ANALYSIS OF THE FACTORS AFFECTING THE APPLICATION OF CONSERVATISM IN ACCOUNTING

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Abstract: The application of accounting conservatism in the presentation and disclosure of financial information is important and necessary because of the flexibility of management in presenting financial statements with overstated tendencies that can mislead the use of financial statements. The purpose of this study was to analyze the effect of capital intensity, debt covenant, and managerial ownership, both tested one by one and tested together on accounting conservatism in manufacturing companies listed on the Indonesian Stock Exchange (IDX). The research population is manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2020 period. Sample selection using purposive sampling method with predetermined criteria. Based on these criteria, a sample of 88 companies was obtained during the three-year observation period. The data used is secondary data. This study uses multiple linear regression analysis and hypothesis testing using the t-test, F test, and coefficient of determination test. The results showed that the factors that positively affect accounting conservatism are capital intensity and managerial ownership. While the debt covenant factor does not affect conservatism.

Keywords: Capital Intensity, Debt Covenant and Managerial Ownership

INTRODUCTION

Financial reports are a form of responsibility for the management of all existing activities and a tool for illustrating management performance in managing its resources. The report provides information that can be used by internal parties such as commissioners, directors, managers, and employees as well as external parties such as investors. Financial reports should also be able to provide information about the company's assets, liabilities, and capital, besides that financial reports must meet the objectives, rules, and accounting principles by applicable standards to assist investors in evaluating the company's financial strengths and weaknesses. The preparation of financial statements in Indonesia must be based on the Statement of Financial Accounting (PSAK) issued by the Indonesian Institute of Accountants (IAI). Financial Accounting Standards allow companies to choose the accounting method to be used in preparing financial statements. Financial reports must fulfill the objectives, rules, and principles of accounting following generally accepted standards to produce financial reports that can be accounted for and can be useful for their use. (Hadi, 2018).
One of the principles related to earnings information and financial statements is accounting conservatism. In general, conservatism is often said to be the principle that recognizes expenses first and opinions are recognized at the end. Thus, the profit presented in the financial statements contains the principle of prudence to avoid possible risks. However, this principle can cause fluctuations in earnings because future reported earnings will be overstated. (Christina, 2021).

Conservatism is applied because accounting uses the accrual basis in presenting the company’s financial statements. Accruals cause the formation of accounting values not only the real value of financial transactions, both flowing in and out but also includes a record of the value of transactions that give rise to the possibility of the entry and exit of money in the future, both caused by past and future transactions. (Savitri, 2018).

The impact of the application of the concept of conservatism is the choice of methods that lead to lower reporting of profits and assets or higher reporting of expenses and debt. With the concept of conservatism, lenders will receive downside risk protection from balance sheets that present net assets and financial statements that report bad news promptly. (Savitri, 2018).

Conservatism is a controversial principle in accounting practice. On the one hand, the application of the principle of accounting conservatism, states that conservatism is useful to avoid opportunistic behavior of managers related to contracts that can minimize the incidence of agency costs. The application of the principle of conservatism will produce quality earnings because the principle of conservatism prevents companies from exaggerating profit figures, it can help users of financial statements by presenting profits and assets that are not overstated because of unrealized losses but there are already indications of profit losses have not been recorded as profits. However, the use of conservatism is not excessive because it will result in errors in the presentation of periodic profits or losses that cannot reflect the actual condition of the company. Information that does not reflect the actual condition of a company will cause the reported quality to be doubtful so that it misleads users of financial statements and cannot support users in making decisions (L. Y. Siregar & L. Y. Siregar, 2015). (L. Y. Siregar & Harahap, 2022).

The manipulation was in the form of six affiliated distributor companies that were written as third parties, and the overstatement of receivables from the six companies with a value of up to Rp1.4 trillion. Judge Akhmad also mentioned the alleged flow of funds from the company worth Rp1.78 trillion to management. "There is a flow of funds of Rp1.78 trillion through several schemes such as seeking funds from several banks through time deposits, bank transfers, and others. This was not adequately disclosed by the company, thus violating aspects of capital market supervision. (Oktavia & Suryaningrum, 2018).

This manipulation case also occurred at PT GIAA 2019 and OJK finally decided that there was something wrong in the presentation of GIAA's 2018 financial statements. The company was asked to restate its financial statements and the company was fined Rp 100 million along with the directors and commissioners who signed the financial statements. After the adjustment, the national airline finally recorded a loss of US$ 175 million, or equivalent to Rp 2.53 trillion. There is a difference of US$ 180 million from what was submitted in the company's financial statements for the 2018 fiscal year. In 2018, the company reported a profit of US$ 5 million, equivalent to Rp 72.5 billion. (cnbcindonesia.com, 2022).

Conservatism can be explained from the perspective of agency theory. In agency theory, there is a separation between the agent and the principal. The decision to choose the accounting method used cannot be separated from the share ownership structure. However, when the interests of managers differ from the interests of shareholders, the decisions made by managers are likely to reflect the preferences of managers rather than owners.

Some things that affect conservatism are capital intensity, debt covenant, managerial ownership structure, public share ownership, institutional ownership, and company size.
Capital intensity, the more assets are used in the company's operations to generate sales of the company's products, it is certain that the company is large.

Large companies will be more scrutinized by the government, so companies with capital-intensive conditions will report conservatively to avoid large political costs. The government tends to allocate large political costs to capital-intensive companies, for example from taxes, tariffs, labor demands, and so on. Therefore, managers tend to reduce earnings reporting, so that companies are more conservative.

*Debt covenant,* creditors have a payment asymmetry related to the net assets of the company. When the loan matures and the company's net assets are above the *face value of the* debt, the creditor receives no additional compensation. If the company cannot generate enough net assets to cover the promised payments, the nature of the obligation is limited to the contracted amount, so the creditor's concern lies in the limit of *earnings* and net assets. When assessing potential loans, creditors want to know how much the company has assets to pledge (Afriani et al., 2021). (Afriani et al., 2021).

The managerial ownership structure is the shareholders who also mean in this case shareholders in the company. If the manager's ownership structure is lower than the share ownership of other parties, the accounting methods used will tend to be less conservative, because managers want the performance they produce to be considered good by shareholders who have shares that are greater than them so that shareholders know that the dividends they will get are high if profits are high too. Then the higher the profit generated, the manager's performance will be considered better so that the manager will get more bonuses (assuming there is a bonus plan agreement).

This can encourage managers to report greater profits. Conversely, if the ownership structure of managers is higher than other parties, the company will tend to use conservative accounting methods. Managers' high sense of ownership of the company will make them not want to report high profits. Because low profits will have hidden reserves of funds that the company can use to enlarge the company by increasing the amount of investment. With this increase in company value, it is hoped that investors and potential investors can assess the company positively and are interested in investing in the company. (Reskino & Vemilyarni, 2016).

Public share ownership is the proportion of share ownership owned by the public against the company's shares. The definition of public here is individual or institutional parties who own shares below 5% who are outside management and do not have a special relationship with the company. (Hamdani et al., 2017).

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies, and other institutional ownership. Institutional ownership has an important meaning in monitoring management because the existence of institutional interests will encourage an increase in more optimal supervision. This *monitoring* will certainly ensure prosperity for shareholders, the influence of institutional ownership as a supervisory agent is emphasized through their considerable investment in the capital market. (H. Siregar, 2018).

Company size is a scale where the size of the company can be classified according to various ways, including total assets, *log size,* stock market value, and others. The size of the company will affect its ability to bear the risks that may arise from various situations facing the company. (Supriati, 2018).


Reskino & Vemilyarni, (2016) on IFRS Convergence, *Bonus Plan,* *Debt Covenant,* and *Political Cost* on Accounting Conservatism. Shows that IFRS convergence and political costs have a negative and significant effect on accounting conservatism. On the other hand,
bonus plans and debt covenants have no significant effect on accounting conservatism. The difference between this research and previous research lies in the independent variables, research objects, and research years. This study uses 3 independent variables with debt covenant variables, capital intensity, and managerial ownership and the object of this research focuses more on Manufacturing sector companies listed on the Indonesian Sharia Stock Index in 2018-2020.

Manufacturing companies were chosen as the research sample because the principle of conservatism arises due to the existence of accrual components that can be managed and manipulated by company management.

OVERVIEW
Agency Theory
If, as agency theory suggests, selfish managers act in ways that enhance their welfare at the expense of shareholder returns, then owners who have delegated decision-making authority to their agents will miss out on potential gains that could have resulted from strategies that optimize the owners' desires and/or the costs of monitoring and control systems designed to minimize the consequences of management's self-interested decisions. Taken together, the costs of agency problems and the costs of actions taken to minimize agency problems are referred to as agency costs.

These costs are often identified with direct benefits received by the agent as well as a negative present value. Agency costs are found when there are differences in interests between shareholders and managers, superiors and subordinates, between managers and departments, or competing branch offices. (Nurfadilah, 2021).

Accounting Conservatism
PSAK is the standard of accounting records in Indonesia. One of the triggers for the application of the principle of accounting conservatism is PSAK. The recognition of the principle of conservatism in PSAK is reflected in the existence of various choices of recording methods in the same condition. This will result in different numbers in the financial statements which in turn will cause profits that tend to be conservative. Some choices of recording methods in PSAK that can lead to conservative financial statements include:

1. PSAK No. 14 concerning inventory states that companies can record inventory costs using one of the methods, namely FIFO (first in first out) or first in first out and the weighted average method.
2. PSAK No. 16 concerning fixed assets and property and equipment regulates the estimation of the useful life of a fixed asset. The estimated useful life of an asset is based on management judgment derived from the company's experience when using similar assets. The estimated useful life should be reviewed periodically and if management finds that the useful life of an asset is different from the previous estimate, an adjustment should be made to the current and future depreciation expense. This standard allows companies to change the useful life of assets used and can encourage conservative earnings.
3. PSAK No. 19 concerning intangible assets relating to amortization methods. It is explained that there are several amortization methods to allocate the amount of depreciation of an asset on a systematic basis over its useful life. (Savitri, 2018).

Objectives of Accounting Conservatism
The three objectives of conservatism include:(Manik, 2017) 1) Limiting managers in opportunistic behavior. Managers who have responsibility for financial reports to investors in terms of decision-making, make management tend to influence the numbers in the financial statements for the benefit of management. In this case, conservatism can limit management behavior to act opportunistically. 2) Increase company value. By limiting the opportunistic behavior of management, the value of the company can increase. 3) Reducing the potential for lawsuits, the increase in profits that is always high encourages the high lawsuits that are always carried out, with this encouraging management to act conservatively. Complying with regulations, regulations made by standard
setters, provide companies to determine inventory valuation methods at fluctuating prices.

Measurement of Accounting Conservatism
Some measurements of accounting conservatism are as follows: 1) Earning/stock return reliability measures, conservatism is measured by the market reaction approach to the information disclosed by the company. Conservatism is measured by forming a regression between stock returns and earnings. Conservatism causes things that are bad news or good news to be reflected in unequal terms (recognition time asymmetry). This is due to the definition of conservatism that events that will cause a loss for the company must be recognized immediately so that bad news is more quickly reflected in earnings. 2) Earning/accrual measures, on the measurement of conservatism, using accruals, namely the difference between net income from the company’s operating losses and cash flow. Net income used is before depreciation and amortization, while cash flow used is operational cash flow. Givoly and Hayn (2000) state that if the accrual value is negative, it is an indication of the application of conservatism. 3) Net assets to determine the level of conservatism in financial statements, namely the value of assets that are understatement and the value of liabilities that are overstatement. This measurement is one of the measurement models used by Beaver and Rayn (2000), namely by using the market-to-book ratio. This ratio is a comparison between the market value of equity and the book value of equity. A ratio of more than 1 means that the company applies conservative accounting because the company records a lower company value than its market value (Ananda & Andriani, 2000). (Ananda & Andriani, 2019).

Another measurement is to relate the value of earnings to the value of stock returns where it is conceptualized that stock market prices tend to reflect changes in the value of assets at the time of such changes, where such changes imply losses or gains in the value of assets, therefore stock returns tend to more timely reflect such changes. (Savitri, 2018).

Reasons Conservatism Still Survives
Although conceptually it is felt that conservatism produces problems because conservatism causes accounting not to report true value accurately, in reality, this principle is still applied by accountants. Several things cause conservatism is still worth to be applied in accounting. The application of conservatism will limit the opportunistic behavior of managers and conservatism is a balancer when there is managerial bias with asymmetrical verification demands so that an effort to balance the opportunistic actions of managers with the obligation to verify in advance will cause reporting will not be excessive but also not low. On the other hand, conservatism can increase firm value because conservatism limits payments to managers or other parties (shareholders) that are opportunistic (contracting reasons). Transactions that benefit outside the company must be verified more thoroughly based on this conservatism concept so that it will prevent opportunistic things from happening.

Related to litigation or lawsuits, litigation is less likely to occur for companies that understate net assets than overstate net assets (litigation reasons). For companies that can generate profits, asymmetric recognition between gains and losses (delaying recognition of income and accelerating recognition of expenses) will reduce the present value of taxes (delaying tax payments) and increase the value of the company. Accounting standard setters and regulatory authorities also benefit from less likelihood of criticism due to the occurrence of companies that overstate the value of net assets than if companies understate their net assets (political cost reasons).

So at least for decision-makers who use financial statements as a basis for decision-making, the content of understated financial statements is considered more favorable because it reduces the risk of greater confusion if the financial statements are reported in overstatement. Thus it seems that users of financial statements are more comfortable with the existence of conservatism in accounting. (Savitri, 2018).
Factors Affecting Conservatism

1. Capital Intensity

Intensity is power or ability, while capital is assets, both current and non-current assets, that can be used to carry out the production process. Capital intensity is an indicator used to see the company's political costs. So capital intensity is the ability or strength of the company over the assets owned by the company to carry out the manufacturing process until the sale is revealed by the company (Hariyanto, 2021).

Capital intensity shows the ratio between the total assets owned by the company and the sales obtained by the company in a certain period.

$$\text{intensitas modal} = \frac{\text{total aset}}{\text{total penjualan}}$$

By using capital intensity, it can be seen whether the company has used its assets properly in generating sales revenue. The greater the capital intensity ratio of a company, the higher the assets needed by the company to generate sales revenue.

Daryatno & Santioso, (2020) revealed that capital intensity reflects how much capital is needed to generate profits so that the company's capital intensity can be used as an indicator of the company's prospects in competing for the market. Capital-intensive companies will tend to reduce profits because they have considerable costs.

Capital intensity is a shadow of the amount of capital needed by the company to earn profits, that capital-intensive companies face relatively greater political costs, so management tends to be careful about choosing accounting procedures that do not overstate profits, thus the resulting financial statements are conservative (Rivandi & Ariska, 2019) in (Daryatno & Santioso, 2020). (Daryatno & Santioso, 2020). Capital intensity is an indicator that can be used to predict the company's political costs. Companies that have gone public certainly cannot be separated from debt that can be used to develop their business. Related to the renegotiation of debt contracts, debt covenants tend to be guided by accounting numbers. Debt covenant indicates that managers tend to over-report profit and asset figures to reduce renegotiation of debt contract costs.

Debt covenants are often used in explaining accounting conservatism because debt holders tend to want conservative accounting practices. This is because the application of conservatism will reduce conflicts between shareholders and debt holders regarding dividend payment issues. Dividend payments that are too high will pose a threat to debt holders because it will reduce assets that should be available for debt repayment. The problem is usually addressed by imposing restrictions based on the company's conservatively presented earnings.

The terms and covenants of the facility agreement also include several financial covenants, including, among others, a maximum senior leverage ratio, minimum interest cover ratio, and solvency drink ratio, together with...
several potentially limited undertakings that prevent or restrict specific transaction costs.

In positive accounting theory, the Debt Covenant Hypothesis (debt contract hypothesis) predicts that the greater the company's desire to obtain a high number of loans, the presentation of the company's financial statements tends to be unconservative. Because the company wants to show good company performance to external parties, external parties believe that the security of their funds is guaranteed. Managers also do not want their performance to be judged unfavorably if the reported profit is conservative.

With a violation of the debt agreement, a cost arises that can hinder management work, so management tries to prevent or delay this to increase profits. (Saviti, 2018).

3. Managerial Ownership

Managerial ownership is the ownership of company shares by the manager or in other words, the manager is also a shareholder. Information on the percentage of ownership of company shares by managers is important for stakeholders because this information will be disclosed in the notes to the financial statements. Managerial ownership structure is the percentage of the number of shares owned by the company compared to the number of shares owned by external parties. Managerial ownership is measured by total managerial shares divided by the number of outstanding shares. The size of the share ownership structure can affect company policy and decision-making.

There are differences between those that have a lower managerial ownership structure compared to other parties' share ownership or without managerial ownership. In companies where managerial ownership is lower than other parties' share ownership, management will act according to their interests as agents in the company and not shareholders, so the accounting methods used will tend to be more optimistic or less conservative.

This is because managers want to report a high-profit value so that other shareholders know that the dividends to be obtained are also high. So the greater the value of profit generated, the better the assessment of the manager's performance, so that the manager will get more bonuses (assuming there is a bonus plan agreement).

Management share ownership will reduce agency problems because the greater the share ownership owned by management, the greater the motivation of managers to work to increase the value of company shares. Ownership by inside directors and management can act as a supervisory function in the financial reporting process, and can also be a driving factor in the appropriation of lower shareholders.

Managerial ownership structure is the percentage of shares owned by the company compared to the number of shares owned by external parties. The size of the share ownership structure can affect company policy and decision-making. For example, external shareholders have a greater percentage of share ownership than managers, so shareholders have the right to know and intervene in making company policies. One of them has the right to determine who deserves to hold the position of the company's board of directors at the General Meeting of Shareholders. (Christina, 2021).

Accounting Conservatism in Islamic View

This principle has drawn a lot of criticism from Islamic accounting experts based on its nature. Such as Adnan and Gaffikin claim that the concept of conservatism is contrary to Islamic teachings, so it cannot be used. Gambling and Karim argue that adherence to the concept of conservatism will lead us in an inappropriate direction in terms of valuing assets that are subject to zakah. This is what drives their assumption that accounting conservatism is irrelevant in Islamic financial reporting. Furthermore, Khan also supports the income that conservatism is not appropriate to be used in the calculation of zakat (Ibrahim et al., 2015). (Ibrahim et al., 2015).

Ahmed takes a somewhat different tack in assessing the propriety of conservatism. On the one hand, he recognizes that conservatism is sometimes incompatible with Islamic teachings, but on the other hand, he considers that conservatism in financial reporting helps
defend the public interest by prohibiting excessive optimism of unearned profits (Ibrahim et al., 2015). Accounting experts also focus on specific transactions and claim that Islam recognizes the concept of conservatism. On the basis that profit cannot be distributed in transactions such as mudarabah until the capital is saved. Thus, the fiqh scholars argue that it is permissible to follow this concept in the measurement of distributed profits. (Ibrahim et al., 2015).

RESEARCH METHODS

The type of research is quantitative research with a descriptive approach using a form of research carried out by following the process of data collection, writing, and explaining the data which is then analyzed.

The data used in this study are secondary in the form of annual financial reports of Manufacturing companies listed on the Indonesia Stock Exchange which have been published on the Indonesia Stock Exchange website. Data Analysis Technique

Quantitative analysis is a method of analysis with numbers that can be counted or measured. This quantitative analysis is intended to estimate the quantitative effect of changes in one or several other events using statistical analysis tools. In this study, the data will be processed using software.

1. Calculating Data Using Ratios
   a. Conservatism
      The formula used to calculate conservatism is as follows:
      \[\text{market to book ratio} = \frac{\text{harga penutup persaham}}{\text{nilai buku persaham}}\]
      \[\text{nilai buku persaham} = \frac{\text{total ekuitas}}{\text{jumlah saham yang beredar}}\]
   b. Capital Intensity
      The formula used to calculate capital intensity is as follows:
      \[\text{intensitas modal} = \frac{\text{total aset}}{\text{total penjualan}}\]
   c. Debt Covenant

The formula used to calculate capital intensity is as follows:
\[\text{Debt Covenant} = \frac{\text{total utang}}{\text{total aset}}\]

2. Managerial Ownership
   The formula used to calculate managerial ownership is as follows:
   \[\text{kepemilikan manajerial} = \frac{\text{saham manajerial}}{\text{jumlah saham beredar}}\]

RESULTS AND DISCUSSION

1. Descriptive Analysis
   The results of descriptive statistical tests in this study can be seen that:
   a. Conservatism (Y)
      From the results of descriptive statistical testing in Table 4.1, it is known that the minimum value of Y is 0.20317, while the maximum value of Y is 9.48418 and the mean value of Y is 2.0018888.
   b. Capital Intensity (X)
      From the results of descriptive statistical testing in Table 4.1, it is known that the minimum value of X1 is 0.55872 while the maximum value
obtained from X1 is 3.67729 and the mean value of X1 is 1.3244072.

c. Debt Covenant (X2)
From the results of descriptive statistical testing in Table 4.1, it is known that the minimum value of X2 is 0.06653, while the maximum value of X2 is 0.74884 and the mean value of X2 is 0.3739012.

d. Managerial Ownership (X3)
From the results of descriptive statistical testing in Table 4.1, it is known that the minimum value of X3 is 0.00000 while the maximum value obtained from X3 is 0.37524 and the mean value of X3 is 0.0646303.

2. Classical Assumption Test
a. Normality Test
Based on the Kolmogorov-Smirnov test, the data is normally distributed.

b. Multicollinearity Test
In this study, the variables of capital intensity, debt covenant, and managerial ownership did not occur in multicollinearity.

c. Heteroscedasticity Test
The results of the heteroscedasticity test in this study indicate that there are no symptoms of heteroscedasticity.

d. Autocorrelation Test
The results of the autocorrelation test using the Durbin-Watson test, the variables in this study did not occur autocorrelation.

3. Multiple Linear Regression Analysis
In the multiple regression analysis test, the following formula is obtained:

\[ Y = 2.621 - 0.958X1 + 1.009X2 + 4.212X3 + e \]

a. From the regression equation, a constant value of 2.621 is obtained, this means that if the application of capital intensity, debt covenant, and managerial ownership is 0 (zero). Then the accounting conservatism value is 2.621.

b. The regression coefficient value of the capital intensity variable is negative, namely -0.958, this means that every increase in capital intensity by 1 unit will cause accounting conservatism to decrease in value by -0.958.

c. The regression coefficient value of the debt covenant variable is positive, namely 1.009, this means that every increase in debt covenant by 1 unit will cause accounting conservatism to increase in value by 1.009.

d. The regression coefficient value of the managerial ownership variable is positive, namely 4.212, this means that every increase in managerial ownership by 1 unit will cause accounting conservatism to increase in value by 4.212.

4. Hypothesis testing
a. Test t
The effect of each variable, namely capital intensity, debt covenant, and managerial ownership on conservatism can be seen from the significant level (probability). If the significant level <0.05, it can be said that the variable has an effect. This can be described as follows:

b. The effect of capital intensity on accounting conservatism
The test results (t-test) between capital intensity variables affect conservatism. Based on the results of the statistical t-test shows a significant value of capital intensity which is equal to 0.001 smaller than 0.05 so it can be concluded Hypothesis is accepted. This means that capital intensity affects accounting conservatism.

c. Effect of Debt Covenant on Accounting Conservatism
The test results (t-test) between the debt covenant variables do not affect conservatism. Based on the results of the statistical t-test shows a significant value of capital intensity which is equal to 0.001 smaller than 0.05 so it can be concluded Hypothesis is accepted. This means that debt covenant does not affect accounting conservatism.

d. The Effect of Managerial Ownership on Accounting Conservatism
The test results (t-test) between managerial ownership variables affect
conservatism. Based on the statistical test results, it shows that the significant value of managerial ownership, which is 0.014, is smaller than 0.05 so it can be concluded that \( H_a \) is accepted. This means that managerial ownership affects accounting conservatism.

e. F test

Based on the table above, a significant value of 0.000 was obtained. The significant value is much smaller than the 0.05 significant level used. Thus, it can be concluded that capital intensity, debt covenant, and managerial ownership have a significant effect on accounting conservatism.

f. Coefficient of Determinance (Adjusted \( R^2 \))

From the table above, it can be seen that the value for Adjusted \( R^2 \) is 0.190. These results inform that together the variables of capital intensity, debt covenant, and managerial ownership can influence accounting conservatism by 19%. While the rest is influenced by other variables outside the variables that are not in the study. Such as public share ownership, institutional ownership, company size, growth opportunity, board of commissioners, audit committee, litigation risk, and earnings management.

DISCUSSION

Based on the results of data processing with SPSS 22, a discussion of the results of hypothesis testing can be described.

1. The effect of capital intensity on accounting conservatism

The test results (t-test) between capital intensity variables affect conservatism. Based on the results of statistical tests, the significant value of capital intensity, which is 0.001, is smaller than 0.05, so it can be concluded that \( H_a \) is accepted. This means that capital intensity affects accounting conservatism.

The results of the study are the same as previous research by Putri Angkasawati (2020) showing that capital intensity has a positive effect on accounting conservatism. Capital-intensive companies certainly require large capital from external parties, in this case, investors who will make their investments. Capital-intensive companies will try to present financial reports that meet investor expectations so that investors believe in the safety of the funds to be invested. So to achieve this goal, managers will take accounting policies that generate high profits to gain the trust and large capital of investors. So the resulting financial statements tend to be optimistic and the company's level of accounting conservatism is low.

The results of this study are the same as the research of Maria Oktavia and Luciana Spica (2018) on "Factors Affecting Accounting Conservatism". This study aims to determine the effect of company size, company risk, capital intensity, litigation risk, debt covenant, audit committee, and managerial ownership on accounting conservatism. The results of this study show that capital intensity influences accounting conservatism.

The results of this study are also the same as the research of Barkah Susanto and Tiara Ramadhan (2016) who examined "Factors Affecting Conservatism". This study aims to determine the effect of leverage, company size, capital intensity, liquidity, and growth opportunities on accounting conservatism. The test results show that capital intensity affects accounting conservatism.

2. Effect of Debt Covenant on Accounting Conservatism

The test results (t-test) between the debt covenant variables do not affect conservatism. Based on the results of the t-count statistical test, the significant value of the debt covenant is 0.324 which is greater than 0.05 so it can be concluded that \( H_a \) is rejected. This means that debt covenant does not affect accounting conservatism.

Debt covenant shows the company's ability to pay its long-term debt so that company managers will choose various considerations to make policies related to debt that will be carried out. Company managers will think about the interest that must be paid from the debt and the interference from outside parties (creditors) related to the debt provided. This will affect the behavior of managers in using
accounting methods, managers will apply conservative accounting to avoid greater risk.

The results of this study are the same as the research of Alif Aditya Darma Saputra (2018) and Ayu Sartika (2020) that debt covenant does not affect accounting conservatism.

The results of the study are the same as Enni Savitri's (2016) research on "The Effect of Institutional Ownership Structure, Debt Covenants and Growth Opportunities on Accounting Conservatism". This study aims to determine the effect of institutional ownership, debt covenants, and growth opportunities on accounting conservatism. The test results show that debt covenant does not affect accounting conservatism.

The results of this study are the same as the research of Maria Oktavia and Luciana Spica (2018) on "Factors Affecting Accounting Conservatism". This study aims to determine the effect of company size, company risk, capital intensity, litigation risk, debt covenant, audit committee, and managerial ownership on accounting conservatism. The test results show that debt covenant does not affect accounting conservatism.

3. The Effect of Managerial Ownership on Accounting Conservatism

The test results (t-test) between managerial ownership variables affect conservatism. Based on the results of the t-count statistical test, the significant value of managerial ownership, which is 0.014, is smaller than 0.05, so it can be concluded that Ha3 is accepted. This means that managerial ownership affects accounting conservatism.

The results of this study are the same as previous research by Alfian and Arif Sabeni (2013) managerial ownership structure affects conservatism in accounting. This shows that companies do not consider share ownership with managerial ownership. This means that the effect of the managerial ownership structure variable is due to the high percentage of manager shares in a company making managers not only think about the bonuses that will be obtained if the profits are high, but managers are more developing the company by being more concerned with the continuity of the company in the long term.

The results of the study are the same as Sari Rahmadhani and Arkanuddin Nur's (2015) research on "Analysis of Factors Affecting Accounting Conservatism". This study aims to determine the effect of managerial ownership, institutional ownership, leverage, and financial distress on accounting conservatism. The results showed that managerial ownership affects accounting conservatism.

The results of the study are the same as the research of Muhammad Rivandi and Sherly Ariska (2019) examining the "Effect of Capital Intensity, Dividend Payout Ratio and Financial Distress on Accounting Conservatism". This study aims to determine the effect of company size, company risk, capital intensity, litigation risk, debt covenant, audit committee, and managerial ownership on accounting conservatism. The results showed that managerial ownership affects accounting conservatism.

The managerial ownership variable used in this study is also guided by Islamic principles as outlined in the holy book of the Qur'an. Ownership (al-milk) comes from Arabic from the word "Malaka" which means to have. Al-milk is a masdar form which means ownership or control of something property. Ownership or al-milk is also commonly referred to as property rights or property alone.

4. The effect of capital intensity, debt covenant, and managerial ownership on accounting conservatism

Based on the table above, the F-count is 9.458 > F_table 2.69 with a significant value of 0.000, meaning that the significant index is smaller than 0.05. Thus the hypothesis H04 is rejected and Ha4 is accepted. It means that it can be concluded that capital intensity, debt covenant, and managerial ownership have a significant impact on accounting conservatism.

CONCLUSIONS

Based on the results of data research with a total sample of 264 through proving the hypothesis of the issues raised regarding the effect of capital intensity, debt covenant, and managerial ownership on accounting conservatism in manufacturing companies
listed on the IDX in 2018-2020 which have been explained in the previous chapter in this study, it is concluded as follows:

Partially, Capital Intensity affects conservatism, Debt Covenant has no effect on conservatism and Managerial Ownership affects conservatism.

Capital Intensity, Debt Covenant, and Managerial Ownership simultaneously affect accounting conservatism.

LITERATURE


Juanda, Ahmad, 2007. The Effect of Litigation Risk and Strategy Type on the Relationship Between Conflict of Interest and Accounting Conservatism. SNA X Paper, Makassar


