

INDEPENDENT COMMISSIONER, FIRM SIZE, *FINANCIAL DISTRESS*, LEVERAGE
AND KONSERVATISME AKUNTANSI: Evidence Insurance and Finance Company in
Indonesia

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DOI: <https://doi.org/10.56293/IJMSSSR.2022.4587>

IJMSSSR 2023

VOLUME 5

ISSUE 2 MARCH – APRIL

ISSN: 2582 - 0265

Abstract: This research is a descriptive quantitative study based on the condition of the application of the principle of accounting conservatism in financial statements in Indonesia, which is still reaping the pros and cons. As well as the results of previous research on the effect of independent commissioners, financial distress, leverage, and company size on accounting conservatism with inconsistent results. This research is a development of previous research with the addition of independent commissioner variables. In this study, a sample was used in the form of secondary data from 25 financial companies in the insurance sub-sector and financing institutions listed on the IDX 2019-2021, which were obtained through the site www.idx.co.id.

This study aims to determine: 1) The effect of independent commissioners on accounting conservatism. 2) The effect of company size on accounting conservatism. 3) The effect of financial distress on accounting conservatism. and 4) The effect of leverage on accounting conservatism.

Keywords: Accounting Conservatism, Independent Commissioner, Financial Distress, Leverage, Company Size

1. Introduction

Financial reports are reports that are used as information for stakeholders, both internal and external. Accounting Principle Board Statement No. 4 explains that financial statements must meet fundamental qualities such as being relevant, understandable, testable, neutral, timely, comparable, and complete. Related to these fundamental qualities, there is an application of a principle called accounting conservatism.

Accounting conservatism is also referred to as the precautionary principle, which in its application recognizes costs or expenses first and then revenue is recognized afterwards. Therefore, the application of this principle tends toward pessimism, where the financial statements no longer disclose precisely but tend to set the report numbers lower than the actual value, but accounting conservatism can also help companies reduce risks for managers and company owners due to uncertainty in the future.

The pandemic in Indonesia has caused several business sectors to experience a decline in performance due to the low level of purchasing power. This condition causes wider economic uncertainty, which requires managers to make several important decisions, including those in the accounting field. In this condition, managers tend to be required to make careful decisions in the midst of uncertain conditions. Investors need to know how the level of conservatism of the financial statements of companies listed on the stock exchange is useful in making investment decisions so that the investment made is value-added.

Phenomena during 2019-2021 regarding conservatism that occurred in several insurance financial companies listed on the IDX, such as the misappropriation of insurance customer funds by PT Asuransi Jiwasraya, which publicly announced its inability to pay matured customer insurance policies. Jiwasraya then experienced liquidity and equity pressures, which in the end Jiwasraya it to modify its financial statements. BPK also assessed that there were irregularities in Jiwasraya's net profit bookkeeping, so that if the reserves were made in accordance with the provisions, the company should have suffered losses (Christian & Julyanti, 2022).

The factors that influence accounting conservatism have been widely studied by previous researchers. The first factor is corporate governance, which is proxied by independent commissioners. The board of commissioners consists of inside and outside directors who will have access to valuable special information and greatly assist the board of commissioners, making it an effective tool in controlling decisions (Uzliawati, Rosiana, & Samudi, 2015). In addition, independent commissioners carry out a supervisory function that is independent of the company's management performance. The proportion of the board of commissioners must be such that it allows effective, precise, and quick decisionmaking and can act independently (Angraeni, Bastian, & Lestari, 2022).

Research by O. Chiedu, Prof., & Emeka-Nwokeji (2021) states that independent commissioners have an effect on accounting conservatism, this research is also supported by other research from Teymouri & Sadeghi (2020), which states that independent commissioners have a positive effect on accounting conservatism, while according to research by Latifah & Difananda (2021), independent commissioners have a significant negative effect on accounting conservatism.

The second factor that affects accounting conservatism is company size. According to Uzliawati, Effendi, and Yulianto, (2022) the size of the company is larger, the agency costs incurred are also greater, so to reduce agency costs, companies will tend to disclose more extensive information. This is supported by Widhiatuti & Rahayu's research, (2022) which states that company size has an influence on accounting conservatism. This research is also supported by other research from Dang & Tran, (2020) which states that company size has an effect on accounting conservatism, while according to Sugiyarti & Rina, (2020), company size has a significant negative effect on accounting conservatism.

The third factor that affects accounting conservatism is financial distress. Financial distress can be interpreted as an early symptom of bankruptcy due to a decrease in financial condition. Research on the effect of financial distress on accounting conservatism has been conducted by Widhiatuti & Rahayu (2022) the result is that financial distress has a significant effect on accounting conservatism. Besides that Siska & Suwarno, (2022) also stated that financial distress has a significant effect on accounting conservatism, while Aryani & Muliati, (2020) stated that financial distress has a significant negative effect on accounting conservatism.

The fourth factor that affects accounting conservatism is leverage. The leverage ratio can also be an indication for lenders of the level of security of the return of funds that have been given to the company. Companies with high debt will harm the company. Because of the high debt, the interest that must be paid on the debt is also high (Angraeni, Bastian, & Lestari, 2022). Research on the effect of leverage on accounting conservatism has been conducted by Widhiatuti & Rahayu (2022) which states that leverage has an influence on accounting conservatism, this research is also supported by other research from Dang & Tran, (2020) which states that leverage has a positive effect on accounting conservatism, while according to Meilinda, Susanti, & Zulaihati, (2022) states that leverage has no effect on accounting conservatism.

Literature Review

1.1.1 Agency Theory

Agency theory developed by Jensen and Meckling (1976) describes the agency relationship as a relationship that arises because of the contract applied between the company owner or shareholder (principal) and the manager (agent), who performs services in the owner's interest. In this case, there is a separation of ownership and control of the company. The existence of differences in interests between the agent and the principal can trigger several agency problems, including conflicts of interest caused by information imbalances.

Agency problems caused by conflicts of interest will affect the quality of financial statements, so a control mechanism is needed that can align the differences in interests between the two parties by applying the principle of accounting conservatism. This is because the principle of accounting conservatism can limit agents ability to manipulate financial statements.

1.1.2 Corporate Governance

Corporate governance in this study includes independent commissioners. Independent commissioners are commissioners who come from outside the company (have no affiliation with the company), are selected transparently and independently, have sufficient integrity and competence, are free from influences related to personal interests or other parties, and can act objectively and independently based on the principles of Good Corporate Governance.

1.1.3 Company Size

Company size is a scale of size seen from total assets. Large companies have greater agency costs than small companies because managers will tend to report their profits conservatively or carefully to avoid greater scrutiny from the government, securities analysts, and the public. Large companies will be more scrutinized by these parties than small companies. Large companies must be able to provide better public services and social responsibilities to society as demanded by the government and also pay higher taxes in accordance with high corporate profits.

1.1.4 Financial Distress

Financial distress is a stage of decline in financial condition that occurs before bankruptcy or liquidation. When the company is in a difficult financial situation, one of the efforts that must be made is to monitor the company's performance by implementing accounting conservatism practices. With these efforts, the company will get better, and there is the possibility of financial improvement. when the company cannot meet the payment schedule or when cash flow projections indicate that the company will soon be unable to fulfill its obligations.

1.1.5 Leverage

Leverage is a ratio that shows how much debt or capital finances the company's assets. According to Harahap (2016) states that the use of leverage is also to determine the position of the company's debt against the capital and assets owned by the company. Leverage can be measured by the extent to which the company uses debt to fund itself.

1.1.6 Accounting Conservatism

Givoly and Hayn (2000) define conservatism as the early recognition of costs and losses and the delayed recognition of revenues and gains. Such a tendency occurs because conservatism adheres to the principle of delaying revenue recognition and accelerating cost recognition. As a result, reported earnings tend to be understated.

1.1.7 Hypothesis

Independent Commissioner and Accounting Conservatism

Research by O. Chiedu, Prof., & Emeka-Nwokeji, (2021) states that independent commissioners have an effect on accounting conservatism, Teymouri & Sadeghi, (2020) also state that independent commissioners have an effect on accounting conservatism, and according to Latifah & Difananda's research (2021) states that independent commissioners have no effect on accounting conservatism. Based on this explanation:

H1 :The proportion of independent commissioners has a positive effect on accounting conservatism

Company Size and Accounting Conservatism

Widhiatuti & Rahayu, (2022) state that company size has an influence on accounting conservatism, Dang & Tran, (2020) also state that company size has a positive effect on accounting conservatism, and according to Sugiyarti &

Rina, (2020) state that company size has a significant negative effect on accounting conservatism. Based on this explanation:

H2 : Company size has a positive effect on accounting conservatism

Financial Distress and Accounting Conservatism

According to Siska & Suwarno, (2022) financial distress has a significant effect on accounting conservatism, while according to Aryani & Muliati, (2020) states that financial distress has a significant negative effect on accounting conservatism. Based on this explanation, the following hypothesis is formed:

H3 : Financial distress has a positive effect on accounting conservatism

Leverage and Accounting Conservatism

According to Dang & Tran, (2020) leverage has a positive effect on accounting conservatism, besides that according to Latifah & Difananda, (2021) also states that leverage has an effect on accounting conservatism, while according to Meilinda, Susanti, & Zulaihati, (2022) states that leverage has no effect on accounting conservatism. Based on this explanation, the following hypothesis is formed:

H4 : Leverage has a positive effect on accounting conservatism

Research Methods

The data used in this study are secondary data in the form of annual reports for the period 2019-2021, obtained from the Indonesia Stock Exchange available at www.idx.co.id. The population used is financial sector companies in the insurance sub-sector and financing institutions listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. And sampling is done through purposive sampling with the following conditions: 1) Companies listed on the Indonesia Stock Exchange (IDX) and publicly report their financial statements as of December 31, 2019 to 2021, 2) The company discloses the data needed for this study in the annual report and financial data for 2019 to 2021, The data processing in this study used SPSS 26.

Operational Research Variables

1. Dependent Variable

Accounting Conservatism

The measurement of the accounting conservatism variable in this study uses a model developed by Givoly and Hayn (2000). The formula is as follows:

$$\text{CONACC} = (\text{NI} - \text{CF} / \text{Total Aktiva}) \times (-1)$$

Description:

CONACC = Accounting conservatism in company i in year t

NI = Operating profit for the year

CF = Cash flow from operating activities

2. Independent Variable

Independent Commissioner

Measurement of the independent commissioner variable in this study uses the proportion of the board of commissioners with the following formula:

$$PDKI = \frac{\text{Jumlah anggota komisaris independen}}{\text{Jumlah total anggota dewan komisaris}} \times 100\%$$

Description:

PDKI = Proporsi Dewan Komisaris Independen

Company Size

Company size in this study uses the Natural Logarithm (Total Asset)

Financial Distress

The measurement of financial distress in this study refers to the Zmijewski model with the following formula:

$$X = -4,3 - 4,5X1 + 5,7X2 - 0,004X3$$

Description:

X1 = ROA (*Return on Asset*)

X2 = Leverage (*Debt Ratio*)

X3 = Liquidity (*Current Ratio*)

According to Zmijewski (1984) if the X-score result is negative or less than 0 (X-Score < 0), then the company is said to be in a healthy condition or not bankrupt. Conversely, if the X-score result is positive or more than equal to 0 (X-Score ≥ 0), the company can be classified as tending towards bankruptcy.

Leverage

Measurement of leverage in this study using Debt to Equity Ratio (DER) with the following formula:

$$\text{debt to equity ratio (DER)} = \frac{\text{total debt}}{\text{total equity}}$$

Research Results

Table 1 Descriptive Statistic Analysis

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	
Independent Commissioner (X1)	75	0.33	0.75	0.4644	1.32218	
Company size (X2)	75	1.509	2.907	2.245	4.47167	
Financial Distress (X3)	75	-5.760	1.951	-3.3506	1.06406	
Leverage (X4)	75	0	2.490	4.572	7.33784	
Accounting Conservatism (Y)	75	-1.29	1.40	2.000	3.37178	
Valid N (listwise)	75					

Source: Data processed by researchers, 2023

Based on table 1, it can be seen that the dependent variable, namely Accounting Conservatism (CONACC) with a sample of 74 secondary data points from 2019–2021, has an average value of 2.000 with a standard deviation of 3.37178. Furthermore, the minimum value is -1.29 and the maximum value is 1.40. Meanwhile, the independent variable, namely the Independent Commissioner (X1) has an average value of 0.4644 with a standard deviation of 1.32218. Furthermore, the minimum value is 0.33 and the maximum value is 0.75. Another independent variable, namely Company Size (X2) has an average value of 2.245 with a standard deviation of 4.47167. Furthermore, the minimum value is 1.509, the maximum value is 2.907. Another independent variable, namely Financial Distress (X3) has an average value of -3.3506 with (standard deviation) 1.06406. Furthermore, the minimum value is -5.760 and the maximum value is 1.951, the fourth independent variable, namely Leverage (X4) has an average value of 4.572 with a standard deviation of 7.33784. Furthermore, the minimum value is 0, and the maximum value is 2.490.

Hypothesis Testing

Table 2 Multiple Regression

Variable	Model		
	Beta	T	Sig.
(Constant)	21.986	1.323	0.187
Independent Commissioner (X1)	-7.130	3.752	0.000
Company size (X2)	0.030	4.165	0.000
Financial Distress (X3)	0.006	2.975	0.003
Leverage (X4)	-0.051	4.234	0.000
R squared	0.713	*The 0.05 level.	
F	10.662	*Dependent variable: Accounting Conservatism	

Source: Data processed by researchers, 2023

Equation for multiple regression models of Accounting Conservatism (Y1), Independent Commissioner (X1), Company Size (X2), Financial Distress (X3) and Leverage (X4). The results of multiple regression analysis can be seen in the following table:

$$Y = -7.130 + 0.030 + 0.006 - 0.051$$

Discussion

The effect of independent commissioners on accounting conservatism

The regression results for the Independent Commissioner variable have a positive significance of $0.000 < 0.05$ and a T count of $3.752 > T$ table of 2.085. So it can be concluded that Independent Commissioners have a positive effect on Accounting Conservatism and **H1 is accepted**. This can also explain that the higher the proportion of independent commissioners in a company, the higher the level of conservatism due to strong supervision in that company. This statement is in line with agency theory, which states that agency problems can be overcome by the presence of independent commissioners because it can reduce information asymmetry because independent commissioners must act based on clear information, in good faith, based on due diligence, and carry out the principle of caution that will be faced by the company, this is in line with the concept of accounting conservatism.

The effect of Company Size on accounting conservatism

The regression results for the company size variable have a positive significance of $0.000 < 0.05$ and a T count of $4.162 > T$ table of 2.085. So it can be concluded that company size has a positive effect on accounting conservatism, and **H2 is accepted**. This can explain why the larger the company, the greater the agency costs incurred. Because large companies are faced with high political costs, they tend to use accounting principles that can reduce the value of earnings reports to reduce the amount of political costs. This statement is in line with agency theory, which states that if the size of the company is larger, the agency costs incurred are also greater because large companies are faced with high political costs, so large companies tend to use accounting principles

that can reduce the value of earnings reports to reduce the amount of political costs. This proves that the size of a company can affect conservatism in financial statements.

The effect of Financial Distress on accounting conservatism

The regression results for the Financial Distress variable have a positive significance of $0.003 < 0.05$ and a T count of $2.975 > T$ table of 2.085. So it can be concluded that financial distress has a positive effect on accounting conservatism, and **H3 is accepted**. This can also explain why the company's failure to generate profits and its inability to pay off its obligations trigger managers to cover up actual financial conditions by manipulating financial statement data. This statement is in line with agency theory, which states that financial distress caused by the company's failure to generate profits and its inability to pay off its obligations triggers managers to cover up actual financial conditions by manipulating financial statement data to keep it looking good in order to maintain creditor and investor confidence in the company and reduce information asymmetry.

The effect of Leverage on Accounting Conservatism

The regression results for the Leverage variable have a positive significance of $0.000 < 0.05$ and a T count of $4.234 > T$ table of 2.085. So it can be concluded that leverage has a positive effect on accounting conservatism and **H4 is accepted**. This can also explain why the higher the level of leverage, the greater the likelihood of conflict that will arise between shareholders and bondholders, which will ultimately affect the demand for conservatism in accounting. This statement is in line with agency theory, which states that the higher the level of leverage, the greater the likelihood of conflict that will arise between shareholders and bondholders, which will ultimately affect the demand for conservative accounting.

Conclusion

Based on the discussion of this research, the following conclusions are obtained:

1. Based on the results of the study, it can be concluded that the influence of the independent commissioner variable has a significant positive effect on accounting conservatism because the higher the proportion of independent commissioners in a company, the higher the level of conservatism due to strong supervision in a company.
2. Based on the data processing obtained, it can be concluded that the effect of company size has a significant positive effect on accounting conservatism because the larger the size of the company, the agency costs incurred are also greater because large companies are faced with high political costs, so large companies tend to use accounting principles that can reduce the value of earnings reports to reduce the amount of political costs.
3. Based on the results of the study, it can be concluded that the influence of financial distress variables has a significant positive effect on accounting conservatism due to the company's failure to generate profits and the company's inability to pay off its obligations which triggers managers to cover the actual financial condition by manipulating financial statement data.
4. Based on the results of the study, it can be concluded that the influence of the leverage variable has a significant positive effect on accounting conservatism because the higher the level of leverage, the greater the ability of conflicts that will arise between shareholders and bondholders which will ultimately affect the demand for accounting conservatism.

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