

ANALYSIS OF INFLUENCE FACTORS ACCOUNTING CONSERVATISM

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Abstract: *This study aimed to determine the effect of financial distress, growth opportunities, institutional ownership, managerial ownership, profitability, leverage, and company size on accounting conservatism. The samples used in this study were companies in the consumer non-cyclical sector in the food & staples retailing, beverages, and processed foods sub-sector in 2017-2021, with 100 samples. The data analysis technique used is panel data regression analysis. Using three stages of the test, namely the preliminary test, which will determine the model used through the chow test, the Breush test and pagan Lagrangian multiplier, and the Hausman test. Based on the results of the three preliminary tests, this research will use a random effect model to examine the relationship between variables. Then the diagnostic tests, namely heteroscedasticity, and autocorrelation, are continued with hypothesis testing. The results of this study indicate that the variables of financial distress, profitability, and leverage positively affect accounting conservatism. At the same time, growth opportunities variables, institutional ownership, managerial ownership, and company size do not affect accounting conservatism.*

Keyword: *Accounting conservatism, Financial distress, Growth opportunities, Good corporate governance*

1. Introduction

The financial statements of a firm are records of the financial information that transpired during an accounting period. These records may be used as a tool to evaluate the success of the company. Financial reports must be prepared based on generally accepted accounting principles to fulfill financial reports that are accountable and beneficial to each user (Rusamana & Tanjung, 2019). The information that is provided in the financial statements might serve in a variety of capacities as a foundation for decision making for external parties, including the government, the public, creditors, and investors. At the same time, the internal parties are directors, employees, and the board of commissioners. For the published financial reports to meet the goals and objectives, the delivery of the information presented must be complete, including assets, equity, liabilities, income and expenses, cash flow, and losses or gains (Hariyanto, 2020).

The phenomenon of accounting conservatism that occurred at PT Garuda Indonesia Tbk in 2018 has recognized and recorded a net profit of Rp. 11.33 billion (exchange rate of 14,000, or the equivalent of) US\$ 809.85 thousand, which should still be in the form of receivables. This is what ultimately makes the burden borne by PT Garuda Indonesia to Value Added Tax (VAT) and pay income tax (PPh) to be large, even though these burdens should not have become an

obligation because the payment from the collaboration with PT Mahata has not been received by PT. Garuda Indonesia. The case that occurred at PT. Garuda Indonesia shows that there is a failure in applying accounting conservatism. The management (agent) of the company was not careful in recognizing revenue that should not have been recognized, causing the financial statements to overstate net income. In this case, the company has optimism in recognizing net income, causing the profit figure to increase more than it should (CNN Indonesia, 2019).

The principle of accounting conservatism holds that whenever there is a choice to be made between two or more good accounting approaches, the one that should be selected is the one that has the least significant effect on shareholder equity (Imanuela & Sugiarti, 2019). Accounting conservatism recognizes revenues and profits more slowly and costs and losses more quickly. Consequently, if a condition has the possibility of causing a loss of costs or debt, then the loss of costs or debt must be recognized immediately. On the other hand, if conditions are likely to result in profit, income, or assets, these profits or assets may not be recognized immediately until these conditions have been realized (Sitepu & Mariana, 2021). This conservative approach to accounting is still utilized because there is a possibility that the propensity to overstate profits in financial reporting might be mitigated by adopting an attitude of pessimism as a counterbalance to the excessive optimism displayed by managers (Rohadi, 2018).

One of the reasons that are believed to have an impact on the conservative approach to accounting is profitability (Savitri, 2016). Profitability is the capacity of a company to generate profits by utilizing the assets and resources it already has (Sitepu & Mariana, 2021). If the magnitude of profitability in a corporation has reached a very high level, the profits generated by the company will also be high, and managers will tend to apply accounting conservatism to avoid high taxes caused by high company profits (Suharni et al., 2019). In this study, the profitability ratio is measured using return on equity (ROE). Based on research conducted by Syifa et al. (2017), Pratanda & Kusmuriyanto (2018), and Ariska et al. (2020) stated that profitability has a positive effect on accounting conservatism. Meanwhile, the research by Abdurrahman & Ermawati (2017), Yuliarti & Yanto (2018), and Utama & Titik (2018) demonstrates that increased profitability hurts the conservativeness of accounting.

One of the factors that are assumed to influence accounting conservatism is company size (Ramadona et al., 2017). When a firm is larger, its performance and profitability tend to be of a greater than when the company is smaller (Verawaty et al., 2017). Research that has been conducted by Hotimah & Retnani (2018), Noviantari & Ratnadi (2018), and According to the findings of Hakiki & Solikhah (2019), the size of a corporation has a beneficial influence on the degree of accounting conservatism. Meanwhile, research conducted by Ramadona et al. (2017) and Sumiari & Wirama (2018) claims that the size of a firm has a negative impact on the amount of accounting conservatism that is practiced.

It is also considered that institutional ownership has a role in the degree to which companies use conservative accounting practices. It is anticipated that large institutional ownership will strengthen the supervision role of management performance and push management to follow conservative accounting practices (Putra et al., 2019). Because of the presence of institutional ownership, there will be increasing pressure for tighter oversight, which will help ensure that the interests of shareholders are safeguarded. Research conducted by Alkurdi et al. (2017), El-Haq et al. (2019), and Putra et al. (2019) argues that the presence of institutional ownership contributes to a more conservative approach to accounting. In contrast to Putri's research (2017), Risdiyani & Kusmuriyanto (2017), and Hakiki & Solikhah (2019) shows that the existence of institutional ownership has a negative impact on conservative accounting.

The pooling of interests between shareholders and managers will be facilitated with the support of managerial ownership. Higher managerial ownership will increase the work motivation of managers in running the company. When it comes to making judgments, managers will exercise greater caution and prioritize the organization's needs over personal concerns and potential compensation (Ramadona et al., 2017). Research by Pambudi (2017), Pratanda & Kusmuriyanto (2018), and Putra et al. (2019) argues that the presence of management ownership results in a more conservative approach to accounting. Unlike the research of Brilianti (2017), Dewi (2018), Hakiki & Solikhah (2019) it has been asserted that management ownership has a negative impact on accounting conservatism.

Managers raise the level of accounting conservatism if the company's finances are in trouble (Financial Distress). If the company is in financial trouble and has poor prospects, the manager gives a signal by holding conservative accounting. However, managers will reduce the level of conservatism if the company's level of financial difficulty is high, according to positive accounting theory (Suprihastini & Pusparini, 2018). Lo (2017) states that there is a positive influence between financial distress and accounting conservatism. However, different results were obtained by Ningsih (2017) and Alhayati (2018), where the study found the effect of financial distress with significant negative accounting conservatism.

Another factor assumed to influence accounting conservatism is leverage (level of debt). The level of debt is the utilization of assets and other sources of cash (sources of funds) by businesses with fixed expenditures with the goal of increasing the potential earnings for the company's shareholders (Alhayati, 2018). According to Lo (2017), if a corporation has a significant amount of outstanding debt, creditors also have the right to be informed of and monitor the firm's operational actions. This requires the company to declare results with extreme prudence.

Growth Opportunities are assumed as one of the factors that influence accounting conservatism. Yusraini & Al Azhar (2018) States that growth opportunities are a company's ability to increase company size, which can be proxied by increasing assets, equity, profits, and sales. Saputra (2018) claims that growth chances are occasions for businesses to make investments in items that will generate profits. Companies that have a great potential for future development typically require huge amounts of capital to finance that expansion.

This research is development research by combining research variables conducted by Thomas & Indriaty (2020). This study will use the independent variables of financial distress, managerial ownership, growth opportunities, institutional ownership, profitability, firm size, and leverage. The issue to be discussed is whether each variable, namely financial distress, managerial ownership growth opportunities, institutional ownership, profitability, leverage, and company size has a positive effect on accounting conservatism in consumer non-cyclical sector companies in the food & staples retailing, beverages sub-sector, processed foods.

2. Literature Review

Agency Theory

According to Jensen & Meckling (1976), agency theory, a relationship is considered a contract when one or more individuals (principals) engage other individuals (referred to as agents) to provide services and then give rights to agents to make decisions regarding the matter. Although the agent is obligated to manage the firm, it is the principle who is responsible for providing the necessary resources, including funds and physical space, in order for the business

to function properly. According to the agency theory, earnings management strategies should take into account the potential for conflicts of interest between principals and agents, which can arise when both parties work toward the same goal of reaching the desired level of wealth (Arlita et al., 2019).

Lafond & Watts (2007) argues that financial reports that apply conservatism can reduce the possibility of managers manipulating financial reports and agency costs that arise as a result of information asymmetry. Information asymmetry is a condition where management has more information than investors. One of the causes of financial statement manipulation is the occurrence of information asymmetry in agency theory. The most frequent manipulation behavior in agency theory is recording high profits.

Agency theory explains that the ownership structure (institutional ownership and managerial ownership) has a relationship that can reduce agency conflict because managerial ownership will see the number of managers who have shares in the company who are motivated to maximize their work to increase the profits generated by the company. Likewise, institutional ownership will oversee the performance of its managers (Tandelilin & Wilberforce, 2002). With increasing profits, there will be satisfaction felt by shareholders as well as management so that goals are aligned. Likewise, with the loan capital used to finance company assets (leverage), the higher the leverage, the agent will carry out conservative accounting actions, while the higher the level of profitability, the company will tend to choose the application of conservative accounting. This is because agents use conservatism to regulate profits so they look flat and not too volatile.

According to Weston and Brigham (2012), agency relationships occur between (a) shareholders (through managers) and creditors, (b) shareholders (owners) and managers. Agency theory is used in this study because this study discusses accounting conservatism which can be seen from the financial reports, which can lead to agency problems between agents and principals.

Signal Theory

The signal hypothesis provides an explanation for why businesses have an incentive to disclose information contained within their financial statements to third parties. The information asymmetry that exists between the corporation and outsiders is the root reason of the company's compulsion to share information. After all, the corporation is in a better position than outsiders to understand the company as well as its future potential (investors, creditors). The disparity in access to information between employees and customers is one way in which businesses can boost their performance. Provide signals to outsiders in the form of reliable financial information as a strategy to lessen information asymmetry. This can be done by reducing uncertainty about the company's prospects and making the information more transparent (Wolk et al., 2000). This is also in line with the company's financial distress (financial distress) managers provide information through financial reports, and managers carry out signaling to reduce information asymmetry by implementing conservatism accounting policies to produce higher quality profits so that it is likely to have a good impact on users financial statements.

Positive Accounting Theory

A theory that explains why accounting policies become an issue for corporations and parties interested in financial statements and predicts the accounting policies that companies will wish to pick under particular situations is known as the Positive Accounting Theory (Watts & Zimmerman, 1986). This theory can explain the character of managers who aim to maximize

their interests. It can anticipate the managers' subpar performance, which is covered by a rise in corporate profits. Both of these things are possible thanks to this theory. Positive accounting theory implies that managers would logically adopt appropriate and conservative accounting policies. This gives managers the flexibility to choose accounting policies for their aims (Ursula & Adhivinna, 2018).

Conservatism Accounting

Statement of Concept No. 2 in the Glossary The Financial Accounting Standards Board (FASB) defines conservatism as a prudent reaction in the face of the inherent uncertainty in a company. This reaction aims to try to ensure that uncertainty and risk in the business environment provide the best benefits for all users of financial statements. Conservatism can be seen as a reaction to the inherent uncertainty in a company. Savitri (2016:23) and Juanda (2007) state that conservatism is an accounting assumption that, when applied, will produce profits and assets that tend to be low, and costs and debt tend to be high. The tendency occurs because conservatism has a principle that slows down revenue recognition and accelerates expense recognition, as a result of which reported profits tend to be too low (understatement). Conservatism can increase company value due to the conservative , payments to management or other parties are kept to a minimum (shareholders) who are opportunistic (Savitri, 2016, p. 41). Financial reports that are based on prudence will have a good impact, besides that, they can minimize the occurrence of financial reporting errors that can predict users' financial statements.

According to Watts (2003), there are three different ways to quantify conservatism: (a) Earnings/Stock Return Relation Measure: Stock market prices attempt to represent changes in asset values when changes occur; following the time, both losses and gains are recorded; (b). Measures of Earnings and Accruals The second type of conservatism use accruals, namely the difference between cash flow and net income. The net income taken into consideration is the net income before depreciation and amortization, and the cash flow taken into consideration is the cash flow from operations; (c). The third metric used to assess conservatism in financial statements is the understatement of assets and the overstatement of liabilities. This measure compares the two extremes of the statement. The term "net asset measure" refers to this particular type of measurement. One of the measurement methods is the measurement proxy utilized by Beaver & Ryan (2000). The market-to-book ratio, which indicates the market value of the company's book value, is utilized in this model. This model is referred to as the market-to-book model. Because the company's record value is less than its market value, a more cautious accounting application is indicated by a ratio with a value that is greater than 1.

The Effect of Financial Distress on Accounting Conservatism

According to signaling theory, managers use signaling to try and even out the information available to them. Managers provide information to stakeholders through financial reports and adhere to conservative accounting standards to create better-quality earnings. Hadri (2017) states that the purpose states that the purpose it is anticipated that the application of signaling theory will have a positive effect on users of financial statements. Managers try to inform opportunities that can be achieved by the company in the future, which will be useful for investors and other users of financial statements. Eko (2017) signaling theory can be assumed that providing information that recognizes low profits can help reduce conflicts between managers and shareholders because managers with this theory try to convey information honestly and with great care). Thus, a higher level of corporate financial difficulties will encourage managers to increase accounting conservatism. However, managers will reduce

conservatism if the organization's level of financial difficulty is low, according to positive accounting theory (Suprihastini & Pusparini, 2018). Lo (2017) states that there is a positive influence between financial distress and accounting conservatism. According to the description, the researcher drew the hypothesis:

H1: Financial Distress has a positive effect on Accounting Conservatism

The Effect of Growth Opportunities on Accounting Conservatism

Growth possibilities are a measure of a company's potential for future expansion, as determined by its capacity to capitalize on investment prospects that will lead to a rise in stock price (Syafi'i, 2018). Fatmasari (2017) states that the utilization and use of this investment opportunity can only be carried out if the company has adequate financial resources, technical resources, and human resources. According to the signal theory, the company will invest from the funds the company has, which will then become costs. The number of funds the company needs from these signals causes managers to apply conservatism to fulfill investment financing, namely by minimizing profits (Deslatu & Susanto, 2019). Thus, companies that have growth opportunities or are developing will use conservatism to reduce revenue related to costs used for political costs. The research results conducted by Ursula & Adhivinna (2018) show that the higher the growth opportunities, the greater the need for funds. The amount of funds the company needs causes managers to apply conservative accounting so that costs for investment can be met. In addition, accounting conservatism causes hidden reserves that can be used in investment activities. The following hypothesis may be derived from the information presented above:

H2: Growth Opportunities have a positive effect on Accounting Conservatism

The Effect of Institutional Ownership on Accounting Conservatism

It is hoped that a large proportion of institutional ownership will improve the oversight function of management performance and encourage management to apply conservative accounting (Arlita et al., 2019). According to Kurniawan et al. (2018), institutional ownership is the shares of a company owned by banks, insurance, and investment companies and ownership by other institutions. In agency theory, agents as managers are obliged to manage a company, in this case, agents can be controlled by institutional ownership employing monitoring effectively to reduce management actions to carry out earnings management. The higher the institutional ownership, the higher the application of conservatism because institutional institutions have a supervisory function. They can reduce manager's actions to carry out earnings management by reporting excess profits. Alkurdi et al. (2017) and Putra et al. (2019) found that institutional ownership positively affects accounting conservatism.

H3. Institutional Ownership has a positive effect on Accounting Conservatism.

The Effect of Managerial Ownership on Accounting Conservatism

In agency theory, the difference between companies with low or no managerial ownership is that management will act according to its interests as an agent in the Company and not a shareholder. Therefore, the accounting method will tend to be more optimistic and less conservative. Watts and Zimmerman (1990) in Alvian & Sabeni (2018) this is because managers want the work done so far to be seen well by external parties so that managers get bonuses assuming there is a previous bonus plan agreement, thus encouraging managers to report larger profits. Meanwhile, the company will increasingly apply conservative accounting if the management's share ownership is greater. This is because the company's financial statements are not only concerned

with high profits but are more concerned with the long-term continuity of the company. Share ownership by management can reduce agency problems. This is to agency theory because the larger the shares owned by management, the greater their motivation to increase the value of company shares (Jensen & Meckling, 1976). The findings obtained from study carried out by Pambudi (2017) and Putra et al. (2019) indicate that the degree of accounting conservatism is positively impacted by management ownership. According to this description, the hypothesis is drawn.

H4. Managerial Ownership has a positive effect on Accounting Conservatism.

The Effect of Profitability on Accounting Conservatism

Company profitability is one of the bases for assessing the condition of a company, especially in analyzing management performance. The higher the degree of profitability at which a corporation operates, the greater the likelihood that it will choose for cautious accounting. This is because managers use conservatism to regulate profits to look flat and not too volatile (Pratanda & Kusmuriyanto, 2018). Signal Theory states that management will try to give a good signal to external parties to provide a good picture of the company to attract the attention of investors while providing added value to the company. Management as an agent has internal information that shareholders do not know, so it can be used to increase the value of the company's profitability to get more bonuses, especially if the company provides a bonus policy that refers to company profits. Research conducted by Pratanda & Kusmuriyanto (2018), Syifa et al. (2017), and Ariska et al. (2020) show that profitability has a positive effect on accounting conservatism. Therefore, researchers hypothesize that:

H5: Profitability has a positive effect on Accounting Conservatism.

The Effect of Leverage on Accounting Conservatism

A high level of leverage refers to the quantity of loan capital utilized to fund a firm's assets. The findings of this ratio tend to indicate a bigger financial risk for shareholders and creditors in proportion to how high those results are. When a corporation can earn profits greater than its fixed expenses, leverage can be considered beneficial (bond interest and preferred stock dividends are constant). Therefore, agents who see that the firm has a significant debt will opt to apply conservative accounting, which seeks to decrease the number of conflicts of interest between principal and agents. According to the findings of research by Ahmed & Duellman (2017), leverage has a considerable impact on accounting conservatism.

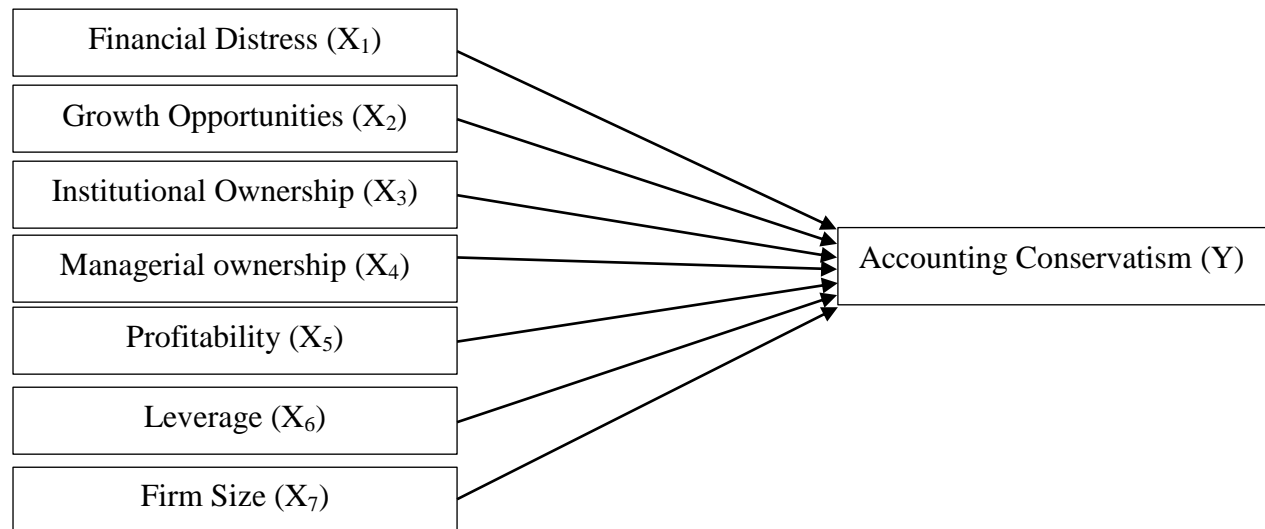
H6: Leverage has a positive effect on Accounting Conservatism.

The Effect of Firm Size on Accounting Conservatism

Company size is a measurement tool to assess whether the company is large or small (Suharni et al., 2019). Company size can be one of the elements that influence management's perceptions in preparing a financial report. This is because of political costs arising from companies' and government interests. Large companies are also faced with high political costs. This is in line with positive accounting theory, so companies tend to use conservative accounting, which can reduce the value of the income statement to reduce the number of political costs (Yuliarti & Yanto, 2017). The larger the firm's size, the more conservatism will be applied. Research by Noviantari & Ratnadi (2018), Hotimah & Retnani (2018), Thomas et al. (2020), and Hakiki & Solikhah (2019) states that company size has a positive effect on accounting conservatism. Therefore, researchers hypothesize that:

H7: Firm size has a positive effect on accounting conservatism

Research Framework



3. Research Method

Population and Research Sample

The population in this study are consumer non-cyclical sector companies listed on the IDX in the period 2017 to 2021. The sampling was done using a method called purposive sampling, and the criteria that were used are as follows: a) consumer non-cyclical sector companies that have annual financial reports and companies that publish complete, precise, audited annual financial reports, as well as companies that have complete data for this research in the 2017-2021 period b) companies listed on the IDX that is included in the consumer non-cyclical sector, the food & staples retailing sub-sector, beverages, processed foods. The total population is 118 companies, and 20 companies that meet the criteria.

Operational Definition and Variable Measurement

The variables that will be analyzed in this study are as follows:

Dependent Variable (Y)

Accounting Conservatism

Conservatism is a reaction that tends to lead to caution in taking basic actions or decisions to deal with threats in the business environment that have been sufficiently considered. In this study, conservatism was calculated using the method of Givoly and Hayn (2000).

$$\text{CONNAC} = \frac{(\text{NIO} + \text{DEP} - \text{CFO}) \times (-1)}{\text{TA}}$$

Keterangan:

CONACC : Accounting Conservatism

NIO : Current year operating profit

DEP : Depreciation of fixed assets for the year

CFO : Total net cash flow from operating activities for the year

TA : Book value of income total assets

Independent Variable (X)

Financial Distress

A stage of worsening financial difficulties that occurs prior to the filing of bankruptcy or the completion of liquidation is referred to as financial distress. In this study, the measurement used by researchers in measuring financial distress is the Zmijewski method of analysis. According to Bimawiratma (2016) The level of financial distress, as determined in this study, is:

$$\text{FD-Score} = -4,3 - 4,5\text{ROA} + 5,7\text{DER} - 0,004\text{CR}$$

Keterangan

FD = *Financial Distress*

ROA = Return on assets

DER = Debt to equity ratio

CR = Current ratio

Criteria Value

FD > 0 = The company has the potential to go bankrupt

FD < 0 = The company is not potentially bankrupt

Suppose the score that a firm receives using this technique of bankruptcy prediction is greater than zero. In that case, it is anticipated that the company will have the potential to go bankrupt shortly. This is the indication of the discriminant function of the Zmijewski method. On the other hand, if a firm has a score lower than zero, it is anticipated that the company will not go bankrupt shortly.

Growth Opportunities

In this study, growth opportunities are elements of company characteristics. According to Barclay (2017), the chance for expansion represents the possibility for a corporation to raise the total amount invested, and its opportunity increases its value. The market-to-book equity value ratio is one method that may be utilized to estimate the potential for future growth. This method is mostly dependent on stock prices. According to Barclay et al. (1995), the ratio of the market value of a stock to its book value may indicate the firm's possible future worth. The following is

$$\text{Growth} = \frac{\text{The number of shares outstanding} \times \text{closing price of share}}{\text{Total Equity}}$$

the formula for determining the market value of stock relative to its book value:

Institutional Ownership

Institutional ownership refers to the percentage of a firm's total number of outstanding shares that are owned by institutions in comparison to the total number of shares that are issued

for that company (Brilianti, 2017). The method used to measure institutional ownership in this study, according to Putra et al. (2019), namely:

$$\text{Institutional Ownership} = \frac{\text{Number of shares owned by the institutionitusal}}{\text{The number of shares outstanding}} \times 100\%$$

Managerial Ownership

Managerial ownership is the proportion of ordinary shares management owns (Sinambela & Amilia, 2018). The method used to measure managerial ownership, according to (Ramadona et al., 2017), namely:

$$\text{Managerial Ownership} = \frac{\text{Number of share owned by the management}}{\text{The number of share outstanding}} \times 100\%$$

Profitability

One of the criteria used to evaluate the state of a firm, particularly with regard to the effectiveness of its management, is profitability (Yuliarti & Yanto, 2017). This study calculates profitability using return on equity (ROE). The ROE formula, according to research by Syifa et al. (2017), is as follows:

$$\text{Returnt On Equity} = \frac{\text{Net profit after tax}}{\text{Total Equity}} \times 100\%$$

Leverage

According to Kasmir, a ratio known as leverage is used to forecast the amount of debt inside a company's finances (2017). According to Houston and Brigham (2017), the leverage ratio is a ratio that evaluates the extent to which a company uses funding through debt (financial leverage) so that we can examine the firm's capacity to optimize debt. This ratio allows us to determine whether or not the company can maximize its use of debt. In other words, the Leverage ratio tells us how well a company can leverage its debt. According to Kasmir (2017),

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilitie}}{\text{Total Asset}}$$

the formula for calculating leverage based on the ratio of total debt to total assets is as follows in this investigation:

Firm Size

The size of a firm may be determined by looking at how much money the company has in total assets (Ramadona et al., 2017). The natural logarithm of a company's total assets is the standard method for determining the size of a business. The natural logarithm is used because, in general, the value of company assets is tremendous, so to equalize values with other variables,

$$\text{Firm Size} = \ln \text{ Total Asset}$$

sample asset values are converted into logarithmic form first (Suharni et al., 2019). The formula for company size, according to Verawaty et al. (2017), is as follows:

Analysis Method

Analysis using multiple linear regression. The multiple linear regression equation is as follows:

$$KA = \alpha + \beta_1 FD + \beta_2 GO + \beta_3 IO + \beta_4 MO + \beta_5 PF + \beta_6 LV + \beta_7 FZ + e$$

Keterangan:

KA	= Accounting Conservatism
α	= Constant
β	= Regression Coefficient
FD	= Financial Distress
GO	= Growth Opportunities
IO	= Institutional Ownership
MO	= Managerial Ownership
PF	= Profitability
LV	= Leverage
FZ	= Firm Size
e	= error

4. Results and Discussion

Results

Obtaining an understanding of the distribution of the primary values surrounding the mean may be accomplished through descriptive statistics.. The value of the standard deviation can be utilized in order to ascertain how dispersed the data is. If the standard deviation is lower, it indicates that the data are more closely clustered around the mean value. The table presents descriptive statistics regarding the variables that were considered during the course of this inquiry.

Table 1: Descriptive Statistics Results

Variabel	Mean	Minimum	Maximum	Std. Dev
KA	-0.93223	-6.334	0.15	1.078754
FD	1.04657	-20.145	73.454	8.984732
GO	3.52811	-0.046	28.874	5.22911
IO	0.63216	0	0.92	0.2275003
MO	0.0955	0	0.85	0.2074299
PF	0.10988	-2.641	4.979	0.575809
LV	0.48827	0.108	2.9	0.4108386
FZ	28.68702	27.081	32.82	1.397802

The KA variable (Accounting Conservatism) has a minimum value of -6,334, and the largest maximum value is 0.15, with an average mean value of -0.93223. Negative results show that, on average, the company has implemented accounting conservatism with a standard deviation value of 1.078754 which shows the variation in the accounting conservatism variable. While the FD (Financial Distress) variable has a mean value of 1.04657 or $FD > 0$, it can be said that the average company has the potential to go bankrupt according to the measurement results of the Zmijewski method. The GO (Growth Opportunities) variable has an average value of $3.52811 > 0$, meaning that the average company has opportunities to grow and tends to use equity to conduct agency financing between shareholders and company management (Harahap,

2019). The average value of the IO variable (Institutional Ownership) is 0.63216, meaning that the average share owned by an Institution is 63% of the total shares issued. Meanwhile, the value of MO (Managerial Ownership) is 0.0955, meaning that the shares owned by managers are 9% of the total issued shares. For an average PF (Profitability) value of 0.10988 or the percentage of company efficiency in managing its assets through profit is 11% or said to be quite good (Kasmir, 2017). The average value of LV (Leverage) of 0.48827 <1 means that the company's ability to optimize funding through debt of 48.83% or below 100% is still considered ideal or a healthy company category so that in undesirable conditions (e.g., bankruptcy) the company is still able to pay off all debts/obligations (Kasmir, 2017). For an average value of FZ (Company Size) of Ln 28.68702 or Anti Ln Rp.2,881,563,247,228, it can be said that almost all the companies studied in this study are large companies (Brigham & Houston, 2010).

Premilinary Test

Table 2: Chow Test

	Model 1
F	28.09
Prob > F	0.0000

First, the chow test compares the fixed effect model to the regular least squares model (table 2). This comparison can be found in the chow test. The following are the assumptions made regarding the hypothesis:

Null hypothesis : The model using the conventional least squares is the one that works better ($p > 0.05$).

Alternative hypothesis : The random effect model is more applicable in this situation ($p < 0.05$)

The value of the chow test in chi-square is 28.09, and its associated probability value is 0.0000. This information is derived from the table. This finding demonstrates that significance exists ($p < 0.05$). As a result, the alternative hypothesis, also known as the null hypothesis, is chosen over the null hypothesis. According to the findings, the ordinary least square model was not enough to determine how independent factors influenced the experiment's outcome, namely financial distress, growth opportunities, institutional ownership, managerial ownership, profitability, leverage, and company size on accounting conservatism in consumer non-cyclical companies in the food & staples retailing sub-sector. , beverages, and processed foods. These results indicate that the fixed effect model is more appropriate.

Table 3: Breusch and Pagan Lagrangian Multiplier test

	Model 1
Chibar2(01)	136.33
Prob > chibar2	0.0000

Second, the Breusch and Pagan Lagrangian Multiplier test (table 3) compares the conventional least square regression model to the random effect regression model. This test is designed to determine which of these two models is more accurate. The following are the assumptions made about the hypothesis:

- Null hypothesis : The model using the conventional least squares is the one that works better ($p > 0.05$)
- Alternative hypothesis : The random effect model is more applicable in this situation. ($p < 0.05$)

The table contains the findings from the Breusch and Pagan Lagrangian Multiplier test. The value of the test's probability is 0.0000, while the value of the test itself is 191.16. This finding demonstrates that significance exists ($p < 0.05$). Consequently, the null hypothesis is rejected at the 5 percent significance level. The results showed that the ordinary least square model was unsuitable for evaluating the effect of independent variables, namely financial distress, managerial ownership, profitability, institutional ownership, leverage, growth opportunities, and company size on accounting conservatism in consumer non-cyclical companies in the food & staples retailing sub-sector, beverages, and processed foods. Based on these findings, it appears that the random effect model is the one that best fits the data.

Table 4: Hausman test

	Model 1
Chibar2(7)	2.08
Prob > chibar2	0.9550

Third, the Hausman test was performed (table 4) to determine whether or not the model selection procedure was adequate for picking the superior model out of the fixed effect model and the random effect model. The following are the hypotheses' underlying assumptions:

- Null hypothesis : The random effect model is more applicable in this situation. ($p < 0.05$)
- Alternative hypothesis : The model using the conventional least squares is the one that works better ($p > 0.05$)

As a result, the alternative hypothesis cannot be accepted, given that the significance level is 0.05 percent. The model of random effects is the one that should be utilized when referring to this scenario. In light of the results of the preceding test, the current investigation will use a random effect model to investigate the connection between the various factors.

Heteroscedasticity and Autocorrelation Diagnostic Test

When conducting tests using the model of regression on panel data, the diagnostic tests that need to be considered first are the heteroscedasticity test and the autocorrelation test, as stated by Baltagi (2011) and Gujarati & Porter (2009). These tests are the heteroscedasticity test and the autocorrelation test, respectively. This is because these tests help determine whether or not there is a correlation between two or more variables. It is necessary to perform tests for heteroscedasticity and autocorrelation in order to ensure accurate results when utilizing the STATA statistical analysis program., you can adjust the commands in the software so that the right commands are required to deal with heteroscedasticity or autocorrelation problems or both. In other words, testing for heteroscedasticity and autocorrelation is necessary. You can modify the commands to ensure you use the appropriate commands while running tests with the STATA software. As a result, this issue's impact on the model's standard error will be negligible (Hoechle, 2007; Torres-Reyna, 2007; Sanchez, 2012). In addition, there is no need for collinearity testing because the collinearity was automatically found, and the STATA program

will rapidly erase any variables that were effected by the collinearity. This eliminates the necessity for collinearity testing.

In Table 5, you will see the outcomes of the tests for heteroscedasticity and autocorrelation that were performed on the regression model. Based on table 5, it is known that there are heteroscedasticity and autocorrelation problems. Therefore, the Random Effect regression model with clustered sandwich standard errors is the one that is utilized for the regression analysis. This ensures that the model is not disrupted by the aforementioned issues.

Table 5: Heteroscedasticity and Autocorrelation Test Results

	Model 1
Full Sample	
Heteroscedasticity	
Chi2 (15)	283.29
Prob > Chi2	0.0000
Serial Correlation	
F	13.462
Prob > F	0.0016

Table 5 shows the results of the heteroscedasticity test and the autocorrelation test for the regression model. Based on table 5, it is known that there are heteroscedasticity and autocorrelation problems, so the regression model used is the Random Effect regression model with clustered sandwich standard errors so that the model is not disturbed by these problems.

Hypothesis Test Results

Table 6: Hypothesis Test Results

Independent Variable	Dependent Variable			
	ac			
	Coeff.	Std. Err.	t	P> t
const	-2.289217	2.536373	-0.09	0.367
fd	0.0062752	0.00153	4.10	0.000***
go	-0.0116389	0.0083148	-1.40	0.162
io	0.1180384	0.9719417	0.12	0.903
mo	-1.012546	1.068912	-0.95	0.344
pf	0.1602178	0.073428	2.18	0.029**
lv	0.5292235	0.2403505	2.20	0.028**
fz	0.039654	0.0781209	0.51	0.612

R-square within	0.0822			
F				
Prob>F	0.0000			
No. observation	100			
Significance *** 1% ** 5%				

Discussion

Hypothesis Test Results 1

The first hypothesis is to test whether Financial Distress (FD) positively impacts accounting conservatism in consumer non-cyclical sector companies in the food & staples retailing, beverages, and processed foods sub-sector. The outcomes of this study's overall examination of the hypothesis are summarized in table 6. Testing hypothesis 1 shows that financial distress positively affects accounting conservatism, with a coefficient of 0.0062752, at a significance level of 1%. This shows that financial distress in the company will lead to the application of accounting conservatism. Therefore, hypothesis 1, which states that financial distress has a positive effect on accounting conservatism, is supported at the level = 1%. The results of the first hypothesis test support the positive accounting theory, which states that rational managers will choose good accounting policies and tend to apply conservative accounting, in which the managers of the company will enhance the amount of accounting conservatism if the company's financial level is high. However, managers will reduce conservatism if the company's level of financial distress is low (Ramadhan et al., 2018).

When earnings are low, Zmijewski's measurement value is high, which indicates that a high degree of accounting caution is being applied, and vice versa. This accounting conservatism is applied when losses occur, all of these losses will be recognized immediately even though they have not been realized, but when profits/profits occur, unrealized profits/profits are not recognized (Dewi & Suryawana, 2020). The precarious financial position of the organization has had a considerable impact on the conservative accounting approach. Currently, the company's financial condition is in trouble, managers tend to apply accounting conservatism to reduce conflicts between investors and creditors. Accounting conservatism is a precautionary principle. Therefore when a company experiences financial difficulties, it encourages to be more careful in dealing with an uncertain environment (Jatmiko, 2018). Therefore, the greater the financial distress of the company, the more likely it is that managers will be encouraged to increase the level of accounting conservatism, and vice versa, if the financial distress of the company is lower, the manager is more likely to reduce the level of accounting conservatism (Inayah, 2020). The experimental findings to test hypothesis 1 are consistent with findings from many other past studies and found that financial crises had a positive impact on the adoption of accounting conservatism, namely Sulastri & Anna (2018), Ramadhan et al. (2018), Jatmiko (2018), Suharti & Priyadi (2020), Inayah (2020), Inayah et al., (2021).

Hypothesis Test Results 2

The second hypothesis is to test whether growth opportunities positively affect the application of corporate accounting conservatism in the consumer non-cyclical sector in the food & staples retailing, beverages, and processed foods sub-sector in Indonesia. The results of the tests performed on Hypothesis 2 indicate that growth prospects have no effect on accounting

conservatism, with a coefficient of -0.0116389. This indicates that a company's level of accounting conservatism will decrease in direct proportion to the extent to which it is positioned to benefit from future expansion prospects. As a result, hypothesis 2 asserts that the utilization of conservative accounting practices is unaffected by the availability of growth prospects. The results of the second hypothesis test do not support the signaling theory, which states that the company will invest from the company's funds, which will then become costs. The number of funds the company needs from these signals causes managers to apply conservatism so that financing for investment can be fulfilled (Deslatu & Susanto, 2019).

Growth opportunities indicate that there is an opportunity for the company to develop by increasing its value of the company. To attract the attention of investors, the company will increase profits so that the company's financial statements will not be conservative. So that growth opportunities do not affect accounting conservatism (Setyowati & Setiawan, 2021). This is in line with several previous studies which stated that growth opportunities did not affect accounting conservatism Akpan & Amran (2014), Osarfo (2019), Madyan et al., (2021).

Hypothesis Test Results 3

The third hypothesis is to test whether institutional ownership positively affects the application of corporate accounting conservatism in the consumer non-cyclical sector in the food & staples retailing, beverages, and processed foods sub-sector in Indonesia. The coefficient value of 0.1180384 obtained from testing hypothesis 3 indicates that the presence of institutional ownership does not influence the degree of conservatism applied to accounting. This means that whether or not there is much institutional ownership does not affect increasing or applying accounting conservatism. Therefore, hypothesis 3 states that institutional ownership variables have no effect on accounting conservatism. The results of the third hypothetical test also do not support agency theory which states that agents can be controlled by institutional ownership by monitoring effectively to reduce management actions to carry out earnings management (Hari & Bahar, 2017).

In reality, the research results show that the more share ownership owned by institutions, the more institutional parties cannot properly monitor management performance in preparing financial reports (Hariyanto, 2020). Institutional parties only want the investment they invest in companies to be high-profit. Other researchers have concluded that there is no correlation between institutional ownership and accounting conservatism in their findings, which may be seen in their study Nurhayati & Rustiningrum (2019) Utomo & Azib (2021), and Setiawan et al. (2022). This means that the number of shares owned by institutions does not affect accounting conservatism (Mosaid, 2017).

Hypothesis Test Results 4

The fourth hypothesis is to test whether managerial ownership positively affects the application of corporate accounting conservatism in the consumer non-cyclical sector in the food & staples retailing, beverages, and processed foods sub-sector in Indonesia. With a coefficient of -1.012546, the testing of hypothesis 4 reveals that management ownership does not have an effect on accounting conservatism. This means that the size of the shares owned by the company's management does not affect the accounting conservatism the company applies (Nurhayati & Rustiningrum, 2021). Therefore, hypothesis 4 states that managerial ownership has no influence on the application of accounting conservatism. The results of the fourth hypothesis test do not support agency theory which states that share ownership by management can reduce

agency problems because the larger the shares owned by management, the greater their motivation in working to increase the value of the firm's stock (Jensen & Meckling, 1976).

The study results show that companies with a higher percentage of managerial ownership tend to use non-conservative accounting methods (Anggraeni, 2017). Higher managerial ownership will encourage using control rights to maximize management welfare. The higher managerial ownership, the lower the application of accounting conservatism in companies because managers tend to report high profits so that they are judged to have good performance to get bonuses. The research results are in line with Fachrudin (2011), Waskito (2014), Anggraeni (2017), Salim & Christiawan (2017), Tambunan & Prabawani (2018), Wahyuni & Erawati (2019), Gunawan et al. (2019), and Irma (2019). Managerial ownership does not affect accounting conservatism. This means that managerial ownership does not guarantee that companies will apply accounting conservatism (Yester et al., 2020).

Hypothesis Test Results 5

The fifth hypothesis is to test whether Profitability (PF) positively impacts company accounting conservatism in the consumer non-cyclical sector in the food & staples retailing, beverages, and processed foods sub-sector in Indonesia. The results of testing hypothesis 1 indicate that accounting conservatism is favorably affected by profitability, with a coefficient of 0.1602178 when compared at a significance level of 5%. This shows that the occurrence of profitability of the company will lead to the application of accounting conservatism. Consequently, hypothesis 5, which asserts that profitability has a beneficial influence on accounting conservatism, is supported at the level = 5. The agency theory was validated by the findings of the sixth test of its hypothesis, it implies that the likelihood of a corporation choosing cautious accounting increases in proportion to the degree of profitability the company has. This is because managers use conservatism to regulate profits to look flat and not too volatile (Pratanda & Kusmuriyanto, 2018).

The study results show that the acceptance of this hypothesis is due to profitability being a benchmark in accounting conservatism. Profitability is a ratio that seeks to measure an organization's capacity to create profits over a specific time period and offer an overview of the amount of management effectiveness in carrying out the operational operations of the organization (Limantauw, 2020). The effectiveness of Management can be seen from the profit generated from the sales and investment of the company by members of the organization to report allegations of violations committed. The findings of this study provide credibility to the findings of previous research carried out by Indrayanti (2017), Wardhani (2018), Limantauw (2020), and Putra & Sari (2020) showing that profitability has a significant effect on accounting conservatism, the higher the level of profitability of a company, the Management will tend to choose conservative accounting. This is because managers use conservatism to regulate profits so that they look average and do not fluctuate too much.

Hypothesis Test Results 6

The sixth hypothesis is to test whether leverage positively affects the application of accounting conservatism in consumer non-cyclical sector companies in the food & staples retailing, beverages, and processed foods sub-sector in Indonesia. The results of testing hypothesis 6 indicate that leverage has a favorable impact on conservative accounting practices. This means that the level of investment financed by debt affects encouraging or the emergence of the application of accounting conservatism. As a result, hypothesis 6 which states that the

leverage variable has a positive impact on accounting conservatism, is supported at the level = 5%. The findings of the sixth hypothesis test support agency theory, which states that leverage is only beneficial for businesses that can create profits greater than the total fixed costs. Therefore, agents who believe that a firm has a significant amount of debt will opt to use conservative accounting, which is designed to decrease the number of instances in which agents and principals have competing interests (Dewi & Suryawana, 2020).

Based on the results of statistical calculations, it can be concluded that leverage significantly affects accounting conservatism in consumer non-cyclical companies in the food & staples retailing, beverages, and processed foods sub-sector. The higher the company's leverage, the more conservative the company will be (Pratanda & Kusmuriyanto, 2018). High leverage will make the company more careful because high leverage is a threat to the company's survival. In companies that have higher leverage, creditors have increased rights to be informed about and control the company's business activities and accounting practices, managers have difficulty hiding information from creditors (Wijaya et al., 2017). Creditors typically request that managers use conservative accounting because they are concerned about the allocation of net assets and lesser earnings to managers and shareholders (Pramudita, 2018). The greater the debt-to-equity ratio level, the better the company's ability to pay its debts. With high leverage, the company will be more careful in facing an environment full of uncertainty. The findings of this study are consistent with the findings of research carried out by Wijaya et al. (2017) and Putri (2017), Dewi & Suryanawa (2018), and Pratanda & Kusmuriyanto (2018) that leverage affects accounting conservatism.

Hypothesis Test Results 7

The seventh hypothesis is to test whether company size positively affects the application of accounting conservatism in consumer non-cyclical sector companies in the food & staples retailing, beverages, and processed foods sub-sector in Indonesia. Testing of Hypothesis 7 reveals that the degree of accounting conservatism is unaffected by the size of the company. This means that small or large company size does not affect encouraging or discouraging the application of accounting conservatism. Therefore, hypothesis 7, which states that firm size has a positive effect on accounting conservatism, is not supported.

The results of the seventh hypothesis research do not support positive accounting theory, especially the firm size hypothesis, which states that the larger the company's size, the more likely the company manager is to choose accounting procedures that defer reporting of current period earnings to future periods. In other words, large companies tend to reduce or reduce reported profits compared to small companies. The bigger size of the firm does not correspond with the rise or fall in the value of conservative accounting practices. This can cause the size of the company not to affect accounting conservatism. The research results are in line with those Waskito, (2017), ilma (2017), Salim & Christiawan (2017), Tambunan & Prabawani (2018), Wahyuni & Erawati (2019), Gunawan et al., (2019), and Irma (2019).

4. Conclusion

The following are some of the conclusions that may be drawn from the findings of the study:

1. Financial Distress has a positive effect on accounting conservatism
2. Growth Opportunities have no effect on accounting conservatism
3. Managerial Ownership has no effect on accounting conservatism
4. *Profitability has a positive effect on accounting conservatism*

5. *Leverage has a positive effect on accounting conservatism*
6. Firm size has no effect on accounting conservatism

Research Limitations

The limitation of this study is that it cannot empirically prove the positive effect of disclosing growth opportunities, managerial ownership, institutional ownership, and company size on the application of accounting conservatism. This research also only focuses on companies in the consumer non-cyclical sector, in the food & staples retailing, beverages, and processed foods sub-sector, the R Square value in this study is 8%, so it is categorized as small (Hair, 2011).

Suggestion

Based on the R Square value for future improvement, further research can 1) The research model is still simple. Future research is expected to add to the research model, such as adding moderating or mediating variables. 2) Using a larger sample, not only sub-companies the food & staples retailing, beverages, and processed foods sector but can use all companies included in the non-cyclical consumer sector companies. 3) Re-testing growth opportunities variables, managerial ownership, institutional ownership, and company size. 4) The degree of accounting conservatism is not affected by all of the variables in this research. It is hoped that further research will add variables that affect the application of accounting conservatism itself.

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