

The effect of good corporate governance mechanism and leverage on the level of accounting conservatism

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ABSTRACT

Accounting conservatism is a condition where a company acknowledges the debts and costs more quickly, but on the other hand, the company acknowledges the income and assets more slowly. Some factors that can affect the accounting conservatism are standards changes, corporate governance, and so forth. The purpose of this study is to analyze the effect occurring on the variable of accounting conservatism when using comprehensive income and income for the current year in manufacturing companies listed on the Indonesian Stock Exchange in 2012 and 2013. The variables studied are institutional ownership, managerial ownership, the existence of audit committee, the number of audit committee meetings, and leverage. The statistical method used in this study is multiple regression analysis. The results of this study indicate that institutional ownership, managerial ownership, and the number of audit committee meetings do not have significant effect on accounting conservatism when using comprehensive income and income for the current year, but the variables of the existence of audit committee and leverage have significant effect on accounting conservatism when using comprehensive income and income for current the year.

ABSTRAK

Akuntansi konservatisme adalah suatu kondisi sebuah perusahaan yang mengakui utang dan biaya lebih cepat, namun di sisi lain, perusahaan mengakui pendapatan dan aset lebih lambat. Beberapa faktor yang dapat mempengaruhi konservatisme akuntansi adalah perubahan standar, tata kelola perusahaan, dan sebagainya. Penelitian ini bertujuan untuk menganalisis pengaruh yang terjadi pada variabel konservatisme akuntansi ketika menggunakan pendapatan dan laba komprehensif tahun berjalan di perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada 2012 dan 2013. Variabel yang diteliti adalah institutional ownership, managerial ownership, keberadaan komite audit, jumlah pertemuan komite audit, dan leverage. Metode statistik yang digunakan dalam penelitian ini adalah analisis regresi berganda. Hasil penelitian menunjukkan bahwa institutional ownership, managerial ownership, dan jumlah pertemuan komite audit tidak berpengaruh signifikan terhadap konservatisme akuntansi saat menggunakan laba rugi komprehensif dan pendapatan untuk tahun berjalan, tetapi variabel keberadaan komite audit dan leverage berpengaruh signifikan terhadap konservatisme akuntansi saat menggunakan pendapatan komprehensif dan pendapatan untuk tahun berjalan.

1. INTRODUCTION

A company is said to be successful if it is able to thrive and has a good performance. The company's performance is reflected in its financial statements. Financial information has to be provided by the company to stakeholders for decision-making processes. Therefore, the financial statements must

be presented based on the applicable accounting standards in order to be useful to the users. Different condition and situation will lead the company to have freedom in choosing appropriate accounting method.

The disclosure of some violation cases committed by manufacturing companies provides evidence

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on the need for quality financial reporting information for decision-making. As stated by Luthfiany Hikmah (2013) on earnings management performed by PT Kimia Farma, in which the company ever inflated its annual net profit as much as IDR 32.668 billion. Such condition was certainly a bad news and detrimental to stakeholders. This occurred because of the poor application of accounting conservatism in presenting the financial statements. The need for quality financial statements requires management to behave in conservatism or apply precautionary principles.

According to Dinny Prastiwi (2013), conservatism is a principle that acknowledges debt and cost immediately, but income and assets are not immediately acknowledged although the possibility is big. Conservatism is an accounting principle, in which when it is applied, it will create higher costs and debt, but on the other side, the income and assets become low in the financial statements. Broadly speaking, conservatism is very useful to predict the condition of a company in the future.

There are internal factors and external factors that can affect the level of accounting conservatism in presenting financial statements. Company's external factors are related to legal systems and standards set out in a country. Meanwhile, company's internal factors include cooperation between management and internal parties of the company to make a commitment in order to provide transparent, accurate, and non-misleading information to investors. It is an implementation of good corporate governance.

The importance of good corporate governance can be seen through the existence of annual report award program organized by the Financial Services Authority (OJK) in 2013. The mechanism done to implement good corporate governance can be in various ways, such as the presence and activity of audit committee, managerial ownership, institutional ownership, the proportion of independent commissioner, board size, and so on. In this study, the variables used are institutional ownership, managerial ownership, the existence of audit committee, the number of audit committee meetings, and leverage. These variables have been studied before but the results obtained by one researcher to another are still inconsistent. Therefore, it is necessary to re-examine these variables further.

This study uses manufacturing companies listed on the Indonesia Stock Exchange 2012 and 2013. The reason for using manufacturing company is because this sector has more data population than other sectors and there are complex business

activities in it. The years are chosen because Indonesia has done International Financial Reporting Standard (IFRS) convergence since 2012, in which the income statement has been changed to comprehensive income. Thus it can be seen the impact of the implementation of leverage and good corporate governance (GCG) mechanism on accounting conservatism after the implementation of IFRS using comprehensive income and the income for the current year.

Based on some of the above reasons, this study aims to find out the effects of the variables of managerial ownership, institutional ownership, audit committee existence, audit committee meetings, and leverage on accounting conservatism using comprehensive income and income for the current year.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

According to Jensen and Meckling (1976) in Intan and Puji (2014), agency theory is the relationship between the agent (manager) and the principal (shareholders) that contains a set of contracts. Agency theory is meant to have separation between the agent and the principal so that there is potential conflict that could affect the quality of earnings reported. Therefore, there should be a control mechanism that can align the differences in interests between the agent and the principal.

Signaling Theory

According to Reny and Denies (2012), a company is motivated to provide information to external parties. The motivation occurs due to the existence of information asymmetry. In addition, the information asymmetry can also occur when there is a difference in information between the agent and the principal. The signaling theory done by the manager to his subordinates helps reduce the level of information asymmetry. The signal is done by providing information that the financial statements presented have applied the principles of conservatism in order to produce qualified financial statements

Accounting Conservatism

A company is sometimes faced with uncertain situation that can influence the selection in implementing appropriate accounting methods. Under such condition, the company prefers to be cautious in presenting its financial statements. The figures in the financial statements, especially assets and in-

come, are recorded on the most minimum value to reduce the risk of uncertainty. This concept is called accounting conservatism.

There are parties who agree and disagree with the conservatism. The parties who do not agree assume that conservatism cannot be used as a measuring tool to evaluate the risk of the company by the users because it may cause the financial statements to be biased. According to these parties, conservatism, at first, presents lower earnings and assets, but in the future, the earnings and assets become high so as not to be conservative. Meanwhile, the parties who agree assume that the biased financial statements aim to prevent the management from manipulating earnings and assets by presenting them too high. In this way, the conservatism helps the users control the management by presenting income and assets, which are not overstated.

Good Corporate Governance

Good corporate governance is in charge of checking and balancing both internal and external company that aims to ensure that the company performs its accountability to all stakeholders and is socially responsible for the actions carried out in all of its business activities (Jill Solomon 2007: 14). The number of fraud cases ever occurred, such as in the case of PT Kimia Farma, PT KAI, Enron, and others has raised a concern that there has been a failure in the company's business strategy and fraudulent action committed by the company's top-level that are not detected in a long period. Weak independent oversight, bad company controller, and management opportunistic action make these problems occur repeatedly without being noticed. Hence, there came the term of good corporate governance (GCG). According to Arief Muhammad Effendi (2009), the implementation of GCG may encourage the creation of clean, transparent and professional management.

Several principles are set in GCG. As written by the Organization for Economic Co-operation and Development (OECD) in Muhammad Arief Effendi (2009), GCG principles include five things: the protection of the rights of the shareholders, equitable treatment of all shareholders, role of stakeholders, the importance of transparency, and the responsibility of the board of commissioners or directors.

Leverage

Leverage is the level of the use of debt to finance the company's activities which can be in the form of investment, production, and others. The higher the

level of leverage, the higher the level of risk experienced by the company. In order to reduce the level of risk, the company conducts a variety of ways to seek for additional return.

According to Sugiarto (2009), the use of debt provides a good signal, in which the company has a good performance. Only very strong companies dare to take risk with high levels of debt. The debt policy made the company also deals with the agency theory where there are differences of interest between managers and shareholders. The mechanism done by the managers is to prove that the decision of debt does not solely to waste money but dare to take the risk of losing their jobs if they are not able to manage the debt optimally.

Relationship between Institutional Ownership and the Level of Accounting Conservatism

Institutional ownership plays an important role in the implementation of conservatism and GCG. The higher the institutional ownership, the stronger the external control of the company and thus reducing agency. In addition, high institutional ownership further strengthens the monitoring functions of the board of the company so that the shareholders' interests are protected and can indirectly require transparent information from the management of the company. According to Dinny Prastiwi (2013), high institutional ownership can be used by the management as a controlling factor to be able to monitor effectively. The conservatism principle is indirectly applied by the management because there is a strict control from the institutional investors. Based on the literature, the hypothesis used is: Hypothesis 1: Institutional ownership has an effect on accounting conservatism when using comprehensive income statements.

Hypothesis 2: Institutional ownership has an effect on accounting conservatism when using income statements for the current year.

Relationship between Managerial Ownership and the Level of Accounting Conservatism

A conflict can occur between management and shareholders, or commonly called agency conflict, because of the differences of interest between the management and shareholders. Increased managerial ownership can be used as a way to reduce the agency conflict (Crutchley and Hansen: 1989; Jensen, Solberg and Zorn: 1992 in Luciana and Mellyza 2006). In addition, with the increased percentage of managerial ownership, the manager is motivated to protect the company by way of increasing the performance and considering the interests

of the shareholders.

According to Dinny Prastiwi (2013), there is a relationship between managerial ownership and accounting conservatism. Managerial ownership has a role as monitoring function in the process of financial reporting. High managerial ownership will enable to monitor the reporting process of a company to reduce the information asymmetry, and the level of conservatism is low. Meanwhile, low managerial ownership can cause greater agency conflict and leads to the higher demand for conservative financial statements. Based on the analysis and findings of the previous researches, the hypothesis is as follows:

Hypothesis 3: Managerial ownership has an effect on accounting conservatism when using comprehensive income statements.

Hypothesis 4: Managerial ownership has an effect on accounting conservatism when using income statements for the current year.

Relationship between the Existence of Audit Committee and the Level of Accounting Conservatism

Audit committee plays a fairly important role in achieving good corporate governance because it is the representation of the board of commissioners to oversee the running of the company (Muhammad Arief 2009). The audit committee is also an important aspect in terms of the valuation of GCG implementation as it will help the process of monitoring the company's financial statements, especially in terms of quality of financial reporting. Some principles to achieve the GCG include independence, transparency, accountability, responsibility, and fairness (Muhammad Arief 2009).

The audit committee is required to be independent and fair or to disclose its performance to the public periodically, which includes the annual work program, the number of audit committee meetings, and others. If the audit committee is able to perform its function properly in accordance with the principles, it is possible for the management, board of directors and commissioners to be careful or apply conservatism in presenting financial statements. Thus, the good control of the audit committee and the conservatism principles applied by the company will be able to produce qualified financial statements and accurate information (Muhammad Arief 2009). Therefore, the hypothesis put forward is:

Hypothesis 5: Audit committee has an effect on conservatism when using comprehensive income statements.

Hypothesis 6: Audit committee has an effect on conservatism when using income statements for the current year.

Relationship between the Number of Audit Committee Meetings and the Level of Accounting Conservatism

There are several characteristics of audit committee that can be used as a measuring tool in assessing the effectiveness of the performance of audit committee. The characteristics include the structure of audit committee, the audit committee's understanding, the frequency of audit committee meetings, and the audit committee activities (Sugeng and Aprillya 2010). In general, the inspection and supervision of financial reporting process are conducted by the audit committee. By knowing the frequency of audit committee meetings, it will also be known the effectiveness of the performance of the audit committee.

Based on the research conducted by Robert and Gagaring (2011), the frequency of audit committee meetings has negative effect on earnings management. It means that the higher the frequency of the audit committee meetings, the smaller the earnings management measures. In other words, the principles of conservatism applied by the company are also higher. Based on the analysis and findings of the previous researches, the hypothesis put forward is:

Hypothesis 7: The number of audit committee meetings has an effect on accounting conservatism when using comprehensive income statements.

Hypothesis 8: The number of committee meetings has an effect on accounting conservatism when using income statements for the current year.

Relationship between Leverage and the Level of Accounting Conservatism

Leverage is the amount of assets that can be financed by debt so that there will be a risk for the creditor. When a company is in debt, there will be an obligation to repay, both the principal and interest, on a periodic basis. This makes the company manager work harder to settle the obligation.

Some say that debt policy is regarded as an effort to reduce agency conflict (Sugiarto 2009). The option to debt means to be ready with all the risks ranging from the risk of the loss of employment to the risk of bankruptcy. But the risk may even make the company manager feel more persistent that his choice to debt is for the purpose of managing the company seriously.

The higher the level of corporate debt, the

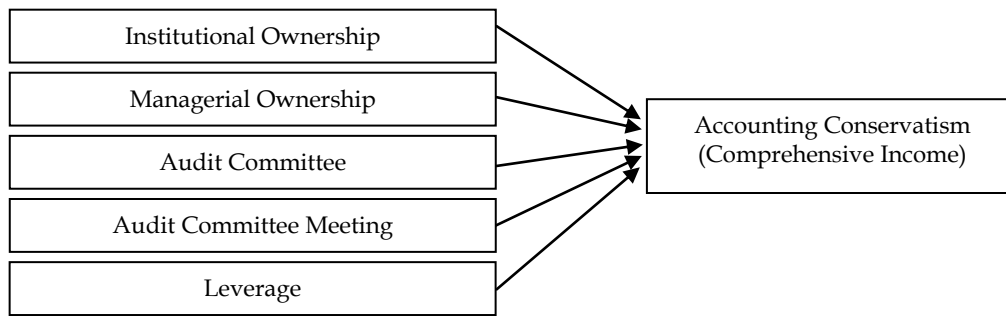


Figure 1
Framework of the First Model

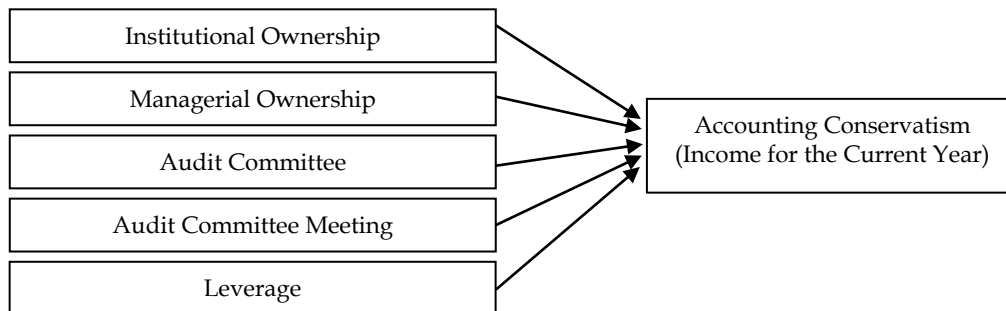


Figure 2
Framework of the Second Model

higher the level of conservatism applied (Dinny Prastiwi 2013). If a company has a high debt, the creditor is entitled to supervise the company. Therefore, hypothesis is as follows:

Hypothesis 9: The level of leverage has an effect on accounting conservatism when using comprehensive income statements.

Hypothesis 10: The level of leverage has an effect on accounting conservatism when using income statements for the current year.

The schematic framework of this study can be described in Figure 1 and 2.

3. RESEARCH METHOD

Research Design

Based on the characteristics and types of data, this study is included in archive research, which is based on written facts (Nur and Bambang 2002). This study is using the publication of data obtained from www.idx.co.id. Based on the research objectives, this study can be classified as a deductive research, a type of research that aims to test the hypothesis through validation theory or theory application test in specific situation (Juliansyah Noor 2010). This study aims to analyze the effect of institutional ownership, managerial ownership, the existence of audit committee, the number of audit committee meetings, and leverage on the level of accounting conservatism.

Limitation of the Study

This study focused only on the scope of discussion of the problem formulation based on the theory related thereto. This study is limited to manufacturing companies listed on the Indonesia Stock Exchange in 2012 and 2013.

Identification of Variables

Based on theoretical basis and research hypotheses, the variables used in this study are dependent variable and independent variable. The dependent variable is accounting conservatism. In addition, the independent variables consist of institutional ownership, managerial ownership, audit committee existence, audit committee meetings, and leverage.

Operational Definition of Variables

Variable of Accounting Conservatism

Conservatism is a principle that acknowledges debt and cost immediately, but income and assets are not immediately acknowledged although the possibility is big. The measurement of conservatism is carried out in accordance with the research conducted by Givoly and Hayn (2000) in Dariush et al. (2013) that uses the accrual measurement. It is the difference between net income before depreciation and operating cash flow divided by total assets and multiplied by negative one.

$$Kon_Ak_KOMPRES = \frac{NI_KOMPRES - (DEPR) - CFO}{TOTAL\ ASSET} \quad (1)$$

Description :

Kon_Ak_KOMPRES = Conservatism using comprehensive income.

Kon_Ak_LRB = Conservatism using income for the year.

NI_Kompres = *Net Income* from comprehensive income.

NI_LRB = *Net Income* from income for the current year.

Depr = Depreciation.

CFO = Cash flow from operating activities.

Total Asset = Total assets during the accounting period.

Variable of Institutional Ownership

Institutional ownership is the ownership of company's shares by financial institutions such as insurance companies, banks, pension funds, and banking investment. The measurement of variables in this study is done by way of the percentage of the number of institutional shares divided by the number of shares outstanding (Dinny Prastiwi 2013).

$$InstitutionalOwnership = \frac{\sum Institutional\ Shares}{\sum Total\ Shares} \times 100\% \quad (2)$$

Variable of Managerial Ownership

Managerial ownership means that the internal party or the management participates in the decision making. The measurement of variables in this study is done by a percentage of the number of managerial shares divided by the number of shares outstanding (Dinny Prastiwi 2013).

$$ManagerialOwnership = \frac{\sum Managerial\ Shares}{\sum Total\ Shares} \times 100\% \quad (3)$$

Variable of the Existence of Audit Committee

Audit committee is a group of people in the form of a committee created by the board of commissioners with the goal to carry out surveillance relating to the management of the company. The measurement of this variable is in line with Hamonangan and Mas'ud (2006), by forming a dummy variable (1) if it is found the existence of an audit committee, and (0) if it is not found the existence of an audit committee.

Variable of the Number of Audit Committee Meetings

Audit committee meeting is the frequency of meetings conducted by the audit committee with the purpose of discussing their annual report to the board of directors and related to the internal control of the company. The measurement of this vari-

able is done by looking at the frequency of meetings held within a period of one year or one period (Sugeng and Aprillya 2009).

Variable of Leverage

Leverage is the level of debt done by the company to finance its assets as the development of investment and company's business activities. In this study, the measurement of this variable is done by dividing the total debt with total assets of the company (Dinny Prastiwi 2013).

$$Leverage = \frac{\sum Debt}{\sum Assets} \quad (4)$$

Population, Sample, and Sampling Technique

The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange in 2012 and 2013. The sample used in this research is determined by using purposive sampling method with certain criteria. The sampling criteria includes: (1) the manufacturing companies were registered as the public companies in the Capital Market Directory Index and matched with the data on the Indonesia Stock Exchange 2012 - 2013; (2) the manufacturing companies issued annual reports from 2012 to 2013 in IDR; (3) the manufacturing companies issued financial statements ending on December 31 in IDR, (4) the manufacturing companies had complete data as required in this study

Data and Data Collection Method

The data used in this research are secondary data in the form of annual reports and financial statements of manufacturing companies listed on the Indonesia Stock Exchange 2012-2013 obtained from the official website of the Indonesia Stock Exchange, (www.idx.co.id).

Data Analysis Techniques

The data analysis techniques used are descriptive analysis of data, normality test, multiple regression analysis and hypothesis testing to test the effect of institutional ownership, managerial ownership, the existence of audit committee, audit committee meeting and leverage on the level of accounting conservatism using comprehensive income and income for the current year. The steps are as follows:

Descriptive Statistic Test

Descriptive statistics is a description of data seen from the mean value, standard deviation, maximum value and minimum value. Descriptive statistic test is performed using SPSS 22.

Normality Test

The purpose of normality test is to test whether, in the regression model, the dependent variable and independent variables have normal distribution. The regression model that has normal data distribution or near normal can be said that the regression model is good. Imam Ghozali (2011: 30) explains that the way to detect normality is using residual value observation and Kolmogorov-Smirnov test with the following hypothesis:

H_0 : Residual data are normally distributed

H_1 : Residual data are not normally distributed

Conclusion can be drawn by seeing that if the Sig value ≥ 0.05 , then H_0 is accepted, and if the Sig value < 0.05 , then H_0 is rejected

Regression Analysis

Regression analysis is performed to test the strength of the relationship between two or more variables. Additionally, Imam Ghozali (2011: 96) explains that the regression analysis shows the direction of the relationship between independent variable and dependent variable. This study uses Multiple Linear Regression analysis as the data analysis technique. This analysis is mathematically written with the following equation:

$$Kon_Ak_Kompre = \alpha + \beta_1 INS + \beta_2 MAN + \beta_3 KKA + \beta_4 RKA + \beta_5 LEV + \varepsilon \quad (5)$$

$$Kon_Ak_LRB = \alpha + \beta_1 INS + \beta_2 MAN + \beta_3 KKA + \beta_4 RKA + \beta_5 LEV + \varepsilon \quad (6)$$

Where:

Kon_Ak_Kompre = Conservatism of Comprehensive Income

Kon_Ak_LRB = Conservatism of Income for the current year

INS = Institutional Ownership

MAN = Managerial Ownership

KKA = Existence of Audit Committee

RKA = Number of Audit Committee Meeting

Lev = Leverage

α = Constant

β_{1-5} = Regression Coefficient

ε = Variable of disruptor.

Hypothesis Testing Techniques

F Statistic Test

F test is used to indicate whether the regression model is fit or not fit. If the value of Sig-F < 0.05 , then H_0 is rejected (model is fit). Conversely, if the value of Sig-F ≥ 0.05 , then H_0 is accepted (model is not fit).

Determination Coefficient (R^2)

Determination coefficient (R^2) is basically used to

find out the influence of the independent variable (X) on the dependent variable (Y). R^2 value is ranging from 0 to 1. If $R^2 = 1$, it means that the independent variable has a perfect relationship with the dependent variable. The higher the R^2 value (approaching 1), the better the regression. If $R^2 = 0$, it means that there is no relationship between dependent variable and independent variable. Smaller R^2 value (approaching 0) indicates that the independent variable specified is not able to explain the variation of the dependent variable changes.

T Statistic Test

The t statistic test, basically, indicates whether partially there is a real effect between dependent variable (Y) and independent variable (X). If the value of Sig-t < 0.05 , then H_0 is rejected or it can be said that the variables of institutional ownership, managerial ownership, the existence of an audit committee, the audit committee meetings, and leverage have an effect on accounting conservatism using comprehensive income and the income for the year. Meanwhile, if the value of Sig-t ≥ 0.05 , then H_0 is accepted or it can be said that the variables of institutional ownership, managerial ownership, the existence of an audit committee, the audit committee meetings, and leverage have no effect on accounting conservatism using comprehensive income and the income for the year.

4. DATA ANALYSIS AND DISCUSSION

Description of Research Analysis

This study is related to good corporate governance (GCG) and leverage with the research subject of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2012 and 2013 using comprehensive income and the income for the year.

Based on the data obtained from IDX and by using measurements of comprehensive income and the income for the year, there are 300 manufacturing companies listed on the Capital Market Directory Index from 2012 to 2013. Of the 300 companies, 4 companies are not included in the research sample because they are not listed on the Indonesia Stock Exchange. Three companies are listed on IDX but they do not publish financial statements and annual report per December 31. 11 companies are listed on IDX but they do not publish annual report. 60 companies are listed on IDX but they publish financial statements in dollar. In addition, 29 companies are listed on IDX but they do not have complete data. After the elimination, it is obtained as many as 193 manufacturing companies consisting of 90 companies in 2012 and 103 companies in 2013.

Table 1
Results of Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
% INS	193	.00	98.96	69.347	21.234
% MAN	193	.00	48.28	2.454	6.039
KKA	193	.00	1.00	.990	.102
RKA	193	.00	37.00	5.540	5.389
LEV	193	.04	2.88	.496	.322
Kon_Ak_KOMPRES	193	-.32	.31	-.042	.092
Kon_Ak_LRB	193	-.29	.31	-.035	.091
Valid N (listwise)	193				

Source: Processed SPSS.

Table 2
Results of Statistic Test of the Frequency of KKA

Category	Frequency	Percent
Without Audit Committee	2	1.0
With Audit Committee	191	99.0
Total	193	100.0

Source: Processed SPSS.

Data Analysis

Descriptive Analysis

A thorough description on the characteristics of the main variables can be done using descriptive statistics:

In table 1, from the accounting conservatism using comprehensive income is obtained minimum value of -0.32 derived from PT. Steel Pipe Industry of Indonesia in 2012 and a maximum value of 0.31 is derived from PT. Intraco Penta in 2013. The mean value of the level of conservatism using comprehensive income between 2012 and 2013 is 0.0422 with a standard deviation of 0.09215. In this study, the data variation is high because the values of standard deviation are above average.

The minimum value of conservatism using income for the year is -0.29 derived from PT. Steel Pipe Industry of Indonesia in 2012 and PT. Aluminio Light Metal Industry Ltd. in 2013. The maximum value of 0.31 is derived from PT. Intraco Penta in 2013. When using the income for the year, the mean value of the level of conservatism in 2012 and 2013 is -0.0346 which is higher than the conservative using comprehensive income. This is presumably due to the convergence of Indonesian Financial Accounting Standard (PSAK) to IFRS standards which led some companies to reduce the level of conservatism. This study has a standard deviation of 0.09067, or above the average, in which it can be said that the data variation in this study is high.

Institutional ownership has the main value of 69.3474 with a standard deviation of 21.23364 which means that the range or the distance between

one data and another is 21.23364. The standard deviation which is smaller than the average shows that the variation of institutional ownership is relatively low with a minimum value of 0.00 derived from PT. Intan Wijaya International in 2012 and 2013, while the maximum value of 98.96 is derived from PT. Bentoel International Investama in 2012 and 2013

The lowest value of managerial ownership is 0,000 derived from 97 companies in 2012 and 2013, which means that more than 50% of the samples do not have managerial ownership structure. The maximum value of managerial ownership is 48.28 derived from PT. Hanson International in 2013, which means that this company has the managerial ownership higher than the public ownership. The mean value of managerial ownership is 2.4535 with a standard deviation of 6.03886, which means that the data variation is high.

From Table 1, the existence of audit committee has a mean value of 0.99, with a standard deviation of 0.102, which means that the range or the distance between one data and another is 0.102 and the variation is fairly low. Table 2 is the result of analysis of the frequency of distribution of the audit committee:

Based on Table 2, there are 191 manufacturing companies from a total of 193 manufacturing companies in 2012 and 2013 that have audit committee, or 99%. While the remaining two companies, or 1%, do not have audit committee. The lowest audit committee meeting is 0, or no meeting, and the highest is 37 meetings. The mean value of audit committee meeting is 5.54 with a standard de-

Table 3
Results of Normality Test of the First Model

		Unstandardized Residual
N		193
Normal Parameters a,b	Mean	.000
	Std. Deviation	.098
Most Extreme Differences	Absolute	.049
	Positive	.034
	Negative	-.049
Test Statistic		.049
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source: Processed SPSS

Table 4
Results of Normality Test of the Second Model

		Unstandardized Residual
N		193
Normal Parametersa,b	Mean	.000
	Std. Deviation	.098
Most Extreme Differences	Absolute	.039
	Positive	.037
	Negative	-.039
Test Statistic		.039
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source: Processed SPSS

viation of 5.389 which means that the data variation is fairly low.

The mean value of leverage is 0.4960 with a standard deviation of 0.32171. Data variation of leverage can be said to be low because the standard deviation is smaller than the mean value. The minimum value of this variable is 0.04 occurred on PT. Jaya Pari Steel in 2013 and PT. Kertas Basuki Rachmat Indonesia in 2012, which means that the lowest ability of the companies to finance their assets using debt is 4%. Meanwhile, the maximum value is 2.88 occurred on PT. Prima-rindo Asia Infrastructure in 2013. This means that the highest ability of companies to finance their assets with a loan is 2.88 or exceeds the value of assets.

Normality Test

Normality test is necessary because the regression model can be said "good" if it is normally distributed or near normal (Ghozali 2011: 160). In this study, the normality test is conducted using statistical analysis with the method of one sample kolmogorof Smirnov test. The data is said to be normal if the significance value is above 0.05. Table 3 and 4 are the results of the normality test using Kolmogorov-Smirnov Test:

Based on the results of statistical tests in Table

3 and 4, the significance value of Kolmogorov Smirnov is 0.200, greater than the confidence level of 0.05, so it can be said that the data is normally distributed.

Hypothesis Test of Multi Linear Regression Analysis

Based on Table 5, it is obtained F value of 2.673 with a significance level of 0.023. While in table 6, it is obtained F value of 2.535 with a significance level of 0.030. Both models have a significance level of F below 0.05, which means that the regression model fits to the data of the study. The value of adjusted R² in Table 5 is 0.042 and 0.038 in Table 6. This indicates that the variable of the level of accounting conservatism (using comprehensive income), which can be explained by the variables of institutional ownership, managerial ownership, the existence of an audit committee, audit committee meetings and leverage is 4.2%, while the remaining 95.8% is explained by other variables which are not examined in this study. Likewise, from Table 6, it can be concluded that the variable of the level of accounting conservatism (using the income for the current year), which can be explained by the variables of institutional ownership, managerial ownership, the existence of audit committee, audit committee meetings and leve-

Table 5
Results of Multi Linear Regression of the First Model

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.217	.077		-2.828	.005
% INS	.001	.000	.120	1.538	.126
% MAN	.000	.001	.011	.135	.892
KKA	.172	.071	.172	2.415	.017
RKA	.000	.001	-.006	-.083	.934
LEV	.048	.023	.152	2.116	.036
Adjusted R2					0.042
F					2.673
Sig F					0.023

Source: Processed SPSS.

Table 6
Results of Multi Linear Regression of the Second Model

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.180	.076		-2.360	.019
% INS	.001	.000	.113	1.438	.152
% MAN	.000	.001	-.006	-.079	.937
KKA	.144	.071	.145	2.027	.044
RKA	0.000066	.001	.004	.050	.960
Lev	.052	.023	.165	2.285	.023
Adjusted R2					0.038
F					2.535
Sig F					0.030

Source: Processed SPSS.

rage is 3.8%, while the remaining 96.2% is explained by other variables which are not examined in this study.

The Effect of Institutional Ownership on Accounting Conservatism using Comprehensive Income and the Income for the year

Based on the analysis in Table 5 and Table 6, the regression coefficient for institutional ownership is 0.001. It shows that every addition of institutional ownership is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism of 0.001. From Table 6, it is known that the t value is 1.538 with a significance level of 0.126. It can be concluded that H_0 is accepted, which means that institutional ownership has no effect on conservatism when using comprehensive income. Meanwhile, the t value in Table 6 is 1.438 with a significance level of 0.152. From the results, it can be concluded that H_0 is accepted or the institutional ownership has no effect on accounting conservatism when using the income for the year.

The results of this study are consistent with

research by Dinny Prastiwi (2013), in which the results are not able to prove the influence of institutional ownership on accounting conservatism. This is presumably due to the absence of good monitoring function by institutional party on performance of management in the preparation of financial statements. In addition, the institutional party tends to expect a high return and has no sense of belonging to the company. So, large institutional ownership is not a guarantee that the management will perform accounting conservatism.

Both models result in the same conclusion. Indeed, conservatism has existed before 2012 or before the application of IFRS standards. Descriptive statistically, the convergence of standards makes the level of conservatism increased after 2012. In fact, according to Thomas S. (2006), the essence of corporate governance is that the company's performance increases by way of monitoring the performance of management. However, institutional ownership has no effect on accounting conservatism caused by low monitoring function by institutional party.

The Effect of Managerial Ownership on Accounting Conservatism Using Comprehensive Income and the Income for the Current Year

Base on Table 5 and Table 6, the value of regression coefficient is 0.000, which means that every addition of managerial ownership is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism of 0.000. From Table 5, it is known that t value is 1.35 with a significance level of 0.892. It can be concluded that H_0 is accepted, which means that institutional ownership has no effect on conservatism using comprehensive income. While from Table 6, it is known that t value is -0.079 with a significance level of 0.937, which means that H_0 accepted or managerial ownership has no effect on accounting conservatism using the income for the year.

From the analysis of the t test of the first model and the second model, it is found that managerial ownership has no effect on accounting conservatism. This study is able to prove the agency theory proposed by Intan and Puji Harto (2012) that the separation of functions between the manager and the owner possibly results in the agency conflict due to the more information owned by the agents rather than the shareholders. Therefore, it is likely that the company does not apply high accounting conservative.

The results of this study are consistent with the research by Angga Alfian and Arifin (2012) which are not able to prove the effect of managerial ownership on accounting conservatism. This is presumably because of the low portion of managerial ownership based on descriptive statistics. Managers tend to report non-conservative earnings because they have less sense of belonging of the company. Besides, the low portion of managerial ownership means that the managers tend to give priority to pursue the bonus rather than to give priority to the interests of the owner of the company.

When using comprehensive income and the income for the year, managerial ownership has no effect on accounting conservatism, although the concept of conservatism has existed before 2012 or before the convergence of standards. This means that even though there is convergence of Indonesian financial Accounting Standard (PSAK) to IFRS, the managerial ownership has no effect on conservatism due to the agency conflict and the tendency of managers to pursue bonus.

The Effect of the Existence of Audit Committee on Accounting Conservatism using Comprehensive Income and Income for the Current Year

Based on Table 5, it is known that the value of

regression coefficient is 0.172, which means that every addition of the existence of an audit committee is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism (comprehensive income) of 0.172. Meanwhile, from Table 6, it is known that the value of the regression coefficient of the existence of audit committee is 0.144, which means that every addition of the existence of the audit committee is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism (income for the current year) of 0.144. From Table 5, it is known that t value is 2.415 with a significance level of 0.017, which means that the existence of audit committee has an effect on conservatism using comprehensive income. While from table 6, it is known that t value 2.027 with a significance level of 0.044, which means that the existence of audit committee has an effect on conservatism using income for the current year.

From the analysis of t test of the first model and the second model, it is found that audit committee has an effect on accounting conservatism. The results can prove the principles of good corporate governance expressed by Thomas S. (2006) regarding the responsibility. The application of the principles of good corporate governance regarding responsibility implies that the company management must adhere to the applicable legislation.

Both models result in the same conclusion that both equally have an effect on conservatism when using comprehensive income and income for the year. This means that even though there is convergence of IFRS, the companies remain adherent to Capital Market Supervisory Agency (Bapepam) to establish an audit committee. However, these results are not consistent with the research by Dinny Prastiwi (2013) which states that the existence of audit committee has no effect on accounting conservatism.

The Effect of Audit Committee Meeting on Accounting Conservatism using Comprehensive Income and Income for the Current year

Based on Table 5, the variable of audit committee meeting has a regression coefficient of 0.000, which means that every addition to the audit committee meeting is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism (comprehensive income) of 0,000. While based on Table 6, this variable has a regression coefficient of .000066, which means that every addition to the audit committee meeting is

1%. In addition, if other variables are considered constant, it will increase the level of conservatism (income for the year) of 0.000066. From Table 5, it can be known that t value is -0.083 with a significance level of 0.934. While from Table 6, it can be known that t value is 0.050 with a significance level of 0.960. From the two results, it can be concluded that the variable of audit committee meeting has no significant effect on accounting conservatism using comprehensive income and the income for the year.

Audit committee meeting has no effect on accounting conservatism. This is presumably due to several reasons, such as the companies do not disclose the frequency of audit committee meetings, the companies hold audit committee meetings less than four times in a year, and the companies hold meetings more than four times in a year.

The first reason, there are still companies that do not disclose the frequency of audit committee meetings. This means that the companies do not apply the principles of transparency and good corporate governance as expressed by Thomas S. (2006). There are 33 companies that did not disclose the frequency of audit committee meetings, or approximately 17.09%. In this case, it means that the company's GCG is weak and this results in low conservatism.

The second reason, there are still companies whose frequency of audit committee meeting does not follow the regulation of Capital Market Supervisory Agency (Bapepam) that is at least four times a year. As said by Anggita and Aditya (2014), the frequency of audit committee meetings in a year is at least four times, but there are 20 companies, or about 10.36%, that hold audit committee meetings less than four times. This is consistent with the research conducted by Anggita and Aditya (2014) that is unable to prove the effect of the frequency of audit committee meetings on the level of compliance of disclosure.

The third reason, there are companies that hold audit committee meetings more than four times a year. There are about 140 companies of 193 samples, or approximately 72.53%, that hold audit committee meetings more than four times a year. Actually, the regular meetings of audit committee are expected to reduce acts of fraud committed by management. However, the results in this study show that there is no influence between the number of audit committee meetings and accounting conservatism. The reason that can be used to explain it is that the duties and responsibilities of the audit committee are still less maximum so their role in

the company is not effective. As in the study conducted by Sugeng and Aprillya (2010), who studied on the effect of the frequency of audit committee meetings on earnings management, stated that there is a possibility that the management and the external auditors rarely attend audit committee meetings. The impact is that the problem faced by the management can not be fully understood by the audit committee. This will lead to the problem in the financial reporting process.

The effect of Leverage on Accounting Conservatism using Comprehensive Income and Income for the Current Year

Based on Table 5, it can be seen that the regression coefficient for the variable of leverage is 0.048, which means that every addition to leverage is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism (comprehensive income) of 0.048. While base on table 6, the value of regression coefficient for the variable of leverage is 0.052, which means every addition to leverage is 1%. In addition, if other variables are considered constant, it will increase the level of conservatism (income for the year) of 0.052.

This research finds that leverage has significant effect on accounting conservatism good when either using comprehensive income or income for the current year. The results of this study are consistent with the research by Ni Kd and I Ketut (2014) which stated that leverage has significant effect on accounting conservatism. Creditors tend to require companies to be conservative in preparing the financial statements. Creditors who provide loans are the party who are not willing to be harmed so they demand greater rights to monitor and determine the management of operations and company accounting for the security of their funds.

Leverage has an effect on accounting conservatism when using comprehensive income and income for the current year. Increasing number of industries make the company think more about sustainability in the long term, such as establishing of new factories or new branches, upgrading technology, providing training for employees, and others. The company must obtain large funds and does not just rely on loans from individuals or institutions in the country but could involve foreign parties. The convergence of Indonesian Financial Accounting Standard (PSAK) to International Financial Reporting Standard (IFRS) also increase the supervision of the creditors, especially foreign creditors and the control is much more

stringent than before the application of IFRS convergence.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the results of the regression analysis (t-test) in the first model and the second model, it can be seen that institutional ownership, managerial ownership, and audit committee meeting do not have significant influence on accounting conservatism when using comprehensive income and the income for the year. Meanwhile, the variables of the existence of audit committee and leverage have significant effect on accounting conservatism when using comprehensive income and the income for the year. It can be concluded that although there has been a convergence of IFRS since 2012, the use of conservatism is still maintained at certain aspects.

This study has several limitations, such as (1) the study period is very short i.e. 2012 and 2013. It is because Indonesia just implemented the convergence of standard in 2012, (2) the accounting conservatism in this study only uses the accrual measurement so that it cannot be compared with using one measurement. The suggestion put forward in this study is that for further researchers to extend the period of the study and use other measurements for conservatism such as market measurement or other measurements to make it more comparable.

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