Effect of Financial Performance and Investment Opportunity Set on Accounting Conservatism in Consumption Goods Manufacturing Companies Listed on Indonesia Stock Exchange (2014-2016)

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Abstract

This study aims to identify the factors that affect the decision to apply accounting conservatism. The factors used are profitability, investment opportunity set, and debt covenant. The main goal of this study is to determine whether the level of profitability, investment opportunity set, and debt covenant affect management's decision to apply a conservative principle in the accounting method. The objects of this study are the consumer goods companies listed on the Indonesian Stock Exchange, with an observation period of 3 years, ranging from 2014 to 2016. This study concluded that profitability, investment opportunity set, and debt covenant simultaneously affect accounting conservatism. The variable profitability has a significant positive effect on accounting conservatism, while variables investment opportunity set, and debt covenant has no significant effect on accounting conservatism.

Keywords
Accounting Conservatism, Profitability, Investment Opportunity Set, Debt Covenant

1. Introduction

Along with globalization, the economic sector of trade and technology will certainly develop rapidly. With the development of the economic sector, which is fundamental to a country, surely it is necessary to have adequate supervision of the situation or financial condition of the industry. Financial Reports published annually by companies listed on the Stock Exchange are one of the supervisory tools that can provide investors with a reference for decision-making and forecasting. Financial statements are records of company financial information in an accounting period, which are used to describe the situation or performance of the company or can also be interpreted with a record of financial information neatly compiled by the company to evaluate the company's performance, which is useful to meet the parties who use it. One of the main concerns in financial reporting is earnings information, which provides data on a company's financial performance during a certain period. Accounting principles are needed to produce relevant and reliable figures to realize these benefits.

One of the principles adopted in the financial reporting process is the principle of conservatism. The principle of conservatism in accounting itself faces several pros and cons. This principle prioritizes prudence in recording, so using this principle is considered important because the financial statements can reflect the company's actual financial condition because the data recorded must have the certainty to avoid conflicts of interest between management and shareholders. On the other hand, this principle is considered to affect the quality of financial statements to be biased. Penman and Zhang in Enni Savitri (2016) estimate that conservatism results in lower earnings quality and is less relevant. Conservatism affects the quality of the figures reported on the balance sheet

and the profits in the income statement. When companies increase the amount of investment, conservative accounting will result in lower profit calculations than liberal/optimistic accounting. Accounting conservatism can be influenced by various factors, according to previous research. Factors used in this study include the level of Profitability, Investment Opportunity Set (IOS), and Debt Covenant.

There have been several previous studies such as Pratanda and Kusmuriyanto(2014),Padmawati and Fachrurrozie (2015), Saputri (2013), Dwitayanti and Fahlevi (2015), Sari, Yusralaini and Al-Azhar (2014), and Ayuningsih, Nurcholisah and Helliana (2018), however, the results of this research study are still inconsistent. In addition, there have been no previous research studies, in general, using manufacturing companies as research subjects. Still, no one has used the consumer goods sector specifically, so the authors are interested in researching this topic on the subject.

This research uses the following hypotheses:

1. The Effect of Profitability on Accounting Conservatism

Company profitability is one of the bases for evaluating the condition of a company, especially in analyzing management performance. The higher the company's profitability level, it will tend to choose conservative accounting. This is because managers use conservatism to regulate earnings to look flat and not too fluctuating (Pratanda and Kusmuriyanto2014).

Signal Theory states that management will try to give a good signal to external parties to provide a good picture of the company and thus attract the attention of investors while providing added value to the company. The management as an agent has internal information that is unknown to shareholders, so they can use it to increase the value of the company's profitability to get more bonuses, especially if the company provides a bonus policy that refers to corporate profits.

Research conducted by Pratanda and Kusmuriyanto(2014),states that profitability has a significant positive effect on accounting conservatism. In addition, research conducted by Padmawati and Fachrurrozie(2015) states that profitability negatively influences accounting conservatism. Based on the results of previous studies, the following hypothesis is formed:

H1: Profitability has a significant effect on accounting conservatism.

2. Effect of Investment Opportunity Set (IOS) on Accounting Conservatism

Agency theory states that the investor will provide a delegation to the management to encourage the company's value. One way is to use existing investment opportunities. Dwitayanti and Fahlevi(2015) in Andreas, Ardeni, and Nugroho (2017) argue that IOS is a collection of investment decisions in the form of assets owned and future investment choices. The value of IOS itself affects the value of the company. Dwitayanti and Fahlevi(2015) stated that there is a relationship between the Investment Opportunity Set (IOS) and accounting conservatism. Accounting has traditionally not responded to changes in the value of growth and intangible assets of the company. Acquisitions and changes in value due to impairment of assets are usually not recorded unless externally obtained and verifiable (such as manager's goodwill and acquisition).

If there is an impairment in the value of the assets that are not recorded, the company cannot recognize it. This leads the company to a low level of conservatism, especially when the company's value is influenced by the value of growth and the value of the company's intangible assets. In short, it can be concluded that large IOS companies will be vulnerable to a decline in the value of assets, especially intangible assets that are not recognized. This makes a negative association between IOS and accounting conservatism. This is in line with the theory expressed by Lafond and Rouchowdhury (2007).

Based on t Saputri's research (2013), the investment opportunity set significantly influences accounting conservatism. Meanwhile, according to research by Dwitayanti and Fahlevi(2015), an investment opportunity set does not have a significant influence on accounting conservatism. Based on the previous research, the following hypothesis was formulated.

H2: Investment opportunity set has a significant effect on accounting conservatism.

3. The Effect of Debt Covenant on Accounting Conservatism

Harahap (2012: 4), in Sari, Yusralaini, and Al-Azhar (2014), stated that debt covenants have a role in conservatism in two ways. First, bondholders can explicitly use accounting conservatism. Second, managers can implicitly use accounting conservatism consistently to build a reputation for conservative financial reporting.

Positive accounting theory predicts that the level of corporate financial difficulties affects accounting conservatism. If the company experiences financial difficulties, it will automatically be considered a breach of contract. And this is caused by poor quality manager performance. This situation will lead to credit irregularities and expenses so that it can affect accounting conservatism by choosing accounting methods that are not conservative.

Previous research conducted by Sari, Yusralaini, and Al-Azhar (2014) states that debt covenants significantly influence accounting conservatism. In comparison, research conducted by Ayuningsih, Nurcholisah, and Helliana(2018) states that debt covenants do not significantly affect accounting conservatism. Based on the previous research, the following hypothesis was formulated.

H3: Debt covenant has a significant effect on accounting conservatism.

2. Research Methods

2.1 Research Object

The object of this study was to determine the effect of profitability, Investment Opportunity Set, and Debt Covenant on accounting conservatism. The subject used as research material is a consumer goods manufacturing company. A consumer goods manufacturing company is a manufacturing company that manufactures consumer goods, such as food and soft drinks, hygiene and beauty tools and products, cigarettes and so on. Unlike other manufacturing sector companies that generally produce long-lasting products, the consumption sector produces goods used for daily needs, which is also called the Consumer Goods company.

2.2 Determination of Sample Amount

The sample collection method used is non-probability sampling. Non-probability sampling is a sampling technique that does not provide the same opportunity/opportunity for each element or population member to be selected as a sample. In this technique, a purposive sampling method is also used to determine the sample with certain considerations or criteria. The criteria used include:

1. Consumer goods manufacturing companies listed on the IDX in the 2014-2016 period.
2. Using the rupiah in its financial statements.
3. Financial Reports that have data to calculate the level of Profitability, Investment Opportunity Set and Debt Covenant.
4. Consumer goods manufacturing companies that do not have negative equity figures.

Consumers of consumer goods manufacturing companies that consistently published financial statements in 2014-2016.

2.3 Operationalization of Variables

1. Profitability

   Subramanyam (2005) in Saputri(2013) states that profitability is the company's ability to generate profits for a certain period. The profitability of a company in this study is measured by Return on Equity (ROE). ROE compares net income after tax and the company's total equity. The use of ROE for profitability measures in this study is because ROE provides an overview of the company's ability to provide financial compensation to internal funding providers, namely shareholders, through company equity. Return on Equity (ROE) can be calculated using the formula:

$$\text{ROE} = \frac{\text{Net profit after tax}}{\text{Total Equity}}$$

2. Investment Opportunity Set (IOS)

   The investment opportunity set (IOS) is a variable that shows a company's investment decisions. IOS policy will impact the financial aspects of the company, such as the company's capital structure, debt contracts, dividend

policy, compensation contracts, and company accounting policies. The investment decision can be seen from the aspect of growth opportunities, namely investment decisions based on the company's fixed assets, namely the addition or reduction of the company's fixed assets. The formula denotes the investment opportunity set (IOS):

$$IOS = \frac{\text{Book value of fixed assets t - Book value of fixed assets }_{t-1}}{\text{Total Assets}}$$

3. Debt Covenant
   Nugroho (2012) in Pambudi(2017) states that a long-term debt contract (Debt Covenant) is an agreement to protect lenders from manager's actions against the interests of creditors, such as the excessive distribution of dividends or leaving equity below a predetermined level.
   In this study, debt covenants are measured according to research by Pambudi(2017), using the Debt to Asset Ratio (DAR). The Debt to Asset Ratio formula is as follows:

$$DAR = \frac{\text{Total Liability}}{\text{Total Assets}}$$

4. Accounting conservatism
   Accounting conservatism is a prudent reaction because economic and business activities are covered by the uncertainty reflected in the financial statements (Wulandari et al., 2014).
   The conservatism calculation in this study uses the basis of the net asset measure as used by Beaver and Ryan (2003) in Padmawati and Fachrurrozie (2015) using the Book-to-Market ratio where the ratio value is close to zero, indicating the application of conservative accounting. The Book-to-Market ratio calculation can be denoted as follows:

$$BTMR = \frac{\text{Shareholder's Equity}}{\text{Market Capitalization}}$$

   Where Market Capitalization is obtained from:

$$\text{Market Capitalization} = \text{Issued Shares x Share price}$$

3. Result and Discussion

3.1 Results

3.1.1 Descriptive Analysis

Descriptive statistics are statistics used to analyze data by describing or describing data that has been collected. Descriptive statistics provide a description or description of the data under study. Using descriptive statistics, data can be seen from the average value, standard deviation, variance, maximum, minimum, sum, kurtosis range, and skewness. Descriptive statistics are used to facilitate the characteristics of a group of data to be easily understood (Ghozali, 2013). The mean value is the average value of the total data observed for several periods. The minimum value is the lowest value of the total data observed for several periods. The maximum value is the highest value of the total data observed for several periods. Standard deviation values describe the spread of the data that has been observed and how close the individual data points are to the mean values. The results of the descriptive statistical analysis test are presented in the following table 1,

Table 1. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	69	-.055113	1.435333	.250324	.320893
IOS	69	-.139604	.249597	.053913	.057501
DAR	69	.066187	.751778	.390347	.183815
BTMR	69	.015890	1.138343	.397314	.305476
Valid N (listwise)	69				

Source: data processed using SPSS 24.

3.2 Classic assumption test

3.2.1 Normality test

The data normality test is a test to measure whether the data obtained has a normal distribution to be used in statistics. The normality test aims to find out whether the distribution of observation data has approached the normal distribution. Good data has a normal distribution pattern, i.e., the data distribution is not skewed left or right. In this study, researchers used the Kolgomorov-Smirnov normality test with the criteria If the value of Asymp. Sig. (2-tailed) <0.05, meaning that the residual data are not normally distributed. Conversely, if the Asymp value. Sig. (2-tailed) ≥ 0.05 means that residual data are normally distributed. The normality test results can be seen in Table 2 below:

Table 2. Kolmogorov-Smirnov Normality Test Results

		Unstandardized Residual
N		69
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.25537577
Most Extreme Differences	Absolute	.093
	Positive	.093
	Negative	-.073
Test Statistic		.093
Asymp. Sig. (2-tailed)		**.200**
a. Test distribution is Normal.		
b. Calculated from data.		

Source: data processed using SPSS 24

Based on the Kolmogorov-Smirnov normality test above, an Asymp value was obtained. Sig. (2-tailed) of .200. This value is greater than the 0.05 significance level, so there is no problem with data normality.

3.2.2 Heteroscedasticity Test

According to Ghozali(2013) heteroscedasticity test is to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another. If the variance from one observation residual to another observation is fixed, then it is called homoscedasticity and if different is called heteroscedasticity. A good regression model is homoscedasticity or heteroscedasticity that does not occur.

In this study, the test method used was the glacier test. This method will use the significant value of each dependent variable. If the significant value of each dependent variable> 0.05 (at the level of confidence, α = 5%), then the homoscedastic regression model and symptoms of heteroscedasticity do not occur. Glejser test results can be seen in Table 3 below.

Table 3. Heteroscedasticity Test Results (Using Glejser Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	.214	.043		4.957	**.000**
	ROE	-.117	.061	-.250	-1.922	**.059**
	IOS	-.470	.321	-.179	-1.463	**.148**
	DAR	.116	.108	.142	1.074	**.287**
a. Dependent Variable: ABS_RES						

Source: data processed using SPSS 24

From the heteroscedasticity test results, there are no variables that have a significant value smaller than 0.05, so the regression model does not occur heteroscedasticity problems.

3.2.3 Multicollinearity Test

The multicollinearity test tests whether the regression model found a correlation between independent variables (independent). A good regression model does not have a correlation between independent variables. In this study, the method used is to look at the value of the variance inflation factor (VIF) of each independent variable, which uses the value of tolerance and VIF.

The limit of the tolerance value is ≤ 0.10, or the same as the VIF value is ≥10, which means that if the tolerance value> 0.10 and the VIF value <10, then the regression model does not occur multicollinearity problems. Multicollinearity test results using the variance inflation factor can be seen in Table 4 below:

Table 4. Multicollinearity Test Results (Using Variance Inflation Factor)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	**Collinearity Statistics**	
		B	Std. Error	Beta			**Tolerance**	**VIF**
1	(Constant)	.440	.076		5.776	.000		
	ROE	-.565	.108	-.594	-5.257	.000	**.843**	**1.186**
	IOS	-.265	.566	-.050	-.467	.642	**.946**	**1.057**
	DAR	.290	.191	.175	1.518	.134	**.811**	**1.233**
a. Dependent Variable: BTMR								

Source: data processed using SPSS 24

3.2.4Autocorrelation Test

The autocorrelation test aims to test whether, in the linear regression model, there is a correlation between the error of the intruder in the period t with the error of the intruder in the period t-1 (previous) [9]. In this study, the autocorrelation test will be carried out using a method commonly used in research, namely using, the Durbin-Watson test.

In the Durbin-Watson test, the results obtained will be assessed by comparing the Durbin-Watson (DW) value of the regression model to the dL and dU values to test whether a positive or negative autocorrelation occurs or no autocorrelation occurs.

3.2.5 Positive Autocorrelation

If the DW value < dL, then there is a positive autocorrelation. If DW>dU, then there is no positive autocorrelation, and if dL <DW <dU, then the test has no conclusions (the results are inconclusive).

3.2.6 Negative Autocorrelation

If the value (4 - DW) <dL, there is a negative autocorrelation. If the value (4 - d)>dU, then there is no negative autocorrelation, and if dL <(4 - DW) <dU, then the test has no conclusions (the results are inconclusive).

The Durbin-Watson test results can be seen in Table 5 below:

Table 5.Watson's Durbin Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	**Durbin-Watson**
1	.549[a]	.301	.269	.261203	**1.890**
a. Predictors: (Constant), DAR, IOS, ROE					
b. Dependent Variable: BTMR					

Source: data processed using SPSS 24

Based on the Durbin Watson test results, the statistical value of Durbin Watson is 1,890. The dU and dL values can be seen in the Durbin Watson table. With n = 69, and k = 3, the value of dL = 1.5205 and dU = 1.7015 are obtained. So, we can get a conclusion:

1. The DW value of the regression model obtained is 1,890 so that 1,890> 1.7015> 1.5205, which means there is no positive autocorrelation.
2. The value (4 - DW) is 2.11, so 2.11> 1.7015> 1.5205, which means there is no negative autocorrelation.

From the autocorrelation detection results above, it can be concluded that the regression model does not have a positive or negative autocorrelation.

3.3 Hypothesis testing

3.3.1 Simultaneous Significance Test (Statistical F Test)

The F test is used to determine the effect of the independent variables simultaneously on the dependent variable. Tests were carried out using a significant level of 0.05 (α = 5%), using analysis of variance (ANOVA). The basis for decision making in this F test is:

1. If the significance value> 0.05, then the independent variable does not significantly affect the dependent variable simultaneously.
2. If the significant value <0.05, then the independent variable has a significant effect on the dependent variable simultaneously.

Simultaneous significance test results (statistical F Test) can be seen in Table 6 below:

Table 6. Statistical F Test Results (Using ANOVA)

Model		Sum of Squares	df	Mean Square	F	**Sig.**
1	Regression	1.911	3	.637	9.335	**.000[b]**
	Residual	4.435	65	.068		
	Total	6.345	68			
a. Dependent Variable: BTMR						
b. Predictors: (Constant), DAR, IOS, ROE						

Source: data processed using SPSS 24

Based on the results of the statistical F Test above, it can be seen the statistical F value of 9,335, with a significance value of .000, which is based on the acceptance criteria of the above hypothesis that is .000 <.005, meaning the variable profitability, investment opportunity set, and debt covenant has a significant influence on the variable simultaneous accounting conservatism.

3.3.2 Significance Test of Individual Parameters (Statistical T Test)

Statistical T-Test determines how much influence the profitability, investment on opportunity set and debt covenant partially conservatism (individually). This research was conducted by taking a significance level of 5% (α = 0.05). Acceptance or rejection of the hypothesis is done by criteria:

1. If the value is significant> 0.05, then the hypothesis is rejected (the regression coefficient is not significant). This means that the independent variable does not significantly affect the dependent variable partially.
2. If the significant value ≤ 0.05, the hypothesis is accepted (significant regression coefficient). This means that the independent variable partially has a significant effect on the dependent variable.

The results of the test of the significance of individual parameters (statistical T Test) can be seen in Table 7 below:

Table 7. Statistical T Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.440	.076		5.776	**.000**
	ROE	-.565	.108	-.594	-5.257	**.000**
	IOS	-.265	.566	-.050	-.467	**.642**
	DAR	.290	.191	.175	1.518	**.134**
a. Dependent Variable: BTMR						

Source: data processed using SPSS 24

Based on the results of the statistical T-Test above, profitability has a significance value below 0.05, which means profitability has a significant influence on accounting conservatism, with a negative relationship direction. In contrast, the investment opportunity set, and debt covenant variables have a significant value above 0.05, so both do not significantly influence accounting conservatism, with the direction of the negative relationship (Investment Opportunity Set) and positive (Debt Covenant).

3.3.3 Coefficient of Determination (R^2)

The coefficient of determination essentially measures how far the model's ability to explain the variation of the dependent variable. The coefficient of determination is between zero and one. A small R2 value means that the ability of the independent variables to explain the variation of the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable.

This study uses the adjusted R Square value to measure the model's ability. The results of the determination coefficient R^2 test can be seen in Table 8 below:

Table 8. R^2 Determination Coefficient Test Results

Model	R	R Square	**Adjusted R Square**	Std. Error of the Estimate	Durbin-Watson
1	.549[a]	.301	**.269**	.261203	1.890
a. Predictors: (Constant), DAR, IOS, ROE					
b. Dependent Variable: BTMR					

Source: data processed using SPSS 24

Based on the coefficient of determination R^2 test results, the adjusted R Square value is .269. From the test results, it can be concluded that the profitability variable, investment on opportunity set and debt covenant, has an effect of 26.9% in explaining variations in accounting conservatism variables, while the remaining 73.1% is influenced by variables outside the study.

3.3.4 Model Testing

Multiple linear regression analysis is performed to determine the direction of the relationship between profitability variables, investment opportunity set and debt covenant with accounting conservatism variables if the independent variables have a positive or negative relationship, and to predict the value of the dependent variable if the value of the independent variable increases or decrease. This test is carried out with the following model:

$$Y = \alpha + \beta_1 X_{1+} \beta_2 X_2 + \beta_3 X_3 + e$$

Information:

Y	= Accounting conservatism (*BTMR*)
α	= Constant
$\beta_1, \beta_2, \beta_3$	= Regression Coefficient
X_1	= Profitability (ROE)
X_2	= Investment Opportunity Set (IOS)
X_3	= Debt Covenant (DAR)
e	= error

Based on the results of the previous hypothesis test, it can be seen that the equation of the multiple linear regression model is as follows:
BTMR = .440 - .565 ROE - .265 IOS + .290 DAR

3.4 Discussion

3.4.1 The Effect of Profitability on Accounting Conservatism

The first hypothesis in this study is that profitability significantly affects accounting conservatism. The previous hypothesis test result table shows that the profitability variable has a coefficient value of -.565 and a calculated value of -5.257 with a significance value of .000, so the profitability variable has a significant effect on the dependent variable of accounting conservatism. Thus, the H1 of this study, namely profitability, has a significant effect on accounting conservatism is acceptable.

The profitability of a company illustrates how much the company's performance in making profits. This is certainly a benchmark for the public to determine whether a company is worthy of being the object of investment funds they have. Companies with high profitability will attract many investors and creditors to invest or provide loans. Conversely, companies with low profitability will make third parties doubt the company's ability to return the funds they will invest in the future. This will certainly make the level of profitability of a company has a great influence on the implementation of conservative accounting.

The study results are consistent with research conducted by Pratanda and Kusmuriyanto (2014) and Padmawati and Fachrurrozie (2015). The higher the profitability, the company will tend to apply high conservatism as well. This is because companies with a high level of profit or profit tend to use more conservative accounting principles to keep profits from fluctuating.

3.4.2 The Effect of Investment Opportunity Set on Accounting Conservatism

The second hypothesis in this study is the investment opportunity set has a significant effect on accounting conservatism. In the previous hypothesis test results table, the investment opportunity set variable has a coefficient value of -.265 and the t value of -.467 with a significance value of .642, so the investment opportunity set variable does not have a significant effect on the conservatism dependent variable accounting. Thus, this research H2, namely investment opportunity set has a significant effect on accounting conservatism, is rejected.

A publicly listed company is generally valued by the public by its financial performance, so the potential to gain profits owned by the company will attract the attention of funders. The investment opportunity set itself is a company's ability to develop through investment from asset purchases. These asset investments are generally not indicators of a company's financial performance, so whether or not the company's investment choice does not affect the management's decision as a reference for conservative accounting implementation.

The results of the study are in accordance with research conducted by Dwitayanti and Fahlevi (2015) and Andreas, Ardeni, and Nugroho (2017). According to Aggrawal and Kyaw (2006) in Andreas, Ardeni, and Nugroho (2017), IOS is a number that shows the level of growth (growth opportunity) owned by a company. A high level of sales growth often increases market expectations of future cash flows so that management will apply the principles of conservatism accounting. The higher the IOS value, which indicates the company's growth rate, the higher the accounting conservatism applied by the company.

However, the results of this study are not in accordance with the research conducted by Saputri (2013), which concluded that the investment opportunity set has a significant influence on accounting conservatism. This is because companies that have good growth rates can attract investors, so the choice of companies in investing through assets, which will affect the company's growth, has a large influence on management policies in applying conservative accounting principles.

3.4.3 The Effect of Debt Covenant on Accounting Conservatism

The third hypothesis in this study is that debt covenants have a significant effect on accounting conservatism. The debt covenant in this study was measured using the Debt to Asset Ratio (DAR). In the previous hypothesis test results table, the debt covenant variable has a coefficient value of .290 and a value of 1.518 with a significance value of .134. The significance value is greater than the α value used, which is 0.05, so the debt covenant variable does not have a significant effect on the dependent variable of accounting conservatism. Thus, the H3 of this study, namely debt covenant has a significant effect on accounting conservatism, is rejected.

The use of debt as a source of corporate funds is something we will always find. But companies that have gone public by issuing their shares on the stock exchange also get funds through the issuance of these shares. Stocks are considered to have a smaller risk compared to debt contracts. With the source of funds through these investors, debt agreements owned by the company will not be too influential in the implementation of conservative accounting.

The results of the study are in accordance with research conducted by Ayuningsih, Nurcholisah, and Helliana(2018), which said that the company did not have a significant influence. Jayanti and Sapari(2016) conclude in their research that the higher the level of debt owned by the company, the greater the possibility of management doing earnings management because to collect loan funds, the debtor must provide a guarantee to the creditor that the debt obligations can be paid off in the future. Therefore, the management can manipulate the value of earnings to improve the performance of the company in the eyes of the debtor, so the company can increase the likelihood of getting a loan.

However, the results of this study are not in accordance with the research conducted by Sari, Yusralaini, and Al-Azhar (2014), which concluded that debt covenants have a significant influence on the application of accounting conservatism. This can be explained by the fact that debt covenants are the company's preferred source of funds, but a debt agreement generally has certain conditions determined by creditors, so the choice to make a debt contract can affect company policy in applying conservative accounting.

4. Conclusion and Suggestion

4.1 Conclusions

Based on the results of statistical tests conducted, it can be concluded that the profitability variable has a significant effect on accounting conservatism, while the investment opportunity set, and debt covenant variables do not have a significant effect on the accounting conservatism variable. The variable profitability and investment opportunity set have a negative effect, while the debt covenant variable has a positive effect. These variables also have an effect of 26.9% in explaining variations in accounting conservatism variables.

4.2 Suggestion

Based on the results obtained from the study, investors can be careful in investing by looking at profitability as the main benchmark in predicting whether accounting conservatism has been carried out by companies. Creditors can also see profitability as a reference in providing loans to determine if the company has carried out conservative accounting principles and recorded profits to describe the actual financial situation, so the company can return the investment given by creditors. In addition, this research company can be included as well as a reference in considering the policies for preparing conservative accounting methods in the proper financial statements. This

study also has limitations in the level of determination coefficient, which is quite low, so for further research, it is better to use other variables such as leverage, firm size, managerial ownership, institutional ownership, etc., as well as using a proxy for accrual accounting conservatism or stock return relations.

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