

Factors Influencing the Application of Accounting Conservatism in the Company

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Factors Influencing the Application of Accounting Conservatism in the Company

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Abstract

The purpose of this research is to determine the effect of the leverage, litigation risk, financial distress, political cost and company growth on accounting conservatism. The population of this study are 144 manufacturing companies which is listed in the Indonesian Stock Exchange (BEI) for the periode 2013-2016. Data were selected by purposive sampling method obtained by 32 sample. The units of analysis sample are 128 unit analysis. The method of data collection is documentation in this research. Data sourced from Indonesian Capital Market Directory and Audit Financial Report. The method of data analysis is multiple regression analysis, using SPSS 21 program for windows. The result of shows leverage, litigation risk, financial distress and company growth have positive significant effect to accounting conservatism. While political cost does not effect on accounting conservatism. Based on the research result, it can be concluded that leverage, litigation risk, financial distress and company growth can improve the application of accounting conservatism within the company, while and political costs have no effect the accounting conservatism in company.

Keywords: Accounting Conservatism; Leverage; Litigation Risk; Financial Distress; Political Cost; Company Growth

1. Introduction

The financial statements are a form of management responsibilities as managers of corporate resources to interested parties. The financial statements should be reported in accordance with actual company conditions. In addition, the financial statements should be prepared in accordance with applicable accounting standards, in Indonesia the applicable accounting standards are Standar Akuntansi Keuangan (SAK). Standar Akuntansi Keuangan (SAK) gives companies the freedom to choose the accounting methods used in preparing financial statements. This can lead to various risks such as the risk of manipulation of financial statements. The risk of manipulation of financial statements is a management action in covering the actual state of the company.

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Manipulation of financial statements made by management usually manipulation of earnings and manipulation of assets. This is evidenced by the case of PT. Kimia Farma who manipulates the financial statements by exceeding the net profit that should be Rp. 99.594 billion but in the financial statements reported Rp. 132 billion (Bapepam, 2002). In addition, Bapepam discovers that there are indications of sales accounts and receivables being reported overstatement up to hundreds of millions in the 2003 PT.Great River International financial statements [18]. Both cases illustrate that the company is lacking in applying accounting conservatism so that reported earnings tend to be manipulated to make the profit look high. When the company management manipulates the financial statements then the disadvantaged are the parties concerned in the company. So to minimize the manipulation of profit and assets, especially the reporting of excessive earnings and assets, the company must apply accounting conservatism. Accounting conservatism is a prudent principle in financial reporting where the company is not in a hurry to recognize and measure assets and profits, and immediately recognize the possible losses and debts that [25]. Companies that use the method of conservatism in the preparation of financial statements the resulting profits tend not to be exaggerated. In addition, using this method may prevent management from being opportunistic

Under the conceptual framework of International Financial Reporting Standards (IFRS) conservatism has indeed been abolished because IFRS-based financial statements must be understandable, relevant, reliable and comparable, but without conservative biased. But in the application of certain IFRS rules, conservative accounting principles are retained in many areas even though the international financial reporting standards (IFRS) imply that the principle of accounting conservatism is no longer applied [9]. The principle of accounting conservatism within IFRS is replaced by the concept of prudence. The concept of prudence is similar to the concept of accounting conservatism that distinguishes is the recognition of income or profit. The principle of conservatism acknowledges the income or profit if it has been realized if it has not been realized then the recognition is delayed while the concept of income prudence is recognized if it meets the criteria that have been determined if it has not been fulfilled then not yet recognized.

The results of previous studies related to the determinants of accounting conservatism still get inconsistent results. Research gaps in leverage variables were found in research Risdiyani & Kusmuriyanto (2015) and Alfian & Sabeni (2013) which showed leverage had a significant and positive on accounting conservatism, while research by Oktomegah (2012) and Noviantari & Ratnadi (2015) states that the leverage ratio has

a negative and significant effect on accounting conservatism. Litigation risk variable in research Ramadhoni et al. (2014) and Deslatu & Susanto (2009) that the risk of litigation has a significant positive effect on accounting conservatism is different from research Widayati (2011) and Nasir et al. (2014) the risk of litigation has no effect on accounting conservatism. Then financial distress variables research Pramudita (2012), Ramadhoni et al. (2014), Sulastiningsih & Husna (2017) and Setyaningsih (2008) that financial distress has a positive and significant effect on accounting conservatism different from Nugroho & Mutmainah (2012), Noviantari & Ratnadi (2015) and Risdiyani & Kusmuriyanto (2015) that financial distress significant and negative effect on conservatism accounting.

Political cost variable based on research Oktomegah (2012) and Dewi et al. (2014) political costs have a significant positive effect on accounting conservatism while the research of Reskino & Vemiliyarni (2014) political costs have a negative and significant effect on accounting conservatism. Further variable company growth based on research Risdiyani & Kusmuriyanto (2015) and Andreas et al. (2017) that company growth has a positive and significant effect on accounting conservatism is different from research Saputri (2013) company growth has no effect on accounting conservatism.

This research refers to research conducted Risdiyani & Kusmuriyanto (2015) and Widayati (2011). The purpose of this study was to examine the effect of leverage, litigation risk, financial distress, political cost and company growth against accounting conservatism at manufacturing companies listed on Indonesia Stock Exchange 2013-2016. The difference in this study with previous research is the measurement of litigation risk using Roger & Stocken model whereas previous research used asset growth. This research uses Roger & Stocken model because in this model use indicator of stock price and stock volume movement when stock price and stock volume movement down then it indicates that management has poor performance. Management that has a poor performance such as the profit generated down or the company suffered losses so that it triggers the risk of manipulation of financial statements in order to gain high earnings because management does not want to blame for the results achieved. When exaggerated profits are a public fraud that can lead to litigation risks.

This research is based on agency theory, signaling theory and positive accounting theory. Jensen & Meckling (1976) describes the agency theory that between agent and principle have different interests in the company so that with such differences can lead to conflict between both parties. Management as an agent hired by the principal has an interest in maximizing their own wellbeing. In addition, managers will

act opportunistically to fulfill their interests so that they often neglect the interests of the principal. This is supported by the information asymmetry between agents and principals in which managers as agents have more information than principals

Managers will try to get a high bonus, so they tend to prepare financial statements with high profit figures. Not infrequently when the manager has a poor performance so that the resulting profit is bad then did not rule out the manager will make profits management so that earnings look high. It is unethical and for users of financial statements it will be misleading in decision making. This condition can be minimized by applying accounting conservatism because with this principle the profit shown is likely to be low and it can reduce the financial manipulation of profit and reduce the agency cost. Signaling theory explains that signaling is done by managers to reduce information asymmetry. Managers provide information through financial statements that they implement a conservative accounting policy that results in higher-quality earnings because this principle prevents companies from exaggerating earnings and helps users with financial statements presenting profits and assets that are not overstate

Positive accounting theory explains that managers have an incentive or drive to maximize their well-being. This theory is based on the part that managers, shareholders are rational and they seek to maximize their utility, which is directly related to their prosperity. Positive accounting theory predicts that managers have a tendency to increase profits to conceal poor performance. The tendency of managers to increase profits can be driven by the four problems of contracting ie asymmetric information, years of service limited managers, manager limited liability, and asymmetric payoff [25].

Leverage is the ratio of debt levels owned by the company. Leverage as a reference used by creditors to lend to the company. The agency theory states that between managers and creditors have different interests that will create a conflict of interest. Managers have an interest in getting bonuses and high salaries. This causes managers to be opportunistic to achieve these goals. When managers are opportunistic the reported quality of earnings will be affected because managers will tend to report exaggerated profits to make the profit look high. Managers assume when profits are high then the bonuses and salary received will be high as well. It will be detrimental for the creditors because the creditors can not see the company's ability to pay the real debt.

The company has a high debt level then the company will be closely monitored by creditors. Creditors to protect their funds from management actions that are less profitable, they can perform various ways such as through credit terms submitted when the agreement. The creditor can require the company to apply accounting conservatism in financial reporting. Because with the application of accounting conservatism can prevent management reported overstate earnings. Profits that overstatement can reduce the creditor's accuracy in making decisions. So the higher the level of debt the company encouraged the creditors to create conservative financial statements. Previous research by, Risdiyani & Kusmuriyanto (2015), and Alfian & Sabeni (2013) that leverage has a positive and significant effect on accounting conservatism.

H₁: Leverage positive effect on accounting conservatism

Agency theory explains that conflicts of interest can occur because of differences in interests between agents and principals. Management as an agent has the interests of self-welfare so that they often neglect the interests of the principals. Management will act opportunistic in order to fulfill their interests, management tends to report high corporate profits so often they do earnings manipulation so that earnings look high. Because when the company has a high profit the principal assumes that the manager works well so that the manager is given a high bonus. But the financial statements that have been manipulated will mislead the user in making decisions. In addition, earnings manipulation can lead to the risk of litigation that is the risk of lawsuits.

When earnings manipulation is detected by the creditor and investor then there is possibility that they will make a lawsuit to the company. Because they have legal protection as the owner of the funds. When companies experience lawsuits due to reported earning are too high then the costs incurred will be large so that to minimize the risk of litigation then the company can apply accounting conservatism because with this method the resulting profit will tend to be low. So the higher the risk litigation then the company will increase accounting conservatism. This is in accordance with research Ramadhoni et al. (2014), Sulastiningsih & Husna (2017) and Deslatu & Susanto (2009) that the risk of litigation has a significant positive effect on accounting conservatism.

H₂: Litigation risk positive effect on accounting conservatism

Agency theory explains that conflict of interest can be caused by imbalance of information acquisition between agent and principal, where when company experiencing financial difficulties hence managers will first mengatahuinya so that sometimes it is

hidden from side of principal. Lo (2005) in Pramudita (2012) signaling theory predicts the condition of troubled companies will encourage managers to raise the level of accounting conservatism. When companies experience financial distress, managers will tend to be careful in making decisions because if the company is wrong in choosing a decision then the survival of the company will be threatened. In addition, companies experiencing financial distress will tend to be overseen by various parties. The higher the financial distress then the company will be more careful. Based on research Pramudita (2012), and Ramadhoni et al. (2014), Setyaningsih (2008) that financial distress has a positive and significant effect on accounting conservatism.

H₃: Financial distress positive effect on accounting conservatism

Based on positive accounting theory there is a political cost hypothesis that explains that large firms than small firms will choose accounting methods to reduce reported earnings in order to avoid more demands from external parties. Companies that are large in size tend to incur high political costs associated with taxes because large companies tend to have high profit, profit is a government reference in the tax collection base of business entities. So the higher the profits generated the higher the political costs associated with taxes. Companies to minimize tax expenditures will use accounting methods that can show a low profit that is the method of accounting conservatism. So when high political costs will increase the application of accounting conservatism in the preparation of financial statements. It is consistent with research Oktomegah (2012) and Dewi et al. (2014) the political costs with tax proxies have a significant positive effect on accounting conservatism.

H₄: Political cost positive effect on accounting conservatism

Company growth is a description of the company's business growth seen from the current period compared to the previous period. High corporate growth reflects good ability by the company to operate and earn profits. Companies that are experiencing growth then the resulting profit will be higher. Based on the positive accounting theory that is the hypothesis of the political costs of companies that have high profits will tend to use accounting methods that reduce the earnings to avoid the demands of external parties. The method that can report low profits is the method of accounting conservatism.

Company growth can also be seen from sales growth. Sales growth will affect conservatism through accrual size and market value [2]. So the higher the company's growth the higher the accounting conservatism in the company. This is in accordance

with research by Risdiyani & Kusmuriyanto (2015) and Andreas et al. (2017) that company growth has a positive effect on accounting conservatism.

H₅: Company Growth positive effect on accounting conservatism

2. Research Method

The type of this research is quantitative research and the data used is secondary data. The population in this study are all manufacturing companies listed in Indonesia Stock Exchange (BEI), amounting to 144 companies. Sampling method using purposive sampling method obtained by the final analysis unit of 128. Sample determination based on criteria - criteria can be seen in Table 1.

TABLE 1: Sample Determination Procedure.

Criteria Sample	Total
Manufacturing Companies listed on the BEI in 2016	144
Companies that do not publish financial statements in a row 2014-2016	(14)
Companies are de-listing	(1)
Companies publish financial statements in US dollars	(28)
The company has a Market to book ratio of less than 1	(61)
The company has negative equity value	(5)
The company has incomplete data	(3)
The company being sampled	32
The number of Analysis Unit 27 x 4	128

Source: Processed data, 2017

The dependent variable of accounting conservatism is measured using market to book ratio developed by Beaver & Ryan (2000). Independent variables leverage, litigation risk, financial distress, political costs and company growth. The explanation of the operational definition of each variable is presented in Table 2.

Technique of data collecting is done by documentation method to company auditing financial report from website of Indonesia Stock Exchange. Hypothesis testing research using multiple regression analysis. The classical assumption test is done before testing the research hypothesis in order that the test result meets the criteria. The model used in this study can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

TABLE 2: Operational Definition of Variables.

Variables	Difinition	Measurement
Accounting Conservatism (Y)	Accounting conservatism is the tendency of accountants to use higher verification to acknowledge good news as an advantage over admitting bad news. [25]	$MTB = \frac{\text{Closing Price}}{\text{Equity per share}}$ [21]
Leverage (X ₁)	Leverage is the level of debt owned by a company to finance its operational activities. [11]	Debt to Equity ratio = $\frac{\text{Total Debt}}{\text{Total Equity}}$ [11]
Litigation Risk (X ₂)	Litigation risk is a risk arising from the reporting of profits and excessive net assets. Kellogg (1984) in [26]	Model Rogers & Stocken [1] LITRISK = -5.738 + 0.141(SIZE) + 0.284(TURN) + 0.012(BETA) - 0.237(RETURN - 3.161(MIN_RET))
Financial Distress (X ₃)	Financial distress is an early symptom before the occurrence of bankruptcy. [21]	Model Altman: $Z = 1,2 Z_1 + 1,4 Z_2 + 3,3 Z_3 + 0,6 Z_4 + 0,99 Z_5$ [21]
Political Cost (X ₄)	According to Mills, et al. (2012) in Pratiwi (2015) the political cost is the tax payment to the government by the provider of goods / services based on the effective tax rate applicable.	$Ln(\text{Total Asset})$ [20]
Company Growth (X ₅)	Company growth shows the company's ability to scale up the company [21]	Sales Growth = $\frac{\text{sales}_t - \text{sales}_{t-1}}{\text{sales}_{t-1}}$ [2]

Source: Prepared researchers from various journals, 2017

3. The Result of the Research and Discussion

3.1. Statistik deskriptif

The population obtained in this study are 144 manufacturing companies, of the population that meet the sample criteria of 32 companies. Research period of 4 years so that the unit of data analysis as much as 128. The following is the result of descriptive analysis. Table 3.

The result of descriptive analysis shows that accountancy conservatism variable has the highest value of 8.99 and the lowest value is 1.02. The average value of accounting conservatism is 3,5592. The average leverage value is 1.77490. Leverage has an average value of 0.6915, it shows that the leverage ratio with Debt to Equity Ratio proxy is less than the industry average. The litigation risk variable has the highest value of 1.48 and the lowest value of -1.83 and the average litigation risk is - 8391 means that the average unit of analysis under study has a low litigation risk. Financial distress of 7.2073, this shows that the sample manufacturing company is not in a financial distress

TABLE 3: Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
Y	128	1,02	8,99	3,5238	1,90322
X ₁	128	0,15	2,65	0,8532	0,56657
X ₂	128	-2,32	1,69	-0,8890	0,78234
X ₃	128	0,70	23,74	6,8345	5,15477
X ₄	128	26,02	33,13	28,9753	1,70516
X ₅	128	-0,50	1,08	0,0932	0,17354
Valid N (listwise)	128				

Source: processed data, 2017

situation because it has a value of 7.2073 over 2.67 which is in the category of possibly very low bankruptcy. In the variable of political cost the lowest value is 26,99 and the highest value 33,13 with the average 25,6898 means the unit of analysis under study is big company because Ln value (asset) is above 25,32. Company Growth has the lowest value of -0.20 and the highest value of 0.43 with an average value of 0.0998. This means that the unit of analysis under study on average is experiencing growth.

Before performing the hypothesis test, the regression model is performed feasibility test model. Previously there was the problem of normality and heterokedastisitas so that the variable data Y is transformed using Ln. After the normality test of Kolmogorov-Smirnov (K-S) value of 0.991 is greater than the 0.05 significance level then the data is normally distributed. Autocorrelation test using runs test obtained residual value 0.287 greater than the level of significance 0.05 then concluded there is no autolorelation. The multicollinearity test shows that none of the variables have more than 1 Tolerance and VIF value greater than 10 so it can be concluded that there is no multicollinearity among independent variables in the regression model. Heterokedastisity test using Park test showed the regression model used in this study did not occur heterokedastisitas, where level of significance above 0,05.

4. Result and Discussion

Based on the F test result, it shows F value of 21,332 and F_{table} value equal to 1,978 and 0,000 significance value indicating that leverage (X₁), litigation risk (X₂), financial distress (X₃), political cost (X₄) and company growth (X₅) simultaneously has an influence on accounting conservatism (Y) of 44.4% and 55.6% explained other

factors that are not in the model. The results of hypothesis testing can be seen in Table 4.

TABLE 4: The Test of Hypotesis.

No	Hypothesis	Beta	Sig	α	Result
1	Leverage effect on accounting conservatism	0,183	0,033	0,05	Accepted
2	Litigation Risk positive effect on accounting conservatism	0,101	0,038	0,05	Accepted
3	Financial Distress positive effect on accounting conservatism	0.081	0,000	0,05	Accepted
4	Political Cost positive effect on accounting conservatism	-0,004	0,851	0,05	Rejected
5	Company Growth positive effect on accounting conservatism	0,564	0,009	0,05	Accepted

4.1. The effect of Leverage on accounting conservatism

The leverage in this study is measured using total debt divided by total equity (debt to equity ratio). Hypothesis test results regarding the influence of leverage on accounting conservatism showed a positive and significant direction. Leverage variables have positive and significant effect means that the higher the leverage ratio, the resulting financial statements will be more conservative and the lower the leverage ratio will decrease the application of accounting conservatism within the company. In this study based on descriptive analysis, the unit of analysis has an average leverage level of 0.8532 where the average is greater than the industry average. When a company has a high leverage ratio the interest payable to creditors is higher. This will encourage managers to use conservative accounting methods in preparing financial statements to avoid risk occurrence.

The agency theory states that between managers and creditors have different interests that will create a conflict of interest. Managers have an interest in getting bonuses and high salaries. This causes managers to be opportunistic to achieve these goals. When managers are opportunistic the reported quality of earnings will be affected because managers will tend to report exaggerated profits to make the profit look high. Managers assume when profits are high then the bonuses and salary received will be high as well. It will be detrimental for the creditors because the creditors can not see the company's ability to pay the real debt.

So when companies have high debts, creditors will tend to demand the application of accounting conservatism to protect the funds they lend and to restrict management

from hiding any real information to creditors. In addition, the application of accounting conservatism within the company can reduce the agency costs arising from a conflict of interest between agents and principals and can reduce the information asymmetry between managers and owners of funds invested in the company. Because firms that apply profit and asset accounting conservatism tend not to be overstated, when profits and assets are exaggerated it will lead to conflict between managers and owners of funds so that when it happens the company will spend a lot of agency costs.

The results of this study support the research of Risdiyani & Kusmuriyanto (2015), and Alfian & Sabeni (2013) stating that leverage has a positive and significant impact on accounting conservatism. These results contradict the positive accounting theory that the higher the debt covenant then the company will increase revenue. In addition, this study is inconsistent with the Oktomegah (2012) and Noviantari & Ratnadi (2015) studies which suggest that leverage has a significant effect on accounting conservatism.

4.2. The effect of litigation risk on accounting conservatism

Litigation Risk is the risk of lawsuits that can be made from interested parties to the company, such as creditors, investors, government and society. In this study the proxy of litigation risk using rogers and stocken model. Based on hypothesis test of litigation risk to accountancy conservatism showed positive and significant direction. This means that the increased risk of litigation owned by the company can improve accounting conservatism applied in the company.

Agency theory explains that conflicts of interest can occur because of differences in interests between agents and principals. Management as an agent has the interest of self-welfare so often they ignore the interests of the principal. Management will act opportunistic in order to fulfill their interests, management tend to report profits of companies that high profit so often they do profit manipulation so that earnings look high. Because when the company has a high profit the principal assumes that the manager works well so that the manager is given a high bonus. However, financial statements that have been manipulated will mislead investors and in decision-making, so it can trigger the risk of litigation. Because they have legal protection as the owner of the funds. When companies experience lawsuits due to reported profits are too high then the costs incurred will be large so that to minimize the risk of litigation then the company can apply accounting conservatism because with this method the resulting profit will tend to be low.

In addition, these results are supported by legal conditions and litigation in Indonesia has been running effectively so as to be a factor driving the creation of conservative financial statements. Companies that are in a very strict legal environment then managers will tend to report profits that are not exaggerated because if the financial statements are known to have manipulated the profits then it will lead to demands from various parties in addition the company will be sanctioned by the government for public fraud. This will cause the company to incur high costs as a result of lawsuits by the parties concerned. In addition, with lawsuits that can occur will damage the image of the company so that to restore corporate image in the eyes of society to the company will be difficult and takes a long time.

It may disrupt the life of the company in the future so that to minimize the risk of lawsuits does not occur then the company will apply accounting conservatism in preparing the financial statements because it will minimize the reporting of exaggerated earnings. Profit exaggerated is one of the factors that trigger the risks of lawsuits. So the higher the risk of lawsuits as a result of exaggerated reporting of earnings then the level of accounting conservatism in the preparation of financial statements will increase.

This assumption is supported by previous research conducted by Ramadhoni et.al (2014) and Deslatu & Susanto (2009) showed that the risk of litigation has a positive and significant effect on accounting conservatism which means higher risk of corporate litigation accounting conservatism within the company is getting higher.

4.3. The effect of financial distress on accounting conservatism

Hypothetical examination of financial distress to accounting conservatism show financial distress significant positive influence on accounting conservatism, the higher the financial difficulties experienced by the company will be the application of accounting conservatism within the company will be increasing. This result is consistent with the signaling theory which explains that managers will signal to reduce information asymmetry. The signaling theory explains that if the financial condition and prospects of the firm are good, managers signal by holding liberal accounting reflected in positive discretionary accruals to show that current and future corporate financial conditions and future earnings are better than those implied by the non-discretionary earnings period now. If the company is in financial difficulties and has bad prospects, managers signal by holding conservative accounting reflected in negative discretionary accruals to show that current and future corporate financial conditions and future earnings are

worse than today's non-discretionary earnings period. Thus, the increasing level of corporate financial difficulty will encourage managers to raise the level of accounting conservatism, and vice versa.

Companies experiencing financial hardship conditions will signal the form of information that the company implements accounting conservatism to avoid management reporting exaggerated earnings. When companies are experiencing financial difficulties then those who will be responsible are management because they can not manage the resources of the company well it makes management urgently so to overcome this management will ignore the interests of shareholders and creditors so they will report high profits to look to have a performance the good one.

Then management reports exaggerated earnings it will worsen the company's condition. Companies that are experiencing financial difficulties then managers must be careful in the face of uncertain situations facing the company so that when the manager is wrong in taking action then the company's survival will not be saved means the company will experience bankruptcy.

The results of this study empirically supports that financial distress positively affect the accounting conservatism. The higher the financial distress it will encourage the increased application of accounting conservatism in the preparation of financial statements. The results of this study support Pramudita (2012), Ramadhoni et al. (2014) and Setyaningsih (2008) stating that financial distress has a significant positive effect on conservatism, meaning that accounting conservatism reduces conflicts between companies and creditors and shareholders. However, these results are inconsistent with the results of Nugroho & Mutmainah (2012), Noviantari & Ratnadi (2015) and Risdiyani & Kusmuriyanto (2015) stated that the level of financial distress negatively affects the application of accounting conservatism.

4.4. The effect of political costs on accounting conservatism

The political cost is the tax payment to the government by the provider of goods / services based on the effective tax rate applicable. This study of political costs is measured by using natural log (total assets).Based on the results of hypothesis testing that has been done the variable cost of politics does not affect the accounting conservatism.This result means that the high political costs of the company does not affect the level of accounting conservatism within the company.

Political costs have no effect on the level of accounting conservatism because the profits used to calculate the tax costs to be paid to the government are non-profit

fiscal profit in the income statement and other consolidated comprehensive income so that any political costs that arise will not affect the company in applying accounting conservatism because the calculations for tax fees are different. In addition, the measurement used to measure the variable of political cost is total assets, where the total assets do not affect the high low tax costs to be paid companies. In addition, based on Law No.36 / 2008 on income tax applicable 1 januari 2009 tax rates imposed by the government 28% of taxable income but after the year 2010 tax rate down 25% of the PKP is profitable for companies that have high profit so as not to apply accounting conservatism because the cost of taxes as one element of political costs becomes lower due to tariff reduction.

This result is not in accordance with the positive accounting theory of the political cost hypothesis that companies that have high political costs will tend to use accounting methods that show low profits is the method of accounting conservatism. Based on the agency theory, political costs are the agency costs arising from differences in interests between the government and the company. Where companies have to pay the political costs of taxes to the government on the profits generated by the company. Companies to reduce the political costs will then apply accounting conservatism.

So in this study empirically that the high political costs of the company does not affect the level of accounting conservatism in the preparation of financial statements. This study supports research conducted by Deslatu & Susanto (2009) and Nasir et al (2014) which states that political costs have no effect on accounting conservatism. These results are also inconsistent with studies conducted by Oktomegah (2012) and Dewi et al. (2014) that political costs have a positive and significant impact on accounting conservatism.

4.5. The effect of company growth on accounting conservatism

The company growth is a company that is experiencing growth in order to become a larger company than the previous one. The growth of companies in this study is measured by using sales growth because with sales growth can affect accounting conservatism through tingkat accruals generated. Hypothesis testing of company growth variable shows company growth has a significant positive effect on accounting conservatism, so that when company growth is higher then the financial statements generated by managers will be more conservative. This result is because the average value of company growth is used as sample 0.093 which means the unit of analysis under study is experiencing business development.

Based on the positive accounting theory of the political cost hypothesis that companies that have high political costs will tend to use accounting methods that show low profits. The method is accounting conservatism that can show low reported earnings to reduce political costs. Companies that experience business growth then the profits to be generated will be high when high profit then the company will be demanded high tax payments by the government. So as to reduce the agency costs incurred due to a conflict of interest between the company and the government in the form of tax costs, the company will tend to report low profits by applying accounting conservatism in the preparation of financial statements.

In addition, in this study, company growth is measured by using sales growth. Companies that have sales growth then indirectly affect conservatism through accruals such as accounts receivable and inventory so that the higher sales growth will be the higher level of accounting conservatism within the company. One of the efforts that can be taken by companies is to apply conservative accounting principles in order to achieve the sustainability of the company so that growth companies can continue to increase. The results of this study empirically supports that company growth has a positive effect on accounting conservatism. The higher the company growth, the higher the application of accounting conservatism in the preparation of financial statements. Based on the view of agency theory that the use of accounting conservatism is an alternative to reduce the agency costs incurred due to a conflict of interest between the company and government is accepted.

The results of this study are in accordance with research conducted by Risdiyani & Kusmuriyanto (2015) and [4] stating that company growth has a positive effect on accounting conservatism. But this result does not support research conducted by Saputri (2013) that company growth has no effect on accounting conservatism.

5. Conclusions and Suggestions

Testing results and discussions presented earlier, it can be concluded that leverage, litigation risk, financial distress and company growth have a significant positive effect on accounting conservatism, while political costs have no effect on accounting conservatism. Suggestions for companies should improve the method of accounting conservatism in the preparation of financial statements so as to reduce conflicts of interest with creditors and investors. In addition, using accounting conservatism methods can reduce the agency costs incurred due to differences in interests between creditors

and management. For investors and creditors they should encourage companies to implement accounting conservatism.

Suggested for further research can use other measurement in measuring level of accounting conservatism so that can be compared with clear that is by using Earning / Accrual Measure. Conservatism will induce a continual accrual in the company so that if the researcher uses earning / accrual measure will be more suitable. Furthermore, further research can use other measures of political costs such as profit growth due to tax costs as an element of political costs imposed on the basis of earnings.

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