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The Effect of Capital Intensity, Litigation Risk, Profitability, Cash Flow, Institutional Ownership, and Company Size on Accounting Conservatism

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ABSTRACT

This study aims to examine the effect of capital intensity, litigation risk, profitability, cash flow, institutional ownership, and company size on accounting conservatism. The population of this study was BUMN companies listed on the Indonesia Stock Exchange (BEI) from 2017 to 2022. Samples were collected using the purposive sampling method, and 14 companies were sampled with an observation period of 6 years, resulting in 84 observations. The research method employed a quantitative approach with data analysis techniques using classical assumption tests. Hypothesis testing was conducted using panel data regression methods with the assistance of the EViews ver.12 program. The results of this study indicate that capital intensity had a positive but insignificant effect on accounting conservatism. Litigation risk had a significant positive effect on accounting conservatism. Profitability had a negative and significant effect on accounting conservatism. Cash flow had a significant positive effect on accounting conservatism. Institutional ownership had a positive but insignificant effect on accounting conservatism. The size of the company had a negative and significant effect on accounting conservatism.

Introduction

State-Owned Enterprises (SOEs) are state-owned companies involved in producing goods and services. The capital acquired by SOEs originates from the country's finances. In the Indonesian economic system, SOEs play a crucial role. The significance of SOEs in the Indonesian economy is substantial, with assets reaching Rp 8,400 trillion in December 2020 and a recorded total contribution of Rp 470 trillion throughout 2019. The activities of Indonesian SOEs are generally overseen by the government, granting SOEs significant potential in terms of assets, profits, production volume, and human resources or services provided over many years (Kemenkeu.go.id). Several cases arise in state-owned companies, including the issue of accounting conservatism. Here is the percentage of conservatism in state-owned companies from 2017 to 2022.

Table 1. The Percentage of Accounting Conservatism in the Companies SOEs From 2017 to 2022

Year	Percentage (%)	
	Conservatism	Not Conservatism
2017	64%	36%
2018	57%	43%
2019	43%	57%
2020	21%	79%
2021	36%	64%
2022	43%	57%

Source: Data Processed (2023)

The phenomenon occurring in state-owned companies indicates that companies lack conservatism when preparing financial statements. Table 1 shows a decrease in accounting conservatism in each consecutive year, demonstrating the company's low conservatism in accounting practices. Accounting conservatism is a prudent principle in financial reporting, where companies refrain from hasty recognition of assets and profits while promptly acknowledging potential debt losses (Watts, 2003; Savitri, 2016).

Ayem and Lori (2020), the higher the accounting conservatism, the more qualified the profit presented by management in the company's financial statements will be. Additionally, Savitri (2016) suggests that the more conservative the application of accounting principles, the higher the company's growth and the lower the likelihood of profit management. The decline in accounting conservatism in companies over consecutive years can be attributed to several factors, including capital intensity, litigation risk, profitability, cash flow, institutional ownership, and company size. Research on capital intensity and accounting conservatism conducted by Kristina and Yuniarta (2021) found that capital intensity has a significantly positive effect on accounting conservatism. In contrast, Widyanto (2022) reported that capital intensity has a negative and significant effect on accounting conservatism. Furthermore, Kristina and Yuniarta (2021) examined the impact of litigation risk on accounting conservatism and found that litigation risk has a significantly positive effect on accounting conservatism. Research conducted by Rahmi and Baroroh (2022) stated that the risk of litigation has a negative and non-substantive effect on accounting conservatism.

Research on the profitability of accounting conservatism conducted by Mubarok and Prawiro (2023) obtained the results that profitability affects accounting conservatism. According to El-Haq et al. (2019), profitability results have no significant effect on accounting conservatism. Research on cash flow and accounting conservatism conducted by Dewi and Heliawan (2021) obtained the results that cash flow significantly influences accounting conservatism. Meanwhile, Saputri (2013) obtained the results that cash flow did not affect accounting conservatism. Further research on institutional ownership and accounting conservatism conducted by Putra et al. (2019) proves that institutional ownership has a positive influence on accounting conservatism. Research conducted by Fadhiilah and Rahayuningsih (2022) shows that institutional ownership does not affect accounting conservatism.

The significance of carrying out this study and its uniqueness compared to prior research, this research holds significant importance as it investigates the role of accounting conservatism in State-Owned Enterprises (SOEs) in Indonesia. SOEs play a strategic role in the Indonesian economy, and understanding accounting conservatism in this context can offer valuable insights for economic decision-makers and policymakers. Moreover, this research stands out due to its attempt to identify the factors that influence the extent of accounting conservatism within SOEs, specifically from 2017 to 2022. By thoroughly examining these factors, this research aims to provide a deeper understanding of accounting practices in SOEs and their implications for financial reporting and overall company management. Furthermore, research on the effect of company size on accounting conservatism conducted by Atmojo and Adi (2021) obtained results indicating the influence of company size on conservatism. Conversely, research conducted by Sinambela and Almilia (2018) obtained results indicating that company size did not influence conservatism. Based on the above exposure and also supported by the phenomenon and differences in previous research results related to variables that affect accounting conservatism, the researcher took the title of the study "The Influence of Capital Intensity, Litigation Risk, Profitability, Cash Flow, Institutional Ownership, and Company Size on

Accounting Conservatism in State-Owned Companies Registered on the Stock Exchange from 2017 to 2022”.

Literature review

Agency theory

Agency theory plays an important role in a company's business practices. According to Jensen & Meckling (1976), agency theory refers to the agency relationship in a contract where the owner (principal) engages another person or agent (manager) to carry out work activities on the owner's behalf, involving some authority in decision-making. The emergence of agency theory stems from differences in conflicting interests and conflicts of interest between the principal (owners), consisting of shareholders, investors, and creditors, and the agents (managers) (Haerani, 2023). This is supported by Aidi's research (2020), which suggests that this difference in interest leads to information and conflicts of interest between agents and principals, as each party seeks to maximize its profits. According to Susanto and Ramadhani (2016), as cited in Ramadhanty (2022), agency theory related to conservatism posits that the greater the capital investors invest, the greater the supervision will be. Investors tend to control and monitor every manager's performance, leading managers to adopt a prudent (conservative) attitude in reporting profits.

Signaling theory

Signaling theory is closely related to information asymmetry (Spence, 1973). This theory provides important information the company issues for investment decisions outside the company. This information influences the decisions made by investors when investing. Signaling theory aims to reduce information asymmetry by requiring managers to disclose important information about the company. It also guides how the company should signal to users of the financial statements the actions taken by management to meet the owner's wishes (El-Haq et al., 2019).

Accounting conservatism

Accounting conservatism follows the prudence principle in financial statement reporting. With this principle, a company does not rush to recognize and calculate assets or profits but is quick to acknowledge the burden or loss that a may incur (Madia et al., 2023). Conservatism is an accounting principle that, if applied, will result in income and assets tending to be low, while cost figures tend to be high. Consequently, the financial statements will present profits that are too low (understated). The official definition of conservatism is provided in the Glossary of the FASB (Financial Accounting Standards Board), which defines conservatism as a prudent reaction to the inherent uncertainty in a company's environment. This is done to ensure that the company adequately considers uncertainties and risks in its business environment (Savitri, 2016).

Capital intensity

Capital intensity is the amount of the company's capital in the form of assets both current and non-current assets reflected in a ratio that shows the comparison between operating assets and the number of sales obtained in a given period (Augustina et al. 2016). Syamsudin (2001) argue that this ratio of capital intensity indicates the level of efficiency of use of all company assets in generating a certain sales volume. The higher the capital intensity ratio the more efficient the overall use of assets in generating sales. This capital intensity ratio is important for creditors and company owners, but it will be even more important for the company's management as this shows the efficient use of all assets within the company. Companies with high capital intensity face relatively higher political costs, which include all costs incurred by the company related to subsidies, taxes, and others, thus the higher the capital intensity ratio, the managers tend to adopt conservatism to reduce profits or financial reporting and to mitigate political costs (Widyanto, 2022). This is supported by the theory elucidated by Zmijewski and Hagerman (1981) in Savitri (2016) stating that capital-intensive companies are hypothesized to have higher political costs and financial reports tend to be more conservative.

Impact of Litigation Risk on Accounting Conservatism

Juanda (2009) in Savitri (2016), litigation risks often occur in publicly traded companies. Indeed, the intensity of litigation risk increases when law enforcement in a market environment is functioning well. Litigation risk can be an external factor that drives managers to report company finances more conservatively and encourages managers to implement accounting conservatism (Andani & Nurhayati, 2021). A study conducted by Erawati et al. (2021) found that litigation risk has a positive and significant impact on accounting conservatism.

H1: Capital Intensity has a positive effect on Accounting Conservatism.

Litigation Risk

The risk of litigation is an inherent risk to a company that allows for litigation or lawsuits that will be received by the company from interested parties such as investors and creditors (Aidi, 2020). In addition, the understanding of litigation risk according to the Indonesian Bankers Association (2014:227) is the risk of lawsuits and/or weaknesses of aspects of juridics. The risk of litigation has the potential to incur a lot of costs due to dealing with legal issues. Then the manager will certainly avoid losses due to these risks by presenting financial statements more carefully because profits that are too high have the potential for litigation risk too high (Christy, 2021).

Agency theory relates to litigation risk as an external factor that can motivate managers to report more conservative financial statements because litigation risk has the potential to incur significant costs due to legal issues. This research is supported by studies conducted by Afriani et al. (2019) and Erawati et al. (2021), which state that litigation risk has a positive and significant effect on accounting conservatism.

H2: Litigation Risk has a positive effect on Accounting Conservatism.

Profitability

The profitability ratio is a ratio that aims to ascertain a company's ability to generate profit over a specific period. It also provides an overview of management's efficiency in carrying out its operations (Sijabat et al., 2022). The consistent year-on-year growth in corporate profits indicates improving company performance (Suwarti et al., 2020). Companies with high profitability will generate substantial profits, leading to potentially high political costs, such as increased tax burdens. Consequently, companies may implement accounting conservatism to mitigate these political costs (Ramadhanty, 2022).

Continuous growth in company profits from year to year indicates improved company performance. Profitability can indicate the extent to which a company can generate profits. Thus, the higher the profitability value of a company, the tendency to apply accounting conservatism will be increased (Ramadhanty 2022). This research is supported by Wardhani's (2008) study explaining that company profitability is used as an independent variable because companies that make profits are more likely to use conservative accounting principles.

H3: Profitability has a positive effect on Accounting Conservatism.

Cash Flow

Cash flow is a section of financial statements that shows all the influences of the company's activities such as operations, financing, and investments in a given period. According to Maryana (2016), cash is the most liquid asset. With a sufficient cash supply, the company will operate smoothly, especially in cash expenditure activities. Cash flow information is useful as a basis for assessing the entities of a company. Thus, management's efforts to achieve the organization's goals rest on the function of the financial budget, namely by using cash flow statements or cash flow. (Maruta, 2017).

According to Savitri (2016), high cash flow from operating activities indicates good company performance. If a company reports that income and expenditure cash flows are too high, then the company is in poor financial condition because it exceeds capacity. Companies with well-recorded financial statements will attract many investors to invest, so companies with high cash flows tend to be more conservative (Yuliana et al. 2022). This is supported by research conducted by Dewi and Heliawan (2021), which found that cash flow simultaneously influences accounting conservatism.

H4: Cash Flow has a positive effect on Accounting Conservatism.

Institutional Ownership

Institutional ownership is a condition in which an institution has a stake in a company. These institutions include government institutions, private institutions, domestic, and foreign. It is for institutional investors not uncommon to be the majority in share ownership (Suwisma et al., 2023). Eriandani (2013) in Putra et al. (2019) state that institutional investors usually control a large number of shares, which can affect decision-making.

According to El-Haq et al. (2019), institutional ownership serves a function within a company to monitor management behavior to avoid being too optimistic about what will happen within the company by effectively monitoring, thereby reducing management's actions to engage in earnings management. Institutional ownership can influence management decisions in implementing accounting conservatism (Savitri, 2016). According to Pulungan et al. (2022), the greater the institutional shareholder ownership,

the tighter the external oversight held over a company.

H5: Institutional Ownership has a positive effect on Accounting Conservatism.

Company size

The size of the company refers to the scale or magnitude of a company, as seen from the value of its assets (Kalbuana and Yuningsih, 2021). It is a determinant of the company's size category. Generally, the higher the total assets owned by a company, the larger its size (Rantika et al., 2022). According to Yuliana et al. (2022), company size is one of the indicators used to assess the amount of political costs that a company may incur.

According to Daljono (2013), large companies face high political costs, thus large companies tend to use conservative accounting principles to reduce political costs. This is different from small companies, as small companies do not attract much government attention. Small companies will be more optimistic in reporting profits. Thus, small companies tend to reduce the level of conservatism in financial reporting (Savitri, 2016). A study conducted by Atmojo and Adi (2021) found that company size affects accounting conservatism.

H6: Company Size has a positive effect on Accounting Conservatism.

Based on the relationships outlined and by previous research findings, the conceptual framework in this study can be determined as follows:

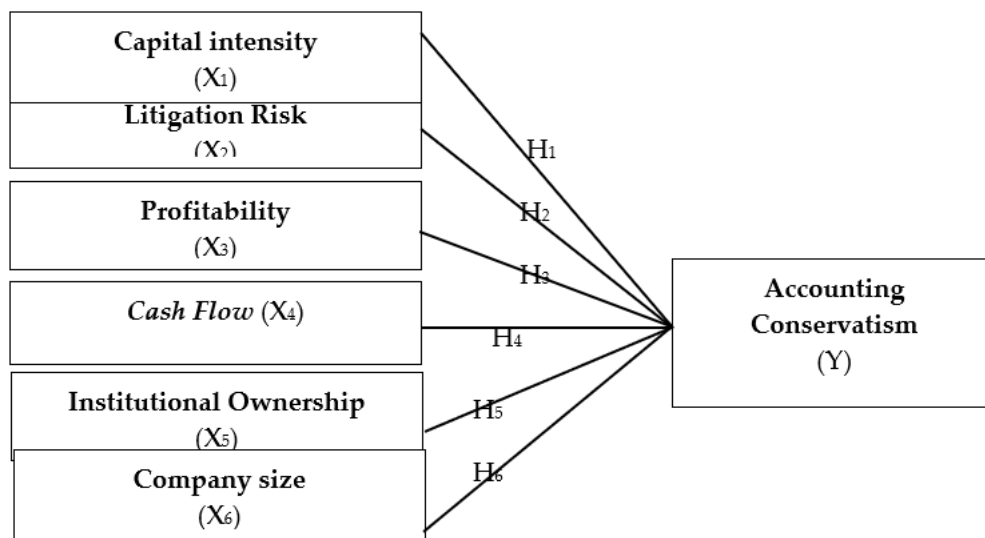


Figure 1. Conceptual Framework

RESEARCH METHODS

The location of this research is the Indonesia Stock Exchange (IDX), accessed via the website www.idx.co.id. The research object is state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange from 2017 to 2022. The research object refers to a scientific target with specific purposes and uses to obtain data or information needed for the problem under investigation. In this study, the objects of research include capital intensity, litigation risk, profitability, cash flow, institutional ownership, and company size. The population in this research consists of state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022, totaling 27 SOEs. The sampling technique used is purposive sampling. Purposive sampling is a technique where the sample is selected based on the specific needs of the research or certain considerations. Based on that criteria Total of 84 Samples were selected (Number of observation data from 14 Companies over 6 years of study).

The data used in this research are secondary. Secondary data for this study were obtained from books, journals, articles, the website www.idx.co.id, and the official websites of companies listed on the Indonesia Stock Exchange for the period 2017-2022. The data collection techniques used in this research include documentation study and library research. Documentation study in this research involves the financial reports of state-owned enterprises listed on the Indonesia Stock Exchange for the period 2017-2022 and other references available on the official IDX website www.idx.co.id and the

official websites of each company. Library research involves reviewing journals, reading materials, and previous research related to the topic of this study.

Operational Definitions of Variables

Dependent Variable

According to Sugiyono (2018), the dependent variable is influenced by or is a consequence of the independent variables. In this study, the dependent variable (Y) or the bound variable is accounting conservatism. Accounting conservatism is the attitude of caution in facing uncertainties at a company, resulting in higher-quality profits because this principle prevents the company from exaggerating profits (Yuliarti 2017). In this study, accounting conservatism is measured using an adaptation of the accrual measure from Givoly and Hayn (2000).

$$Total\ Accruals = \frac{(Net\ Income + Depreciation) - Operating\ Cash\ Flow\ from\ the\ previous\ year\ x-1}{Total\ Asets} \quad (1)$$

Independent Variables

According to Sugiyono (2018), independent variables are those that influence or cause changes in the dependent variables. In this study, the independent variables include capital intensity, litigation risk, profitability, cash flow, institutional ownership, and company size.

Capital Intensity

According to Kristina and Yuniarta (2021), capital intensity represents the amount of capital required by a company to generate revenue. The measurement of capital intensity ratio can be assessed using the Capital Intensity Ratio (CAPI), which is calculated by dividing fixed assets by total assets. The formula is as follows:

$$Capital\ Intensity = \frac{Fixed\ Assets}{Total\ Asets} \quad (2)$$

Litigation Risk

Litigation risk refers to the inherent risk every company faces due to legal claims made by stakeholders such as creditors, investors, and regulators. The formula for calculating litigation risk can be measured using the Debt to debt-equity ratio (DER). A higher DER indicates a higher litigation risk for the company (Ramadhanty, 2022).

$$DER = \frac{Total\ Debt}{Total\ Equity} \quad (3)$$

Profitability

Profitability refers to the ability of a business entity to generate net income. This study uses the Return on Assets (ROA) measurement, which is by the research conducted by Erawati et al. (2021) and Ramadhanty (2022).

$$ROA = \frac{Net\ Income}{Total\ Assets} 100\% \quad (4)$$

Cash Flow

Cash flow, or cash flows, is a financial statement that shows the impact of a company's operating, financing, and investing activities on its cash flows during a specific accounting period in a way that reconciles the beginning and ending cash balances. The formula used is

$$CFO = \frac{Cash\ from\ Operating\ Activities}{Total\ assets} \quad (5)$$

Institutional ownership

Institutional ownership refers to the proportion of a company's shares that are held by various institutional entities, such as financial companies, banks, pension funds, and others (Fadhilah and Rahayuningsih, 2022). The indicator used to measure institutional ownership can be calculated with

the formula:

$$\text{Institutional ownership} = \frac{\text{Number of shares owned by institutions}}{\text{Total shares outstanding}} \tag{6}$$

Company Size

Company size is an indicator used to assess the extent of political costs that a company must bear (Yuliana et al. 2022). The measurement used in this research is the logarithm of the total assets of the company.

$$\text{Size} = \text{Ln} (\text{Total Assets}) \tag{7}$$

Data Analysis Techniques

The analysis method used in this research is quantitative analysis, which involves using numbers and statistical calculations to analyze a hypothesis and requires various analytical tools. This study uses quantitative methods. The data analysis tools in this study involve determining the panel data regression model and conducting classical assumption tests using Eviews software version 12. The best model for panel regression can be determined using three approaches: the Common Effect model or Pooled Least Square (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). Chow tests and Hausman tests are conducted to determine the best model, thus allowing for the measurement and estimation of data.

RESULTS AND DISCUSSION

Table 2. Descriptive Statistics Results

Variabel	N	Minimum	Maksimum	Mean	Std. Daviasi
Y	84	-0.135684	0.171044	0.010723	0.055128
X1	84	0.003900	0.776000	0.311099	0.256056
X2	84	0.150600	6.052300	1.951093	1.470368
X3	84	-0.089931	0.281738	0.042884	0.061471
X4	84	-0.113238	0.325479	0.061638	0.087867
X5	84	0.510000	0.979500	0.666371	0.137045
X6	84	28.73600	33.25500	31.07870	1.124542

Source: Output from Eviews version 12, 2023

Data descriptive statistics presented in Table 2. above show that:

- The Variable (Y), The accounting conservatism has a maximum value of 0.171044 held by PT Elnusa (Persero) Tbk (ELSA) in 2021, while the minimum value is -0.135684 held by PT Adhi Karya (Persero) Tbk (ADHI) in 2017. The mean value of accounting conservatism is 0.010723, with a standard deviation of 0.055128.
- The variable (X1), the intensity of capital has a maximum value of 0.776000, with a minimum value of 0.003900 held by PT Semen Baturaja (Persero) Tbk (SMBR) in 2022, and also a minimum value of 0.003900 held by PT Jasa Marga (Persero) Tbk (JSMR) in 2022. The mean intensity of capital is 0.311099, with a standard deviation of 0.256056.
- The variable (X2), litigation risk has a maximum value of 6.052300 held by PT Adhi Karya (Persero) Tbk (ADHI) in 2021, while the minimum value is 0.150600 held by PT Wijaya Karya Tbk (WIKA) in 2019. The mean litigation risk is 1.951093, with a standard deviation of 1.470368.
- The variable (X3), profitability has a maximum value of 0.281738 held by PT Tabung Batubara Bukit Asam (Persero) Tbk (PTBA) in 2022, while the minimum value is -0.089931 held by PT Waskita Beton Precast Tbk (WSBP) in 2020. The mean profitability is 0.042884, with a standard deviation of 0.061471.
- The variable (X4), cash flow has a maximum value of 0.325479 held by PT Tabung Batubara Bukit Asam Tbk (PTBA) in 2018, while the minimum value is -0.113238 held by PT Adhi Karya (Persero) Tbk (ADHI) in 2017. The mean cash flow is 0.061638, with a standard deviation of 0.087867.
- The variable (X5), institutional ownership has a maximum value of 0.979500 held by PT Jasa Marga (Persero) Tbk (JSMR) in 2020, while the minimum value is 0.510000 held by PT Adhi Karya (Persero) Tbk (ADHI) in 2017-2021. The mean institutional ownership is 0.666371, with a

standard deviation of 0.137045. The variable (X6), company size, has a maximum value of 33.25500 held by PT Telkom Indonesia (Persero) Tbk (TLKM) in 2021, while the minimum value is 28.73600 held by PT Aneka Tambang (Persero) Tbk (ANTM) in 2019. The mean company size is 31.07870, with a standard deviation of 1.124542.

Table 3. Chow Test Result

Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f	Prob.
Cross-section F	9.087981	(13,64)	0.0000
Cross-section Chi-square	87.856701	13	0.0000

Source: Output from Eviews version 12, 2023

Based on Table 3 above, it can be observed that the probability value of the cross-section chi-square < 0.05 is 0.000 obtained from the fixed effect model regression. From the results above, it is indicated that the probability value of the cross-section chi-square is smaller than 0.05, thus the selected regression model is the fixed effect model (FEM).

Table 4. Hausman Test Result

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	13.730629	6	0.0328

Source: Output from Eviews version 12, 2023

Based on Table 4 above, it is shown that the probability value of the Breusch-Pagan cross-section is 0.0000 obtained from the random effect model regression, where it is smaller than 0.05. Therefore, the selected regression model is the fixed effect model (FEM), indicating that the best model choice in this study is the fixed effect model (FEM).

Table 5. Multicollinearity Test Result

	X1	X2	X3	X4	X5	X6
X1	1.000000	-0.700905	0.166259	0.401166	0.000500	-0.175453
X2	-0.700905	1.000000	-0.449612	-0.503491	-0.008340	0.285648
X3	0.166259	-0.449612	1.000000	0.751812	-0.060589	0.106476
X4	0.401166	-0.503491	0.751812	1.000000	-0.192609	0.211644
X5	0.000500	-0.008340	-0.060589	-0.192609	1.000000	-0.269024
X6	-0.175453	0.285648	0.106476	0.211644	-0.269024	1.000000

Source: Output from Eviews version 12, 2023

Based on Table 5, the multicollinearity test results show that all independent variables, including intensity of capital, litigation risk, profitability, cash flow, institutional ownership, and company size, have values below 0.85. Therefore, it can be concluded that all independent variables used are free from multicollinearity or do not exhibit multicollinearity symptoms.

Tabel 6. Heteroskedastisitas Test Result

Variabel	Coefficient	t-Statistic	Prob.
C	0.019764	0.230260	0.8186
X1	0.009920	0.443434	0.6589
X2	0.001662	0.950223	0.3456
X3	0.047751	1.329987	0.1882
X4	-0.049689	-1.935333	0.0574
X5	-0.010234	-0.409080	0.6838
X6	-0.000316	-0.124155	0.9016

Source: Output from Eviews version 12, 2023

Based on Table 6, the results of heteroskedasticity testing using the Glejser test show that each independent variable, including intensity of capital, litigation risk, profitability, cash flow, institutional ownership, and company size, has a probability value above 0.05. Therefore, it can be concluded that all independent variables are free from heteroskedasticity or do not exhibit heteroskedasticity symptoms.

Table 7. Panel Data Regression Analysis

Variable	Coefficient	Std. Error
C	1.141754	0.221300
X1	0.030157	0.057679
X2	0.011189	0.004509
X3	-0.562412	0.092569
X4	0.888455	0.066197
X5	0.093140	0.064499
X6	-0.040380	0.006553

Source: Output from Eviews version 12,

Based on Table 7 the constant and regression coefficient values, the relationship between the independent variables and the dependent variable in the regression model can be formulated as follows:

$$Y = 1.141754 + 0.030157 (X_1) + 0.011189 (X_2) - 0.562412(X_3) + 0.888455(X_4) + 0.093140(X_5) - 0.040380 (X_6)$$

Table 8. Partial Test (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.141754	0.221300	5.159295	0.0000
X1	0.030157	0.057679	0.522831	0.6029
X2	0.011189	0.004509	2.481223	0.0157
X3	-0.562412	0.092569	-6.075577	0.0000
X4	0.888455	0.066197	13.42145	0.0000
X5	0.093140	0.064499	1.444054	0.1536
X6	-0.040380	0.006553	-6.162472	0.0000
R-squared				0.868831
Adjusted R-squared				0.829890
S.E. of regression				0.022737
Sum squared resid				0.033087
Log likelihood				210.0658
F-statistic				22.31153
Prob(F-statistic)				0.000000

Source: Output from Eviews version 12, 2023

Based on the results of the calculations in Table 8, the influence of each variable is as follows: The intensity of capital investment on accounting conservatism with a coefficient value obtained of 0.030157, a t-statistic value of 0.522831 < 1.98525, and a significance value of 0.6029 > 0.05 indicate that the relationship between capital intensity and accounting conservatism is positively but not significantly influential, thus, in this case, hypothesis (H1) is accepted. The litigation risk variable on accounting conservatism with a coefficient value obtained of 0.011189, a t-statistic value of 2.481223 > 1.98525, and a significance value of 0.0157 < 0.05 indicate that the relationship between litigation risk and accounting conservatism is positive and significantly influential, thus, in this case, hypothesis (H2) is accepted. The profitability variable on accounting conservatism with a coefficient value obtained of -0.562412, a t-statistic value of -6.075577 > 1.98525, and a significance value of 0.0000 < 0.05 indicate that the relationship between profitability and accounting conservatism is negatively and significantly influential, in other words, in this case, hypothesis (H3) is rejected. The cash flow variable on accounting conservatism with a coefficient value obtained of 0.888455, a t-statistic value of 13.42145 > 1.991254,

and a significance value of $0.0000 < 0.05$ indicates that the relationship between cash flow and accounting conservatism is positively and significantly influential, thus, in this case, hypothesis (H4) is accepted. The institutional ownership variable on accounting conservatism with a coefficient value obtained of 0.093140, a t-statistic value of $1.444054 < 1.98525$, and a significance value of $0.1536 > 0.05$ indicate that the relationship between institutional ownership and accounting conservatism is positive but not significantly influential, thus, in this case, hypothesis (H5) is accepted. The firm size variable on accounting conservatism with a t-statistic value of $-6.162472 > 1.98525$ and a significance value of $0.0000 < 0.05$ indicates that firm size has a negatively significant influence on accounting conservatism, thus, in this case, hypothesis (H6) is rejected. Based on the above Table 8, it can be observed that the adjusted R-squared value is 0.829890. This result indicates that the independent variables (capital intensity, litigation risk, profitability, cash flow, institutional ownership, and firm size) in influencing the dependent variable (accounting conservatism) account for 83%, while the remaining 17% is explained by other factors not included in this study.

Discussion

Influence of Capital Intensity on Accounting Conservatism:

Based on the test results, it is evident that the capital intensity variable has a significance value of $0.6029 > 0.05$ and a t-value of $0.522831 < 1.99125$, indicating that the capital intensity variable in this study has a positive but not significant effect on accounting conservatism. According to Agustina et al. (2021), higher capital intensity leads to increased capital intensity ratios. However, a high level of capital intensity does not guarantee that a company will adopt conservative financial reporting. In order to maintain investor confidence in their funds, company managers may implement accounting policies that generate high profits because profit is one of the benchmarks for investors in investing their funds. Therefore, companies may not apply accounting conservatism and will present financial statements with high profits. This research is supported by studies conducted by Suharni et al. (2019) and Agustina et al. (2021), which indicate that capital intensity does not affect accounting conservatism.

Influence of Litigation Risk on Accounting Conservatism:

The results show that the coefficient value for the litigation risk variable on accounting conservatism is 0.011189, the t-statistic value is $2.481223 > 1.99125$, and the significance value is $0.0157 < 0.05$, indicating that the relationship between litigation risk and accounting conservatism is positively and significantly influential. This result is supported by agency theory. According to Kristina and Yuniarta (2021), agency theory relates to litigation risk as an external factor that can motivate managers to report more conservative financial statements because litigation risk has the potential to incur significant costs due to legal issues. This research is supported by studies conducted by Afriani et al. (2019) and Erawati et al. (2021), which state that litigation risk has a positive and significant effect on accounting conservatism.

Influence of Profitability on Accounting Conservatism:

The coefficient value for the profitability variable on accounting conservatism is -0.562412 , the t-statistic value is $-6.075577 > 1.99125$, and the significance value is $0.0000 < 0.05$, indicating that profitability has a significant negative effect on accounting conservatism. A negative relationship between profitability and accounting conservatism indicates that if company profits are high, the company is less likely to apply conservative principles. According to Erawati et al. (2021), signaling theory is related to profitability, indicating that profits provide a positive signal about the future performance prospects of the company. This is supported by research conducted by Priyono & Suhartini (2022) and Subaeti & Susanti (2022), which found that profitability has a significant negative effect on accounting conservatism.

Influence of Cash Flow on Accounting Conservatism:

The coefficient value for the cash flow variable on accounting conservatism is 0.888455, the t-statistic value is $13.42145 > 1.99125$, and the significance value is $0.0000 < 0.05$, indicating that cash flow has an influence on accounting conservatism. This study supports signaling theory, stating that companies can use this theory to provide positive signals about company information, and companies can compete well in the market by having good company quality. This research is also supported by studies by Harini et al. (2020), which stated that the higher the cash flow value, the more effective the company's operations. Thus, companies will create high accounting conservatism by maintaining financial statements to remain stable. This research is supported by the results of research by Suharni et al. (2019) and Harini et al. (2020), which found that cash flow significantly affects accounting

conservatism.

Influence of Institutional Ownership on Accounting Conservatism:

The t-statistic value for the institutional ownership variable on accounting conservatism is $1.444054 < 1.99125$, and the significance value is $0.1536 > 0.05$, indicating that institutional ownership has a positive but not significant effect on accounting conservatism. Chen et al. (2015) in Sugino and Amanullah (2022) state that institutions with long-term ownership of companies are involved in less conservative financial reporting policies. Large institutional ownership encourages companies to show better performance with increased profits, leading to companies tending not to present conservative financial statements. This research is supported by studies conducted by Afriani et al. (2019).

Influence of Company Size on Accounting Conservatism:

The t-statistic value for the company size variable on accounting conservatism is $-6.162472 > 1.99125$, and the significance value is $0.0000 < 0.05$, indicating that company size influences accounting conservatism. Large companies tend to be pessimistic in presenting financial statements and are more cautious in their accounting practices. This means that large companies will lower the level of accounting conservatism or tend to be less conservative. In contrast, small companies do not attract as much government attention, and based on the amount of taxes paid, small companies are not as large as large companies, so small companies will be more optimistic in reporting profits and tend to reduce the level of conservatism in financial reporting.

Conclusion

Based on the research results and discussions outlined above, the writer draws the following conclusions: Capital intensity has a positive but not significant effect on accounting conservatism. Litigation risk has a positive and significant effect on accounting conservatism. Profitability has a negative and significant effect on accounting conservatism. Cash flow has a positive and significant effect on accounting conservatism. Institutional ownership has a positive but not significant effect on accounting conservatism. Company size has a significant negative effect on accounting conservatism.

Based on the conclusions obtained from this research, the writer provides the following recommendations: For Future Research, it is recommended to expand the research sample to prove that this research can be used to assess accounting conservatism and to consider the possibility of other variables used in measuring accounting conservatism. For Company Management With research on the effects on accounting conservatism, it is hoped that it can provide information for companies to make decisions. Based on the results of this research, companies are advised to better understand the financial conditions of the company early on. If there are serious problems, early rescue efforts can be made.

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