or the lowest value of the asset is to be selected. Furthermore, conservatism does not mean intentionally and wants to minimize assets and income. Accounting conservatism applied by managers can be a positive signal given to investors, because with the application of conservatism principle then the company will be more careful in recognizing profit. Thus, the performance of the company is considered good by the public and ultimately will increase the stock price. Rising stock prices will lower the information asymmetry between managers and investors (Rodrigues & Galdi, 2017; Afridah & Yanto, 2015).

Cases of financial statement manipulation that indicates low financial reporting in the application of accounting conservatism principles have occurred. One example is the manipulation of financial statements made by Toshiba Corporation. On June 20, 2015, an independent audit team appointed by Toshiba concluded that the company had presented overstate earnings by inflating profit of 151.8 billion yen or about 16 trillion

\* E-mail: [heningvidyari@gmail.com](mailto:heningvidyari@gmail.com)

Address:

rupiah from April 2008 to March 2014 (Tribunnews, 4<sup>th</sup> July 2015). Toshiba explained that the inflation of profit occurred due to inaccurate financial calculations in a long time and abuse of accounting procedures which were done continuously (Kompas.com). This is certainly bad news and harming various parties such as shareholders, investors and other stakeholders. Inaccurate financial calculations indicate the lack of prudential principle implementation in recognizing revenue and expenses in the process of preparing financial statements.

In Indonesia, the case of financial statement manipulation has also been done by large companies, one of which is PT Waskita Karya which has presented an overstated net profit of Rp 500 billion during the period 2004 to 2008. The case of profit inflation was uncovered at the time of a comprehensive audit of financial statements along with the change of board of directors conducted in 2008. The Board of Directors committed financial engineering since 2004-2008 by including the projection of multi-year income in the future as revenue of a certain year. One of the mistakes in the presentation of PT Waskita Karya is the asset inflation in 2005 amounting to Rp 5 billion consisting of two projects, namely the renovation of the Riau Governor's Office and the construction of Bulian Sport Venue Jambi. The first project started in 2004 and has finished its work, but at the end of 2005 there was work added amounting to Rp 3 billions until the end of 2008 the balance still appeared on the company's balance sheet as gross bill to the employer. While on the second project, PT Waskita Karya acknowledged contract revenue of Rp 2 billions, but the balance was still outstanding until the end of 2008 (Liputan6.com). The case of PT Waskita Karya's profit inflation has become an indication that the lack of implementation of the accounting conservatism principles in companies in Indonesia.

Cases of companies that present overstate earnings have resulted in thoughts that support the application of the conservatism principle in the process of financial statement preparation, as interested parties want to neutralize the optimistic attitude of corporate managers in presenting the results of the company's performance (Alfian & Sabeni, 2013). Watts (2003) explained that the principle of conservatism may limit the opportunistic attitude of corporate managers and can be a counterweight if there is a managerial bias with asymmetric verification demands so that by balancing between opportunistic actions of managers and the obligation to verify in advance may lead to over-reporting but not necessarily.

Sari & Adhariani (2009) conducted research related to the application of accounting conservatism principle with the result of negative relation between leverage ratio and accounting conservatism. Research conducted by Setyaningsih (2016) revealed that the level of corporate financial difficulties have a significant positive effect on accounting conservatism. But the result is contrary to the result of research conducted by Dewi & Suryanawa (2014) which concludes that financial difficulties have a significant negative effect on accounting conservatism, while managerial ownership structures

and leverage have a significant positive effect on accounting conservatism.

Research conducted by Pramudita (2012) resulted in a degree of financial difficulty has a positive effect on accounting conservatism, while debt level has no effect on accounting conservatism. The results are not in line with the results of research conducted Noviantari & Ratnadi (2015) which concludes that the degree of financial difficulty negatively affects on accounting conservatism, while firm size positively affects on accounting conservatism, and leverage negatively affects on accounting conservatism.

Alfian & Sabeni (2013) in their study concluded that the ratio of leverage, capital intensity, and the opportunity of corporate growth have a positive and significant effect on accounting conservatism. Meanwhile, management ownership, public ownership and company size have no effect on accounting conservatism. The result of research conducted by Rohim & Puspita (2014) revealed that the managerial ownership structure has no positive effect, debt covenant has no negative effect, while the growth opportunities and litigation risks have a positive effect on accounting conservatism.

Results of research conducted by Andreas, Ardeni, & Nugroho (2017) showed that company growth, profitability, and investment opportunity set have a significant effect on accounting conservatism. However, these results are different from the research that has been done previously by Saptono & Gurendrawati (2014). The result of research conducted by Saptono & Gurendrawati (2014) stated that investment opportunity set has an insignificant positive effect on accounting conservatism. While managerial ownership has a negative and significant influence on accounting conservatism, and debt covenant has a positive influence that is not significant to accounting conservatism. The results are in line with previous research conducted by Brilianti (2013) which showed that managerial ownership negatively affects on accounting conservatism, while institutional ownership, leverage, and audit committees have no effect on accounting conservatism.

Low application of accounting conservatism principles in the company and the inconsistency of the research results have been done previously encourages the researchers to re-examine the implementation of accounting conservatism principles. The purpose of this study is to examine the effect of financial distress, leverage, investment opportunity set (IOS), and managerial ownership on accounting conservatism.

Grand Theories underlying this research are agency theory, signal theory, and positive accounting theory. Agency theory regarding the importance of corporate owner or shareholder called a principal who hands over the management of the company to the professionals staff called professional agents who are more professional and understand in running the business (Jensen & Meckling, 1976) the theory of property rights and the theory of finance to develop a theory of the ownership structure of the firm. We define the concept of agency costs, show its relationship to the 'separation and control' issue, investigate the nature of the agency costs

generated by the existence of debt and outside equity, demonstrate who bears costs and why, and investigate the Pareto optimality of their existence. We also provide a new definition of the firm, and show how our analysis of the factors influencing the creation and issuance of debt and equity claims is a special case of the supply side of the completeness of markets problem. The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. \u2014 Adam Smith (1776). Signalling theory states that the company executive has better information about his company will be compelled to convey the information to potential investors in order to increase the company's stock price. Positive accounting theory assumes that managers and shareholders seek to maximize the level of utilities by maximizing their prosperity directly related to the compensation to be earned (Rodrigues & Galdi, 2017).

Conservatism is a prudential principle that is applied when companies face an uncertain environment, so that when companies are experiencing financial difficulties, the company will be more cautious again in dealing with the situation. The principle of conservatism which is applied by firms in being cautious in facing an uncertain economic event, it will encourage managers to make prudential reports that will provide good benefits to all the users of financial statements because of the economic activity and business that is covered uncertainty. Based on the signalling theory, the provision of information done by managers who are acknowledging low profits can reduce the conflicts between managers and shareholders, as managers are thought to convey information honestly with caution (Setyaningsih, 2008). Research conducted by Kao & Sie(2016); Setyaningsih (2008) and Pramudita (2012) revealed that the level of financial difficulty has a positive effect on accounting conservatism.

**H<sub>1</sub>:** Financial distress positively affects on accounting conservatism.

In positive accounting theory, there is a debt equity hypothesis used to identify debt covenant, which is a long-term debt agreement. The hypothesis explains that the higher the debt / equity ratio of a firm, the higher the constraints in the debt agreement and the greater the chance of agreement breach faced by the firm as well as the occurrence of technical failure cost. Higher debt also makes managers to use accounting methods which increases profits to increase creditor trust to the firm. The agency theory states that managers and creditors have different interests that will create a conflict of interest. In general, creditors assume that a company with high profits can repay its debt in a timely manner. However,

if managers increase profits in order to gain creditors' trust, it will make it difficult for the company itself if the company is experiencing financial decrease. It will also harm the creditors in viewing company's ability to pay its debts.

High level of debt will make the company more cautious, because high debt level can be a threat to the survival of the company, so that the creditor has a greater right to know and oversee the implementation of the company's operations and accounting (Pramudita, 2012). The larger rights will reduce the information asymmetry among creditors with corporate managers. This is because the creditor must know how much the security level of refunds that have been given to the company. The creditor also has an interest in the distribution of net assets over the assets financing given and lower earnings to managers and shareholders. Thus, the company will apply conservative accounting because managers have difficulty to hide information from creditors. Research result of Tosi & Paidar (2015); Geimechi & Khodabakhshi (2015); Alfian & Sabeni (2013) and Dewi & Suryanawa (2014) as well as Nikolaev (2010) stated that leverage has a positive influence on accounting conservatism.

**H<sub>2</sub>:** Leverage has a positive effect on accounting conservatism.

Lafond & Roychowdhury (2008) stated that IOS is a common factor affecting the relationship between managerial ownership and asymmetric timeliness of profit as a conservatism proxy. The agency theory states that managers and shareholders have different interests, leading to agency conflict. Conservatism is one of the efforts to reduce the agency conflict that is influenced by investment decisions. The variation of managers in defining IOS will affect the role of managers in an effort to address agency issues between managers and shareholders (Savitri, 2016). The larger the IOS, then it will be the greater market to book ratio as a proxy for accounting conservatism. Conversely, the smaller IOS, then it will be the smaller the market to book ratio as a proxy for accounting conservatism. Based on the signal theory, this happens because the market reacts positively to the growth of the company that can be used as a signal to the public and shareholders, so that stock prices will also increase. This stock price will increase the value of IOS which means that the greater the market to book ratio which is the proxy of accounting conservatism. Research result of Putra & Subowo (2017); Murwaningsari & Rachmawati (2017); Andreas, Ardeni, & Nugroho (2017) stated that IOS has an effect on accounting conservatism.

**H<sub>3</sub>:** Investment opportunity set (IOS) has a positive effect on accounting conservatism.

Agency theory explains that agency problems arise because of differences in interests between management as agents and shareholders as principals. The agency problem within a company can be reduced by applying a policy of accounting conservatism. Mana-

gerial ownership can be used to explain bonus plan hypotheses in positive accounting theory. Alfina (2006) in Savitri (2016) explained that will act according to the bonus to be awarded. If the corporate target is reached, then the appropriate bonus will be given to the manager. This causes corporate financial report will be less conservative due to earnings management done by managers in order to get a bonus. In any case, if the ownership of managers more than other investors, then management tends to report more conservative earnings. Since the manager's sense of ownership to the company is high enough, managers are more willing to develop and enlarge the company than attaching to bonuses earned when meeting profit targets. With the conservative method, there will be a large enough hidden reserve to increase the amount of corporate investment. Assets are recognized with the lowest value, this means the market value is greater than the book value. It may indicate that the market and investors will judge this positively. Lafond & Roychowdhury (2008); Shuto & Takada (2010); Putra & Subowo (2017); Eersteling (2016) and Dewi & Suryanawa (2014) stated that managerial ownership has a positive effect on accounting conservatism.

H<sub>4</sub>: Managerial ownership has a positive effect on accounting conservatism.

There are several factors that may affect the implementation of accounting conservatism principles. These factors include financial distress, leverage, investment opportunity set (IOS), and managerial ownership. Financial distress indicates that corporate finances are in trouble or are experiencing financial difficulties. Conservatism is a prudent principle that is applied when companies face an uncertain environment, so that when companies are experiencing financial difficulties, the company will be more cautious again in dealing with the situation. Leverage or high debt level will make the company more cautious, because high debt level can be a threat to the survival of the company, so that the creditor has a greater right to know and oversee the company's operations and accounting (Pramudita, 2012).

The greater the investment opportunity set, the greater the market to book ratio as a proxy for account-

ing conservatism. Conversely, the smaller the investment opportunity set, the smaller the market to book ratio as the proxy for accounting conservatism. Based on signalling theory, this happens because the market reacts positively to the growth of the company that can be used as a signal to the public and shareholders, so that stock prices will also increase. This stock price will increase the value of IOS which means that the greater the market to book ratio which is the proxy of accounting conservatism. Share ownership by managers which are more than other investors, will make management tends to report more conservative earnings. Since the manager's sense of ownership to the company is high enough, managers are more willing to develop and enlarge the company than the importance of bonuses earned when meeting profit targets. With the conservative method, there will be a large enough hidden reserve to increase the amount of investment in the company.

H<sub>5</sub>: Financial distress, leverage, investment opportunity set (IOS), and managerial ownership have a positive effect on accounting conservatism.

Based on the framework above, the research model can be seen in Figure 1.

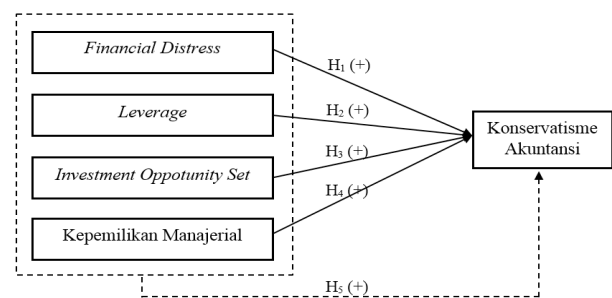


Fig. 1. Research Model

## RESEARCH METHOD

This research was a kind of quantitative research using secondary data. The population used in this study was manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2013 to 2016 as many as 143 companies. Sample selection used purposive sampling technique. The results of sample selection based on

Table 1. Sample Determination Procedure

Explanation	Beyond Criteria	Number
Population: Manufacturing companies listed on IDX in 2013-2016		143
1. Manufacturing companies that issued annual financial statements using a rupiah currency unit during the study period.	(28)	115
2. Manufacturing companies that issued financial statements during the study period.	(8)	107
3. Manufacturing companies with a market to book ratio value of more than 1 during the study period.	(67)	40
4. Manufacturing companies which owned managerial ownership during the study period.	(20)	20
Research Period (2013-2016)		4
<b>Number of Analysis Units</b>		<b>80</b>

Source: [www.idx.co.id](http://www.idx.co.id), 2017

**Table 2.** Operational Definition of Research Variables

No	Variables	Variables Definition	Measurement
1.	Accounting Conservatism	Concepts that recognized burdens and obligations as soon as possible despite uncertainty about the outcome, but only recognized income and assets when it was certain to be accepted (Savitri, 2016).	(Watts, 2003)
2.	Financial Distress	The financial difficulties faced by the company which were accompanied by the initial symptoms of bankruptcy (Setyaningsih, 2008).	$Z\text{-Score} = 0.717X_1 + 0.847X_2 + 3.107X_3 + 0.420X_4 + 0.998X_5$ (Dewi & Suryanawa, 2014)
3.	Leverage	The ability of a company to pay its entire debt (Kasmir, 2008).	(Pramudita, 2012)
4.	Investment Opportunity Set (IOS)	A set of investment decisions in the form of owned assets and future investment options (Pagalung, 2002).	CAPBVA (Andreas et al., 2017)
5.	Managerial Ownership	Corporate shareholding by management (Rohim & Puspita, 2014).	Percentage $\frac{\sum \text{management stock}}{\sum \text{stock outstanding}}$ . (Rohim & Puspita, 2014)

sample selection criteria above were as follows:

The dependent variable in this study was accounting conservatism. While the independent variables used in this study were financial distress, leverage, investment opportunity set (IOS), and managerial ownership.

Technique of collecting data in this research was documentation method in the form of secondary data that was financial report and annual report of manufacturing companies that operated in year 2013-2016. Data analysis in this study used descriptive statistical analysis and inferential statistical analysis by using multiple linear regression analysis which must first pass from the classical assumption test.

## RESULTS AND DISCUSSIONS

Descriptive statistics is used to look at the mean, standard deviation, maximum, and minimum values of financial distress (FD), leverage (LEV), investment opportunity set (IOS), and managerial (MANJ) on accounting conservatism (CONACC). The results of descriptive statistics are as follows:

The result of descriptive statistical test shows that the variable of accounting conservatism has the highest value of 62.93 which is owned by PT Unilever Tbk in the financial statements of 2016. While the lowest value of 1.02 is owned by PT Alaska Industrindo Tbk in the financial statements of 2013. The average value of accounting conservatism is 5.7750 and the standard deviation is 11.73798. A smaller average value than standard deviation value indicates that the distribution of data for accounting conservatism variable tends to be below average. This shows that the principle of accounting conservatism applied in the company is still relatively low.

The classical assumption tests in this study consist of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Regression model in this research turned out to violate assumption of normality and homocedasticity, so that the regression model changed into semi-log form that dependent variable is converted into natural logarithm (Ln) in order to pass the classical assumption test. The result of semi-log regression shows that the normality test of Kormogrov-Smirnov has asymp value. sig. (2-tailed) of 0.200 which is greater than the 0.05 significance level so it can be concluded that the residual data is normally distributed. The result of multicollinearity test shows that the tolerance value of all independent variables is greater than 0.10 and the VIF value is less than 10, so it can be concluded that the regression model does not contain multicollinearity. The result of the autocorrelation test shows the durbin - watson value of 2.211, which is greater than the upper limit (du) of 1.743 and less than 4 - 1.743 (4 - du), then it can be concluded that there is no positive or negative autocorrelation or it can be concluded that there is no autocorrelation. The result of heteroscedasticity test shows that the result of regression equation of

**Table 3.** Result of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CONACC	80	1.02	62.93	5.7750	11.73798
FD	80	0.57	22.52	5.6557	4.76256
LEV	80	0.07	3.05	1.0154	0.71274
IOS	80	-0.05	0.19	0.0377	0.04508
MANJ	80	0.00	32.40	4.5641	8.09591
Valid N (listwise)	80				

Source: Secondary data processed, 2017

White Test obtained  $R^2$  value of 0.672 to calculate the value of  $c^2$ , where  $c^2 = n \times R^2$ , so that the value of  $c^2$  is 53.76 ( $80 \times 0.672$ ). From the result of calculation, it is known that  $c^2$  count smaller than  $c^2$  table that is  $53.76 < 101.88$ . Thus, it can be concluded that the regression model in this study does not contain heteroscedasticity or homoce-dasticity. The result of correlation test shows that there is a relationship between financial distress and managerial ownership with a value of 0.496.

### Hypothesis Testing

The result of simultaneous significance test (f statistical test) shows a significance value of 0.000 which is less than the 0.05 significance level, so it can be concluded that financial distress, leverage, investment opportunity set (IOS), and managerial ownership together influence on the accounting conservatism. The value of adjusted  $R^2$  is 0.513, which means that 51.3% of variations in accounting conservatism can be explained by the variation of all the independent variables in this study: financial distress, leverage, investment opportunity set (IOS), and managerial ownership. Meanwhile, the remaining 48.7% is explained by

other causes outside the model. The result of t statistical test can be seen in table 4.

Based on the results of the tests that have been done, the summary of hypothesis test results could be seen in table 4.

### The Effect of Financial Distress on Accounting Conservatism

The result of this study shows that financial distress has a significant positive effect on accounting conservatism. Companies that are experiencing bankruptcy-prone financial conditions can take immediate action to overcome the financial difficulties that the company is experiencing. To solve the problem, companies that are experiencing financial difficulties will take action by increasing the application of accounting conservatism. This result is consistent with the signal theory which explains that the provision of information done by managers about the financial difficulties experienced by companies is a useful signal for reducing information asymmetry between managers and shareholders. Managers who report the difficult conditions experienced by the company to shareholders can

**Table 4.** The result of t statistical test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
1 (Constant)	0.044	0.172		0.257	0.798
FD	0.152	0.017	0.832	8.927	0.000
LEV	0.375	0.102	0.307	3.687	0.000
IOS	0.118	1.540	0.006	0.077	0.939
MANJ	-0.035	0.010	-0.330	-3.562	0.001

a. Dependent Variable: LnCONACC

Source: Output SPSS 23, 2017

**Table 5.** Recapitulation of Hypothesis Test Result

No.	Hypothesis	Explanation	B	Sig	A	Result
1.	H <sub>1</sub>	Financial distress has a positive effect on accounting conservatism.	0.152	0.000	0.05	Accepted
2.	H <sub>2</sub>	Leverage has a positive effect on accounting conservatism.	0.372	0.000	0.05	Accepted
3.	H <sub>3</sub>	Investment opportunity set (IOS) has a positive effect on accounting conservatism.	0.118	0.939	0.05	Rejected
4.	H <sub>4</sub>	Managerial ownership has a positive effect on accounting conservatism.	-0.035	0.001	0.05	Rejected
5.	H <sub>5</sub>	Financial distress, leverage, investment opportunity set (IOS), managerial ownership have a positive effect on accounting conservatism.	-	0,000	0.05	Accepted

Source: Secondary data processed, 2017

be a signal that the manager provides information honestly without any manipulation by presenting overstatement profits. Managers give information through financial statements that their companies apply a conservative accounting policy that generates more qualified profits because this principle prevents companies from overstating profits and helps the users of financial statements in presenting excessive profit and assets (Karina & Khafid, 2015).

Companies that are experiencing financial difficulties will signal in the form of information that companies apply a conservative accounting to avoid management reporting overstatement earnings. If the manager implements non-conservative accounting by presenting overstate earnings, it will make the company experiences more difficult financial conditions or to go bankrupt because managers are not careful in facing uncertainty and related risks in business situations.

The result of this study supports the results of research conducted by Setyaningsih (2008) and Pramudita (2012) which stated that financial distress positively affects on accounting conservatism. The higher the level of financial difficulties experienced by the company, the higher the implementation of accounting conservatism principles in the company. Conversely, the lower the level of corporate financial difficulties, the lower the implementation of accounting conservatism principles.

#### **The Effect of Leverage on Accounting Conservatism**

The result of this study indicates that leverage has a significant positive effect on accounting conservatism. The agency theory states that managers and creditors have different interests that will create a conflict of interest. High leverage ratio can increase the risk of losses will be faced to be greater. Thus, managers will choose to apply conservative accounting to minimize conflict and possible risks that may become a threat to the company's survival.

The higher the debt ratio of a company, the greater the chance of breach of agreement faced by the company. High debt level will make the company more cautious, because high debt level can become a threat to the company's survival. The higher the leverage ratio, the higher the financial risks faced by creditors and companies. The creditor has a greater right to know and oversee the corporate operations and accounting (Pramudita, 2012). The larger right will reduce the information asymmetry between creditors and

corporate managers. This is due to the creditors must know how big the security level of refund has been given to the company and to minimize the risk of breach of agreement that may be done by the company. The creditor also has an interest in the distribution of net assets over the financing assets have been given and lower earnings to managers and shareholders. Thus, the company will apply a conservative accounting because managers have difficulty to hide information from creditors.

The result of this study supports the results of research conducted by Nikolaev (2010), Alfian & Sabeni(2013) as well as Dewi & Suryanawa (2014) which stated that leverage has a significant positive effect on accounting conservatism. The higher the leverage ratio of the company, the higher the implementation of accounting conservatism principles in the company. Conversely, the lower the leverage ratio of the company, the lower the implementation of the accounting conservatism principle. The higher the debt ratio of a company, the greater the chance of breach of agreement faced by the company.

#### **The Effect of Investment Opportunity Set (IOS) to Accounting Conservatism**

The result of this study indicates that investment opportunity set (IOS) has no effect on accounting conservatism. Investment opportunity set (IOS) is an investment decision in the form of a combination of assets owned (assets in place) and investment options in the future, where the IOS will affect firm value. Savitri (2016) explained that accounting traditionally does not respond to changes in growth values and intangible assets. Acquisitions and changes in the derivative value of the asset are not normally recorded unless externally obtained and can be verified such as goodwill and acquisitions. Consequently, if there is a decline in the value of an asset which is not recorded then the company cannot recognize asset value. In short, it can be concluded that an increasing investment opportunity set will be vulnerable to the decline of assets value, especially unrecognized intangible assets. This leads the company to a low level of accounting conservatism, especially when the value of the firm is influenced by the value of growth and the value of intangible assets.

Another possibility of investment opportunity set (IOS) has no effect on accounting conservatism because investment decision in the future will affect the value of the company, where the company will report the best results to sharehol-



ders without having to pay attention to the principle of conservatism. In addition, the financial data of the sample company shows an insignificant increase in fixed assets from 2013 to 2016, so that the effect of IOS as measured by investment proxy with fixed assets also does not have a significant effect on accounting conservatism.

The result of this study indicates that investment opportunity set has no significant effect on accounting conservatism, which means empirically this research does not support that investment opportunity set positively affects on accounting conservatism. The higher or lower the investment opportunity set will not affect the implementation of accounting conservatism in the preparation of corporate financial statements. The result of this study is also not in line with the results of research conducted by Andreas, Ardeni, & Nugroho (2017) which stated that the investment opportunity set has a positive effect on accounting conservatism.

### **The Effect of Managerial Ownership on Accounting Conservatism**

The result of this study indicates that managerial ownership has a negative and significant effect on accounting conservatism. Actually, there is no effect of managerial ownership on accounting conservatism. However, the result of correlation test shows that there is a relationship between financial distress and managerial ownership with a value of 0.496. This result has caused a significant negative effect of managerial ownership on accounting conservatism.

The absence of managerial ownership effect on accounting conservatism indicates that management does not have shares or one which has is less interested in choosing a conservative accounting policy. This is because the application of conservative accounting can reduce the incentives both as a controller and as a shareholder of the company. Management tends to be oriented to the results of company's performance that is high profit, because it will be assessed by stakeholders. In addition, a low level of managerial ownership causes managers to act disadvantageously to shareholders and tend not to be careful to potentially commit fraud, since managers protect their interest which is different with the owners (Maisyuti, 2014). With a balanced share between management and shareholders can create the prudent principles of insiders in managing the company, because the risk of bankruptcy is not only borne by the main owner, but the insider owner also took the part (Muhyarsyah, 2007).

The result of this study indicates that managerial ownership significantly and negatively affects on accounting conservatism, which means empirically this research does not support that managerial ownership positively affect on accounting conservatism. The result of this study is in line with the research that has been done by Brilianti (2013) which showed that managerial ownership negatively affects on accounting conservatism.

### **The Influence of Financial Distress, Leverage, Investment Opportunity Set (IOS), and Managerial Ownership to Accounting Conservatism**

The result of this study indicates that financial distress, leverage, investment opportunity set, and managerial ownership simultaneously affect on the accounting conservatism. This result can provide information that the future level of financial difficulties, debt levels, and investment decisions can be used to find out how much it influences on the application of accounting conservatism principle. The result of this study can also be used to predict the factors that influence the increase and decrease in the implementation of accounting conservatism principles consisting of financial distress, leverage, investment opportunity set (IOS), and managerial ownership. Any increase or decrease in these factors will affect the increase and decrease in the application of conservatism.

### **CONCLUSIONS AND SUGGESTIONS**

The conclusions of this study are financial distress and leverage have a significant positive effect on accounting conservatism. While investment opportunity set (IOS) has no effect on accounting conservatism, and managerial ownership has a significant negative effect on accounting conservatism. Financial distress and leverage can enhance the application of accounting conservatism principles. While managerial ownership can decrease the application of accounting conservatism principles. However, financial distress, leverage, investment opportunity set, and managerial ownership together have an effect on accounting conservatism.

The results of this study indicates that the application of conservatism principle is still low, so it is expected that managers further improve the application of accounting conservatism so as to reduce the asymmetry of information that occurs between shareholders or investors as well as with creditors. This study shows that investment opportunity set (IOS) has no effect on accounting conservatism, so for further research it can use other IOS measurements, such as proxies based on price or proxy based on variants, in order to produce a significant effect on accounting conservatism. other independent variables to increase the effect of accounting conservatism application and to get more varied results, such as cash flow, profitability, corporate growth, and good corporate governance.

### **REFERENCES**

- Aderemi, A. K., David, I., Adetiloye, K. A., & Eriabie, S. (2017). Financial Reports And Shareholders' decision Making In Nigeria: Any Connectedness? *Journal of Internet Banking and Commerce*, 22(S8), 1–14.
- Afridah, N., & Yanto, H. (2015). Determinan Asimetri Informasi Di Seputar Pengumuman Laporan Keuangan Tahunan. *Accounting Analysis Journal*, 4(2), 1–10.
- Agustina, L. (2012). Pengaruh Karakteristik Perusahaan terhadap Pengungkapan Laporan Tahunan. *Jurnal Dinamika Akuntansi*, 4(1), 55–63.



- Alfian, A., & Sabeni, A. (2013). Analisis faktor-faktor yang berpengaruh terhadap pemilihan konservatisme akuntansi. *Diponegoro Journal of Accounting*, 123–132.
- Andreas, H. H., Ardeni, A., & Nugroho, P. I. (2017). Konservatisme Akuntansi di Indonesia. *Jurnal Ekonomi Dan Bisnis*, 20(1), 1–22.
- Blessing, A., & Onoja, E.E. (2015). The Role of Financial Statements on Investment Decision Making: a Case of United Bank for Africa PLC (2004-2013). *European Journal of Business, Economics and Accountancy*, 3(2), 12–37.
- Brilianti, D. P. (2013). Faktor-faktor yang Mempengaruhi Penerapan Konservatisme Akuntansi Perusahaan. *Accounting Analysis Journal*, 2(3), 268–275.
- Dewi, N. K. S. L., & Suryanawa, I. K. (2014). Pengaruh Struktur Kepemilikan Manajerial, Leverage, dan Financial Distress terhadap Konservatisme Akuntansi. *E-Jurnal Akuntansi Universitas Udayana*, 7(1), 223–234.
- Eersteling, G. (2016). *The effect of managerial ownership on the demand for conservatism*. Uppsala University.
- Geimechi, G., & Khodabakhshi, N. (2015). Factors Affecting The Level of Accounting Conservatism in The Financial Statements of The Listed Companies in Tehran Stock Exchange. *International Journal of Accounting Research*, 42(1839), 1–6.
- Ismaya, S. (2015). *Kamus Akuntansi*. Bandung: Pustaka Grafika.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/http://dx.doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/http://dx.doi.org/10.1016/0304-405X(76)90026-X)
- Kao, H.-S., & Sie, P.-J. (2016). Accounting Conservatism Trends and Financial Distress: Considering the Endogeneity of the C-Score. *International Journal of Financial Research*, 7(4), 149–159.
- Karina, F., & Khafid, M. (2015). Determinan Profitabilitas pada Perusahaan Properti dan Real Estate go Public di Indonesia. *Jurnal Dinamika Akuntansi*, 7(1), 1–9.
- Kasmir. (2008). *Analisis Laporan Keuangan*. Jakarta: RajaGrafindo Persada.
- Lafond, R., & Roychowdhury, S. (2008). Managerial ownership and accounting conservatism. *Journal of Accounting Research*, 46(1), 101–135.
- Miciuc, G., Hlaciuc, E., & Ursache, A. (2015). The role of prudence in financial reporting: IFRS versus Directive 34. *Procedia Economics and Finance*, 32, 738–744.
- Maisyuti, A. (2014). Pengaruh Asimetri Informasi, Kepemilikan Manajerial Dan Employee Stock Ownership Program Terhadap Praktik Manajemen Laba. *E-Jurnal Universitas Negeri Padang*, 2(1).
- Muhyarsyah. (2007). Pengaruh Kebijakan Hutang Terhadap Nilai Perusahaan. *Jurnal Riset Akuntansi Dan Bisnis*, 7(2), 117–138.
- Murwaningsari, E., & Rachmawati, S. (2017). The Influence of Capital Intensity and Investment Opportunity Set toward Conservatism with Managerial Ownership as Moderating Variable. *Journal of Advanced Management Science*, 5(6), 445–451.
- Nikolaev, V. V. (2010). Debt Covenants And Accounting Conservatism. *Journal Of Accounting Research*, 48(1), 137–175.
- Noviantari, N. W., & Ratnadi, N. M. D. (2015). Pengaruh Financial Distress, Ukuran Perusahaan, dan Leverage pada Konservatisme Akuntansi. *E-Jurnal Akuntansi*, 11(3), 646–660.
- Pagalung, G. (2002). Pengaruh Kombinasi Keunggulan Dan Keterbatasan Perusahaan Terhadap Set Keputusan Investasi. *Simposium Nasional 5*, 662–673.
- Pramudita, N. (2012). Pengaruh Tingkat Kesulitan Keuangan dan Tingkat Hutang terhadap Konservatisme Akuntansi pada Perusahaan Manufaktur di BEI. *Jurnal Ilmiah Mahasiswa Akuntansi*, 1(2), 1–6.
- Putra, N. Y., & Subowo, S. (2017). The Effect of Accounting Conservatism, Investment Opportunity Set, Leverage, and Company Size on Earnings Quality. *Accounting Analysis Journal*, 5(4), 299–306.
- Rodrigues, S. da S., & Galdi, F. C. (2017). Investor Relations and Information Asymmetry. *Revista Contabilidade & Finanças*, 28(74), 11–23. <https://doi.org/http://dx.doi.org/10.1590/1808-057x201703630>
- Rohim, A. A., & Puspita, H. E. (2014). Analisis Faktor-faktor Yang Mempengaruhi Pilihan Perusahaan Terhadap Konservatisme. *Jurnal AKuntansi Dan Keuangan*, 19(1), 43–57.
- Saptono, R., & Gurendrawati, E. (2014). Pengaruh Kepemilikan Manajerial, Investment Opportunity Set (Ios), Dan Debt Covenant Terhadap Konservatisme Akuntansi Pada Perusahaan Manufaktur Yang Terdaftar Di BEI. *Jurnal Ilmiah Wahana Akuntansi*, 9(2), 151–167.
- Sari, C., & Adhariani, D. (2009). Konservatisme Perusahaan di Indonesia dan Faktor Faktor yang Mempengaruhinya. *Simposium Nasional Akuntansi XII*.
- Savitri, E. (2016). *Konservatisme Akuntansi. Cara Pengukuran, Tinjauan Empiris dan Faktor-faktor yang Mempengaruhinya*. Yogyakarta: Pustaka Sahila Yogyakarta.
- Setyaningsih, H. (2008). Pengaruh tingkat kesulitan keuangan perusahaan terhadap konservatisme akuntansi. *Jurnal Akuntansi Dan Investasi*, 9(1), 91–107.
- Shuto, A., & Takada, T. (2010). Managerial ownership and accounting conservatism in Japan: A test of management entrenchment effect. *Journal of Business Finance & Accounting*, 37(7–8), 815–840.
- Subramanyam, K. R., & Wild, J. J. (2010). *Analisis Laporan Keuangan*. Jakarta: Salemba Empat.
- Tosi, L. A., & Paidar, G. A. (2015). The Relationship between Accounting Conservatism and Leverage Ratio and Current Ratio in the Companies Listed in Tehran Stock Exchange. *International Research Journal of Management Sciences*, 3(11), 573–581.
- Watts, R. L. (2003). Conservatism in accounting part I: Explanations and implications. *Accounting Horizons*, 17(3), 207–221.