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The Impact of Company Size, Capital Intensity, Litigation Risk and Managerial Ownership on Accounting Conservatism

Laura Hartanto[1], M. Devitia Putri Nilamsari[2]
[1,2]Faculty of Economics and Business, Soegijapranata Catholic University, Semarang, Indonesia

ABSTRACT
Accounting conservatism is a cautious reaction to dealing with uncertain matters in the Company. This research aims to determine the influence of company size, capital intensity, litigation risk, and managerial ownership on accounting conservatism. This research is quantitative descriptive research that uses multiple linear regression analysis. The population in this study is manufacturing companies registered on the BEI in 2020-2022, and the sampling method used in this research is purposive sampling, where it is known that the research sample is 94 companies registered on the BEI. The research results show that the variables of company size, litigation risk, and managerial ownership have a positive and significant effect on accounting conservatism. Meanwhile, the capital intensity variable has an insignificant positive effect on accounting conservatism. Investors, potential investors and creditors are advised to be more careful with the information presented in financial reports and to be able to pay attention to published annual financial reports to determine the quality of company profits when making decisions. Referring to the low value of the coefficient of determination, it is hoped that further research can add variables or use other variables outside the model.

***Keywords**: Capital Intensity; Managerial Ownership; Litigation Risk; Company Size*

INTRODUCTION

Efforts to anticipate economic crises and an unstable economy encourage companies to present financial reports carefully. Financial Accounting Standards (SAK) also provide freedom and direction to choose the correct accounting method in preparing financial reports (Sabaruddin & Affandi, 2021). This freedom can be utilized to produce different financial reports for each Company according to the Company's wishes and needs, or in other words, companies have a little freedom in choosing one of several alternatives offered in financial accounting standards that are deemed appropriate to the Company's conditions.

Company financial reports prepared based on generally accepted accounting principles provide flexibility for management in determining the accounting methods and estimates used. This flexibility will influence managers' behaviour in recording accounting records and reporting transactions (Andreas et al., 2017). Presenters are also faced with considerations of conservatism, which is the principle of prudence, in presenting quality financial reports.

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id
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Accounting conservatism as a component of the quality of accounting information and corporate governance mechanisms is essential in adequate corporate supervision, reducing agency costs and increasing contract efficiency (Manoel & Moraes, 2022). Manoel and Moraes (2022) argue that accounting conservatism can be understood as the tendency of accounting to demand a higher level of verification for the recognition of good news than bad news so that profits reflect lousy news more quickly than good news. Based on Basu's perspective, it can be concluded that accounting conservatism is an accounting tendency that requires a higher level of verification to recognize positive views compared to recording losses (Manoel & Moraes, 2022).

Rivandi and Ariska (2019) explain that conservatism has two main rules: First, an entity must recognize losses that are very likely to occur but must not anticipate profits before they occur. Second, accountants are expected to choose the least profitable accounting method when faced with several choices. Accounting conservatism is reducing net assets or lowering profits in response to bad news and not increasing profits in response to good news (Rivandi & Ariska, 2019).

The increased interest in conservative accounting may be because accounting standards do not cover all areas of accounting. Some areas require manager judgment, so the extent to which accounting is conservative depends on the manager's decision (El-Habashy, 2019). The influence of accounting conservatism can be measured through many factors, including company size, company risk, capital intensity, taxes, litigation risk, debt covenants, audit committees, and managerial ownership (Sinambela & Almilia, 2018). Sinambela and Almilia (2018) also revealed that large companies apply the concept of accounting conservatism more.

The first factor that has an impact on accounting conservatism is company size. According to their size, they are categorized into small companies and large companies. Large companies are assumed to own many assets and a significant income level so that their business activities generate high profits. These large companies have more complex management systems and will have higher profits (Putri et al., 2021). Furthermore, (Haryadi et al., 2020) explained that large companies tend to report relatively lower profits by implementing conservative accounting because large companies tend to be more scrutinized by the government.

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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The second factor, capital intensity, is the capital the Company owns in assets. Capital intensity indicates the political cost hypothesis because more and more assets are used in company operations to generate sales of company products (Rivandi & Ariska, 2019). Capital intensity is a description of the amount of capital a company needs to earn income, so it can be concluded that capital-intensive companies will face relatively high political costs, so management tends to be careful and will have accounting procedures that do not exaggerate profits. Thus, the resulting financial reports are conservative (Rivandi & Ariska, 2019).

The third factor is litigation risk, which is a form of business risk related to law (Sinambela & Almilia, 2018). Rahmi & Baroroh (2022) argue that litigation risk allows the emergence of lawsuits involving the law from parties dissatisfied with business interests, including regulators, investors and even creditors. For example, a litigation case from a creditor's perspective is when a corporation fails to fulfil its obligations under the contract to fulfil the obligations agreed upon by the debtor and creditor; the creditor can sue it in law. Meanwhile, an example from an investor's perspective is the possibility of a lawsuit because it is caused by company activities that harm investors by reflecting fluctuations in the price and volume of shares in circulation (Rahmi & Baroroh, 2022).

Apart from that, managerial ownership is a factor that can influence companies to apply the principle of accounting conservatism. Managerial ownership is a condition where the manager is the owner of the Company's shares, so apart from being the manager of the Company, the manager is also the owner of the Company. Managerial parties in a company play an active role in making decisions to run the Company. The Company's board of commissioners and board of directors are parties who play an active role in the Company (Dewi & Abundanti, 2019). The higher the proportion of shares owned by management, the more conservatively the manager tends to apply financial reporting. An increase or decrease in managerial ownership is in line with an increase or decrease in the level of implementation of the Company's accounting conservatism.

On the other hand, some studies show that higher managerial ownership can lead to reduced conservatism in accounting. Managers with significant ownership stakes may

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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be more likely to paint a positive financial picture to protect their wealth. As a result, they may be more likely to delay recognizing potential losses or adopt less conservative accounting practices to present a more favourable corporate image (Putra et al., 2019). Timely recognition of losses by the principal may indicate a more immediate economic loss. So conservative accounting can suppress "empire building" practices carried out by managers resulting from negative net present value (Anagnostopoulou et al., 2021)

Research on the influence of managerial ownership on accounting conservatism conducted by Putra et al. (2019) showed that managerial ownership has a significant positive effect on accounting conservatism. Meanwhile, research conducted by El-Haq et al. (2019), Gusti & Yuyetta (2022), and Sinambela & Almilia (2018) shows that managerial ownership has an insignificant negative effect on accounting conservatism.

Referring to the background above, differences in research results were found for each variable. In addition, compared to previous research, the difference between this research is the use of company size variables, capital intensity, litigation risk, and managerial ownership simultaneously. The second difference is using a company sample; this research uses a sample of manufacturing companies registered from 2019 to 2022. The results of this research are expected to determine how the impact of company size, capital intensity, litigation risk, and managerial ownership on conservative accounting practices can result in more conservative financial statements, which may better reflect the Company's risk profile.

THEORETICAL BACKGROUND

Political Cost

Political costs include all costs of transferring wealth that the Company must bear concerning antitrust actions, regulations, government subsidies, taxes, tariffs, labour demands, etc. (Nuraeni & Indra Tama, 2019). If large companies have relatively high and permanent profits, then the government can be encouraged to raise taxes and require higher public services from companies. Finally, managers of large companies may tend to choose accounting methods that delay reporting earnings to reduce the political costs incurred by the Company (Nuraeni & Indra Tama, 2019).

Accounting Conservatism

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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Rahmawati believes accounting conservatism is a wise response to internal uncertainty. This research measured accounting conservatism using operating accruals (El-Haq et al., 2019).

According to Suwarjono, fiscal conservatism is an attitude or mindset that, when faced with uncertainty, a person takes actions and decisions based on the worst outcome (Utami et al., 2023). Financial statement fraud involves intentionally misrepresenting specific financial values to represent profits better or defrauding shareholders or creditors.

Putri et al. (2022) define accounting conservatism as a controversial principle. There are several advantages and disadvantages regarding applying conservatism in financial report design. The application of conservatism is beneficial if it helps to consider uncertainty about what has not happened or what may happen to the Company in the future. However, from another point of view, the application of conservatism is also said to influence the weighting of financial statements.

Sabaruddin and Affandi (2021) argue that accounting conservatism leads to a tendency to choose generally accepted accounting methods, resulting in delayed revenue recognition, premature expense recognition, lower asset valuation, and higher liability valuation. It is best to report the lowest values for assets and income and the highest for liabilities and expenses.

The measure used in accounting conservatism is the Hayn and Givoly (2000) model, which is also used in Dewa's (2014) research. Calculation of Accounting Conservatism Index:

$$Conservatism = \frac{Net\ Income - Operating\ Cash\ Flow - Depreciation}{Total\ Assets}\ x - 1$$

Company Size

Company size is a measure that can be classified as company size in various ways, including total assets, protocol size, and stock market value. The size of a company influences its ability to bear risks that may arise from the various situations it faces (Dinnul Alfian et al., 2020). The greater the total assets, the larger the Company.

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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The government automatically allocates costs to the business world. These costs arise because companies apply conservative accounting principles as tax rates increase and report profits at the lowest value (Arum et al., 2019). The company size variable is measured using Log Natural Assets.

$$Company\ Size = LogN\ Total\ Assets$$

Capital Intensity

Wealth intensity directs the amount of wealth that companies need to create revenue. Because wealth-based companies face relatively high regulatory costs, administrations want to be careful and avoid unreasonable accounting advice so that the resulting financial demands tend to be conservative (Arum et al., 2019). Wealth intensity is a metric that can estimate the cost of maintaining a company. Companies with increasing wealth are considered to have higher regulatory costs, inviting managers to reduce profits and play a more conservative role in their financial reporting (R. D. Putri et al., 2022).

$$Capital\ Intensity = \frac{Total\ Fixed\ Assets}{Total\ Assets}$$

Litigation risk

Litigation risk is a party-related risk that a business bears and involves significant costs in dealing with affected parties. This litigation risk is a measure of a company's external situation. Because there are differences in interests between shareholders, debt collectors and company management, if a company cannot fulfil its rights and obligations, it will file a lawsuit with the court authority (Damayanty & Masrin, 2022). The debt-to-equity ratio formula that can be used is as follows:

$$THE = \frac{Total\ Debt\ (Debt)}{Total\ Equity\ (Equity)}$$

Managerial Ownership

Managerial ownership aims to hold ownership by the management and strengthen the Company's capabilities. The management is expected to operate in one

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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language according to the wishes of the Company's shareholders, which ultimately increases the Company's value. Management ownership is when a manager keeps holdings in the Company. He is not only a company administrator but also the owner of the Company. A part manager in a company is a resourceful person who plays a role in gathering orders regarding the administration of the Company. The directors and consortium of commanders of a company discover the factors that play a role in the Company (Dewi & Abundanti, 2019) El-Haq et al., (2019). Managerial ownership is measured by calculating the percentage of the number of shares owned by management divided by the total number of shares outstanding.

$$Managerial\ Ownership = \frac{Shares\ owned\ by\ the\ manager}{ial\ shares\ outstanding}$$

The Influence of Company Size on Accounting Conservatism

Based on the political costs hypothesis, we can conclude that the larger a company, the more it attracts government attention in implementing tax rates. This situation encourages the application of more conservative accounting principles because companies tend to report lower profits to prevent paying too high taxes (Solichah, 2019). The effect of company size on accounting conservatism is indirect and can depend on a variety of factors, including the Company's access to resources, regulatory environment, financial reporting objectives, and industry characteristics.

The larger the firm or Company in terms of total assets, the higher the entity's level of prudence in carrying out its financial reporting. Research supports this (Aryani & Muliati, 2020; Hakiki & Solikhah, 2019; Purwasih, 2020; Sinambela & Almilia, 2018). Meanwhile, research conducted by Haryadi et al. (2020) found that company size has no effect on accounting conservatism.

H1: Company size has a significant positive effect on accounting conservatism.

The Effect of Capital Intensity on Accounting Conservatism

Capital intensity refers to the extent to which a company relies on fixed assets or capital-intensive investments in its operations. Companies with lower capital intensity may have more flexibility in their financial reporting. They may face less risk of

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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impairment and may be less concerned with protecting significant investments in fixed assets. This can cause accounting to be less conservative.

A company's capital intensity can be used as an indicator of its potential to compete in the market. The higher the capital intensity, the higher the political costs. These political costs are related to company assets. Profits are kept low so the Company does not appear to be making money, reducing political costs.

For this reason, management employs conservative accounting practices. The more capital-intensive a company is, the higher the political costs incurred (Hotimah & Rentani, 2018). One of the manager's actions to maximize profits is reducing political costs by applying conservative accounting methods, shifting profits from the current period to the future. Therefore, capital intensity can influence managerial ownership of accounting management in company reporting (Rivandi & Ariska, 2019).

Based on research conducted by (Aurillya et al., 2021 Hotimah & Rentani, 2018 Murti & Yuniarta, 2021; Rivandi & Ariska, 2019) research has shown that capital intensity has a positive and significant effect on accounting conservatism. However, this research differs from that conducted by Arum (Arum et al., 2019), where capital intensity does not have little conservatism.

H2: Capital intensity has a significant positive effect on conservatism

The Influence of Litigation Risk on Accounting Conservatism

Litigation risk refers to the possibility of a company facing legal action or lawsuits related to its financial reporting practices. Companies facing higher litigation risks may adopt more conservative accounting practices as a risk avoidance strategy. Conservative accounting can help minimize the potential for aggressive financial reporting that would later lead to legal challenges.

In a strict legal environment, managers tend to be conservative in their financial reporting due to its correlation with audited accounting regulations. According to Zuhriyah (Rahmi & Baroroh, 2022), if management does not pay its debts according to the contract, there is a risk of litigation from creditor demands. In addition, bankruptcy affects creditors' claims against the legal department, thereby causing increased costs to handle this process. Therefore, management prefers to report profits conservatively because excessive profit reporting can cause legal problems.

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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Based on the results of research conducted by Andani and Nurhayati (2021), Murti and Yuniarta (2021), and Damayanty and Masrin (2022) resulted in research that litigation risk has a positive and significant effect on accounting conservatism. Meanwhile, research conducted by (Wiecandy & Khairunnis, 2018) found that litigation risk did not significantly affect accounting conservatism.

H3: Litigation risk has a significant positive effect on accounting conservatism

The Influence of Managerial Ownership on Accounting Conservatism.

Companies with higher management ownership tend to use less conservative accounting methods (El-Haq et al., 2019). El-Haq et al. (2019) explain that higher managerial ownership encourages the use of control rights to maximize managers' profits. The higher management ownership, the less likely accounting conservatism is implemented in the Company because managers tend to report higher profits and are considered to perform well enough to receive bonuses (El-Haq et al., 2019).

Management with high share ownership will try to use the principle of accounting conservatism. This happens because companies are not solely oriented towards high profits but are more related to company sustainability. High managerial ownership makes management more involved in company activities so that the Company's future is given more attention and not only focused on getting bonuses (Hajawiyah et al., 2020).

Research conducted by Arum Arsita and Titik Kristanti (2019; Dewi & Abundanti, 2019; Putra et al., 2019) found that managerial ownership significantly positively affects accounting conservatism. Meanwhile, research conducted by Damayanty and Masrin (2022) found that managerial ownership significantly negatively affects accounting conservatism.

H4: Managerial ownership has a significant positive effect on accounting conservatism

METHOD, DATA AND ANALYSIS

This research uses a quantitative approach using the financial reports of manufacturing companies listed on the Indonesia Stock Exchange (BEI) for 2019-2021. The population in this research is all manufacturing companies listed on the Indonesia

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id
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Stock Exchange (BEI) for the 2019-2022 period. The sampling technique in this research uses *purposive sampling*, which is carried out with the following specified requirements: (1) Publish complete financial reports from 2020-2022. (2) Financial reports published in rupiah currency. This is due to fluctuations in currency exchange rates. So, researchers do not need to convert non-rupiah currency into rupiah currency. (3) Not experiencing losses from 2020-2022 because conservatism refers to an approach where accounting transactions or events tend to be processed most carefully, tending to consider losses or liabilities earlier than income or assets. (4) Operating cash flow is positive from 2020-2022; companies with negative cash flow require more attention in financial management. It is necessary to conduct an in-depth evaluation of the cost structure, income sources, cash management and operational strategies to increase positive cash flow. (5) Publish managerial holdings from 2020-2022.

Referring to the sampling criteria above, the sample for this study was determined as follows:

Table 1. Research Sample

Criteria	**2020**	**2021**	**2022**
Manufacturing company registered on the IDX since 2020	179	179	179
Companies that did not publish complete financial reports during the research period	-51	-51	-51
Companies that publish financial reports in foreign currency	-6	-6	-6
Companies that experience losses	-20	-20	-20
Companies with negative cash flow	-53	-53	-53
Companies without managerial ownership	-25	-25	-25
Total Sample	**32**	**32**	**32**

Source: processed secondary data, 2023

Based on the table above, it can be explained that the population in this study was 537 companies for three years, and then the number of companies that did not publish complete financial reports was 153. Eighteen companies published financial reports in foreign currency, and 60 companies experienced losses during the observation period. Companies with negative cash flow numbered 159 issuers, and companies that did not have managerial ownership numbered 75. So, the total sample in this study was 96 companies.

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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Tools and analysis techniques used in reviewing financial performance in the manufacturing companies listed in BEI for this study include the following: Excel was utilized to organize the data, thus facilitating the handling of financial reports gathered in this research. SPSS is employed for statistical analysis, enabling various analyses, from describing the statistics for essential data points to regression analysis that may detail the inter-relationships between any two variables. The financial ratio analysis was also done with the aim of gathering the performance of each of the selected Companies. In such a direction, this comprehensive approach ensured that the financial health and managerial practices of the manufacturing sector for the concerned period were investigated.

RESULTS

Descriptive Analysis Test Results

Descriptive statistics is a statistical analysis that provides a general description of the characteristics of each research variable as seen from the average value (*mean*), maximum, and minimum. In this research, descriptive statistical analysis was discussed for standard data. Data on manufacturing companies that meet the research sample criteria are 96 companies with a research period of 2020 to 2022.

Table 2. Descriptive Analysis Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Conservatism	96	-0,31	1,26	0,2298	0,25856
Company Size	96	11,23	19,84	14,4792	1,85794
Capital Intensity	96	0,02	10,28	0,5237	1,19526
Litigation Risk	96	0,03	5,64	0,8425	1,00567
Managerial Ownership	96	0,00	0,69	0,2060	0,20958
Valid N (listwise)	96				

Source: processed secondary data, 2023

Based on the results of the descriptive test above, it shows that the accounting conservatism value has the lowest value of -0.31, the highest value is 1.25, and then the average value of 0.229. This shows that the average accounting conservatism in the sample companies is 0.229 or 22.9%. The company size variable has the lowest value of 11.23, the highest value of 19.84, and the average value of 14.47. This shows that the average sample company size is ln 14.47.

[1]Email: laurahartantoo@gmail.com

[2]*Corresponden Author, Email: devitia@unika.ac.id
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The capital intensity variable has the lowest value of 0.02, the highest value of 10.28, and the average value of 0.52. This shows that the sample companies' average ratio of fixed assets to total assets is 0.523 or 52.3%. Meanwhile, the litigation risk variable has the lowest value of 0.03, the highest value of 5.64, and the average value of 0.84. This shows that the sample companies' average ratio of debt to total assets is 0.842 or 84.2%.

The managerial ownership variable has the lowest value of 0.00, the highest value of 0.69, and the average value of 0.20. This shows that the average managerial ownership ratio of the sample companies is 0.206, or 20.6%.

Classic Assumption Test Results

Normality Test Results

Table 3. Normality Test Results

	Shapiro-Wilk		
	Statistic	df	Sig.
Conservatism	0,925	96	0,360
Company Size	0,856	96	0,432
Capital Intensity	0,870	96	0,414
Litigation Risk	0,873	96	0,348
Managerial Ownership	0,860	96	0,472

Source: processed secondary data, 2023

Based on the output results of the normality test using the Shapiro-Wilk test in Table 3, the significance value in the significance column shows that the variables conservatism, company size, capital intensity, litigation risk and managerial ownership have a significance level of > 0.05. So, the data is usually distributed.

Autocorrelation Test Results

Table 4. Autocorrelation Test Results

Model	Durbin-Watson
1	2,168

Source: processed secondary data, 2023

Based on the results of the autocorrelation test above in the Durbin Watson column with a sample size of 96 and a total of 5 variables, the dL value is 1.5600 and the dU value is 1.7785. So, in this study, there was no autocorrelation because the DW value is located between dU and 4-dU (1.778 < 2.168 < 2.221).

[1]Email: laurahartantoo@gmail.com

[2]*Corresponden Author, Email: devitia@unika.ac.id
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Multicollinearity Test Results

Table 5. Multicollinearity Test Results

	Model	Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Company Size	0,935	1,070
	Capital Intensity	0,986	1,014
	Litigation Risk	0,983	1,018
	Managerial Ownership	0,929	1,076

Source: processed secondary data, 2023

From the results of the multicollinearity test by looking at the magnitude *tolerance* of more than 0.1 and the Variance Inflation Factor (VIF) value is below 10. So, multicollinearity does not occur for each variable.

Test Results Heteroscedasticity

Table 6. Heteroscedasticity Test Results

	Model	Sig.
1	(Constant)	0,211
	Company Size	0,674
	Capital Intensity	0,074
	Litigation Risk	0,419
	Managerial Ownership	0,057

Source: processed secondary data, 2023

The results of the heteroscedasticity test using the Glejser test above show that the significance of the company size variable is 0.674 > 0,05, the capital intensity variable is 0.074 > 0,05, the litigation risk variable is 0.419 > 0,05, and the managerial ownership variable is 0.057 > 0,05. In the Glejser test, the significance is more significant than 0.05 to be stated as appropriate, and there is no heteroscedasticity problem in this research.

F Test Results

Table 7. F Test Results

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,412	4	0,353	6,507	.000[b]
	Residual	4,938	91	0,054		
	Total	6,351	95			

Source: processed secondary data, 2023

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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The results of the F test calculation show the simultaneous test, which has a value of 6.507. Meanwhile, using the F table calculation formula (k; n-k), namely (4;91), with a probability of 0.05, the F table is 2.47. For the simultaneous test using the Significance value (Sig.) from the ANOVA output, the Sig value is 0.000, below 0.05 (alpha 5%). This shows that the variables of company size, capital intensity, litigation risk, and managerial ownership jointly influence accounting conservatism.

Coefficient of Determination Test Results

Table 8. Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.472[a]	0,222	0,188	0,23295

Source: processed secondary data, 2023

Based on the coefficient of determination test results above, the coefficient of determination (*adjusted R square*) is 0.188. This shows that debt policy can be explained by the company size variable of 0.188 or 18.8%. Meanwhile, the remaining 81.2% is explained by other factors outside the model.

Hypothesis Test Results

Table 9. Hypothesis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0,317	0,202		-1,570	0,120
	Company Size	0,027	0,013	0,192	2,008	0,048
	Capital Intensity	0,024	0,020	0,109	1,174	0,244
	Litigation Risk	0,082	0,024	0,321	3,439	0,001
	Managerial Ownership	0,381	0,118	0,309	3,223	0,002

Source: processed secondary data, 2023

AND : - 0,317 + 0,027 UP + 0,024 IM + 0,082 RL + 0,381 KM

Based on the results of the multiple regression tests above, company size has a regression coefficient value of 0.027, so the regression coefficient value is declared positive. Every increase in company size will increase the value of accounting conservatism. The significant probability value of company size is 0.048 <0.05. Company size has a positive and significant effect on accounting conservatism, so the first hypothesis of this research is accepted.

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id
P-ISSN: 2580-6084, E-ISSN: 2580-8079

Capital intensity has a regression coefficient value of 0.024. The significant probability value for capital intensity is 0.244 > 0.05. Capital intensity does not significantly affect accounting conservatism, so the second hypothesis in this study is rejected.

Litigation risk has a regression coefficient value of 0.082, so the regression coefficient value is declared positive. Any increase in litigation risk will increase the value of accounting conservatism. The significance probability value of litigation risk is 0.001 < 0.05. Litigation risk has a positive and significant effect on accounting conservatism, so the third hypothesis of this research is accepted.

Managerial ownership has a regression coefficient value of 0.381, so the regression coefficient value is declared positive. Every increase in managerial ownership will increase the value of accounting conservatism. The probability value of significance for managerial ownership is 0.002 <0.05. Managerial ownership has a positive and significant effect on accounting conservatism, so the fourth hypothesis of this research is accepted.

DISCUSSION

The Influence of Company Size on Accounting Conservatism

Company size has a positive and significant influence on accounting conservatism. This means that the size of the Company can guarantee that the Company applies conservative accounting principles. Company size is used as a tool to consider the application of accounting conservatism. How big a company is can be determined by the number of assets in the Company. Companies with large sizes tend to have significant total assets so that an increase will follow this in operational activities. To avoid this, company management will be more careful in choosing accounting principles that can minimize profits.

Watts and Zimmerman hypothesized that political costs would increase with the size of the firm. So, the larger the Company, the greater the political costs that must be borne (Wati et al., 2020). This results in managers aiming to reduce profits during this period so that political costs can also be reduced less or more conservatively. The larger company size encourages companies to apply conservatism accounting by presenting

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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lower profit figures due to political costs that may arise in the future due to government demands.

Based on the discussion that has been carried out, it can be concluded that companies can consider their size when making decisions to implement conservative accounting. The results of this research are supported by research conducted by Hakiki and Solikhah (2019; Purwasih, 2020; Solichah, 2019), which shows that company size has a positive and significant effect on accounting conservatism.

The Effect of Capital Intensity on Accounting Conservatism

The results of this study indicate that the capital intensity variable does not affect accounting conservatism. This means that companies with high or low capital intensity do not affect the application of accounting conservatism. Companies with high capital intensity will not present more conservative financial reports, even though managers can increase sales with high assets. The amount of capital intensity will affect the capital intensity ratio. However, a high ratio level does not guarantee that the Company will be conservative in reporting its financial statements. So, the results of this study reject the political costs hypothesis, which explains that large companies characterized by high capital intensity tend to receive more attention from the government, which can trigger political costs. (Agustina et al., 2023)

This research indicates that companies with high capital intensity do not cause conservative earnings report presentations. Management is trying not to be a more conservative report in this regard, although the Company has assets in increasing sales. The results of this research are supported by research conducted by (Aurillya et al., 2021; Fadhiilah and Rahayuningsih, 2022), which resulted in research that capital intensity did not significantly affect accounting conservatism.

The Influence of Litigation Risk on Accounting Conservatism

Litigation risk has a positive and significant influence on accounting conservatism. Leatherman *et al.* argue that to avoid lawsuits and threats of litigation encourages managers to disclose information that tends to lead to (i) immediate disclosure of bad news in financial statements, (ii) delaying good news, and (iii) choosing more conservative accounting policies (Ulfasari & Marsono, 2014)

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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High political costs may attract increased public scrutiny and regulation. This increased attention may lead to investigations, legal action, or regulatory intervention, contributing to the risk of litigation. Legal actions resulting from political oversight may involve allegations of regulatory non-compliance, ethical violations, or other legal violations, further increasing the risk of litigation.

The results of this research encourage Zuhriyah's opinion (Rahmi & Baroroh, 2022), which explains that litigation risks can arise because of creditor claims if company management fails to pay off debts according to the terms. Apart from that, the inability to pay debts impacts claims from creditors to the legal realm, resulting in increased costs for handling this process. Therefore, management prefers to report profits conservatively because reporting too high income can cause legal complications. The results of this research are supported by research conducted by Andani and Nurhayati (2021) and Damayanty and Masrin (2022), which resulted in research that litigation risk has a positive and significant effect on accounting conservatism.

The Influence of Managerial Ownership on Accounting Conservatism

Litigation risk has a positive and significant influence on accounting conservatism. Managerial ownership can play a monitoring function in the financial reporting process. Suppose *inside directors* and management carry out their supervisory functions well. In that case, they will require high-quality information from financial reporting and demand high conservatism principles.

More conservative accounting will be used because rational creditors expect managers with high ownership to be more in line with shareholders. Hence, creditors need specific mechanisms to protect the value of their investments. The greater the amount of share ownership given to management, the higher the sense of ownership of the Company. While higher managerial ownership can align interests and encourage long-term strategies that mitigate political costs, there are potential risks, including conflicts of interest. Companies with sizeable managerial ownership can implement governance measures and engage in activities that help manage political costs and foster positive relationships with various stakeholders.

Management will tend to prioritize the Company's survival over short-term

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id
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personal gain. Conservative accounting principles will be management's leading choice compared to aggressive ones. So, it can be concluded that the sizeable managerial ownership of the sample entity makes management present conservative profits. This happens because managers feel they own the Company, so the Company's orientation is not only on the amount of profit achieved but also on the Company's sustainability in the future. The number of shares owned by the manager will increase the manager's motivation to increase the value of the Company's shares. The results of this research are supported by research conducted by Putra et al. (2019), Dewi and Abundanti (2019), and Arum Arsita and Titik Kristanti (2019), which results in research that managerial ownership has a positive and significant effect on accounting conservatism.

Litigation risk has a positive and significant influence on accounting conservatism. Managerial ownership can play a monitoring function in the financial reporting process. Suppose *inside directors* and management carry out their supervisory functions well. In that case, they will require high-quality information from financial reporting and demand high conservatism principles.

More conservative accounting will be used because rational creditors expect managers with high ownership to be more in line with shareholders. Hence, creditors need specific mechanisms to protect the value of their investments. The greater the amount of share ownership given to management, the higher the sense of ownership of the Company. While higher managerial ownership can align interests and encourage long-term strategies that mitigate political costs, there are potential risks, including conflicts of interest. Companies with sizeable managerial ownership can implement governance measures and engage in activities that help manage political costs and foster positive relationships with various stakeholders.

Management will tend to prioritize the Company's survival over short-term personal gain. Conservative accounting principles will be management's main choice compared to aggressive ones. So, it can be concluded that the large managerial ownership of the sample entity makes management present conservative profits. This happens because managers feel they own the Company, so the Company's orientation is not only on the amount of profit achieved but also on the Company's sustainability in the future. The number of shares owned by the manager will increase the manager's motivation to increase the value of the Company's shares. The results of this research

[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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CONCLUSIONS

Based on the research results above, company size positively and significantly affects accounting conservatism. The litigation risk variable has a positive and significant effect on accounting conservatism, and managerial ownership has a positive and significant effect on accounting conservatism. Meanwhile, the capital intensity variable has no effect on accounting conservatism. The limitation of this research is that the independent variables cannot explain the application of the principle of conservatism in the sample companies. The low coefficient of determination value indicates this. Based on the limitations of the research above, it is hoped that future research can add the variable public share ownership. Share ownership by the public can also influence management decisions when applying conservative accounting standards. When people own more shares, managers prefer to report profits at a higher or more optimistic level. This rate of return is high because shareholders want a return of capital, both in the form of dividends and capital gains. As a result, the manager's performance is assessed as good, and the manager receives a bonus (hypothetical planning bonus). Investors, potential investors and creditors are advised to be more careful with the information presented in financial reports and be able to pay attention to published annual financial reports in order to be able to determine the quality of company profits in decision-making, referring to the low coefficient of determination value, research Next, it is hoped that we can add variables or use other variables outside the model.

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[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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[1]Email: laurahartantoo@gmail.com
[2]*Corresponden Author, Email: devitia@unika.ac.id

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