

## ANALYSIS OF FACTORS INFLUENCING ACCOUNTING PRUDENCE (EMPIRICAL STUDY ON STATE-OWNED ENTERPRISES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2018-2022)

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### ABSTRACT

*This research is to determine the effect of managerial ownership, growth opportunities, financial pressure on prudent accounting with firm size and leverage as additional variables in state-owned companies listed on the Indonesia Stock Exchange (BEI). The research period used is 5 years, namely the 2018-2022 period. The sampling technique in this research is purposive sampling with a selected sample of 18 state-owned companies. The analytical method used to test the hypothesis is panel data regression analysis using Eviews 12. The research results show that managerial ownership, growth opportunities and financial distress have an effect on accounting prudence, while company size and leverage have no effect on accounting prudence. The implication of this research is that company management must be careful in dealing with permits in the future. At this time, they must apply accounting prudence to reduce the risks facing the company.*

**KEYWORDS** *Managerial Ownership, Growth Opportunities, Financial Distress, Firm Size, Leverage, Accounting Prudence*



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### INTRODUCTION

Due to its inherent uncertainty, accounting applies the principle of caution in revenue recognition, known as the concept of conservatism. However, with the full implementation of IFRS (International Financial Reporting Standards) in 2012, the term "conservatism" has gradually been replaced by "prudence". The principle of prudence in IFRS states that revenue can be recognized even if it is still an estimate, as long as it meets the revenue recognition criteria, while still applying caution in

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its recognition. The concept of accounting prudence can be understood as a company's effort to respond to business uncertainty. IFRS (2014) states that financial statement preparers must face unavoidable uncertainties such as the collectability of receivables or the amount of warranty claims that may occur. Therefore, caution is required in estimating assets or revenue to ensure they are not overstated and liabilities or expenses are not understated.

Violating the concept of prudence impacts the reliability of financial statements. Pelger (2020) mentions that prudence is one of the components of reliability that must be maintained. Prudence violations can be found in many cases, including state-owned enterprises (SOEs) in Indonesia. For instance, PT Timah Tbk (TINS) suddenly released its 2018 financial statements on April 15, 2020. The company has a proven track record of reporting profits higher than the actual situation (overvalued). Audit findings revealed inadequate revenue recognition from tin metal sales, improper balance of investment property, incorrect revenue recognition methods from residential building sales, and uncollectible prepaid taxes. Another case involved PT Garuda Indonesia Tbk (GIAA) for the 2018 financial year, where Garuda recorded a net profit partly supported by a partnership between Garuda and PT Mahata Aero Technology worth IDR 3.48 trillion. This amount was actually still receivables with a contract valid for 15 years but was recorded in the first year and recognized as revenue, included in other income. The above cases prove that low levels of accounting prudence in financial reporting can lead to misleading information for external parties, including investors. Noviantari & Ratnadi (2015) demonstrated that if financial statements are not prepared according to prudence, profits and assets will be overstated in the current period, making it impossible to anticipate losses, potentially resulting in losses in subsequent periods due to the lack of worst-case scenario anticipation.

The application of prudence in SOEs has unique aspects due to several factors. First, SOEs often face pressure from the government to achieve certain financial targets, which may lead them to take higher financial risks compared to private companies. This pressure comes from the government through the Ministry of Finance, as the majority owner of SOEs, directing company policies. Consequently, SOEs may have non-prudence policies, such as poorly planned investment policies or ineffective risk management policies (Praja *et al.*, 2016). Second, apart from being a source of state revenue with financial targets, SOEs also receive government privileges in the form of guarantees (in case of losses), which may result in less conservative behavior by SOEs (Hasan *et al.*, 2021).

Chen *et al.* (2010) found that SOEs are more conservative compared to non-SOEs. Creditors view the downside risk of SOEs as lower than that of non-SOEs. It is stated that more conservative companies (risk-averse companies) tend to borrow less from state-owned banks because they require fewer collateral to obtain loans. In other words, SOEs are considered safer by creditors due to their conservative nature, enabling them to obtain loans with less collateral compared to non-SOEs. In contrast to Chen, Gong and Choi (2021) found a positive relationship between the proportion of state ownership and earnings management. Earnings management is a common way to maximize private wealth, and SOEs have more incentives to increase their earnings due to fewer external monitoring mechanisms,

making earnings management more prevalent in SOEs. However, the positive relationship between state ownership and earnings management has weakened in recent years, indicating the effectiveness of mixed-ownership reforms. In conclusion, the positive relationship between state ownership and earnings management in SOEs indicates weak external governance mechanisms. Sari (2019) adds that the low level of conservatism in SOEs is suspected to be due to the assumption of government protection, weak public demand for SOE conservatism, and the lack of regulations promoting high conservatism practices in SOEs.

The impact of managerial ownership on accounting prudence is important to study due to managers' crucial role in making accounting decisions. When managers also own shares in the company, they will be more cautious in recognizing profits and expenses, thereby increasing the certainty of the financial figures provided. According to Byzalov and Basu (2016), recognizing income losses as soon as possible results in more conservative performance measures. This reduces the incentives for managers to continue inefficient projects and limits their ability to increase project profits beyond reasonable limits. In this context, prudence can help maximize certainty regarding the value of the company's assets and liabilities. Research conducted by Idrus *et al.* (2022) shows that managerial ownership affects accounting prudence in financial reporting. Fatimah *et al.* (2022) also generally prove that high managerial ownership impacts higher conservatism. However, Sari and Agustina (2021) found the opposite, that higher managerial ownership results in less conservatism, possibly due to the occurrence of expropriation behavior, where managers use their authority for personal gain. They found a negative relationship between managerial ownership and the timeliness of dividend payments, indicating that managers with significant ownership in the company are less timely in paying dividends. This creates asymmetry in the timeliness of dividend payments, strongly influenced by various investment control factors. Therefore, it can be concluded that shareholders need conservative strategies in managing investment risks.

In SOEs, the impact of managerial ownership on conservatism varies. Research by Christian *et al.* (2022) and Waluyo (2019) indicates a positive relationship between managerial ownership and accounting prudence. Chen *et al.* (2010) found that SOEs with high managerial and institutional ownership are more prudent in recognizing profits compared to those with low managerial and institutional ownership. Managers with share ownership are motivated to maximize asset value by acting more conservatively. However, Agustina *et al.* (2022) found no impact of managerial ownership on SOE conservatism. Other studies by Pasko *et al.* (2021), Hajawiyah *et al.* (2020), and Liu (2019) found a negative influence. This research identified an inverted U-shaped relationship between state ownership and unconditional conservatism, with an inflection point around 31%. This suggests that when state ownership is below 31%, the state has little incentive to improve financial reporting quality and restrict earnings. However, when state ownership exceeds this point, the relationship becomes negative. Meanwhile, O Asiriwua *et al.* (2019) and El-Habashy (2019) showed no impact of managerial ownership on accounting conservatism.

Prudence is also influenced by growth opportunities. If a company has significant growth opportunities, it faces higher risks, forcing it to maximize certainty

regarding asset and liability values. To grow, companies need opportunities and funding, challenging managers to balance income and cash usage. The higher the company's growth opportunities, the greater the need for funds. To secure financing for investments, managers apply the principle of conservatism to minimize profits (Deslatu and Susanto, 2010). According to Julianto and Lilis (2003) in Deslatu & Susanto (2017), growing companies tend to lower profits to minimize political costs, such as regulatory demands and labor demands, by applying accounting conservatism. Fatmariansi (2013) states that growth opportunities affect accounting conservatism. Companies with growth opportunities and in the growth phase will apply accounting conservatism to reduce profits related to political costs. Zahro (2021) argues that growth opportunities are important expectations for internal management, creditors, and investors. High sales growth often increases market expectations for future cash flows, impacting accounting conservatism. Future company growth indicates that the company can achieve high-profit levels, with higher sales growth indicating increased conservatism. However, research by Akhsani (2018) and Suwari *et al.* (2020) states that growth opportunities do not affect accounting conservatism.

The third factor influencing prudence in financial reporting is financial distress. The impact of financial distress on accounting prudence can be explained by companies' tendency to take more conservative actions in recognizing profits and expenses when facing financial shortages. This is due to higher risks, forcing companies to maximize certainty regarding asset and liability values. According to DeFond and Jiambalvo (1994) in Matonti (2020) financially distressed companies are more prudent in recognizing profits than non-distressed companies. This is due to higher risks, compelling companies to maximize certainty regarding asset and liability values. Previous research by Rahman and Fitri (2020), Usbah & Primasari (2020), and Anjeltusuwa & Pramesti (2021) also shows that financial distress affects accounting prudence. However, different results from research by Putri & Herawati (2020), Deliana (2018), and Yusera (2021) prove that financial distress does not affect accounting prudence.

Based on the above explanation, this research will focus on SOEs to analyze factors affecting prudence. This study emphasizes three factors: managerial ownership, growth opportunities, and financial distress, using 18 SOEs listed on the Indonesia Stock Exchange for the 2018-2022 period as the research sample, covering five fiscal years. The analysis method used is panel data regression. The novelty of this research lies in its context, specifically the use of SOE samples with ownership characteristics, risks, and business environments different from non-SOEs. Most previous studies generally used samples of companies listed on the Indonesia Stock Exchange, dominated by non-SOEs. The results of this study are expected to improve the quality of SOE decisions in managing assets and liabilities and reducing financial risks (Prasetyo & Wirawan, 2019). By identifying factors affecting prudence, companies can maximize strengths and minimize weaknesses in managing assets and liabilities (Handayani & Santosa, 2020).

## Literature Review and Hypothesis Development

### *Agency Theory*

Agency theory in a company identifies the presence of parties within the company who have various interests in achieving the company's goals. Agency theory explains the relationship between the principal (the party with authority) and the agent (the party given authority) (Nugraha, 2015). According to Jensen and Meckling (1976), cited in Saputra (2018), an agency relationship is a contract where one or more parties (the principal) hire another party (the agent) to manage the company. The principal provides facilities and assets, while the agent, as the manager, is committed to managing the company to increase its value. An agency issue can arise when the company's owners delegate decision-making to the managers (agents). If both parties utilize the contract correctly, the managers will not engage in activities detrimental to the owners. The owners can limit activities by exercising control over the managers (Sari, 2019). Such control can prevent abnormal actions by the managers. This theory supports the need for prudence on the part of managers. The control exerted by the company's owners pressures managers to avoid activities that might cause losses and to be more cautious in their overall business conduct.

### *The Concept of Prudence*

Prudence is a principle of caution in financial reporting, where a company should not rush to make judgments in uncertain conditions to ensure assets or revenues are not overvalued and liabilities or expenses are not undervalued. However, the principle of prudence prohibits excessive understatement of assets or revenue and the deliberate overstatement of liabilities and expenses. PSAK, as the accounting standard in Indonesia, also promotes the application of the prudence principle. The acknowledgment of prudence in PSAK is reflected in the selection of different accounting methods for the same facts, leading to different figures in financial statements and ultimately resulting in conservative earnings. Several PSAK accounting policies that can lead to prudent financial statements include:

1. **PSAK No. 14 on Inventory**, which states that companies can record inventory costs using methods such as FIFO (First In First Out) or the weighted average method.
2. **PSAK No. 16 on Fixed Assets and Other Assets**, which regulates the estimation of the useful life of a fixed asset.
3. **PSAK No. 19 on Intangible Assets**, which relates to the amortization method to allocate the depreciation amount of an asset systematically over its useful life.
4. **PSAK No. 20 on Research and Development Costs**, which specifies that the allocation of research and development costs should consider the relationship between the costs and the economic benefits the company expects to gain from such activities.

Prudence enhances the reliability of financial statements. However, on the other hand, applying the prudence concept results in fluctuating profits, which reduces the predictive power of earnings for forecasting future cash flows. The use of prudence aims to curb excessive optimism among entrepreneurs in reporting their business outcomes (Sari and Adhariani, 2009).

### ***Managerial Ownership***

According to Christiawan and Tarigan (2007), managerial ownership refers to the concept where managers who are also shareholders of the company have different interests compared to non-management shareholders. In companies with managerial ownership, managers who are shareholders naturally combine their interests as managers and shareholders. Conversely, when managers are not shareholders, they tend to prioritize their own interests.

Companies with managerial ownership generally reduce the practice of prudence. This may occur because managerial motivations differ from those of the owners. Managers might prefer to take higher risks to achieve greater profits, while owners are typically more conservative and aim to protect the company's assets. This can lead to a lack of wise decision-making and prudence in the company's financial management. Additionally, managers with ownership stakes in the company might make decisions that maximize their own benefits rather than the company's, leading to a lack of prudence in financial management.

### ***Growth Opportunities***

Growth is an element that occurs within the business cycle of a company. Growth opportunity refers to the company's ability to invest in profitable ventures (Wulandari et al., 2014). Growth opportunities can arise from various sources, such as technological development, market trend shifts, demographic changes, or public policy shifts. Companies that capitalize on growth opportunities can increase sales, profit margins, and shareholder value. However, companies must also consider the risks associated with growth opportunities, such as investment risks, operational risks, or market risks. Companies with good growth potential usually require substantial funds to finance future growth (Susanto & Ramadhani, 2016).

Growth opportunities and accounting prudence have a complex relationship within a company. On one hand, the presence of growth opportunities can drive companies to be less cautious in their accounting practices, as they may focus more on reporting higher revenues and profits to attract investors and capital. This can lead to overly optimistic revenue recognition or asset valuation. On the other hand, a cautious accounting approach can help companies carefully evaluate and pursue growth opportunities, as they might be more aware of potential risks and market uncertainties. Therefore, balancing growth opportunities and accounting prudence is essential to ensure sustainable and responsible growth within a company.

### ***Financial Distress***

Financial distress is a condition where a company is unable to meet its obligations, both short-term and long-term. If this situation persists, the company may face bankruptcy or liquidation. According to Khaliq et al. (2014), financial distress is a condition where a company struggles to meet its obligations to lenders (debtors). When a company's financial position is weak, it can affect stakeholder confidence, particularly among investors and creditors. When investors and creditors perceive the company's condition as weakening, they may lose confidence and decide to cease collaboration with the company. This situation is perilous if management

does not find a solution (Noviantari & Ratnadi, 2015). Companies that avoid financial distress are those capable of demonstrating good financial performance, visible through their financial ratios (Kristanti et al., 2016).

The level of financial distress a company faces can significantly impact accounting prudence. Companies experiencing financial distress often face pressure to improve financial performance and meet debt covenants. This pressure can lead management to adopt aggressive accounting practices, such as delaying expense recognition or accelerating revenue recognition, to enhance reported profits and cash flows. This can result in deviations from accounting prudence, causing financial statements not to accurately reflect the company's financial position. Additionally, financial distress can lead to a reduction in resources and expertise available for financial reporting, further jeopardizing the reliability and prudence in accounting practices.

### **Islamic Perspective on Accounting Prudence**

Islam, as a comprehensive system, does not separate financial matters from religious affairs. Business conduct cannot be detached from business ethics. Economic activities must align with the inherent nature and purpose of improving human life both in this world and the hereafter. There is no distinction between worldly matters and those of the hereafter; both are unified in a single set of values derived from Allah SWT. As a guideline in management activities, prudence should be adopted in the financial reporting of a company.

The principle of prudence in Islam is also referred to as *isyfaq*. Etymologically, *isyfaq* means being conscious, derived from the word *asyfaqa-yusyfiq-isyfaqan*. Terminologically, it means a slight fear of something or someone feared. In summary, *isyfaq* can be interpreted as being cautious in anticipating undesirable outcomes and taking actions to prevent negative things in the best possible way (Ibnu Qayyim al-Jauziyyah, Madarijus Salikin vol. I, pp. 517-520 in Muhsin Hariyanto, 2015). This is based on Surah Al-Anbiya, verse 49: "Those who fear their Lord's punishment while they do not see Him and they fear the coming of the Hour" (QS. Al-Anfal: 49).

### **Hypothesis Development**

#### ***The Influence of Managerial Ownership on Prudence***

Managerial ownership refers to the equity or shares owned by the management, including the board of commissioners, the board of directors, or managers who are also shareholders of the company. This ownership can provide management with the freedom to choose the best accounting policies for the company's operations. In Indonesia, managerial ownership in state-owned enterprises (BUMNs) is typically controlled by the government. This means that ownership and strategic decision-making in these companies are directly influenced by the government. BUMNs in Indonesia are usually managed by a State Minister responsible for a specific sector. The minister becomes part of the cabinet and implements government policies, appointing the CEO and other directors as the managerial team to handle daily operations.

According to research by Ridho Yusera (2020), full managerial ownership can pose a threat to the company if managers act in their personal interests rather than the company's, especially in companies dominated by government decisions. Managers may have personal interests in maximizing their goals, which include obtaining dividends from their shares. Ayuningsih et al. (2016) found a negative and significant influence of managerial ownership on prudence. This finding is supported by research conducted by Fatmariansi (2018) and Brilianti (2013). Based on various empirical evidence and previous research findings, the hypothesis is:

**H1: Managerial Ownership Negatively Influences Prudence**

***The Influence of Growth Opportunity on Prudence***

According to Wulansar et al. (2014), in financial reporting, the principle of prudence refers to accounting that promptly and accurately recognizes losses while delaying the recognition of gains. Due to the delayed recognition of profits, this causes the market value of the company to be higher than its book value, with the company applying prudence having goodwill reserves.

Research by Alsi Agusdinar Rizki et al. (2023) found a significant influence of company growth (growth opportunity) on accounting prudence in BUMNs. This can be explained by agency theory, which states that the decisions of owners and company management can conflict, necessitating oversight and control mechanisms. In this context, company growth can increase the challenges for management in making correct and prudent decisions, as it can raise the risk of failure. This explains why BUMNs with higher growth opportunities will increase their use of accounting prudence. According to Chen (2004), companies with high growth opportunities tend to finance their investment expenditures with their own capital to avoid underinvestment issues, where not all positive-value investment projects are undertaken by company managers. Additionally, companies with higher growth opportunities will pay more attention to their reputation and stakeholder satisfaction, thereby maximizing the use of accounting prudence. This is evident in the use of transparent financial statement reporting methods and better risk control tools.

Research by Rivandi (2019) and Ursula & Adhivinna (2018) indicates that growth opportunity positively influences prudence. This suggests that the larger the growth opportunities, the greater the funds needed. If a company does not follow the prudence principle, it may initially generate profits but potentially incur losses in the future. Thus, managers will encourage the company to be more cautious so that investment costs can proceed without disrupting operations. Based on the above explanation, the hypothesis is:

**H2: Growth Opportunity Positively Influences Prudence**

***The Influence of Financial Distress on Prudence***

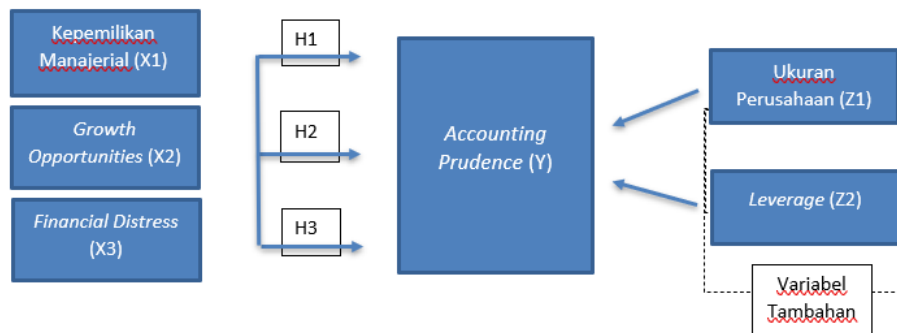
Financial distress refers to a situation where a company experiences financial difficulties and is unable to meet its financial obligations (FM Sutra, 2019). This can have several implications for accounting prudence in a company, especially in BUMNs. Firstly, financial difficulties can increase pressure on management to manipulate accounting policies and practices to make the company's financial position appear better than it actually is. This is because financial distress can make it



difficult for a company to raise capital or attract investors and increase the likelihood of bankruptcy or takeover (M Epato, 2020). Consequently, management may be tempted to engage in earnings management or other forms of accounting manipulation to improve the company's financial reports. Secondly, financial difficulties can lead to a decrease in accounting prudence due to increased uncertainty and risk associated with the company's financial situation. This can result in a greater emphasis on short-term financial goals over long-term sustainability, leading to a more aggressive accounting approach. For instance, a company might be less likely to recognize losses or impairments or may delay expense recognition to improve short-term financial performance.

The extent of financial distress or financial difficulties is evident when the company's problematic financial situation causes shareholders to replace the company's managers, which can also reduce the managers' market value in the labor market. This threat can motivate managers to manipulate accounting reports, which are measures of managerial performance. The company's difficult financial situation can lead managers to adjust their accounting prudence. If the company does not have financial problems, managers will not face contract violation pressure. Thus, if a company does not have financial problems, it will encourage managers to present less prudent financial reports. In conclusion, the greater the company's financial difficulties, the more incentives managers have to increase the level of prudence in reporting the company's financial condition (Nathania, 2012). Based on the above explanation, the hypothesis is:

**H3: Financial Distress Positively Influences Accounting Prudence**



**Picture 1 Conceptual Framework**

**RESEARCH METHOD**

According to V. Wiratna Sujarweni (2014:39), quantitative research is a type of research that yields findings obtained through statistical procedures or other methods of quantification (measurement). This research method uses a quantitative approach because the data to be processed are ratio data, and the focus of this research is to determine the magnitude of the influence among the variables studied. The variables in this study include accounting prudence, managerial ownership,

growth opportunity, financial distress, company size, and leverage, with the goal of understanding the impact of managerial ownership, growth opportunity, and financial distress on accounting prudence, using company size and leverage as additional variables.

### **Independent Variables (X)**

According to Sugiyono (2014:59), independent variables are those that influence or cause changes in the dependent variable. In this study, three independent variables are identified:

#### ***Managerial Ownership (X1)***

Managerial ownership is the ownership of company shares by managers, meaning managers are also shareholders. In financial statements, this is indicated by the percentage of shares owned by management (directors, commissioners, and employees). This information is important for stakeholders and is disclosed in the notes to the financial statements. In this study, managerial ownership is measured using the method from Dewi and Suryanawa (2014).

$$KM = (\text{Number of shares owned by management}) / (\text{Number of outstanding shares}) \times 100\%$$

#### ***Growth Opportunities (X2)***

Growth opportunities refer to the company's chances to invest in profitable ventures (Wulandari et al., 2014). Company growth is measured by the market-to-book value of equity ratio, representing the present value of the company's future investment options (Fatmariansi, 2013). Companies applying prudence principles maintain hidden reserves for investment, indicating growth.

$$\text{Market to Book Value of Equity} = (\text{Outstanding shares} \times \text{Closing price}) / (\text{Total Equity})$$

#### ***Financial Distress (X3)***

Financial distress indicates the initial signs of bankruptcy due to deteriorating financial conditions. This situation motivates managers to adjust the presentation of financial reports used by stakeholders, including investors and creditors (Priyanto and Sundari, 2012). To minimize or avoid bankruptcy, companies must monitor their financial condition using prudence principles in financial reporting. In this study, financial distress is measured using the Altman Z-Score model (Hanafi and Abdul, 2014). The following formula is bellow:

$$Z - \text{Score} = 1,2 \times X1 + 1,4 \times X2 + 3,3 \times X3 + 0,6 \times X4 + 1,0 \times X5$$

Information:

- X1 : (Current assets – Current debt) / Total assets
- X2 : Retained earnings / Total assets

- X3 : Earnings before interest and tax / Total assets  
X4 : Common stock value and preference / Total book value of debt  
X5 : Sales / Total assets

If the Z-score  $< 1.23$  then the company is categorized as experiencing a large level of financial difficulty or unhealthy companies, if  $1.23 < Z < 2.90$  companies have the potential to experience difficulties can be said to be vulnerable areas, and for  $Z > 2.90$  companies are included in the 100% healthy criteria.

#### **Dependent Variable (Y)**

The dependent variable, also known as the outcome or criterion variable, is influenced by the independent variables. According to Sugiyono (2014:39), the dependent variable in this study is accounting prudence. Watts (2003) defines prudence as a principle in financial reporting where companies delay the recognition of assets and profits but promptly recognize liabilities and losses. This approach protects lenders by ensuring that financial statements present a conservative view of the company's financial health. Accounting prudence is measured following Sari (2020):

$$\text{PRUD} = ((\text{NIO} + \text{DEP} - \text{CFO}) \times (-1)) / \text{TA}$$

Information:

- PRUD : Prudence  
NIO : Operating profit of current year  
DEP : Depreciation of fixed assets  
CFO : Net Amount of fixed assets  
TA : Total Assets

#### **Extraneous Variables (Z)**

Extraneous variables, sometimes called additional variables, are reviewed to explain and understand the relationship between existing variables. These variables are occasionally added as "text factors" to aid analysis between independent and dependent variables. In this study, the researcher uses two extraneous variables:

##### ***Company Size (Z1)***

Company size measures the magnitude of a company by its assets (Wimelda and Marlinah, 2013). It is measured using the natural logarithm (Ln) of total assets to reduce data fluctuation (Hartono, 2015:282).

$$\text{Company Size} = \text{Ln Total Assets}$$

##### ***Leverage (Z2)***

Leverage indicates how much of the company's assets are financed by debt and is a measure of the lenders' security. According to Harjito and Martono (2011), leverage refers to the use of assets and sources of funds that require fixed expenses. Leverage is calculated by the ratio of total debt to total assets (Fraser and Aileen, 2008).

$$\text{Leverage} = (\text{Total Debt})/(\text{Total Assets})$$

### **Population and Sample**

According to Nanang Martono (2015:370), "population is the entire object or subject in a region that meets certain criteria related to the research problem." The sample is a subset of the population selected for observation (Umi Narimawati, 2010). The population in this study includes all BUMNs listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The sample is determined using purposive sampling, a technique based on specific criteria relevant to the research needs.

### **Data Analysis Method**

Data analysis methods process research data to draw conclusions. This study employs descriptive quantitative analysis and panel data regression analysis to measure the impact of independent, dependent, and extraneous variables using statistical methods supported by the Eviews 12 software.

### **Panel Data Regression Analysis**

Panel data regression analysis combines cross-sectional and time-series data, measuring the same cross-sectional units over different periods. The panel data regression equation is as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon_{it}$$

(Source: Ghozali, 2018)

Information:

Y: Dependent variable

$\beta_0$ : Constant

$\beta_1, 2, 3$ : Regression coefficients for independent variables

$X_{1, 2, 3}$ : Independent variables

$i$ : Company

$t$ : Time

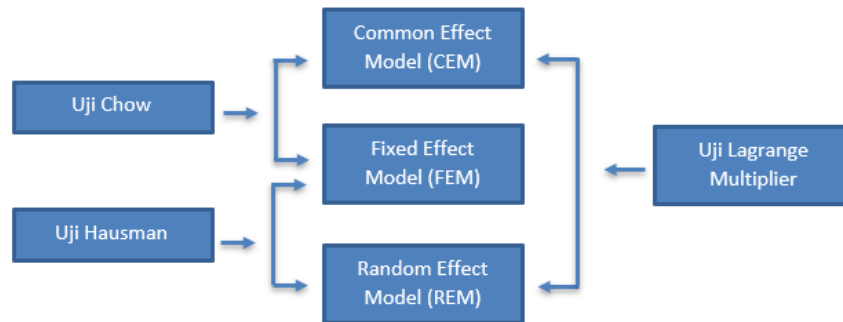
$\epsilon$ : Error term

### **Panel Data Regression Model Estimation**

To determine the appropriate model for panel data regression analysis, three approaches can be used: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

### **Model Selection Techniques**

Several tests are performed to select the appropriate model for panel data analysis, using various testing tools:



**Picture 2 Model Selection Scheme**

## RESULT AND DISCUSSION

### Chow Test

The Chow test is conducted to compare or choose between the Common Effect Model or Fixed Effect Model. The decision is made by looking at the probability value (p) for Cross-Section F. If the p-value > 0.05, the selected model is the Common Effect Model. However, if  $p < 0.05$ , the chosen model is the Fixed Effect Model.

Redundant Fixed Effects Tests  
 Equation: Untitled  
 Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.410234	(17,67)	0.0000
Cross-section Chi-square	77.764312	17	0.0000

Based on the Chow test table above, both the Cross-Section F and Chi Square probability values are smaller than Alpha 0.05, thus rejecting the null hypothesis. Therefore, indicating the Fixed Effect model is the best model to use. Based on the Chow test results rejecting the null hypothesis, the data testing continues to the Hausman test.

### Hausman Test

The Hausman test is conducted to compare or choose between the Fixed Effect and Random Effect models. The decision is made by looking at the probability value (p) for Cross-Section Random. If the p-value > 0.05, the selected model is the Random Effect. However, if the p-value < 0.05, the chosen model is the Fixed Effect.

Correlated Random Effects - Hausman Test  
Equation: Untitled  
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	23.936017	5	0.0002

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	-0.000001	0.000001	0.000000	0.0140
X2	-0.000000	-0.000000	0.000000	0.4012
X3	-0.049717	-0.065400	0.000097	0.1104
Z1	-0.070340	-0.013139	0.000333	0.0017
Z2	-0.037299	-0.016106	0.010307	0.8346

### LM (Lagrange Multiplier) Test

The LM test is used to determine whether the Random Effect model is better than the Common Effect (OLS) method and is also used to ensure the consistency of the Fixed Effect and Random Effect models in the previous tests.

From the above output results, it can be seen that the Breusch-Pagan (BP) probability value is 0.0007, which is smaller than Alpha 0.05, thus rejecting the null hypothesis. Therefore, based on the LM test, the best model to use is the one using the Random Effect.

Lagrange Multiplier Tests for Random Effects  
Null hypotheses: No effects  
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	10.56825 (0.0012)	0.948805 (0.3300)	11.51705 (0.0007)
Honda	3.250884 (0.0006)	0.974066 (0.1650)	2.987491 (0.0014)
King-Wu	3.250884 (0.0006)	0.974066 (0.1650)	2.295204 (0.0109)
Standardized Honda	4.372104 (0.0000)	1.338132 (0.0904)	0.163233 (0.4352)
Standardized King-Wu	4.372104 (0.0000)	1.338132 (0.0904)	-0.102101 (0.5407)
Gourieroux, et al.	--	--	11.51705 (0.0011)

### Classic Assumptions Test

The classic assumptions test is a statistical requirement that must be met in regression analysis with Ordinary Least Squared (OLS) approach in its estimation technique. Therefore, it is necessary to conduct classic assumptions tests depending on the results of the regression model selection. In panel data regression models based on Ordinary Least Square (OLS), namely the Common Effect Model (CEM) and Fixed Effect Model (FEM), classic assumptions tests are required if the regression model used is in the form of the Common Effect Model (CEM) or Fixed Effect

Model (FEM). Conversely, if the regression equation is more suitable using the Random Effect Model (REM), then classic assumptions tests are not required. This is because the Random Effect Model (REM) uses General Least Squared (GLS) in its estimation technique. Classic assumptions tests consist of tests for Linearity, Autocorrelation, Multicollinearity, Heteroscedasticity, and Normality. However, not all tests are conducted in panel data regression; only tests for Multicollinearity and Heteroscedasticity are needed.

### Multicollinearity Test

In the multicollinearity test, researchers use the 0.90 decision basis as the multicollinearity test criterion, where if the correlation test results between variables produced are greater than 0.90, then the data can be said to have indications of multicollinearity. Conversely, if the correlation value between variables produced is less than 0.90, then the data can be said not to have indications of multicollinearity. Based on the multicollinearity test results in Eviews12:

Correlation					
	X1	X2	X3	Z1	Z2
X1	1.000000	-0.043741	0.172361	0.105188	-0.154674
X2	-0.043741	1.000000	-0.173939	-0.885100	0.186269
X3	0.172361	-0.173939	1.000000	0.299445	-0.788440
Z1	0.105188	-0.885100	0.299445	1.000000	-0.235103
Z2	-0.154674	0.186269	-0.788440	-0.235103	1.000000

Based on the multicollinearity test results in the table above, it can be known that: The correlation coefficient values between X1, X2, X3, Z1, and X2 can be interpreted as there is no indication of multicollinearity in the research data, so the data is suitable for use in the next tests.

### Heteroskedasticity Test

In the heteroskedasticity test, researchers utilize the glejser model with the decision basis, namely if the resulting probability value  $> 0.05$ , then it can be said that the research data does not have indications of heteroskedasticity. Conversely, if the resulting probability value  $< 0.05$ , then it can be said that the data indicates heteroskedasticity. Below are the results of the heteroskedasticity test conducted using the glejser model in Eviews 12:

Weighted Statistics			
R-squared	0.398895	Mean dependent var	0.007387
Adjusted R-squared	0.363115	S.D. dependent var	0.106941
S.E. of regression	0.085344	Sum squared resid	0.611823
F-statistic	11.14853	Durbin-Watson stat	1.648243
Prob(F-statistic)	0.000000		

Based on the heteroskedasticity test results in the table above, it can be known that: Hypothesis Test H0: There is no influence of X and Z on Y (Prob $>0.05$ ) Ha: There is an influence of X and Z on Y (Prob $<0.05$ ) The probability value obtained

for variables X and Z is 0.000 (<0.05). Based on this result, it can be interpreted that the X and Z data variables have an influence on the Y variable.

### Multiple Linear Regression Analysis

The following are the results of multiple linear regression analysis that can be considered, so that the regression equation is obtained as follows:

$$Y = 0,51 + 0,08 X1 + 0,0002 X2 + 0,060 X3 + 0,013 Z1 + 0,016 Z2$$

Dependent Variable: Y  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 04/23/24 Time: 13:50  
 Sample: 2018 2022  
 Periods included: 5  
 Cross-sections included: 18  
 Total panel (balanced) observations: 90  
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.514974	0.234386	2.197120	0.0308
X1	8.02E-07	1.18E-06	0.680688	0.4979
X2	-2.39E-08	9.89E-09	-2.414600	0.0179
X3	-0.065400	0.013941	-4.691272	0.0000
Z1	-0.013139	0.007327	-1.793134	0.0766
Z2	-0.016106	0.087682	-0.183687	0.8547

Effects Specification		S.D.	Rho
Cross-section random		0.062208	0.3943
Idiosyncratic random		0.077096	0.6057

Weighted Statistics			
R-squared	0.398895	Mean dependent var	0.007387
Adjusted R-squared	0.363115	S.D. dependent var	0.106941
S.E. of regression	0.085344	Sum squared resid	0.611823
F-statistic	11.14853	Durbin-Watson stat	1.648243
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.206574	Mean dependent var	0.015239
Sum squared resid	1.046906	Durbin-Watson stat	0.963251

### t-Statistic Test

The t-statistic test is conducted to demonstrate the individual influence of each independent variable in explaining the dependent variable.

1. Managerial ownership has a probability value of 0.4979 > 0.05 and a calculated t-value of 0.680688 < t-table 1.782. Therefore, it can be concluded that the first hypothesis (H1) is rejected.



2. Growth opportunity has a probability value of  $0.0179 < 0.05$  and a calculated t-value of  $-2.414600 < t\text{-table } 1.782$ . Therefore, it can be concluded that the second hypothesis (H2) is rejected.
3. Financial distress has a probability value of  $0.0000 < 0.05$  and a calculated t-value of  $4.691272 > t\text{-table } 1.782$ . Therefore, it can be concluded that the third hypothesis (H3) is accepted.
4. Company size has a probability value of  $0.0766 > 0.05$  and a calculated t-value of  $-1.793134 < t\text{-table } 1.782$ . Therefore, it can be concluded that the fourth hypothesis (H4) is rejected.
5. Leverage has a probability value of  $0.8547 > 0.05$  and a calculated t-value of  $-0.183687 < t\text{-table } 1.782$ . Therefore, it can be concluded that the fifth hypothesis (H5) is rejected.

### **F-Statistic Test**

The model feasibility test or F-test is conducted to determine whether a regression model is suitable or not for use as an analytical tool. A regression model is considered suitable if the F-probability value  $< 0.05$ . The F-test results in the previous table show a probability value (F-statistic) of  $0.000000 < 0.05$ . Therefore, it can be concluded that the model is suitable or fit for use in this study.

### **Coefficient of Determination**

The coefficient of determination is used to measure how well the model explains the variation of independent variables on the dependent variable. The coefficient of determination ranges between zero and one. Based on the Adjusted R-Squared value in the previous table, the regression model has a value of 0.363115, which means that the independent variables in this study, namely managerial ownership, growth opportunity, and financial distress along with additional variables such as company size and leverage, can explain the dependent variable, conservatism, by 3.6%, with the remaining being explained by variables other than managerial ownership, growth opportunity, financial distress, company size, and leverage.

### **Influence of Managerial Ownership on Accounting Prudence**

This study suggests that managerial ownership has a non-significant negative influence on accounting prudence. It means that the level of ownership held by managers in a company does not significantly reduce the practice of accounting conservatism. The negative relationship between managerial ownership and the application of accounting prudence may be due to larger share ownership by managers offsetting external shareholders, leading managers with high equity ownership to choose to reduce the application of prudent accounting to prevent a decrease in stock prices.

In line with research by Dinny (2013), high managerial ownership leads companies to use non-prudent accounting methods. Negative results indicate that higher managerial ownership tends to discourage the application of prudence in accounting, as managers may be more motivated to enjoy deferred profit reserves for personal gain. This aligns with research by Wardhani (2008) and Brilianti (2008), which suggests that high managerial ownership encourages expropriation from the

company, leading to a preference for more liberal (aggressive) accounting principles.

### **Influence of Growth Opportunity on Accounting Prudence**

Based on hypothesis testing results, it is found that the t-value is -2.414600 and the significance value is  $0.0179 > 0.05$ , indicating that growth opportunity has a significant positive influence on prudence. This research supports the hypothesis that growth opportunity positively affects prudence in state-owned enterprises listed on the IDX from 2018 to 2022.

Growth opportunity represents a company's chance to increase investment in the capital market. A company's growth prospects increase if it can effectively manage its equity. The higher the growth opportunity, the greater the likelihood that a company will apply the prudence principle to anticipate high profits and minimize existing profits, resulting in higher quality earnings. This is because high profits can result in high political costs for the company. Therefore, growing companies may choose the prudence principle to reduce the political costs they have to bear. The higher the growth prospects, the greater the funding needed. The greater the funding needed, the greater the likelihood that managers will apply the prudence principle to ensure that funding is met. This research is consistent with studies by Tazkiya & Sulastiningsih (2020) and Rivandi (2019), which indicate that increasing growth opportunities lead to higher profits, suggesting companies to use the prudence principle.

### **Influence of Financial Distress on Accounting Prudence**

The results of this study support the hypothesis that financial distress has a positive influence on prudence in state-owned enterprises listed on the IDX from 2018 to 2022. In financially troubled conditions, managers tend to apply accounting conservatism to reduce conflicts between investors and creditors. Prudence is a principle of caution, so financial difficulties encourage companies to be more cautious in facing uncertain environments. Thus, higher levels of financial distress in a company will encourage managers to increase the level of accounting conservatism, and conversely, if financial distress is low, managers will reduce the level of prudence. The results of the study are consistent with Tista & Suryanawa (2017) and Sulastri & Anna (2018), which state that high financial distress tends to avoid expenditures that could worsen their financial condition, and one way to avoid taxes is to be more conservative to automatically reduce the taxes imposed.

## **CONCLUSION**

Based on the results of hypothesis testing and explanations that have been described earlier, there are several things that can be concluded as follows: 1. Managerial ownership does not have a significant negative effect on prudence. 2. Growth opportunity has a significant positive effect on prudence, 3. Financial distress has a significant positive effect on prudence. 4. The size of the company has no effect on prudence. 5. Leverage has no effect on prudence.

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