



## The Effect of Leverage, Firm Size, Managerial Ownership, Size of Board Commissioners and Profitability to Accounting Conservatism

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### Abstrak

*Penelitian ini bertujuan untuk menganalisis pengaruh leverage, ukuran perusahaan, kepemilikan manajerial, ukuran dewan komisaris dan profitabilitas terhadap konservatisme akuntansi. Populasi dalam penelitian ini adalah perusahaan pertambangan yang terdaftar pada Bursa Efek Indonesia tahun 2011-2015. Sampel dalam penelitian ini dipilih dengan menggunakan metode purposive sampling, sehingga diperoleh 70 unit analisis. Teknik analisis yang digunakan adalah regresi linear berganda dengan aplikasi SPSS. Hasil penelitian menunjukkan bahwa variabel leverage dan ukuran dewan komisaris secara positif signifikan berpengaruh terhadap konservatisme akuntansi, sedangkan ukuran perusahaan dan kepemilikan manajerial tidak berpengaruh signifikan terhadap konservatisme akuntansi. Profitabilitas berpengaruh negatif signifikan terhadap konservatisme akuntansi. Hasil penelitian dapat disimpulkan bahwa konservatisme akuntansi dipengaruhi oleh leverage, ukuran perusahaan, kepemilikan manajerial, ukuran dewan komisaris dan profitabilitas.*

### Abstract

This study aims to determine the effect of leverage, firm size, managerial ownership, board of commissioner size and profitability to accounting conservatism. The population in this study is a mining company listed on the Indonesia Stock Exchange in 2011-2015. The sample in this study was chosen using purposive sampling method, so obtained by 70 unit of analysis. The analysis technique used was multiple regression with SPSS application. The results showed that the leverage and size of the board of commissioners positively significantly influenced accounting conservatism, while firm size and managerial ownership did not affect accounting conservatism. Profitability had a significant negative effect on accounting conservatism. The results of the study can be concluded that accounting conservatism affected by leverage, size, managerial ownership, board of commissioner size and profitability.

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## INTRODUCTION

Enterprise resource management and performance management are illustrated through financial statements. The financial statements made by company must meet the objectives, rules and principles of accounting in accordance with generally accepted standards in order to produce financial reports that can be accountable and beneficial to each its user. Generally Accepted Accounting Principles give management the freedom to choose the accounting methods used in the preparation of financial statements. One of the principles embraced in the financial reporting process is the principle of conservatism. According to Suwardjono (2010) accounting conservatism is a precautionary action in the preparation of financial statements implied by recognizing possible costs or losses, but not immediately recognizing future revenues or profits even if the possibility of the occurrence is big. Consequently, if there are conditions that have the possibility of causing a loss, cost or debt, then the loss, expense or debt must be recognized immediately. On the other hand, if there are conditions that are likely to generate profits, income, or assets, then the profits, income or assets should not be immediately recognized, until the conditions have been realized actually (Pratanda & Kusmuriyanto, 2014). The principle of accounting conservatism is still regarded as a controversial principle because there is a view of the pros and cons on the principle of accounting conservatism. On the one hand, conservatism is considered a constraint that will affect the financial statements. If the method used in the preparation of financial statements based on very conservative accounting principles, then the results tend to be biased and does not reflect reality. On the other hand, accounting conservatism is useful to avoid opportunistic behavior of managers in relation to contracts that use financial statements as contract media (Watts, 2003). LaFond & Watts (2007) also explain that conservative financial statements can prevent information asymmetry by limiting management in manipulating financial statements. According to him, conservative financial statements can reduce agency costs.

The number of fraud cases in Indonesia indirectly indicates the low level of accounting conservatism applied by the company in preparing its financial statements. An example of management fraud with overstated presentation is the case of PT. Bumi Resource Tbk, which has manipulated the financial statements with the loss up to US \$ 620.49 million. This is due to a report on lower coal sales of US \$ 1.06 billion from the real for five years. The overstate losses occur due to a sales record mistake. Overstated losses are due to the management is not careful in presenting the financial statements of sales resulting in overstate on a net loss. In this case, the company is considered to have excessive pessimism in recognizing sales, thus causing the loss value to be greater than it should be. Inadequate implementation of conservatism policies or principles may be misleading users of financial statements. The existence of financial statement manipulation can reduce the user's trust to the financial statements presented by the company. The manipulation of financial statements may occur due to a misuse of authority by the manager of the company regarding accounting methods and policies taken by the company.

Previous research on the effect of leverage, firm size, managerial ownership, board of commissioner size, and profitability to accounting conservatism shows inconsistent results. Research gaps in leverage variable are found in the study of Fatmariansi (2013) as well as Noviantari & Ratnadi (2015) which indicate a significant negative effect. Different from Pratanda & Kusmuriyanto (2014) which obtain significant positive results. While Widayati (2011), Nugroho & Mutmainah (2012), and Pakpahan (2017) show insignificant results. Firm size variable studied by Sari & Adhariani (2009); Noviantari & Ratnadi (2015); as well as Pakpahan (2017) shows a significant positive effect on accounting conservatism. In contrast to research of Reskino & Vemiliyarni (2014) obtain a significant negative result. Meanwhile, Alfian & Sabeni (2013), Zulaikha & Wulandini (2012) and Januarti & Ardina (2012) show insignificant results. Managerial

ownership variable studied by Dewi & Suryanawa (2014) as well as Pratanda & Kusmuriyanto (2014) shows a significant positive effect on capital structure. While Brilianti (2013) get a significant negative result. Different from Padmawati & Fachrurrozie (2015) as well as Pakpahan (2017) show insignificant results.

The board of commissioners size variable relating to its effect on accounting conservatism is done by Hani (2012) which indicates there is no influence of the size of the board of commissioners towards accounting conservatism. Similar results done by Zulaikha & Wulandini (2012) and Bara (2016) which indicate there is no influence of the size of the board of commissioners towards accounting conservatism. Variable of profitability investigated by Saputri (2013) as well as Pratanda & Kusmuriyanto (2014) shows a positive influence on accounting conservatism. In contrast to research conducted by Padmawati & Fachrurrozie (2015) find profitability negatively affects on accounting conservatism. The previous inconsistent research results encourage the researchers to review the effects of leverage, firm size, managerial ownership, board of commissioner size, and profitability on accounting conservatism. The research gap raises the question of the presence or the absence of those variables effect on accounting conservatism.

The purpose of this study is to examine whether leverage, firm size, managerial ownership, board of commissioner size and profitability have an effect on accounting conservatism or not. This research is based on positive accounting theory, agency theory, and signalling theory. Positive accounting theory is a theory that is oriented to empirical research and justify various techniques or methods of accounting that are now used or looking for a new model for the development of accounting theory in the future (Watts & Zimmerman, 1990). Positive accounting theory contains a set of hypotheses prepared by logical thinking and scientific methodology such as debt covenant hypothesis, political cost hypothesis, and bonus plan theory. Debt covenant hypothesis predicts that managers want to increase their assets and profits to reduce the cost of renegotiating debt contracts. Political cost hypothesis is a conflict of interest between the company and the government. While bonus plan theory related to management action in choosing accounting method to maximize profit in order to get high bonus. Agency theory according to Jensen & Meckling (1976) is a contract between the principal (shareholder) and the agent (manager) in which both shareholders and managers equally maximize welfare. The agency theory is used in this study to explain the implementation of conservatism within the company which can be seen from corporate financial statements which can cause agency problem between manager (agent) and stakeholder (principal). Signalling theory is a theory that explains why firms have the encouragement to provide financial statement information to external parties. Encouragement of the company to provide information because there is information asymmetry between the company and outsiders because the company knows more about the company and prospects that will come than outsiders. Companies can increase firm value by reducing information asymmetry. One way to reduce information asymmetry is to provide a positive signal to outsiders, one of which is reliable financial information and will reduce uncertainty about the prospects of the company in the future.

Leverage shows how much assets used to run operational activities of a company are financed by debt from corporate external party. Companies that have relatively high debt levels, creditors have a greater right to know and oversee the operational and accounting implementation of the company. Larger rights owned by creditors will reduce information asymmetry among creditors with corporate managers. Therefore, the higher the level of debt or leverage of a company, the demand for the implementation of conservative accounting is higher as well because here the creditor has an interest in the security of the funds expected to be profitable for him / her. Agency theory explains that if the company has a high debt level, then the company will increasingly apply a conservative principle. This is because the higher the level of leverage, the more likely the conflict will arise between shareholders and bondholders that will ultimately affect the contractual demand

for conservative accounting (Ahmed & Duellman, 2007). Similar result conducted by LaFond & Watts (2007) shows the result that leverage has a positive effect on accounting conservatism.

H<sub>1</sub> : Leverage has a positive effect on accounting conservatism.

The size of a company is one of the indicators to observe the political costs to be paid by the company. Large companies have more complex system and higher profits, making the company also face greater risks. In addition, large companies are also faced with high political costs, so that large companies tend to use accounting principles that can reduce the value of earnings reports to reduce the amount of political costs. Political cost hypothesis in positive accounting theory states that the bigger the company, the government will allocate a large political cost as well. Political costs can be caused by tax imposition by the government, with a large amount of assets the government will set increasing tax rates also to the company. The greater the imposition of tax expense in a company means an increase in revenues for the government, and companies with large assets assumed to be able to pay more taxes. That is why the larger the firm size, the greater the tax imposition for the company (Wardhani, 2008). Hence, to reduce the political costs (taxes), large companies tend to apply a conservative accounting (Lo, 2005). Similar research conducted by Deviyanti (2012) which shows the result that firm size has a positive effect on accounting conservatism.

H<sub>2</sub> : Firm size has a positive effect on accounting conservatism.

Managerial ownership is corporate shareholdings by the manager or in other words the manager as well as the shareholder who actively participates in the corporate decision-making. Companies that have high managerial ownership, decision and activities will be aligned by management interests which at once becomes shareholders of the company. Due to the higher managerial ownership, management is not only an agent, but also the owner of the company and this can reduce agency conflicts so that companies tend to use conservative accounting. This is because the sense of belonging of managers to the company. Plan bonus hypothesis in positive accounting theory states that manager will act along with the bonus given. The higher level of shareholdings within the company by managers then the financial statements made will be more conservative because manager no longer only acts as an agent but also acts as a shareholder. It happens because the company not only oriented to a large profit, but more concerned sustainability of the company. Similar research conducted by Widyaningrum (2008) and Suaryana (2008) which shows the result that managerial ownership has a positive effect on accounting conservatism.

H<sub>3</sub> : Managerial ownership has a positive effect on accounting conservatism.

The size of the board of commissioners is an important element of the board of commissioner characteristics that affecting the level of accounting conservatism. Research conducted by Lara (2007) shows that companies with strong councils as corporate governance mechanisms require higher level of conservatism than companies with weak councils. The agency theory explains that the board of commissioners is expected to minimize the agency problems that arise between the board of directors and shareholders so that companies apply the principles of conservative accounting to prevent behavior that deviates from directors and managers. The signalling theory explains that the larger the size of the board of commissioners will give a positive signal to investors related to the service and control functions of the board of commissioners as a corporate governance mechanism (Ahmed & Duellman, 2007). Thus, the greater the size of the board of commissioners, the greater the strength of the board of commissioners in conducting supervision so that the use of conservative accounting will be higher as well. Similar research done by Zulaikha & Wulandini (2012) and Bara (2016) which shows the size of the board of commissioners has a positive effect on accounting conservatism.

H<sub>4</sub> : The size of the board of commissioners has a positive effect on accounting conservatism.

Profitability is one of the fundamental of corporate condition assessment, especially to analyze the performance of management. Profitability is closely related to the profits generated by a

company. Profit can give a positive signal about the prospects of the company in the future. Without profits, it will be very difficult for companies to attract capital from outside. Profitability has a relationship with signalling theory that profit will give a positive signal about the prospects of the company in the future. With the growth of profits that continue to increase from year to year, it can give a positive signal about the performance of the company. The higher the profitability level of a company, it will tend to choose a conservative accounting. This is because conservatism is used by managers to manage earnings to be flat and not too fluctuating (Wardhani, 2008). The relationship of profitability if associated with the aspect of political costs in the positive accounting theory is a company with high profitability will generate high profits as well so that will lead to aspects of high political costs such as large taxes. This causes companies with high profitability would prefer to apply conservative accounting methods in order to reduce the political costs (Lasdi, 2008). Similar research conducted by Wardhani (2008) and Pratanda & Kusmuriyanto (2014) find the results of profitability have a positive effect on accounting conservatism

H<sub>5</sub> : Profitability has a positive effect on accounting conservatism.

Leverage, firm size, managerial ownership, board of commissioners' size and profitability are related as indicators to determine the effect on the level of accounting conservatism on the corporate financial statements. Leverage, firm size, managerial ownership, board of commissioners' size and high profitability will have the opportunity in the implementation of conservative accounting in corporate financial reporting.

H<sub>6</sub>: Leverage, firm size, managerial ownership, board of commissioner size and profitability have an effect on accounting conservatism.

Based on the background and research that underlay this research, the framework of this research can be described as follows:

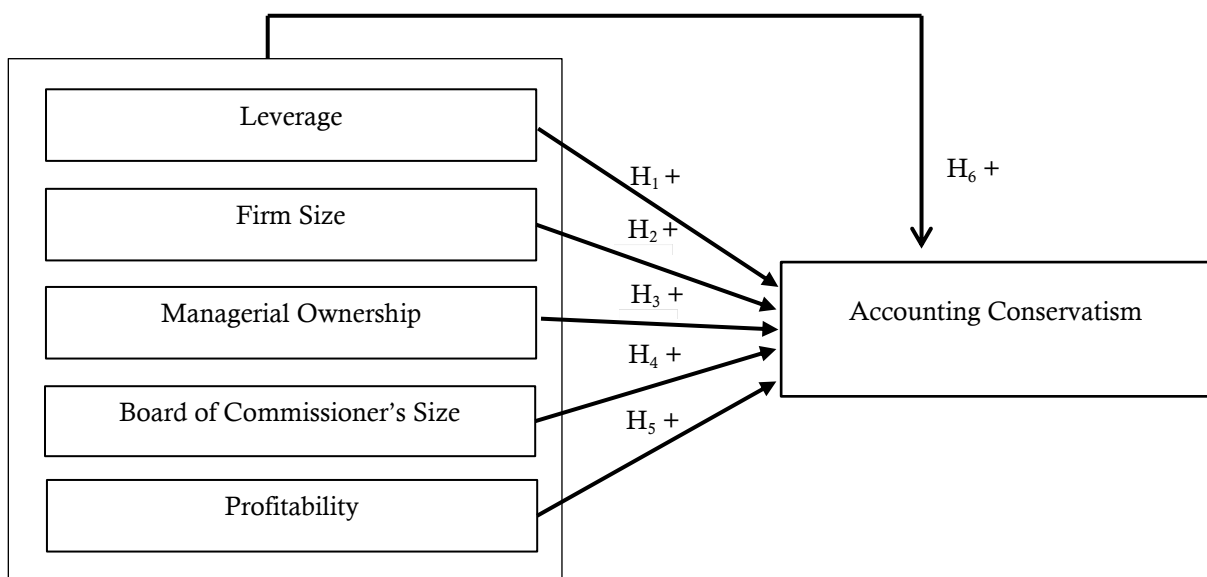


Figure 1. Research Model

## METHODS

This research used quantitative approach by using secondary data. The population of this research was all mining companies listed in Indonesian Stock Exchange (IDX) for 2011-2015 period consisting of 41 companies. The sampling technique used purposive sampling method by producing

final unit of analysis amounted to 69. The sample determination based on the criteria which have been determined by researcher was presented in Table 1 as follows

**Table 1.** Sampling Criteria

No.	Criteria	Number
1	Mining companies listed on the Indonesia Stock Exchange (BEI) during the period 2011-2015.	210
2	Mining companies that did not publish annual reports	(10)
3	Mining companies that did not present its financial statements in Rupiah currency	(125)
4	Incomplete Data	(5)
Total Unit of Analysis		70
Data Outlier		(1)
Number of companies being sample		69

Source: Data of IDX processed, 2017

This study used six variables consisting of one dependent variable and five independent variables. The operational definition of variables was presented in Table 2 as follows:

**Table 2.** Operational Definition of Variables

Variables	Definition	Indicator	Skala
Accounting Conservatism (CONACC)	The precautionary principle in financial reporting in which the company is not in a hurry to recognize and measure the assets and profits and immediately recognize the losses and debts that have the possibility of occurring (Watts, 2003).	$CONACC = \frac{NI - CFO}{Total Asset} \times (-1)$ (Givoly & Hayn, 2000)	Rasio
Leverage (DAR)	The ratio used to measure the ability of the company to pay all its obligations both short and long term (Kasmir, 2008).	$Debt Ratio = \frac{Total Liabilities}{Total Asset}$ (Nugroho & Mutmainah, 2012)	Rasio
Firm Size (SIZE)	Classification of companies by size (Bahaudin & Wijayanti, 2011).	$Firm Size = \text{Log Natural (Total Asset)}$ (Deviyanti, 2012)	Rasio
Managerial Ownership (MANJ)	Total shareholdings by management and corporate directors.(Khafid, 2012).	$ManagerialOwnership = \frac{Total of Managerial Share}{Total Shares Outstanding}$ (Januarti & Ardina, 2012)	Rasio

Continuation Table 2.

Board of Commissioner Size (BOARDSIZE )	The number of boards in charge of overseeing the implementation of the GCG of the company (Zulaikha & Wulandini, 2012)	$BoardSize =$ The number of board of commissioner Member (Bara, 2016)	Rasio
Profitability (ROA)	The ratio used to assess the ability of the company to generate profits (Kasmir, 2008).	$ReturnonAssets =$ $\frac{Net\ Profit}{Total\ Asset}$ (Padmawati & Fachrurrozie, 2015)	Rasio

Source: Writer's summary, 2017

Technique of collecting data used method of documentation in the form of secondary data. The data used was the financial statements of mining companies listed on the Indonesia Stock Exchange 2011-2015. Hypothesis testing used multiple linear regression analysis. According to Ghozali (2013) The classical assumption test conducting before testing the hypothesis with the aim of providing good results met the criteria of BLUE (Best Linier Unbiased Estimate) This study used a model with the following formula:

$$Y_{CONACC} = \alpha + \beta_1 DAR + \beta_2 SIZE + \beta_3 MANJ + \beta_4 BOARDSIZE + \beta_5 ROA + e$$

## RESULTS AND DISCUSSIONS

Descriptive statistics WAS used to provide illustrations or descriptions of research variables that included maximum values, minimum values, mean, and standard deviations (Ghozali, 2013).

**Table 3.** Result of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
DAR	69	0.11	0.60	0.3982	0.10942
SIZE	69	14.35	18.42	16.9930	0.79181
MANJ	69	0.00	0.46	0.0448	0.08586
BOARDSIZE	69	2.00	6.00	3.9420	1.41301
ROA	69	-0.72	0.27	0.0242	0.13966
CONACC	69	-0.16	0.19	0.0064	0.06860
Valid N (listwise)	69				

Source : Secondary data processed, 2017

Table 3 showed that the maximum value of DAR (leverage) value of 0.60 was owned by PT Citatah, Tbk (CTTH) in 2012 and the minimum value of 0.11 owned by PT Cetral Omega Resources Tbk (DKFT) in 2011. The maximum value of SIZE (firm size) was equal to 18.42 was owned by PT Timah, Tbk (TINS) in 2014. The value indicated that PT Timah, Tbk (TINS) had total assets of Rp. 98,438,189,000,000, the minimum value of 14.35 was owned by PT Eksploitasi Energi Indonesia Tbk (CNKO) in 2011. The mean value of 16.9930, and the standard deviation value of 0.79181 meaning that the standard deviation was lower than the mean value. This indicated that the dissemination of data for firm size variable tended to average. The maximum value of MANJ (managerial ownership) was 0.46, which meant that the company had the largest managerial share

of only 46% while the minimum value was 0.00 which meant there were companies that did not have managerial shares.

BOARDSIZE (board of commissioner size) had a maximum value of 6.00, a minimum value of 2.00, and average (mean) value of 3.9420. The average value of the total number of existing board of commissioners in the mining companies was about 4 (four) people which meant that it has met the requirement according to the regulation which stated that the number of members of the board of commissioners was at least 3 people and the most was 11 people. Standard deviation value of 1.41301 meant the distribution of the board of commissioners' size was good. Maximum value of ROA (profitability) of 0.27 was owned by PT Tambang Batubara Bukit Asam, Tbk (PTBA) in 2011. This indicated that the company had a good financial condition because the assets owned by the company could be utilized to gain profit by earning 0.27 each of its assets. The minimum value of -0.72 was owned by PT Mitra Investindo Tbk (MITI) indicated that the company suffered losses during operation of the company. The maximum value of CONACC (accounting conservatism) of 0.19 was owned by PT Golden Eagle Energy Tbk (SMMT) in 2015 while the lowest value of -0.16 was owned by PT Ratu Prabu Energi, Tbk (ARTI) in 2015 and PT Timah, Tbk (TINS) in 2013. Average value (mean) of 0.0064 and standard deviation value of 0.06860 in general the implementation of accounting conservatism owned by the sample company was in sufficient category.

Before performing hypothesis testing needed to be conducted prerequisite analysis. In normality test, kolmogorov-smirnov (K-S) value of 0.627 was above the significant value of 0.05 then it could be said that the normality test was met. The multicollinearity test showed the model was free from multicollinearity problem because all variables showed Tolerance value not less than 0.1 and had VIF value not more than 10. The autocorrelation test showed the value of DW (2,225) > DU (1.768) it could be concluded that the data was free from autocorrelation. Heteroscedasticity test showed all independent variables had sig value  $\geq 0.05$ , so it could be concluded that regression model did not contain heteroscedasticity. In this study, the data was free from classical assumption test so that it could be conducted research hypothesis. The value of coefficient of determination on adjusted column  $R^2$  showed the results of 0.215. This showed that the research model was able to explain by 21.5% variation of accounting conservatism variable. The results of hypothesis testing could be seen in Table 4.

**Table 4.** Summary of Hypothesis Test Results

No.	Hypothesis	$\beta$	Sig	$\alpha$	Result
1.	H <sub>1</sub> : Leverage had a positive effect on accounting conservatism.	0.193	0.007	0.05	H <sub>1</sub> Accepted
2.	H <sub>2</sub> : Firm size had a positive effect on accounting conservatism.	-0.010	0.323	0.05	H <sub>2</sub> Rejected
3.	H <sub>3</sub> : Managerial ownership had a positive effect on accounting conservatism.	0.038	0.671	0.05	H <sub>3</sub> Rejected
4.	H <sub>4</sub> : The size of the board of commissioners had a positive effect on accounting conservatism	0.011	0.043	0.05	H <sub>4</sub> Accepted
5.	H <sub>5</sub> : Profitability had a positive effect on accounting conservatism.	-0.188	0.001	0.05	H <sub>5</sub> Rejected
6.	H <sub>6</sub> : Leverage, firm size, managerial ownership, board of commissioner size and profitability had an effect simultaneously on accounting conservatism.		0,001	0,05	H <sub>6</sub> Accepted

Source: Secondary data processed, 2017



This research has proven the positive effect of leverage on accounting conservatism. Large leverage would result in greater financial obligations that must be fulfilled by the company. This would affect improving the implementation of a conservative accounting because to reduce the agency conflicts that occurred between shareholders and bondholders. The same results were also found in the study of (Alfian & Sabeni, 2013). The result of this study was in accordance with agency theory that supported the positive influence of leverage on accounting conservatism. The higher the level of leverage, the more likely the conflict would arise between shareholders and bondholders so that it would affect the contractual demand for conservative accounting. The results of this study successfully supported the results of research conducted by Lo (2005) and Lafond & Roychowdhury (2008) which concluded that the level of debt (leverage) had a significant positive effect on accounting conservatism.

This study failed to prove the effect of firm size on accounting conservatism. The size of the firm had no effect on the implementation of conservative accounting, which meant the size of the firm did not guarantee a company to apply accounting conservatism. The greater the size of the company was not accompanied by an increase or decrease in the value of accounting conservatism. It was because there were other factors that played a role in influencing the implementation of accounting conservatism. The result was not in accordance with the positive accounting theory, especially the political cost hypothesis which explained that large firms were more politically sensitive and had a greater welfare transfer burden (political cost) than smaller companies so as to reduce the political costs, the company applied accounting conservatism. (Watts, 2003). In other words, large companies tend to lower or decrease reported earnings compared than small firms. The results of this study were consistent with the research undertaken by Alfian & Sabeni (2013) and Hamid & San (2013) where the research did not succeed in finding the effect of firm size on accounting conservatism. Bigger corporate size did not guarantee a company to implement accounting conservatism. This indicated that there was more instrumental factor in influencing the implementation of accounting conservatism.

Hypothesis testing showed that managerial ownership could not explain the level of accounting conservatism implementation. This result was also caused by the managerial ownership in the sample company only had an average of 0.0448 which meant the manager had a small average of ownership so that the sense of belonging of the manager to the company was also small. Due to the relatively small managerial ownership, this caused managers to be less conservative. Managers tended to take self-serving actions and pay less attention to their long-term interests. The results of this study were not in accordance with the plan bonus hypothesis in the positive accounting theory used as a reference. Plan bonus hypothesis in positive accounting theory stated that the manager would act along with the bonus given. The motivation of corporate managers was no longer to get bonuses solely due to increased profits, but because of a sense of belonging of a manager against the company. The results of this study were in line with the study of Alfian & Sabeni (2013) which concluded that there was no effect of managerial ownership on accounting conservatism. This showed that this lack of influence was due to managers who tended to report higher profits because it would bring benefits to managers which was earned through commissions according to the amount of profits and also the effort to transfer wealth for themselves by using corporate accruals to report high net income.

The results of data processing showed that the size of the board of commissioners had a positive effect on accounting conservatism. This was evidenced by the number of board of commissioners owned by the sample company has been adjusted to the size of the company for more effective supervision made, so that the corporate financial reporting process and policies made by the company's management became effective and could be monitored properly. The positive effect of the size of the board of commissioners on accounting conservatism in this study was in

accordance with the agency theory and signalling theory used as references. This showed that firms with strong councils as corporate governance mechanisms required a higher level of conservatism than firms with weak councils. This was in accordance with the agency theory, the board of commissioners was expected to minimize agency problems arising between the board of directors and shareholders. The signalling theory stated that the larger the board of commissioners would give a positive signal to investors related to the service and control functions of the board of commissioners as a corporate governance mechanism. Board of commissioners was an important organ of the company to conduct supervision and advise the directors and ensure that companies implemented GCG effectively to avoid any conflict of interest. The supervisory function undertaken by the board of commissioners was considered as an effective solution to the agency problem that occurred between the principal and the agent.

The results of this study indicated that the greater the number of board of commissioners in a company, then the more effective supervision made, so that the corporate financial reporting process and policies made by the company's management to be effective and could be monitored properly. The results of this study were in accordance with research conducted by Lara et al., (2007) which showed that firms with strong councils as corporate governance mechanisms required a higher level of conservatism than firms with weak councils. The results showed that profitability had a negative effect on accounting conservatism. This result was not in accordance with the hypothesis that has been formulated. The existence of a negative relationship between profitability with accounting conservatism in this study was due to the company did not use the principle of conservatism at a time of high profitability to maintain the existence of the company in the eyes of investors and society. The results of this study were not in accordance with the positive accounting theory and signalling theory used as a reference. Signalling theory stated that high profitability signified companies had high profits, profits would give a positive signal about the prospects of the company in the future. The higher the level of profitability of a company, it would tend to choose conservative accounting, because conservatism was used by managers to manage earnings to look equal and not too fluctuated. Positive accounting theory had the assumption that profitability relationship if associated with political costs is a company with high profitability would generate high profits also so that it would be high political costs such as taxes charged to the companies became large. This caused companies with high profitability would prefer to apply a conservative accounting method to reduce these costs. This result was in accordance with the research undertaken by Padmawati & Fachrurrozie (2015) which stated that profitability had a negative effect on accounting conservatism. The result of simultaneous test showed that all the independent variables had a significant effect on accounting conservatism. It could be explained that simultaneously all the independent variables could encourage management to apply conservative accounting.

## CONCLUSIONS

The conclusions in this study show that the variables of leverage, firm size, managerial ownership, board of commissioner size, and profitability simultaneously affect on the accounting conservatism. Partially, leverage and board of commissioner size have a significant positive effect on accounting conservatism, profitability has a significant negative effect on accounting conservatism. While the variables of firm size and managerial ownership have no significant effect on accounting conservatism. Suggestions for further researchers to use other conservatism measurements such as market size measures and timeliness asymmetric sizes as well as use different years of research and more specifically in determining the sub-sectors of the firm to be used for more comprehensive outcomes. For corporate management it is suggested to be more active in managerial ownership so

that the percentage of shares owned by the management increases and increases profitability by utilizing the resources owned.

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