

The Effect of Debt Maturity Structure, Information Asymmetry and Good Corporate Governance Mechanism on Accounting Conservatism

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ABSTRACT: The study aims to determine the effect of the Debt Maturity Structure, Information Asymmetry, Good Corporate Governance Mechanism on Accounting Conservatism. The research population is all manufacturing companies listed on the Indonesia Stock Exchange 2017 to 2019 which report complete annual reports in the study period. The sample selection technique is purposive sampling. The object of the company used in this study were 123 manufacturing companies. The partial test results show that Debt Maturity Structure and Information Asymmetry have no effect on Accounting Conservatism, while the Good Corporate Governance Mechanism with independent variables, namely Independent Commissioners and Managerial Ownership has a positive effect on Accounting Conservatism. Simultaneous test results show that all independent variables affect conservatism accounting.

KEYWORDS: Debt Maturity Structure, Information Asymmetry, Good Corporate Governance Mechanism, Conservatism

I. INTRODUCTION

A good financial report can be seen from its quality. The indicators of the quality of the financial statements themselves are relevant, reliable, comparable and understandable by users of the financial statements. Accountants agree on the quality reference that must be in accounting information as contained in the accounting conceptual framework. Accounting translates reporting into fundamental quality and must meet other characteristics, there are also additional qualities of accounting information that must be met, namely comparable, verifiable, timely and understandable. In connection with the disclosure of true value, there is the application of a concept called accounting conservatism. There are several cases resulting from the low application of accounting conservatism principles in financial statements. First, regarding the overstatement of the 2017 annual financial statements at PT Tiga Pilar Sejahtera Food Tbk (AISA). The bubble was discovered after the new management of AISA conducted an investigation into the company's 2017 annual financial statements. From the results of the investigation, it was found overstatements of up to Rp. 4 trillion in accounts receivable, inventories, and fixed assets of the TPS Food Group and from sales posts of Rp. 662 billion, EBITDA (profit before tax, depreciation and amortization) and Rp. 329 billion business entities (www.cnbcindonesia.com).¹ Based on this case, it can be concluded that the company experienced an overstatement because the company was not careful in compiling and reporting its financial statements, resulting in excessive financial statements. Companies need to apply the principle of conservatism to be careful in dealing with uncertainties in the future.

II. LITERATURE REVIEW

According to the Glossary of Term FASB Concept Statement No. 2 (Financial Accounting Standards Board), conservatism is defined as an attitude of being cautious about something that is uncertain in order to try to ensure that the uncertainty and the risks involved can be adequately considered.² Conservatism is also defined as the act of reporting the lowest value of assets and income as well as the highest liabilities and expenses or for other purposes, expenses are recognized immediately and revenues are recognized later (Hery, 2017: 48).³ IFRS has introduced a new principle, namely prudence, which uses current value as an indicator of financial statement measurement that is understandable, relevant, reliable and comparable as a substitute for the principle of conservatism. Prudence referred to in IFRS relates to the existence of revenue recognition, namely revenue can be recognized even though it is in the form of potential, as long as it fulfills the provisions of revenue recognition in IFRS. Hellman (2008) says that prudence is basically almost the same as accounting conservatism, it's just that it places more emphasis on prudence in the implementation of the assessment needed to make estimates that will be very necessary when in conditions of uncertainty, so that assets or income will not be overstated and obligations or expenses are not excessive.⁴

The measurement of accounting conservatism used in this study is the measurement developed by Agustina and Stephen (2016).⁵ This measurement uses market to book, which is by dividing the market price per share by the book value per share.

III. RESEARCH METHODOLOGY

The research design is quantitative research using hypothesis testing and causality research to prove the debt maturity structure, information asymmetry and mechanisms of Good Corporate Governance on accounting conservatism. The Good Corporate Governance mechanism consists of an independent board of commissioners and managerial ownership. The measurement of accounting conservatism used in this study is the measurement developed by Agustina et al (2016).⁵ This measurement uses market to book, namely by dividing the market price per share by the book value per share. The indicator that the researcher uses to measure the debt maturity structure in this study refers to the research of Khurana and Wang (2015) and the research of Salehi and Mohsen (2018) which uses a ratio calculated by dividing the amount of short-term debt by the company's total debt within a certain period of time.^{6,7} The indicator used to measure information asymmetry in this study is the bid-ask spread. The use of the bid ask spread as a proxy for information asymmetry according to Kartika et al (2015) is because in the capital market mechanism, capital market players also face agency problems.⁸ The independence of the board of commissioners is determined by the total number of independent commissioners divided by the total members of the board of commissioners (Wiryadi and Sebrina, 2013).⁹ The indicator used to measure managerial ownership is the percentage of the number of shares owned by the management of the entire company's capital owned.

In this study, the type of data used is quantitative data in this study obtained from the annual reports of manufacturing companies listed on the IDX for the 2017-2019 period. The data in this study uses secondary data originating from the annual report of manufacturing companies for the 2017–2019 period and the company must be registered on the IDX (www.idx.co.id). The method of data collection in this study used a documentation study by collecting data in the form of company documents needed in the study. The data collection is carried out as annual report data for manufacturing companies for the 2017-2019 period and has been listed on the Indonesia Stock Exchange (IDX) through the IDX official website (www.idx.co.id). The population in this study uses Manufacturing Companies listed on the Indonesia Stock Exchange. While the sample of this study is Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period. In this study, we use manufacturing companies listed on the Indonesia Stock Exchange for the period 2017-2019 and use a purposive sampling method with several criteria, namely manufacturing companies listed on the Stock Exchange in a row during 2017-2019, manufacturing companies that consistently publish annual financial reports during 2017-2019, manufacturing companies that use the rupiah currency in presenting financial statements during 2017-2019, manufacturing companies that provide data on independent commissioners in financial statements during 2017-2019.

IV. RESULT AND DISSCUSION

The object of the company in this study uses manufacturing companies, where manufacturing companies have purposive sampling. Manufacturing companies listed on the Indonesia Stock Exchange during 2017 – 2019 amounted to 169 companies. This study has several purposive sampling criteria, manufacturing companies must be registered consecutively during 2017-2019 but during that period there were 15 companies that were not registered consecutively during that period. The second criterion is that manufacturing companies must use the rupiah currency in their annual reports, manufacturing companies during 2017 – 2019 that use foreign currencies in the company's annual reports are 30 companies. The next criterion is that manufacturing companies must provide data on independent commissioners in the annual report for 2017 – 2019, there is 1 manufacturing company that does not provide data on independent commissioners in the annual report for 2017 – 2019. The data issued because they have extreme values are 9 companies. From these criteria, the company objects used in this study are 123 manufacturing companies.

The first hypothesis in this study is accepted, where the debt maturity structure has an effect on accounting conservatism. The results of the regression analysis show that the debt maturity structure variable has a regression coefficient of 0.003 and a significance (α) of 0.05. These results indicate that the debt maturity structure has an effect on accounting conservatism. The results of this study are in line with the results of research conducted by Khurana (2015) which states that the debt maturity structure affects accounting conservatism.⁶ This is because short-maturity debt and accounting conservatism play the same role in resolving agency costs of debt.

Short-maturity debt reduces the information asymmetry and suboptimal investment problems inherent in financing debt, and it requires borrowers to do more external monitoring when it comes to renewal. The presence of short-maturity debt should reduce the demand for debt contracts for accounting conservatism. However, the results of this study contradict the results of research conducted by Salehi and Mohsen (2018) which states that the debt maturity structure variable has no effect on accounting conservatism.⁷ The second hypothesis in this study is rejected, where information asymmetry has no effect on accounting conservatism in manufacturing companies listed on the IDX in 2017-2019. The results of the regression analysis showed that the information asymmetry variable had a regression coefficient of 0.285 and a significance of 0.05. These results indicate that information asymmetry has no effect on accounting conservatism. The results of this study support the results of research conducted by Kartika et al (2015) which states that the information asymmetry variable has no effect on accounting conservatism.⁸ This happens because information asymmetry in a company is not the main reason for the application of accounting conservatism. In general, the main reason for implementing conservatism in financial statements is because of demands from external parties to limit opportunistic behavior carried out by management and demand quality financial reports (Kartika et al, 2015).⁸ In addition, based on research data, it is due to the fact that the cause of information asymmetry does not affect the application of accounting conservatism due to the fact that several companies that make up the sample of stock transactions tend to be passive, it can be seen from the minimum value that the lowest value is 0.000 so that the bid ask spread as a measure of information asymmetry does not significantly affect accounting conservatism.

The third hypothesis in this study is accepted, where the independent commissioner has a positive influence on accounting conservatism. The results of the regression analysis showed that the independent commissioner variable had a regression coefficient of 0.004 and a significance of 0.05. These results indicate that independent commissioners have an effect on accounting conservatism. An independent board of commissioners is a member of the board who has no relationship with the shareholders, controllers, members of the board of directors, other boards of commissioners and the company itself, either in the form of business or familial relationships. In line with agency theory, the existence of independent commissioners can help reduce agency conflicts that arise from the separation between stockholders and managers. The existence of independent commissioners in the company is expected to be able to improve the aspects of supervision and control of the company which causes an increase in company performance. Independent commissioners will ensure that the company applies accounting principles that will result in accurate and quality company financial information through the use of higher conservatism principles in the company's financial reporting process. The results of this study are also in line with research from Ahmed et al (2007), Alvino et al (2020) which states that the independence of the commissioners is positively related to accounting conservatism.^{10,11} Based on this, it can be concluded that independent commissioners have an effect on accounting conservatism.

The last hypothesis in this study is accepted, where managerial ownership has an influence on accounting conservatism. The results of the regression analysis show that the managerial ownership variable has a regression coefficient of 0.026 and a significance of 0.05. These results indicate that managerial ownership has an effect on accounting conservatism. Companies will increasingly apply conservative accounting principles if their share ownership in the company is high, if managers have large shareholdings, managers will be more likely to report earnings conservatively because management's sense of ownership of the company tends to be greater so that management tends to want to enlarge the company by using hidden reserves that can increase the amount of investment. The results of this study are in line with the results of Sabeni's (2013) research which states that managerial ownership has a positive effect on accounting conservatism.¹² However, the results of this study contradict the results of research by Ramadona (2015) which states that companies will tend to be less conservative if the percentage of share ownership by management is high.¹³

V. CONCLUSION

There are three variables that influence accounting conservatism in this study, namely debt maturity, independent commissioners and managerial ownership. However, there is one variable that has no effect on accounting conservatism is information asymmetry. The limitation in this study is that the object of the company in this study uses a manufacturing company listed on the IDX for the 2017-2019 period with several criteria so that it cannot use all manufacturing companies listed on the IDX. Based on the conclusions and limitations of the study, further researchers can add independent variables related to accounting conservatism such as firm size, firm risk, capital intensity and other independent variables. Further researchers are also expected to add other companies as research objects that will be used and also add years of research with a longer period of time so that the data obtained in the research is also wider.

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