

# Accounting conservatism: Testing the effects of investment opportunity set and political cost

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## ARTICLE INFO

### Article history

Received 7 December 2022

Revised 19 Juni 2023

Accepted 22 Juni 2023

### JEL Classification:

M41

### Key words:

Investment Opportunity Set,  
Political cost,  
Accounting Conservatism,  
Property and Real Estate  
Companies

### DOI:

[10.14414/tiar.v13i2.3480](https://doi.org/10.14414/tiar.v13i2.3480)



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## ABSTRACT

This study aims to examine the effect of investment opportunity set (IOS) and political cost (PC) on accounting conservatism in Indonesia. The population of this study is property and real estate companies listed on the IDX during the period 2011-2020. Using purposive sampling method which is based on certain considerations, it is obtained 20 companies with a total of 200 samples. This study uses Multiple Regression Analysis to examine the relationship between variables. The results of this study show that political cost has a significant effect on accounting conservatism. Meanwhile, the investment opportunity set has no effect on accounting conservatism. The results of this study are consistent with the political cost hypothesis as in the positive accounting theory that large companies tend to apply conservative accounting to reduce the amount of political costs they incur. The results of additional test on the enactment of PSAK 72 regarding income from contracts with customers in 2020 show that there is no significant difference in accounting conservatism in property and real estate companies before and after the enactment of PSAK 72.

## ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh investment opportunity set (IOS) dan political costs (PC) terhadap konservatisme akuntansi di Indonesia. Populasi penelitian ini adalah perusahaan properti dan real estate yang terdaftar di BEI periode 2011-2020. Dengan menggunakan metode purposive sampling yang didasarkan pada pertimbangan tertentu diperoleh 20 perusahaan dengan total 200 sampel. Penelitian ini menggunakan Analisis Regresi Berganda untuk menguji hubungan antar variabel. Hasil penelitian ini menunjukkan bahwa political cost berpengaruh signifikan terhadap konservatisme akuntansi. Sedangkan investment opportunity set tidak berpengaruh terhadap konservatisme akuntansi. Hasil penelitian ini konsisten dengan hipotesis political cost seperti pada teori akuntansi positif bahwa perusahaan besar cenderung menerapkan akuntansi konservatif untuk mengurangi jumlah political cost yang mereka keluarkan. Hasil pengujian tambahan atas pemberlakuan PSAK 72 tentang pendapatan dari kontrak dengan pelanggan tahun 2020 menunjukkan bahwa tidak terdapat perbedaan signifikan konservatisme akuntansi pada perusahaan properti dan real estate sebelum dan sesudah pemberlakuan PSAK 72.

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## 1. INTRODUCTION

Increasingly advanced economic development has created very tight competition between companies. This is evidenced by the increasing number of companies competing to list on the capital market in order to trade their shares. To be able to take the floor in the capital market, companies must publish their financial reports, as an illustration of their performance, which can influence investors and creditors to make investment decisions. Along with the increasing demand for a healthier company performance, management will do various ways to maintain the company's continuity in the stock market.

One of the fraud cases that occurred in Indonesia in 2016 was the manipulation of financial reports by PT. Hanson Internasional Tbk (MYRX), a company engaged in the property sector. This case is related to the recognition of revenue that violates the Financial Accounting Standards Guidelines 44 concerning real estate development activities (Idris, 2020). The second case occurred at PT. Garuda Indonesia Tbk (GIAA) in 2019. At the General Meeting of Shareholders, two commissioners were not willing to sign the 2018 financial statements due to the issue of revenue recognition manipulation. The third case occurred at PT. Envy Technologies Indonesia Tbk (ENVY) in 2019. This company manipulated the financial statements of its subsidiary, PT. Global Retail Solutions (RGS). This case hurt the company a lot. If this company was proven to have misrepresented its financial information, it could be sued in the form of fines or even threatened with de-listing from the capital market.

The Institute of Indonesia Chartered Accountants (IAI) has issued Guidelines for Financial Accounting Standards (PSAK) 72 concerning Revenue from Contracts with Customers which became effective on January 1, 2020. This Standard 72 is a substitute for all previously applicable standards governing Revenue Recognition such as Interpretation of Financial Accounting Standards (ISAK) 10 related to Customer Loyalty Programs, PSAK 23 related to Revenue, PSAK 44 related to Real Estate Accounting and Development Activities, ISAK 21 related to Real Estate Construction Agreements, ISAK 27 related to Transfer of Assets from Customers, and PSAK 34 related to Construction Contracts (Veronica et al. al., 2019).

PSAK 72 which came into effect during Covid-19 Pandemic had an impact on business owners, especially those engaged in property and real estate (Prima & Mahadi, 2020). The impact that needs more attention is on the financial reports as a result of the decline in economic activity due to the Covid-19 Pandemic. The economic recession is a challenge for property companies to survive. Property companies must develop a strategy by classifying which contracts can be recognized and recorded quickly and accurately. The next challenge is to review and evaluate all existing agreements before recognizing revenue based on PSAK 72 (Casnila & Nurfitriana, 2020).

The investment opportunity set (IOS) can affect the value of the company because it is related to its future growth rate. Lafond and Roychowdhury (2008) state that potential conflicts can occur between shareholders and managers due to IOS. Appropriate investment policies can increase the value of the company and the welfare of shareholders. However, sometimes managers have a negative orientation that harms the company by investing in Net Present Value (NPV). To avoid opportunistic actions of managers, shareholders require companies to consider and apply accounting conservatism practices in making investments.

Political costs (PC) can also affect the application of accounting conservatism. Political costs arise from the reciprocal relationship between the company (manager) and the government, which has the authority to transfer company assets to the public based on applicable regulations. Meanwhile, the process of transferring wealth uses accounting information from company profits. This is what makes accounting conservatism very important to apply. Managers tend to understate reported earnings to reduce potential political costs (Watts & Zimmerman, 1986).

Several previous studies on accounting conservatism have been conducted in Indonesia. The results of research conducted by Hakiki and Solikhah (2019) show that company size has a positive and significant effect on accounting conservatism. However, several variables such as managerial and institutional ownership, existence of independent commissioners, IOS, and the enactment of PSAK 55 have no effect on accounting conservatism. The results of research conducted by Budiandru et al. (2019)

also show that IOS and managerial ownership have no positive and significant effect on accounting conservatism, while debt covenants partially have an effect on accounting conservatism. However, the three variables of debt agreement, IOS, and organizational ownership simultaneously affect accounting conservatism. In contrast, the results of research conducted by Saputri (2013) show that IOS and profitability have a positive and significant effect on accounting conservatism, while cash flow and company growth have no effect on accounting conservatism. The results of research conducted by Saptono and Gurendrawati (2014) show that IOS, managerial ownership, and debt covenants simultaneously affect accounting conservatism in manufacturing companies in Indonesia.

Based on the differences in research results from previous studies (Hakiki & Solikhah, 2019), this study focuses on the investment opportunity set variable. This study adds political cost as another variable in the context of property and real estate companies for the period 2011-2020. The main reason for taking this type of company is to identify and prove whether the company's management has applied the principles of accounting conservatism in presenting its financial statements. Furthermore, this study adds a different test of the enactment of PSAK 72 regarding income from customer contracts which proves that there is a significant difference in accounting conservatism both before and after the application of the PSAK 72.

## 2. THEORITICAL FRAMEWORK AND HYPOTHESIS

Figure 1 presents the conceptual model and hypothesis development. The model shows the effect of investment opportunity set (IOS) and political costs (PC) on accounting conservatism. The first hypothesis (H1) shows the relationship between investment opportunity

set (X1) and accounting conservatism (Y). The second hypothesis (H2) shows the relationship between political costs (X2) and accounting conservatism (Y).

The following is the theoretical framework used as a logical basis in developing research hypotheses.

### Positive Accounting Theory

Positive accounting theory has emerged in empirical studies and developed in accounting since the late 1960s. The origin of the theory was traced to Watts and Zimmerman (1978; 1986; 1990) who linked the theory to companies being contractual relations, and accounting was viewed as one tool that facilitates the formation and execution of contracts. In contrast to normative accounting which seeks to formulate optimal accounting standards, positive accounting theory explains and predicts actual accounting standards (Nasution et al., 2020). It explores the factors that affect management's attitude on accounting standards, as reflected in practice, which have the potential to affect a company's cash flow (Deegan, 2022). According to Nasution et al. (2020), positive accounting theory seeks to explain a process from which it uses accounting knowledge, policies, and practices that are most suitable for dealing with certain conditions of a company that can benefit the company in the future. Setijaningsih (2012) claims that this theory has the ability to explain economic phenomena related to accounting policies and practices.

The three hypotheses developed by this theory, which are largely used to explain accounting practices, include the bonus plan hypothesis, the debt contract hypothesis, and the political cost hypothesis (Deegan, 2022). Despite much criticism (Nasution et al., 2020), both the theory and its three hypotheses are widely used because of their relevance for explaining and predicting accounting practice.

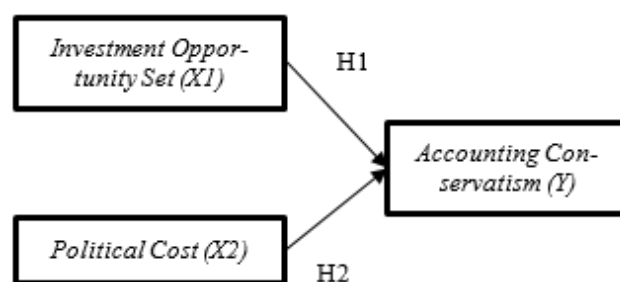


Figure 1  
Framework

Positive accounting theory is associated with accounting conservatism because it presents the factors that influence the selection of appropriate accounting procedures. It seeks to determine the most appropriate accounting policies and procedures to deal with certain conditions and circumstances that the company expects in the future (Deegan, 2022). Given the three hypotheses developed, for example the political cost hypothesis, companies can be motivated to reduce their current profits and shift them to the next period to avoid political pressure. This can be reflected in the companies' intentional practices that contribute to their own profits. For example, in order to avoid accusations of monopoly, a company shows operating profits that are not excessive as expected. In addition, the company may also lobby congress in order to protect the industry from imported goods that may cause the industry's overall profits to slump, or the company may avoid the union's demands by showing the decline of the company's profit margins (Jayanti, 2016).

Positive accounting theory and accounting conservatism can at least be explained in terms of three agency relationships. First, in an agency relationship between management and shareholders, managers may report earnings less conservatively if they own a smaller proportion of shares than shareholders. The facts show that shareholders demand higher capital gains or dividends, but on the other hand agents require good performance ratings and bonuses. However, when managers own a larger proportion of shares, they tend to report earnings more conservatively. Second, in an agency relationship between management and creditors, managers can report higher earnings to reduce default risk and attract creditors to high profitability in order to increase their ability to repay their debts and interest. Third, in an agency relationship between management and the government, managers tend to report earnings more conservatively to avoid tighter scrutiny from the government, analysts and other interested parties. Large companies often bear the burden of the consequences of their existence, such as the obligation to provide public services to the community or pay higher taxes (Setijaningsih, 2012).

### **Accounting Conservatism**

In general, the term conservatism in accounting is defined as anticipating all losses but not expecting profits. There is still controversy

regarding the benefits of conservatism, but the idea of conservatism as anticipation means that losses are recognized before they are legally verified (Ardiansyah, 2022). The absence of a generally accepted understanding of conservatism has caused the concept to be defined and measured differently according to the context discussed in various empirical studies (Lara et al., 2016). The Statement of Financial Accounting Concepts (SFAC) has provided a formal definition as "a cautious reaction in the face of uncertainty to try to ensure that the uncertainties and risks inherent in business situations are adequately considered." In practice in companies, it is a form of verification of claims for profits and claims for losses. It is understood that the level of validation required for profits is higher than that for losses, indicating a higher level of accounting conservatism.

Despite a lot of support, the application of the conservatism principle has received a lot of criticism (Ardiansyah, 2022). However, the application of accounting conservatism reduces the possibility of opportunistic behavior of managers. For example, earnings manipulation in presenting financial reports can be limited (Andreas et al., 2017; Setijaningsih, 2012). This can be seen from the many authors who report and evaluate how conservatism affects earnings quality, including earnings persistence and earnings management (Andreas et al., 2017; Ardiansyah, 2022; Ruch & Taylor, 2015; Setijaningsih, 2012). Zhong and Li (2017) argue that accounting conservatism is still very much needed because companies demand to reduce agency costs. They conclude that accounting conservatism is important and cannot be excluded to measure conservatism, such as balance sheets, from accounting standards (Zhong & Li, 2017).

### **Investment Opportunity Set and Accounting Conservatism**

The IOS emerged after it was proposed by Gaver and Gaver (1993), who considered that the value of a company is reflected through a combination between its assets shown in the balance sheet and its future investment options. Andreas et al. (2017) define IOS as a set of investment decisions in the form of assets and future investment options owned by companies. It is viewed as a projected company value from which its amounts will rely on the expenses the company incurs in the future. Thus, the amount has been determined

by previous management, and the investment choices are expected to achieve a future higher return (Hadi & Almurni, 2020).

The IOS reflects the management of costs incurred to achieve higher returns in the future. The rate of return is highly dependent on the level of costs the company sacrifices (Aristantia & Putra, 2015). Therefore, IOS can be concluded as the result of present expenditures for the future benefit with stock returns or prospects that become profits as a result of investments to develop the company.

IOS is found to have a significant and positive relationship with accounting conservatism (Ardiansyah, 2022; Hadi & Almurni, 2020). Ahmed and Duellman (2007) prove that there is a significant relationship between management ownership and a company's conservative accounting policies. They emphasize a positive relationship between external party ownership and conservative accounting policies of firms. This can be concluded that the role of conservatism in conflicts between managers and shareholders is likely to be influenced by IOS. Therefore, the first hypothesis that needs to be tested is:

H1: Investment opportunity set (IOS) has a significant effect on accounting conservatism.

### Political Cost and Accounting Conservatism

Political costs arise due to the interests between companies and the government, including regulations, government subsidies, taxes, etc. Ardiansyah (2022) defines political cost as a cost that is borne by companies on account of political actions that impact the companies. Examples of political costs can be the issuance of governmental policies or the transfers of wealth from the company to other parties as a result of governmental policies, such as antitrust, regulations, government subsidies, taxes, and labor demands.

The facts show that managers want to minimize profits to reduce political costs incurred. This causes managers to choose accounting procedures and methods that produce lower or conservative profits. In accordance with positive accounting theory, companies need to use accounting conservatism because it explains the factors that influence the selection of appropriate accounting procedures. The result of research conducted by Iskandar and Sparta (2019) shows that political cost has a positive and significant effect on accounting conservatism. Therefore, the second hypothesis that needs to be tested is:

H2: Political cost (PC) has a significant effect on accounting conservatism.

**Table 1**  
**Criteria for Selecting the Sample Used in This Study**

No	Information	Total
1	All companies under the category of property and real estate listed on the IDX in the period of 2011-2020.	91
2	The companies under the category that do not provide financial reports in rupiah and have not been audited.	(7)
3	The companies under the category that do not publish routinely complete annual reports in the period of 2011-2020	(60)
4	The companies that do not supply complete data related to the variables being researched	(4)
Number of Companies Sampled		20
Number of Samples based on the Results of Purposive Sampling (10x20)		200
Number of Outlier Data		(68)
Number of Samples Processed		132

Source: Processed Data

### 3. RESEARCH METHOD

The population of this study is all property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2011-2020 with a total of 91 companies. Sampling is carried out using purposive sampling method. Based on the selection, there are 20 companies used as samples in this study. Table 1 shows the criteria for selecting the sample used in this study.

Of the 200 samples, 68 data outliers have to be excluded because they have extreme values exceeding the standard limit. Hence, the total sample processed is 132 samples.

Accounting conservatism is measured by the Earning/Accrual Measures method using the Zhang (2008) model approach, dividing non-operating accrual costs by total assets and multiplying by -1 to simplify the analysis. Total Accrual:  $((\text{Net Income} + \text{Depreciation}) - \text{Operating Cash Flow}) \times (-1) / \text{Total Asset}$

The IOS in this study uses the ratio of Capital Expenditures to Book Value of Assets. The calculation method compares the book value of fixed assets  $t$  deducted by that value of the previous year and then divided by the company's total assets. The formula is as follows:

$\text{CAPBVA} = \text{Fixed asset book value}_t - \text{Fixed asset book value}_{t-1} / \text{Total asset}$

Political costs are costs or transfers of wealth that must be borne by companies related to various regulations, such as tax rates and labor demands, government subsidies, antitrust actions by the government, etc. The concept of political costs in the context of companies shows that big companies are likely to face and spend higher political costs than small companies. This variable is proxied by firm size (Hakiki & Solikhah, 2019). The following is the formula used to measure company size:

$\text{Size} = \text{LN}(\text{Asset})$

This study also conducts additional tests to see differences in accounting conservatism before and after the implementation of PSAK

72 concerning Revenue from Contracts with Customers which has been effective since January 2020.

If the data used to run the test is normally distributed, a test is then carried out using paired sample t-test. The Wilcoxon test is used instead as an alternative test if the data is not normally distributed (Ghozali, 2016). However, both paired sample t-test and the Wilcoxon test have the same decision-making criteria with the following assumptions:

- If the sig value  $> 0.05$ , then there is no significant difference between before and after the implementation of PSAK 72.
- If the sig value  $< 0.05$ , there is a significant difference between before and after the implementation of PSAK 72.

This study uses 20 samples of property and real estate companies in 2019 and 2020 to see the differences in accounting conservatism before and after the enforcement of PSAK 72.

### 4. DATA ANALYSIS AND DISCUSSION

#### The Results of Descriptive Statistics

Based on financial and annual report data obtained from [www.IDX.co.id](http://www.IDX.co.id), there is a fluctuating movement for each variable of this study. The following are the results of descriptive statistics for each of the variables (Table 2)

Table 2 presents the minimum, maximum, mean, and standard deviation values of the variables analyze. PT. Intiland Development Tbk has the IOS value of -0.017, or the lowest value. Meanwhile, PT. Metropolitan Kentjana Tbk has the IOS value of 0.043, or the highest value. The standard deviation value of the IOS is 0.010285, or greater than the mean value. This indicates that the data for the IOS variable is quite varied.

PT. Bhuwanatala Indah Permai Tbk has the political cost value of 27.15, or the lowest value. Meanwhile, PT. Wijaya Karya Tbk has the political cost value of 31.85, or the highest value.

**Table 2**  
**The Results of Descriptive Statistics**

Variables	Sample (N)	Minimum	Maximum	Mean	Standard Deviation
Investment Opportunity Set	132	-0.017	0.043	0.00377	0.010285
Political Cost	132	27.15	31.85	29.7311	1.05508
Accounting Conservatism	132	-0.164	0.088	-0.03584	0.049782

Source: Processed Data, 2022

**Table 3**  
**Hypothesis Test Results**

Relationship	Unstandardized Coefficients	Standardized Coefficient	t-value	Significance
Investment Opportunity Set	-0.157	-0.030	-0.390	0.697
Political Cost	0.008	0.172	2.239	0.026

Source: Processed Data, 2022

**Table 4**  
**Output Paired Sample Test**

Indicators	Mean	Standard Deviation	t-value	Significance
Pre and Post PSAK 72	-0.006850	0.099644	-0.307	0.762

Source: Processed Data, 2022

PT. Lippo Cikarang Tbk has the accounting conservatism value of -0.164, the lowest value. Meanwhile, PT. Lippo Cikarang Tbk has the accounting conservatism maximum value of 0.088, or the highest value.

### The Results of T Statistics

T-statistics test is performed to prove the effect of the independent variable on the dependent variable. The independent variables in this study are IOS and political cost, while the dependent variable is accounting conservatism. Table 3 presents the results of the t-statistics test of the variables being tested.

The investment opportunity set (IOS) variable has no significant effect with a significant value of 0.697. The t-count value is -2.692, indicating that  $t\text{-count} < t\text{-table}$  ( $-2.692 < 1.978$ ). Thus, the IOS has no effect on accounting conservatism. The political cost has a significant effect with a significant value of 0.026, at a considerable level  $< 0.05$ . The t-count value is 2.239, indicating that  $t\text{-count} > t\text{-table}$  ( $2.239 > 1.978$ ). Thus, political cost (PC) has an effect on accounting conservatism.

### The Results of Paired Sample t-Test

Table 4 shows the results that reflect Accounting Conservatism before the enactment of PSAK 72 (PRE PSAK 72) in 2019 and after the enactment (POST PSAK 72) in 2020. The t-count value is -0.307 with a significance value of 0.762. Since the value is  $> 0.05$  of the standard, it can be concluded that the accounting conservatism before and after the enactment of PSAK 72 is the same (not different).

The first hypothesis (H1) of this study shows that the investment opportunity set (IOS) has an effect on accounting conservatism. The results show the IOS has a significance value of 0.697, or greater than 0.05, with the t-count value of -2,692, indicating that t-count

$< t\text{-table}$  ( $-2,692 < 1.978$ ). So, it can be concluded that IOS has no significant effect on accounting conservatism, or the first hypothesis is rejected. The results of this study align with the results of research conducted by Saptono & Gurendrawati (2014) and Dwitayanti & Fahlevi (2015) that the IOS has no effect on accounting conservatism.

Investment options are opportunities for company growth. However, companies often cannot use all the investment opportunities in the future. IOS has no effect on accounting conservatism because companies have not maximized their investment options (Hakiki & Solikhah, 2019). Managers have a major role in overcoming agency problems between managers and shareholders. Therefore, everything depends on the manager's ability to manage the IOS constantly. The greater the IOS, the greater the market to book ratio used as a proxy for accounting conservatism. This happens because the market reacts positively to company growth so that stock prices increase (Lafond & Roychowdhury, 2008).

According to Dwitayanti and Fahlevi (2015), the IOS shows the company's level of investment growth, given that the high investment growth rates often increase market expectations of future cash flows, affecting conservatism. However, the results in this study are different, meaning that the sample companies have slow growth, so it does not affect future cash flows (Budiandru et al., 2019; Hakiki & Solikhah, 2019).

In property and real estate companies in Indonesia, as the sample in this study, the minus value of the investment opportunity cost as happened at PT Bhuwanatala Indah Permai Tbk (BIPP), PT. Lippo Cikarang Tbk (LPCK), PT. Metro Realty Tbk (MTSM), and several other companies indicate that these companies have

not maximized their investment opportunity options. This indicates low investment growth. The results of the descriptive analysis show that the average sample company has an IOS value of only 0.00377, or very low. Both internal and external factors can contribute to this problem. From internal factors, the company's management has not been able to maximize the company's assets for investment needs. Meanwhile, from external factors, there is a lack of investor interest in the property and real estate sector.

The second hypothesis (H2) of this study shows that political cost has an effect on accounting conservatism. Based on the results obtained, the political cost (PC) variable has a significance value of 0.026, or smaller than 0.05. The t-count value of 2.239 indicates that  $t\text{-count} > t\text{-table}$  ( $2.239 > 1.978$ ). This can be concluded that political cost has a significant effect on accounting conservatism, so the second hypothesis is accepted.

The finding in this study is consistent with the hypothesis of political cost under the theory of positive accounting that large companies tend to have higher political costs that encourage them to reduce the present value by delaying the recognition of revenue and assets displayed in financial statements, so that their values are not overestimated (Deegan, 2022; Kiryanto & Supriyanto, 2006). Hence, large companies will act more carefully in reporting earnings and tend to engage with more practice of accounting conservatism in order to reduce the political costs the company should incur. The results of this study support the results of research conducted by Susanto and Ramadhani (2016) that firm size has a significant and positive effect on accounting conservatism.

This is considered reasonable because companies that are classified as large companies receive better attention from the government and the public, considering that these large companies continue to have high profits. In this case, the government will be motivated to raise taxes and demand higher public services for companies (Lo, 2005). Thus, the greater the political costs incurred by companies, the more likely they are to choose a more conservative accounting strategy. The results of this study are in line with the results of research conducted by Widya (2005).

In the context of property and real estate companies, as the sample in this study, the

political costs incurred by these companies are relatively high. The descriptive statistics in Table 2 show that PT. Bhuwanatala Indah Permai Tbk has a minimum political cost value of 27.15. Meanwhile PT. Wijaya Karya Tbk has a maximum political cost value of 31.85. The high political cost incurred by companies is of concern to the government because it can result in the emergence of a new tax rate policy as a form of adjustment.

This type of industry in Indonesia is vulnerable to external conditions beyond the company's control, including political and economic conditions throughout the country (Harry, 2018). The political year in Indonesia is currently a challenge for all companies, including this type of industry. Changes in economic conditions are also a major factor affecting company performance, both small and large companies. Low economic growth causes a low price index in this sector. The slowdown in economic growth has had a major impact on property and real estate companies because it has reduced purchasing power and company performance (Pangesti, 2019).

The different test has resulted in Accounting Conservatism before the enactment of PSAK 72 in 2019 and after the enactment of PSAK 72 in 2020 with a t-count value of -0.307 and a significance value of 0.762. The significance value of  $> 0.05$  indicates that the accounting conservatism before and after the enactment of PSAK 72 is the same (not different).

This show that the level of conservatism of property and real estate companies did not increase or decrease significantly during 2019-2020 despite the enactment of PSAK 72. In accordance with the adoption of the latest PSAK, the companies are required to record a conservative profit because the companies can only recognize revenue from completed contracts and sales where assets are exchanged with customers. Based on the results of descriptive statistics on accounting conservatism in 2019 before the enactment of PSAK 72, the average value is -0.04595, while the average value in 2020 is -0.03910. After the enactment of PSAK 72, there was only a slight increase. So it can be concluded that the level of accounting conservatism in this type of sector company is relatively low. These results indicate that this sector tends to be vulnerable to manipulation of financial statements.

## 5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

This study provides empirical evidence about the effect of IOS and political costs on accounting conservatism in property and real estate sector companies listed on the IDX. The results show that IOS has no effect on accounting conservatism, or the first hypothesis (H1) is rejected. Meanwhile, political cost has a significant effect on accounting conservatism, or the second hypothesis (H2) is accepted. The results of additional test of accounting conservatism before and after the enactment of PSAK 72 show that there is no significant difference. Thus, it can be stated that the enactment of PSAK 72 related to "revenue from customer contracts" does not affect accounting conservatism.

The scope of this research is limited to property and real estate companies only, so the findings of this study cannot explain the problem of accounting conservatism in other sector companies listed on the IDX. The variables used are still very limited to explain the value of the company, or only 1.8%. This indicates that 98.2% of other factors can still affect the value of the company. These other factors include litigation risk, good corporate governance, and company growth. However, these findings are important, especially for those interested in understanding accounting conservatism in the context of this type of industry.

The relatively high political costs incurred by companies in this sector have influenced accounting conservatism. Changes in political and economic conditions in Indonesia are factors that affect the performance of this industry (Harry, 2018; Pangesti, 2019). Changes in political and economic policies and practices in turn have implications for higher costs incurred by companies to avoid significant losses and uncertain profits.

This research supports the positive accounting theory that large companies have a tendency to incur higher political costs (Deegan, 2022; Kiryanto & Supriyanto, 2006). Positive accounting theory seeks to explain a process in which companies apply accounting concepts, standards, and policies into the most suitable and best practices to deal with certain conditions that can benefit the company. The results of this study indicate that political cost has a significant effect on accounting

conservatism. Therefore, to avoid political pressures and government policies that may have a negative impact on them, companies need to change their accounting policies and practices (Deegan, 2022; Jayanti, 2016). It is explained in the agency relationship between managers and the government that in order to avoid tighter scrutiny from the government, analysts and other interested parties, companies tend to report earnings more conservatively.

It is suggested that future research replace existing variables or add other variables such as litigation risk, good corporate governance, and company growth. In addition, further research also needs to broaden the scope of the company and extend the research period to obtain more consistent results. The findings in this study are expected to contribute to the field of political costs and accounting conservatism in the context of the property and real estate industry.

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