

## **The Effect of Financial Leverage and ASEAN Corporate Governance Scorecard on Accounting Conservatism**

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### **Abstract**

This study aims to analyze the effect of financial leverage and the ASEAN Corporate Governance Scorecard on accounting conservatism in the Kompas 100 Index company for the 2017-2020 period. This study uses a sample of the Kompas 100 Index on the Indonesia Stock Exchange (IDX) during the 2017-2020 period. Based on the purposive sampling method, the number of research samples was 40 companies with 4 years of observation. This study is a quantitative study using the Dummy variable analysis method and multiple linear regression with SPSS 23. The results of this study indicate that the Financial Leverage and ASEAN Corporate Governance Scorecard partially have a significant effect on Accounting Conservatism.

**Keywords:** ASEAN Corporate Governance Scorecard; Accounting Conservatism; Financial Leverage

### **Abstrak**

Penelitian ini bertujuan untuk menganalisis pengaruh *financial leverage* dan *ASEAN Corporate Governance Scorecard* terhadap konservatisme akuntansi pada perusahaan Indeks Kompas 100 periode 2017-2020. Penelitian ini menggunakan sampel Indeks Kompas 100 di Bursa Efek Indonesia (BEI) selama periode 2017-2020. Berdasarkan metode purposive sampling, jumlah sampel penelitian adalah 40 perusahaan dengan pengamatan 4 tahun. Penelitian ini merupakan penelitian kuantitatif yang menggunakan metode analisis variabel Dummy dan regresi linier berganda dengan SPSS 23. Hasil dari penelitian ini menunjukkan bahwa *Financial Leverage* dan *ASEAN Corporate Governance Scorecard* secara parsial berpengaruh secara signifikan terhadap Konservatisme Akuntansi.

**Kata kunci:** ASEAN Corporate Governance Scorecard; Financial Leverage; Konservatisme Akuntansi

### **Introduction**

Financial statements are a reflection of good company management in managing and optimizing company resources. The company's financial statements can account for the content, as well as the benefits for its users, and have the purposes, rules, and accounting norms that are in accordance with existing benchmarks (Deviyanti, 2012).

Good financial reports can be used as quality and useful financial information for their users. Processing the right accounting can produce useful and quality information, even though companies are faced with constraints, one of which is conservatism (Haryadi, E., et al, 2020).

According to the Financial Accounting Standards Board (FASB), conservatism is the careful reciprocity of

doubt in an effort to ensure that doubt and inherent risk are accepted without being rejected. According to Basu, (1997), Conservatism is a principle that recognizes costs and losses faster, recognizes income and profits more slowly, and values assets with the lowest value and liabilities with a high value. If the principle of conservatism is applied, profits and assets will be lighter, but funds and liabilities will be heavier. Because of this, there is a tendency to use conservatism to make it difficult to justify opinions but make it easier to determine funds, this has an impact on the profits that tend to be less (understatement). On the other hand, if the company tends to apply conservatism to slow cost recognition, it will have more impact on the maximum recorded profit (overstatement) (Sulastri et al., 2018).

Conservative accounting until now still has an important role in accounting activities. This is because this principle can have an influence on valuations in accounting Putri et al., (2021) and become a distinct advantage for the company, whereas conservatism can reduce payments to the parties concerned, such as paying taxes and other political costs (Pambudi, 2007). As well as the principle believed in implementing the principle of accounting conservatism in the preparation of financial statements can reduce opportunities for managers to manipulate earnings (Amalia, 2007).

In Indonesia, there are cases of failure in the implementation of the principles of accounting conservatism, namely at PT. Indofarma Tbk, explained the results that the value of the product in the evaluation implementation was superior to the intrinsic value in the introduction of the product value stock in the 2001 implementation, which was 28.87 billion. This causes the inventory to be overstated by Rp. 28.87 billion, as well as the maximum, presented net profit with a similar nominal valuation, but the main selling costs shown are at a minimum (understated) of Rp. 28.8 billion. (business.tempo.com). From the existing cases, the researcher argues that in every

company it is better to apply the principle of accounting conservatism or prudence in action for decision making because it will have an impact on the financial details used by issuers for a particular purpose.

There are several elements that have an impact on the implementation of the principle of conservatism in the company, namely leverage. The leverage ratio can be used to show how much the company is financed by debt and its comparison with the total assets of the company (Savitri, 2016). Leverage ratio can also be an indication for lenders as to the level of security of refunds that have been given to the company. The leverage ratio in this study is proxied by financial leverage. According to Sutrisno (2012), Financial Leverage is the use of sources of funds that have fixed costs in the hope of providing existing benefits for stakeholders. Not only that but the obligation subsidy is also used to support its resources beyond other sources of financial support and is required for executives. Therefore, administrative prudence in handling financing, obligations, and various other sources of financing, so as not to have a negative impact on the company, causing the company to suffer losses.

Accounting conservatism can make it difficult for managers to take advantage of themselves or other parties, reduce agency problems related to managerial investment decisions, optimize the efficiency of debt and other contractual agreements, provide contract monitoring and reduce lawsuit costs (Watts, 2003). The commitment of management and internal parties of the company to providing information that is open, clear, and does not harm investors, including the level of conservatism in the implementation of corporate governance. The implementation of corporate governance is carried out by the board of directors which has the right to make company policies regarding the principle of conservatism used by the company to convey financial conditions.

The concept of Corporate Governance is put forward to achieve more

transparent corporate management for all users of financial statements. The better the implementation of corporate governance in the company, it can be expected to reduce the opportunistic attitude of management so that the information in the financial statements is presented with prudence that produces true and accurate information (Hariyani, Ratnawati and Rahmiyati, 2021). Fitranita (2019) Corporate Governance as a proxy for the ASEAN CG Scorecard (ACGS) is one of the assessments used by corporate governance. Companies with strong corporate governance will show a high implementation of accounting conservatism Yazida, (2011), Sulastri et al., (2018). The ASEAN CG Scorecard is defined as a corporate governance standard, approved by the ASEAN Capital Market Forum (ACMF), which is based on OECD principles and builds investor confidence in companies listed on the ASEAN stock exchange (Sulastri et al., 2018).

Previous research conducted by Affianti et al., (2017), Habiba, (2017), Iddha et al., (2020), and Sulastri (2018) explains that Leverage has a significant effect on Accounting Conservatism. The higher the leverage on the company, the higher the implementation of accounting conservatism. The results of different studies conducted by Muliati (2020), Solichah, (2020), and Noviantari et al., (2015) explain that Leverage has no effect on Accounting Conservatism. Because the low value of leverage on the company allows debtors to have a lot of knowledge about the application of accounting conservatism. This means that the debtor does not associate the credibility of the company with a high debt value.

On the other hand, previous research on Corporate Governance research by Haloman (2021), Hajawiyah et al., (2020), and Ramli (2021) explained that corporate governance proxied by the ASEAN Corporate Governance Scorecard has an effect on accounting conservatism. This explains that if the corporate governance assessment score is low, then stakeholders have the right to demand managers to apply

accounting conservatism in the preparation of financial statements. Meanwhile, Sulastri's research (2018) states that the ASEAN Corporate Governance Scorecard has no significant effect on accounting conservatism because the increase in the ASEAN Corporate Governance Scorecard's assessment score means that the company is no longer concerned with accounting conservatism and feels that the company is good.

Affianti et al., (2017) explain that corporate governance has no significant effect on accounting conservatism, and Habiba (2017) results that the size of the board of directors, the type of auditor, and the size of the company have no significant effect on accounting conservatism. There is the purpose of this study is to determine the effect of financial leverage on accounting conservatism and the influence of the ASEAN Corporate Governance Scorecard on accounting conservatism.

This research has a link between theological agency and conservatism, namely that the more capital-intensive the company shows the greater the protection carried out by investors. Opinion Jensen and Meckling (1976) describe that if a person or more (principals) hires another person (agent) to perform one service and sends authority in decision making, agency relations can occur. Principled parties who are encouraged to make agreements to prosper their person with rising profitability, on the contrary, agents are encouraged to improve their economy and psychology, including getting investments, compensation contracts, or loans (Widyaningdyah, 2001).

To optimize agency problems, contracts are made to the company, either contract between shareholders and managers or contracts between management and suppliers, creditors, and even employees. But the fees charged are also quite expensive which can result in the contract becoming imperfect, corporate governance mechanisms play an important role in mitigating these conflicts (Wardhani, 2008).

Second, the Signaling theory is an action taken by the company's management to provide direction to investors on what they should do in assessing the company's prospects (Najmudin, 2011). This signal theory explains the importance of the company in providing information on each account on the financial statements to investors or potential investors. In making this information, it is needed by investors and business people who are used as a tool for analysis and observation, because it affects decisions in investing in the company.

Penman & Zhang, (2002) explains that accounting conservatism reflects fixed accounting regulations. Empirical evidence that quality profit can be obtained if management correctly implements conservative accounting without changing accounting methods. understatement profit and fixed net assets can be shown from financial statements which is a positive signal from management to investors, where management has implemented conservative accounting to produce quality profits. And the management hopes to investors to receive these signals and better value the company.

### Method

In this study, the source used is secondary data obtained from the financial statements of companies included in the Kompas 100 Index. The data selection is carried out by the purposive sampling

technique according to predetermined criteria. After the data tabulation was selected, there were 40 Kompas 100 Index companies that were selected according to predetermined criteria. This study uses 2017, 2018, 2019, and 2020, there are a total of 160 data to be processed. And to analyze the data in this study using the Windows SPSS version 23 program.

### Result and Discussion

The classical assumption test is met, then multiple linear regression analysis is performed. To examine the effect of financial leverage and the ASEAN Corporate Governance Scorecard on accounting conservatism. The results of the multiple linear regression equation are shown by the results of the regression calculations in table 1.

Based on table 1 above, the significance value of the financial leverage variable is  $0.007 < 0.05$  and tcount is 2.846 with a ttable value of 0.676. That is, the significance value is smaller than 0.05 and the tcount is greater than ttable. So that the Financial Leverage variable has a significant influence on Accounting Conservatism.

On the other hand, the significance value of the ACGS variable is  $0.005 < 0.05$  and tcount is 2,630 with a ttable value of 0.676. It means that the significance value is less than 0.05 and the tcount is greater than ttable. So that the ACGS variable has a significant effect on Accounting Conservatism.

Table 1 Multiple Linear Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.745	.551		1.351	.178
<i>Financial Leverage</i>	.258	.140	.145	2.846	.007
ACGS	.912	.560	.128	2.630	.005

Dependent Variable: Accounting Conservatism  
source: processed data (2022)

## The Effect of Financial Leverage on Accounting Conservatism

Based on table 1 above, there are results that explain if the financial leverage variable significantly affects accounting conservatism. This occurs when the company's liabilities are more concerned than their value, meaning that the proportion of DER is more than 1, so that the utilization of assets used to run the company in principle comes from the receivables segment.

From the results above, it is clear that the more prominent financial leverage, the higher the use of accounting conservatism in the Kompas 100 Index company. In general, the more liabilities the company uses, the greater its financial impact. Long-term debt has a positive effect on accounting conservatism, which can increase awareness of a debt that can incur a large interest expense. The greater the debt, the greater the interest liability that the company bears which can minimize a company's margins, resulting in an increase in accounting conservatism of a company itself to be more careful in conducting debt transactions so as not to result in a decrease in profits and performance of a company.

Financial leverage that has a positive effect is related to the higher financial leverage found in the Kompas 100 Index company, which indicates that the company's condition is not good, this makes managers increase financial profits to look good in front of creditors. This will motivate creditors to ask managers to apply accounting conservatism to the design of financial records and to detail the finances in a conservative manner.

This is in accordance with agency theory, where companies can have quality if they get sponsored assets from various parties to encourage company activities other than companies that oversee small assets for large companies if company resources cannot cover all company activities.

This research is supported by the research of Afriani (2021) and Iddha W (2020) and Sulastri (2018) revealing that the leverage proxied by financial leverage has a significant effect on accounting conservatism. It can be explained that the greater the financial leverage, the higher the application of accounting conservatism in the company. Because if the DER is greater than 1, the entity must bear a high cost of capital, and if the entity's investment does not provide optimal returns, the entity bears increased risk (Martono, 2001).

While the research of Muliati (2020) and Noviantari, (2015) does not support this study, where leverage does not significantly affect conservatism. This can cause companies to choose non-conservatives in presenting financial statements with the accounting method if the company suffers high losses.

## Effect of ASEAN Corporate Governance Scorecard on Accounting Conservatism

Based on table 1 above, there are results that show the ASEAN CG Scorecard variable has a significant effect on the dependent variable of accounting conservatism. This happens when the ASEAN CG Scorecard assessment which shows the value of corporate governance is getting lower, and the implementation of accounting conservatism in the company is getting higher.

The positive influence on the ASEAN CG Scorecard indicates that the board of directors in the sample companies are influenced by internal parties or the board of directors who have a superior mindset so that they can provide a bigger gap for managers to implement activities using more dynamic accounting principles. Not only that, the positive influence is suspected if the company has a low corporate governance score but is included in the top 50 ASEAN CG Scorecard, the company has not been able to view it well and the general view is that the company is still bad so that the company prioritizes conservative principles.

The following assumption relates to the positive influence, namely the attachment of the standard used for the assessment of the ASEAN CG Scorecard in Indonesia in terms of its operations referring to the principles of corporate governance, namely the shareholder model. ASEAN Corporate Governance Scorecard is able to overcome agency problems where one way to overcome agency problems is by monitoring. The ASEAN Corporate Governance Scorecard serves as monitoring for management so that supervision of the application of the principles of corporate governance scorecard within the company is able to reduce information asymmetry. The results of this study are in line with the theory which states that corporate governance has a role for supervision so that it will provide confidence to investors that the funds invested are safe (Siringo et al., 2021).

In research, Haloman (2021) and Ramli (2021) support this research, where corporate governance as proxied by the ASEAN Corporate Governance Scorecard has an effect on accounting conservatism. This explains that if the corporate governance assessment score is low, then stakeholders have the right to demand managers to apply accounting conservatism in the preparation of financial statements. While Sulastri's research (2018) does not support this research, because of the increase in the ASEAN Corporate

Governance Scorecard assessment score, the company is no longer concerned with accounting conservatism and feels that the company is good.

### Conclusion

Based on the results of data analysis and discussion in this study, it has been concluded that financial leverage has a significant effect on accounting conservatism. It can be said that the greater the financial leverage in the company, the higher the application of accounting conservatism in the preparation of the company's financial statements. ASEAN Corporate Governance Scorecard has an effect on accounting conservatism. If there is an increase in the score of the ASEAN Corporate Governance Scorecard, it can maximize the average that will increase, but besides that the company must continue to pay attention and apply conservatism to the preparation of financial statements in making decisions.

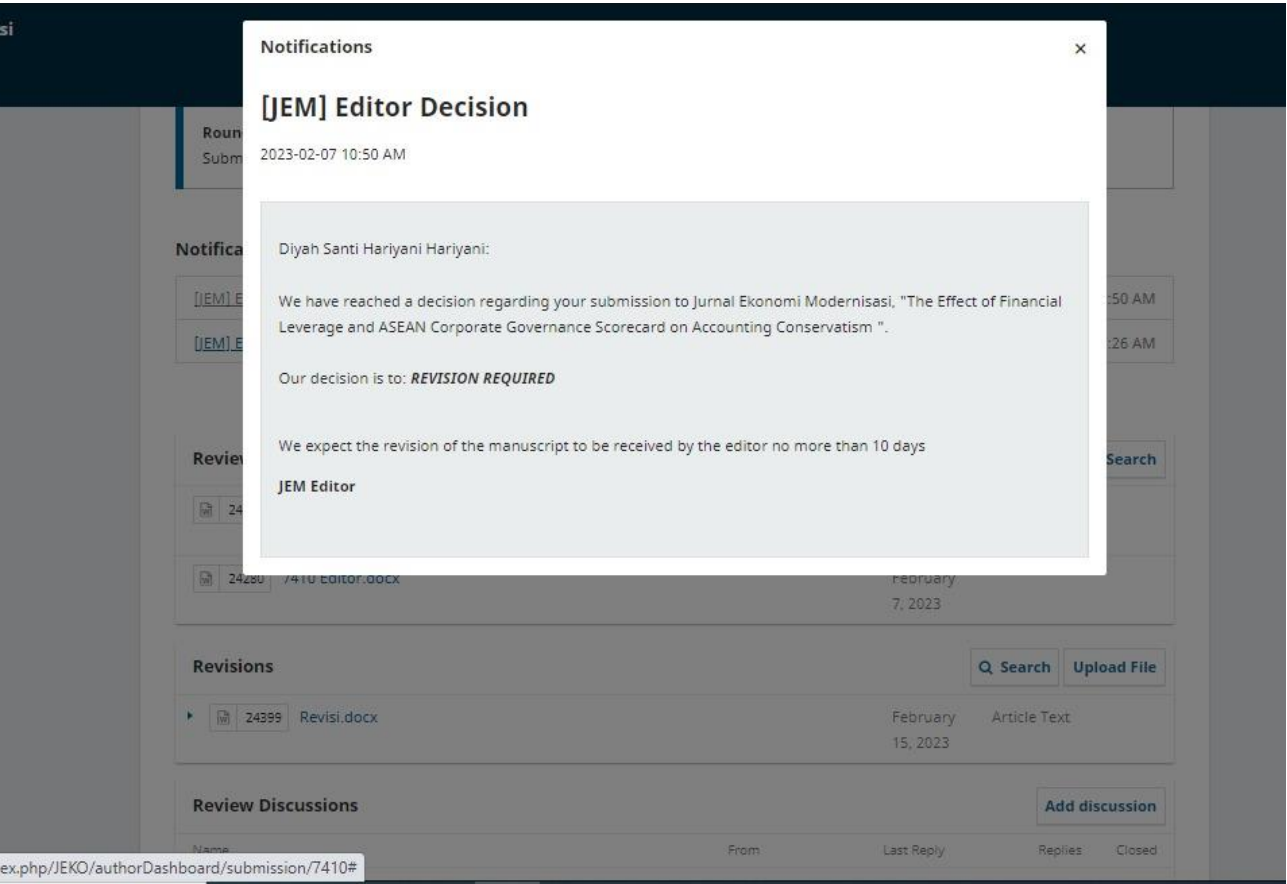
For further researchers, they can carry out research in other fields on the Indonesia Stock Exchange, such as property and banking, in order to better understand the implementation of conservatism accounting in the sector and use other models to measure accounting conservatism, such as measuring Earning/Stock relation means.

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Respon EDITOR dan REVIEW



Editor Review

Informasi Naskah	
ID naskah	7410
Judul	The Effect of Financial Leverage and ASEAN Corporate Governance Scorecard on Accounting Conservatism

Catatan Editor
<div><div><div><div><div><div><span></span></div></div></div><div><div><div><span></span></div></div><div><div><span></span></div></div></div><div><div><div><span></span></div></div><div><div><span></span></div></div></div><div><div><div><span></span></div></div><div><div><span></span></div></div></div></div></div><div><ul style="list-style-type: none"><li>Silahkan menggunakan rujukan dari artikel nasional &amp; internasional bereputasi. Untuk jurnal nasional, usahakan mengambil artikel-artikel dari jurnal terakreditasi Sinta 2 atau minimal Sinta 3 (karena beberapa rujukan berasal dari artikel dari jurnal Sinta 4 dan 5). Contoh artikel berikut bisa digunakan: <a href="https://fardapaper.ir/mohavaha/uploads/2019/03/Fardapaper-Accounting-conservatism-A-review-of-the-literature.pdf">https://fardapaper.ir/mohavaha/uploads/2019/03/Fardapaper-Accounting-conservatism-A-review-of-the-literature.pdf</a></li><li>Hindari mengutip dari Skripsi/Tesis, contoh: DEVIYANTI (2012) adalah skripsi.</li><li>Dipastikan sumber yang digunakan uptodate/terbaru (5-10 tahun terakhir)</li><li>Pastikan setiap sumber yang dikutip, tercantum di daftar pustaka dan bisa dilacak online. Contoh: Sutrisno (2012). Gunakan aplikasi seperti Mendeley atau Endnote untuk penulisan sumber dan daftar pustaka.</li></ul></div></div>



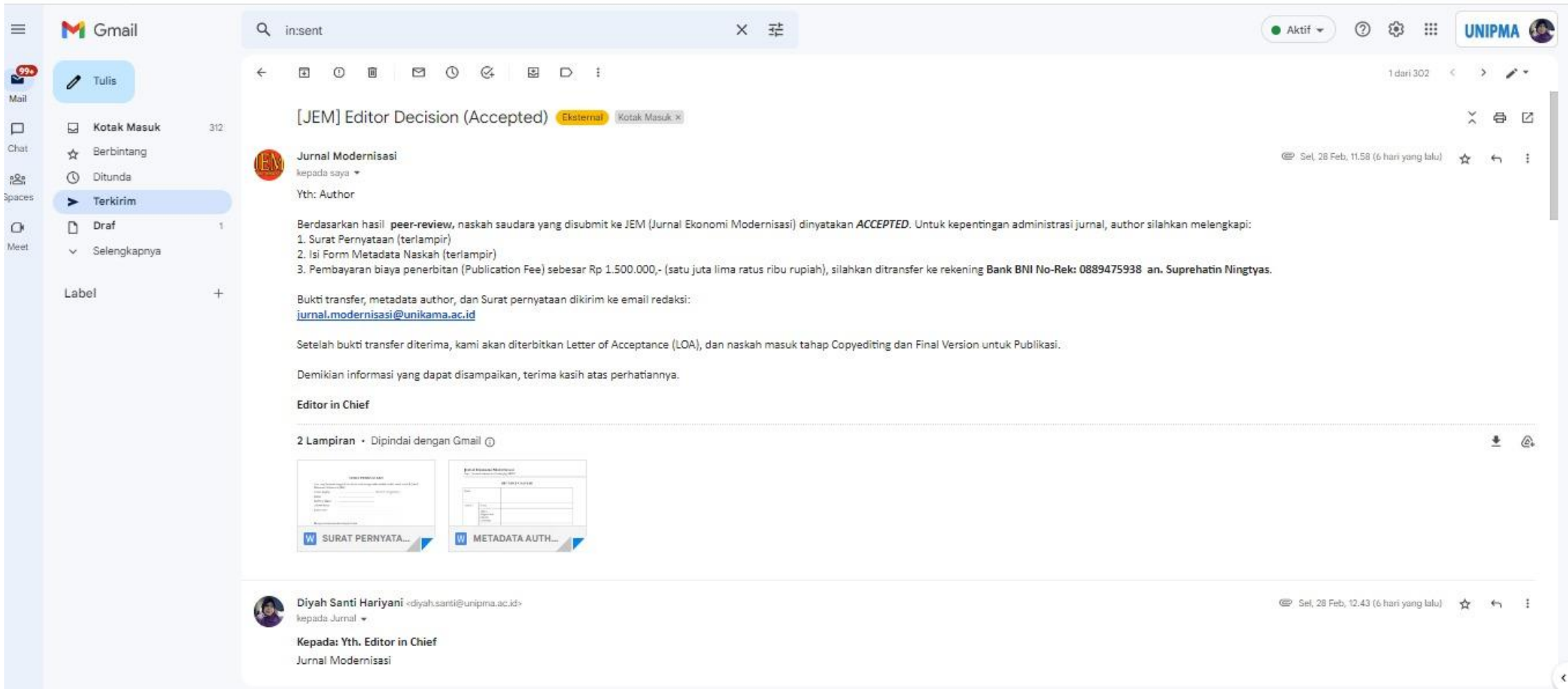
# Peer-Reviewer Report

Informasi Naskah	
ID naskah	7410
Judul	The Effect of Financial Leverage and ASEAN Corporate Governance Scorecard on Accounting Conservatism
Komentar Reviewer	
<p><b>Introduction:</b></p> <p>Author telah menjelaskan adanya perdebatan hasil penelitian terkait Financial leverage dan accounting conservatism.</p> <p>Namun artikel yang direview sangat terbatas, perlu dilakukan kajian hasil-hasil penelitian yang lebih banyak ditambah artikel dari jurnal internasional.</p> <p>Rekomendasi: buat sub bab tersendiri, contoh:</p> <ul style="list-style-type: none"><li>- Financial Leverage and Accounting Conservatism</li><li>- Corporate governance and accounting conservatism</li></ul> <p>Jelaskan hasil review penelitian terdahulu (artikel jurnal bereputasi) terkait hubungan antar variabel yang akan diteliti.</p> <p>Ini merupakan penelitian kuantitatif dengan menggunakan sampel, apakah memang tidak ada Uji Hipotesis?</p> <p><b>Methods:</b></p> <p>Untuk menjamin kebaruan hasil riset, sebaiknya data yang digunakan sampai dengan tahun 2021.</p> <p><b>Discussion</b></p> <p>Selain berisi pembahasan hasil penelitian, pada bagian diskusi juga harus berisi implikasi teoritis dan implikasi praktis (manajerial) hasil penelitian. Bagaimana temuan penelitian menjelaskan <i>theological agency</i> dan <i>agency theory</i>, sebagaimana telah dijelaskan pada bagian sebelumnya. Apa rekomendasi peneliti pada manajemen terkait accounting conservatism perlu dibahas.</p> <p>Implikasi teoritis dan praktis bisa juga dimasukkan ke Conclusion sebelum penjelasan future research</p>	

**DECISION: Revision required**

- 1. Accept submission
- 2. Revisions required
- 3. Resubmit for review
- 4. Resubmit elsewhere
- 5. Decline submission

**ACCEPTED Artikel**



# Financial leverage and ASEAN corporate governance scorecard on accounting conservatism



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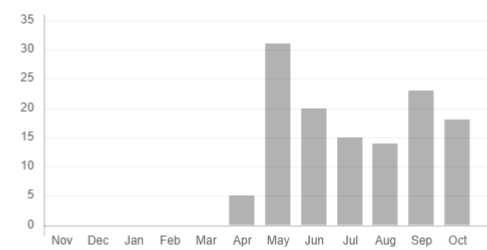
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## Abstract

This study aims to examine the effect of financial leverage and the ASEAN Corporate Governance Scorecard (ACGS) on accounting conservatism. This study uses a quantitative descriptive research approach to test hypotheses. The population includes companies that are on the Kompas 100 stock index. The sampling method used is purposive sampling, which is a company that is in the top rank 50 of the ASEAN Corporate Governance Scorecard for the period 2017-2020. After the data was selected, there were 40 companies selected according to predetermined criteria. The analysis method uses multiple linear regression with SPSS 23. The results of this study show that Financial Leverage has a significant effect on Accounting Conservatism and the ASEAN Corporate Governance Scorecard has a significant effect on Accounting Conservatism. The results of this study are in line with the phenomenon in Indonesia that 40 companies that have been included in the ASEAN Top 50 were awarded the ACGS, this shows that corporate governance in Indonesia is still weak. The results of this study do not support the agency theory and the theory of the firm. The results of this study can be used by the OJK in improving the standards of good corporate governance.



**How to Cite**

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