Accounting Conservatism: Antecedents and Consequence in Indonesia Manufacturing Companies

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Abstract: - The purpose of this study is to examine and evaluate accounting conservatism's effects on the price of equity capital. All of the manufacturing businesses listed on the Indonesia Stock Exchange (IDX) between 2018 and 2020 comprise the study's population. Purposive sampling was used to choose the sample, and 241 observations were made. The findings of this study, which were obtained using the linear regression analysis method, show that institutional ownership and profitability have a considerable impact on accounting conservatism. Accounting conservatism is unaffected by three more criteria, including managerial ownership, investment opportunity set, and leverage. In advance, accounting conservatism significantly negatively affects the cost of equity capital. Thus, the higher the institutional ownership and profitability, the higher the accounting conservatism and the lower the cost of equity capital. The findings of this study suggest that management will be encouraged to use conservative accounting rules by institutional ownership as a form of corporate governance. The market will react favorably to businesses with higher levels of conservatism, which will cause investors to need less equity capital.

Key-Words: - share ownership, company characteristics, accounting conservatism, cost of equity capital, IDX

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1 Introduction

Currently, the most serious economic issue facing capital markets in developing countries is the accuracy of business financial information, particularly earnings. Accounting earnings are the primary indicator for consumers to use as a foundation for decision-making and offer crucial information about a company's success, [1], [2]. As a result, the efficacy and accuracy of decision-making will be impacted by quality earnings, [3]. Earnings produced by a conservative accounting procedure are one sign of quality earnings. The tendency of accountants to demand a high standard of proof to discern between good and bad information in financial accounts is known as accounting conservatism, [4], [5]. Accounting conservatism is also thought of as a measure of caution when valuing unforeseen circumstances with the goal of preventing liabilities or expenses from being reported lower and assets from being shown higher, [6].

Although the precautionary principle is no longer a part of the relevance and trustworthiness of accounting information, conservatism is still a crucial accounting guideline in the earnings measurement, [7]. Conservatism transforms into a measurement and valuation concept of accounting that users of financial information seek and into a tool to control management's opportunistic conduct under uncertain circumstances. Accounting conservatism can also be a strategy for resolving issues that develop between agents and principals from the standpoint of an agency, [8], [9], [10]. Investors and potential investors will be more cautious when considering investments in companies. Because future losses from overly optimistic forecasts are significantly worse than lost profitable chances brought on by adopting an unduly gloomy (conservative) attitude, management must uphold the principle of conservatism when providing information to investors, [5].

Despite the fact that accounting conservatism is crucial for achieving transparency and disclosure of information, phenomena suggest that there are still businesses in the globe, including Indonesia, that need to implement the conservative principle. It is clear that the company's financial statements still include abnormalities. There are three main categories, according to data from the Association of Certified Fraud Examiners (ACFE, 2022) in Report to the Nations: a global study on professional fraud and abuse. Financial statement fraud by 10%, one of the three major categories, was a factor in the largest loss of $ 954,000. Financial statement fraud is a problem that also exists in Indonesia. According to the 2019 Indonesia Fraud Survey report, out of 50 instances of misuse of government and corporate assets, financial statement fraud affected 22 of those instances. Out of a total loss of 873,430,000,000, there were 242,260,000,000 losses or around 9.2%.

Investigating the factors that influence how the conservative principle is applied is crucial in light of the aforementioned facts. This study looks at corporate governance and firm factors in relation to accounting conservatism. A system for balancing management, shareholder interests, and insider expropriation, strong corporate governance is essential in generating shareholder wealth, [11]. From the perspective of share ownership, specifically management and institutional ownership, this study investigates corporate governance. Aside from that, this research looked into how a company's qualities affected its accounting processes.

Managerial shareholding depicts the percentage of outstanding stock held by management. Because they are both agents and owners, managers with larger share ownership tend to utilize conservative accounting practices, working to ensure the company's sustainability rather than only focusing on bonuses and remuneration, [12]. According to, [13]'s research, managerial shareholding has a beneficial effect on accounting conservatism in Indonesian manufacturing enterprises. [14], reported the same outcomes as well. However, according to various research, [12], [15], [16], managerial shareholding had no impact on accounting conservatism.

Institutional investors as parties who monitor the company's running, play an essential role in the corporate governance mechanism since they have a financial interest and autonomy to assess the company's management and policies unbiasedly. Institutional investors therefore require fast and trustworthy information to enable them to effectively monitor company operations and participate in formulating corporate strategies, [2], [17]. Such financial information can be obtained from more conservative financial reporting. Therefore, institutional investors tend to demand more conservative accounting from managers. Conservatism also limits management's opportunistic behaviour so that they prioritize shareholders' interests and raise the firm's value. Study by, [9], and, [18], prove that institutional shareholding positively affects accounting conservatism. In contrast, [15], and, [16], reported that the number of shares owned by institutions has no impact on accounting conservatism practices. Meanwhile, [12]'s research shows the negative effect of share ownership by institutional investors on management prudent practices.

The investment opportunity set is an indicator of company's investment decision, which can affect the firm's financial dimensions alike the firm's capital composition, debt contracts, dividend strategy, compensation covenant, and firm's accounting procedure. Companies with high investment opportunities have profitable prospects and investment opportunities in the future. These investment opportunities result in rising stock prices, which in turn have a favorable impact on rising business value. As a result, the company's market-to-book value ratio a gauge of conservatism is also improving, [19]. Research by, [18], and, [19], prove that the uplifted the investment opportunity set, the uplifted the level of accounting conservatism. However, the study by, [13], and, [15], show that there is no influence of the investment opportunity on conservatism practices.

High amounts of liabilities increase a company's survival risk. The creditor has the right to learn about the protection of the borrowed funds because they are the legal owners of those funds and they are hoping to reap additional benefits in the future. There is a greater chance of disagreements occurring between shareholders and owners of money the more leverage the organization has. To anticipate this, management will be encouraged to apply conservative accounting, [20], [21]. Research by, [2], and, [22], prove that leverage positively influences accounting conservatism. On the other hand, [9], reports that leverage has no influence on conservative accounting practices, while, [12], finds a negative effect between leverage and accounting conservatism.

Profitability is an indicator applied by a company to show its ability to make profits during a financial reporting period and describe the information of the efficiency of its operations. Companies with higher profitability will face higher tax burdens. Therefore, management tends to apply accounting policies that produce smooth profits. This logic aligns with the findings of, [16], and, [21], which show that profitability positively affects accounting conservatism. However, several studies have shown that profitability has no effect on accounting conservatism, [9], [18]. Conversely, [23], shows that profitability significantly negatively affects conservative accounting practices.

Researchers re-examined the variables that affect accounting conservatism in response to the inconsistent research findings mentioned above. This study looks at how corporate governance and business traits affect accounting conservatism. Corporate characteristics such as investment opportunity sets, leverage, and profitability are used to quantify corporate governance in addition to share ownership by managers and institutions. The difference with previous research lies in testing the impact of accounting conservatism on the cost of capital. Research on the usefulness of accounting conservatism using the cost of equity capital as a benchmark in the Indonesian capital market still needs to be explored. Conservative companies will have better earnings quality, so the return required by investors in the form of the cost of equity capital tends to be low, [10]. However, the findings of previous studies have shown mixed results. [5]'s, research in 37 developing countries proves that investors will demand a lower cost of equity capital in conservative companies. Several studies also reported the same results, [10], [24], [25], [26]. Meanwhile, research by, [27] shows that there is a positive influence of conservatism practices on the cost of capital borne by companies. This condition requires a more in-depth and comprehensive study of conservatism practices in Indonesia by involving the antecedents of accounting conservatism practices and examining their impact on the cost of capital. The study's conclusions help business management lower the cost of equity capital by implementing conservative accounting practices and good corporate practices. Besides that, the outcome of this research provide input to the Indonesian Institute of Accountants as a regulator of accounting policies in Indonesia that conservative accounting practices are important to implement considering that the principle of conservatism is no longer raised in the conceptual framework of accounting in Indonesia.

This paper is organized systematically as follows. After describing the introduction which contains the research motivation, relevant previous research, research objectives and research contributions, this paper presented literature review and the formulation of hypotheses in the second part. The research method is described in the third section. The fourth section also includes data analysis and a discussion of the outcomes of hypothesis testing. This paper closed by presenting conclusions, limitations, and suggestions for future research.

2 Literature Review

By balancing the interests of shareholders and managers, managerial ownership can reduce agency costs from the perspective of the agency relationship, [17], [28]. The percentage of outstanding shares that are owned by managers is indicated by managerial ownership. Managers will perform their obligations in the company's best interests when they behave as shareholders, [29]. The fact that managers who function as shareholders not only steer the company toward significant profits but are also more concerned with the sustainability of the company might help eliminate agency conflicts. As a result, management will typically practice conservative accounting, [12], [17], [28]. Managerial ownership displays the percentage of outstanding shares that are owned by managers. Managers will perform their obligations in the company's best interests when they behave as shareholders, [29]. Agency conflicts may be reduced by the fact that managers who simultaneously serve as shareholders not only drive the company toward big profits but are also more concerned with the company's sustainability. Management will often use conservative accounting techniques as a result, [12]. Management's financial reporting is generally more conservative the more shares of the company that managers own. Numerous research carried out in Indonesia demonstrate that the level of accounting conservatism is increased in proportion to the amount of shares held by management, [14], [29]. Conservatism aims to raise the standard of reported earnings data so that the market reacts favourably, driving up share prices and, ultimately, raising the company's worth. The logic of thought and empirical evidence shown above serve as the foundation for the following hypothesis.

H1: Accounting conservatism is positively impacted by managerial ownership.

Increased openness and less information asymmetry can be achieved through institutional share ownership as a governance method. Owners of institutions have excellent chances, resources, and the capacity to constrain manager behaviour, [12]. The board of commissioners and the audit committee will receive encouragement and motivation from institutional shareholders to effectively oversee management by using conservative accounting rules. To the interest of shareholders, effective governance will reduce opportunistic actions taken by management. Companies with significant institutional ownership typically have a sufficient and effective external monitoring mechanism, and they may adopt more conservative business practices, [30]. According to [9]'s analysis of manufacturing and finance companies listed on the Amman Stock Exchange, the level of accounting conservatism increases with the proportion of shares held by institutional investors, [18], who looked into Indonesian government-owned firms, discovered the same outcomes.

H2: Accounting conservatism benefits from institutional ownership.

Managers and shareholders who have distinct interests are put in conflict through agency relationships. Conservatism is one strategy for minimizing agency conflicts brought on by investing choices, [22]. A group of assets that a company possesse,s as investment opportunities and may one day be used as investment alternatives is known as an investment opportunity set, [19], [31], [32]. According to agency theory, through management-driven investment decisions, investment opportunity sets can reduce issues that can occur in agency interactions between management and principals, [32]. Large sums of money are required to finance the expansion of businesses with high investment opportunity sets. Due to their significant financial needs, managers will be compelled to adopt a conservative approach in order to raise money from investors, [18]. According to research by [19], businesses with a lot of investment potential prefer to use conservative accounting methods. The same findings were presented by, [18], who said that conservative management will be more prevalent the greater the potential for a firm to expand since they typically have hidden reserves that may be used to finance expenditures that foster company growth. The following hypothesis is put forth in light of this idea.

H3: Accounting conservatism is positively impacted by the investment opportunity set.

According to agency theory, the conflicting interests of managers and creditors result in agency costs. Because debt is a component of the company's capital structure, there is a correlation between accounting conservatism and agency expenses, [2]. High levels of debt increase the likelihood that a company won't survive. This requirement encourages creditors to keep a closer eye on the business's operations and accounts. The degree of debt repayment security provided to the corporation is something that creditors are interested in. The distribution of net assets in the financing of assets granted and lesser returns to managers and shareholders are also of interest to creditors. As a result, management must exercise greater caution and follow conservative accounting practices, [22].

Conversely, more cautious debtors will be offered lower initial interest rates by creditors as a result of debt agreement violations and the ensuing danger of default. This circumstance will motivate management to use caution in order to secure minimal debt costs. Numerous studies demonstrate that management will use conservative accounting rules to a greater extent the higher the degree of corporate debt. For instance, [9], analysis of banking and manufacturing firms listed on the Amman stock exchange reveals that debt, as measured by leverage, has a favorable impact on accounting conservatism. The, [33], model was used by, [2], to measure accounting conservatism, and they came to the same conclusions. Additionally, Indonesia demonstrates that management will act more conservatively the more debt that is owned. The aforementioned concepts and empirical information are used to generate the following hypothesis.

H4: The use of leverage benefits accounting conservatism.

All parties interested in a firm rely primarily on financial statements as a source of information, [21]. Profit is a part of financial statements that provides users with crucial information and illustrates management's effectiveness in running the business so that profit serves as the foundation for current and potential investors to make investment decisions. However, businesses with high profit margins will have political costs, such as a heavy tax burden that must be paid. As a result, businesses with great profitability typically use conservative accounting techniques. This is consistent with the findings of, [16], which discovered a favorable relationship between profitability and accounting conservatism. [34], investigated the impact of profitability on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange and reported similar findings. Therefore, the more profitable a company is, the more conservative accounting principles management tends to choose. The study hypothesis that is presented below is based on the description provided above.

H5: Profitability influences accounting conservatism in a favorable way.

According to standard definitions, conservatism refers to the degree of caution used when appraising uncertain conditions in order to avoid inflating assets or earnings and underreporting liabilities or expenses, [6]. Agency issues that emerge in the connection between agents and principals can be solved using accounting conservatism. Investors can deduce confidential information about the company's prospects thanks to managers' commitment to producing conservative accounting statistics. Investors can accurately estimate the company's value with more information, which lowers their estimation risk and the needed rate of return. Investors will encounter fewer risks when investing in companies with a high level of conservatism, therefore the rate of return in the form of the cost of capital is also low, [5], [35]. This is consistent with, [10]'s, study that looked at how accounting conservatism affected the price of equity capital for Indonesian manufacturing enterprises. The results of the study show that businesses' conservative accounting methods will reduce the cost of capital. The same results, which demonstrated that accounting conservatism positively increases the cost of equity capital, were also published by, [27], and, [24]. The following is how the hypothesis is put out in light of the previous description.

H6: The cost of equity capital is negatively impacted by accounting conservatism.

3 Methodology

Manufacturing businesses registered on the Indonesia Stock Exchange (IDX) in 2018–2020 make up the study's population. Using a purposive sampling technique, the research sample was chosen based on the following standards: The company 1) releases audited financial reports, and 2) has complete information. A total sample of 83 companies, or 249 data, was acquired for each year based on preset criteria. There were 8 data outliers after assessing the residuals for normality, for a total of 241 final data processed in this study. Using the documentary technique, research data were gathered from IDX Statistics (www.idx.com). The cost of equity capital and accounting conservatism are the two dependent variables used in this study. Ownership structure, which comprises management and institutional ownership, and firm characteristics, which include investment opportunity sets, leverage, and profitability, are the two groups that make up the independent variables. Table 1 lists the different measurements.

Table 1. Variable Measurements

Variables	Measurements	References
CONACC	((Income before extraordinary + depreciation expense - net operating cash flow)/Total assets)) * -1	[32], [36], [37]
CEC	$r = \dfrac{B_t + X_{t+1} - P_t}{P_t}$ r: Cost of Equity Capital B_t: Book value per share in period t X_{t+1}: Earnings per share in period t+1 P_t: stock price in period t	[13], [37], [38]
MO	Number of shares owned by institutional investors/Number of outstanding shares	[29], [37]
IO	Number of shares owned by management/Number of outstanding shares	[39]
IOS	(BVFAt - BVFAt-1)/Total Assets. BVFAt: Book value of fixed assets in period t BVFAt-1: Book value of fixed assets in period t-1	[19]
Lev	Total debt/Total assets	[13]
Prof	Earnings after tax/Total assets	[37], [40]

In this work, path analysis was combined with ordinary least squares regression as the analysis method. Models 1 and 2 are the two models used in this investigation. Model 1 investigates the impact of corporate characteristics including the range of investment opportunities, leverage, and profitability, as well as ownership structure including managerial and institutional ownership. The following is a statement of the mathematical equation for the two models.

$$CONACC = \beta_0 + \beta_1 MO + \beta_2 IO + \beta_3 IOS_{it} + \beta_4 Lev + \beta_5 Prof + \varepsilon \quad \text{(Model 1)}$$

$$CEC = \gamma_0 + \gamma_1 CONACC + \varepsilon \quad \text{(Model 2)}$$

Information:

CONACC : Accounting conservatism
β_0 and γ_0 : Constant
β_1 - β_5 and γ_1 : Coefficient
MO : Managerial ownership
IO : Institutional ownership
IOS : Investment opportunity set
Lev : Leverage
Prof : Profitability
CEC : Cost of equity capital
ε : Error term

4 Results and Discussion

4.1 Descriptive Statistics

For each of the variables considered in this investigation, descriptive statistics are included in Table 2. It is clear from Table 2's statistics that the management share ownership rate for Indonesian manufacturing businesses is fairly low at 9.3%. Comparatively high, or 47.7%, is institutional share ownership, on the other side. The average IOS score of 4.67% for the manufacturing enterprises in this study's sample reveals that there aren't many prospects for growth. The sample companies' average debt level is 53% of their total assets, and their profitability is a relatively low 3.94%. The sample companies are relatively cautious, as evidenced by the average value of accounting conservatism, which is 0.016. Additionally, equity capital has a low average cost of -0.136. The company's generally high level of conservatism is likely to blame for this scenario. This finding suggests that the typical sample company is asking investors for a low return on investment.

Table 2. Descriptive Statistics

Variables	N	Mean	Minimum	Maximum	Std. Deviation
MO	241	.093	.000	.732	.252
IO	241	.478	.001	.933	.288
IOS	241	4.675	-14.583	256.715	19.668
Lev	241	.534	.001	5.073	.563
Prof	241	.039	-.376	.466	.082
CONACC	241	.016	-.352	.264	.072
CEC	241	-.136	-37.034	4.604	2.555

Note: MO: managerial ownership, IO: institutional ownership, IOS: investment opportunity set, Lev: leverage, Prof: profitability, CONACC: accounting conservatism, CEC: cost of equity capital.

Before utilizing ordinary least squares regression to assess Model 1, tests for normality and classical assumptions are conducted. The residual normality test yields a skewness value of 0.239 and a standard error of 0.157 as its results. The z-skewness value is 1.522 based on these values. The residuals in the regression model have a value between -1.96 and 1.96 and are therefore regularly distributed. The Durbin-Watson value was 1.933, between the du value of 1.725 and the 4-du value of 2.275, according to the autocorrelation test. As a result, there is no autocorrelation issue in the regression model. The variance inflation factor (VIF) value is less than ten, and the multicollinearity problem does not exist in the regression model, according to the findings of the multicollinearity test, which are displayed in Table 4. Finally, Table 3 displays the outcomes of the heteroscedasticity test using the Glejser test. Table 3's data show that none of the variables are significant at the 5% level, indicating that the regression model is not heteroscedastic.

Table 3. Heteroscedasticity Test Results of Model 1

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.002	.001		1.937	.054
	MO	8.621E-5	.002	.003	.049	.961
	IO	.001	.002	.059	.886	.376
	IOS	-3.596E-7	.000	-.001	-.016	.987
	Lev	.002	.001	.133	1.974	.050
	Prof	.007	.005	.090	1.358	.176

Note: MO: managerial ownership, IO: institutional ownership, GO: IOS: investment opportunity set, Lev: leverage, Prof: profitability.

Table 4 displays the outcomes of the Model 1 test. According to the modified R square value, managerial ownership (MO), institutional ownership (IO), investment opportunity set (IOS), leverage (Lev), and profitability (Prof) account for 22.10% of the variation in accounting conservatism. Comparatively, factors outside the model account for 77.90% of the data. The statistical F value displays a value of 14.592, which is 1% significant. These findings show that management ownership, institutional ownership, the opportunity set for investments, leverage, and profitability all have an impact on accounting conservatism, indicating that the model is plausible.

The first hypothesis, which claims that management ownership has a positive effect on accounting conservatism, is disproved based on the data in Table 4 since managerial ownership (MO) has a beta value of -0.026 with a significance level of 0.117. According to agency theory, managers should own shares as a means of bringing management and shareholder interests into alignment, [28]. Empirical evidence, however, demonstrates that management share ownership has little effect on the accounting conservatism practices. This is possible because management is not encouraged to implement the principle of accounting conservatism because the average management share ownership in manufacturing companies in Indonesia is relatively low, and even in some cases there are companies whose shares are not owned by management. Non-owner management will frequently exaggerate accounting numbers in order to receive bonuses, disobeying the accounting conservatism principle, [12]. Management ownership may be a mechanism for addressing conflicts of interest between management and principals, in accordance with agency theory. The findings of this study, however, contradict this claim. The findings of this study are at odds with those of earlier research by, [14], and, [32], which demonstrated that managerial ownership has a favorable impact on accounting conservatism.

The institutional ownership beta coefficient is 0.033, with a significance level of 0.024, supporting hypothesis 2 that institutional ownership has a beneficial impact on accounting conservatism. Institutional ownership influences accounting conservatism favorably, as was predicted. Institutional investors play a significant role in upholding corporate governance by monitoring and supervising management because they own a sizeable portion of the average share capital of Indonesian manufacturing enterprises. The findings of this study prove that institutional owners have carried out the supervisory and monitoring functions effectively, thereby limiting management from taking opportunistic actions such as earnings management and tending to apply the principle of accounting conservatism. This conclusion is consistent with research findings cited by, [9], [14], and, [18], which demonstrate the beneficial influence of institutional share ownership on accounting conservatism. The results of this study, however, are at odds with those of studies by, [12], [15], and, [16], which demonstrate that institutional ownership has no bearing on management's practice of accounting conservatism.

The third hypothesis, which claims that the investment opportunity set positively influences accounting conservatism, is disproved because the investment opportunity set variable has a beta coefficient of 0.000 and a significant level of 0.261. The reason for this is that management is encouraged to report its best results to shareholders without having to pay attention to the principle of conservatism in order to increase the value of the company because future investment opportunities will affect the company's market performance. A negative figure in the descriptive statistics indicates that the typical investment opportunity in the sample companies is also subpar and not optimal. In order to make the performance appear strong and elicit a favorable response from the market, this circumstance motivates management to employ aggressive accounting practices. The findings of this study are consistent with those of, [15], and, [32], who found no relationship between investment opportunities and accounting conservatism. The findings of this study, on the other hand, run counter to, [18], and, [19], which demonstrate that investment possibilities have a favorable impact on accounting conservatism.

The fifth hypothesis is disproved since leverage has no impact on accounting conservatism. The study's findings contradict the agency theory, which contends that when a company has a lot of debt, its creditors will be more likely to keep close tabs on it and force management to adopt conservative accounting practices. Because the organizations in this study's sample have very high levels of leverage, management frequently use aggressive accounting to make financial performance appear stronger. Therefore, it is not necessary to renegotiate their loan agreements. The results of this study are consistent with those of studies by, [9], [12], and, [21], which demonstrate that leverage has no influence on accounting conservative policies but contradict the findings of, [2], and, [22].

Table 4. Test Results of Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.007	.010		-.655	.513		
	MO	-.026	.017	-.092	-1.575	.117	.955	1.048
	IO	.033	.015	.134	2.268	.024	.935	1.069
	IOS	.000	.000	-.065	-1.126	.261	.986	1.014
	Lev	-.006	.008	-.045	-.767	.444	.923	1.083
	Prof	.390	.051	.447	7.662	.000	.952	1.050
	Adjusted R Square							.221
	F value							14.592
	Sig.							.000

Note: MO: managerial ownership, IO: institutional ownership, IOS: investment opportunity set, Lev: leverage, Prof: profitability

The fourth hypothesis is accepted because the profitability variable has the expected beneficial effect on accounting conservatism. Profitability demonstrates the business's capacity for making money. As a result, businesses with a high level of profitability will typically choose for conservative accounting. This is due to the fact that managers can use accounting conservatism as a tool for managing earnings to make them appear smooth and devoid of significant volatility. The political costs that businesses must bear are also connected to the link between profitability and accounting conservatism. Companies that are profitable will produce high profits, which means they will incur high political expenses, such as high tax obligations. Because of this, highly profitable businesses choose to utilize cautious accounting techniques to lower their tax obligations. The findings of this study concur with those of earlier research, [16], which demonstrated that profitability has a favorable impact on accounting conservatism. However, they differ from those of studies, [9], and, [18], which found that profitability has no impact on accounting conservatism.

Model 2 looks at how conservatism in accounting affects the price of equity capital. According to data in Table 5, the accounting conservatism variable can account for 7.4% of the variation in the cost of equity capital (CEC), with other variables other than those in the model accounting for the remaining 92.6% of the variation. 13.373 is the statistical F value, which is significant at the 1% level. Model 2, which investigates how accounting conservatism affects the price of equity capital, is thus possible.

The CONACC variable, which measures accounting conservatism, has a beta coefficient of -5.293 and a significance level of 0.000 as it is currently given. The sixth hypothesis, according to which accounting conservatism has a bad impact on the price of equity capital, is thus accepted. According to the findings of the sixth hypothesis, accounting conservatism has a considerable impact on the price of equity capital. These findings suggest that investors' expected rate of return decreases in direct proportion to how conservatively management presents its financial accounts. Investor requests for returns are intimately tied to how they view the risks that the company is taking. Companies with higher levels of conservatism show that they provide reliable financial data to be perceived as low risk. Due to this, investors' requests for returns on their investments are less demanding, which lowers the price of equity capital.

The results of this study are consistent with the agency theory, which contends that conservatism in accounting can be a tool for resolving issues that may emerge in the agency between agents and principals. Investors can more precisely estimate the worth of the company thanks to managers' commitment to producing conservative accounting data. This circumstance will lessen the risk associated with their estimation and reduce the required rate of return in terms of the cost of equity capital. The findings of, [5], and, [24], which demonstrate a negative link between accounting conservatism and the cost of equity capital, are consistent with the conclusions of this study. The same findings were found in research, [6], conducted on enterprises in Indonesia: the lower the cost of equity capital that the company must absorb, the more accounting conservatism is employed. The conclusions of this study, however, are at odds with those of a study by, [27], which found a positive correlation between accounting conservatism and the cost of equity capital.

Table 5. Test Results of Model 2

	Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.225	.078		2.900	.004
	CONACC	-5.293	1.447	-0.284	-3.657	.000
	Adjusted R Square					.074
	F value				13.373	
	Sig.					.000

Note: CONACC: accounting conservatism

5 Conclusion

This study demonstrated that accounting conservatism is significantly positively impacted by institutional ownership and profitability. Accounting conservatism is unaffected by managerial ownership, investment opportunity set, or leverage. This research established the large negative impact accounting conservatism has on equity capital costs. According to the study's findings, management ownership rarely lessens agency conflict. The findings of this study offer useful information for making business decisions and give the Indonesian Institute of Accountants suggestions on how to include conservatism into its theoretical framework for financial reporting.

Future research should take other corporate governance components including independent commissioners, audit committees, government ownership, and foreign ownership into account due to the relatively low adjusted R square (11.6%). Future studies can look at how accounting conservatism, acting as a mediating factor, affects the cost of equity capital in both a direct and indirect manner.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

- Jacobus Widiatmoko produces Ideas and Novelty as well as making research concepts
- Maria Goreti Kentris Indarti has implemented theory and discussion as well as the optimization.
- Cahyani Nuswandari was tabulating and processing data and management references.

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Conflict of Interest
The authors have no conflict of interest to declare.

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