

ACCOUNTING CONSERVATIME THROUGH DEBT COVENANT, POLITICAL COST AND BONUS PLAN

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ABSTRACT

Introduction/Main Objectives: In Indonesia, there are many cases of fund inflation, especially in the consumer goods manufacturing industry. Ultimately, this can be detrimental to the company itself and other parties involved. This is the result of company management errors in presenting financial reports, which often assume profits are more than they actually are. As a result, the profit value becomes greater than it actually is. Profit is One indication is good news or bad news Which generated from activity annual something company (Yogi G ,20 20). Therefore, companies must follow the principle of prudence, or accounting conservatism, when preparing their financial reports. This study investigates manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021 which are the subjects of this research. This research aims to determine how Accounting Conservatism is influenced by Political Costs, Debt Contracts, and Bonus Plans.

Background Problems There are increasing cases of fund inflation in Indonesia, especially in Manufacturing Companies in the Consumer Goods Industry Sector .

Novelty:

Research Methods: This research uses quantitative methods . The population of this research is Consumer Goods Industrial Manufacturing Companies listed on the Indonesia Stock Exchange from 2017 to 2021 . The sample used was 12 companies over 5 years, so that 60 data were processed. The testing method used was multiple linear regression , coefficient of determination test, T test and F test using SPSS .

Findings/Results: . Based on the research results, it shows that the contribution of Political Costs influences Accounting Conservatism by 20.61 % ; Debt Contract contribution of 3.13%; and Bonus Plan contributions of 6.96%. Thus, the contribution of Political Costs, Debt Contracts, and Bonus Plans as a whole influences Accounting Conservatism by 32.8%.

Conclusion: The results of this research partially show that Debt Contracts and Bonus Plans have no effect on Accounting Conservatism while Political Costs affect Accounting Conservatism.

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1. Introduction

Financial reporting is the most important medium for those interested. Annual financial reports are useful for describing management performance in managing company resources. Company managers have the task of describing their activities in carrying out the management process. Considering the importance of financial reporting as a reference in decision making both internal and external, errors in presenting financial reports can have fatal consequences (Ganevia et al., 2022) . This should be a concern, especially for every company that has *gone public* . If the financial information is misleading, the company may be subject to sanctions from the Financial Services Authority (Hasanah & Siswanti, 2019)

The preparation of financial reports is excluded by Financial Accounting Standards in determining applicable accounting policies and estimates. This accounting method can be chosen freely by management, so that different financial reports can be prepared for each company according to the company's wishes and needs. This means that the company chooses one of the alternatives provided by Accounting Standards. Seen as company policy. However, flexibility can also influence managers' behavior when keeping accounting records and reporting financial transactions, so managers in any company use this term to ensure that you can contribute to creating financial reports (Haloman et al., 2021) . For example, by increasing profit figures or even manipulating financial reports. Meanwhile, this is contrary to the wishes of shareholders because it can increase the burden on the company (Martika et al., 2021) .

To avoid excessive optimism and even manipulation of financial reports which can increase profit figures based on management's wishes, the company's accounting records must be based on the Principle of Conservatism. One of the considerations in preparing company financial reports is applying the Principle of Conservatism, because business activities generally contain uncertainty (Haryadi et al., 2020) .

The principle of conservatism is still widely criticized. This means that Accounting Conservatism is seen as a controversial principle. However, in practice, conservatism is still used in accounting practice. Conservative accounting is useful for contracts between parties inside and outside the company (Adeliana & Suryanawa, 2019) . Conservatism can limit management behavior that exaggerates profits or uses asymmetric information when asserting company assets. Too much income is more harmful than too little income (the consequences of bankruptcy are more serious than beneficial). Low profits can mitigate many risks (risk of paying taxes, risk of supervision by the government and securities analysts, risk of paying large dividends to investors) (Tazkiya & Sulastiningsih, 2020) .

However, according to Jao & Ho (2019), if the method used to compile annual calculations is based on the Principle of Conservatism, the results tend to be unrealistic and biased. This view is driven by the Principle of Accounting Conservatism, not only recognizing more quickly revenues and profits, but also costs and losses. Apart from assessing the lowest assets and highest liabilities (Putri & Trisnawati, 2022) . As such, it cannot be properly interpreted and defeats the purpose of disclosing all relevant information.

The phenomenon that occurs in Indonesia is that there are still many companies that do not use conservative accounting in their financial reports. This causes errors in financial reporting for companies listed on the Indonesia Stock Exchange. As of early October 2022, there were 146 financial reporting errors encountered by all issuers. The error in the annual calculation was again requested by the company to be corrected. However, if the error is very significant, it will be reported to the Financial Services Authority (OJK).

Table 1 Financial Report Error Rate

No	Industry Classification	Error Rate
1	Public Company	15 Mistakes
2		
3		
4		
5		
6	Manufacturing company	74 Errors
7		
8		
9		
10		
11	Service Company	57 Errors
12		
13		
14		
15		

Source : www.idx.co.id (Data processed by ourselves, 2022).

Table 1 is a sample of companies from 146 balance sheet error rates of companies listed on the Indonesian Stock Exchange. Manufacturing companies make many mistakes that arise because they do not apply the principles of accounting conservatism. This is because the company dominates the Indonesian capital market compared to other industries. Apart from that, manufacturing companies also carry out more complex activities, thereby increasing the risk of manipulation of their financial reports. Therefore, companies must provide high quality and reliable financial reports so as not to mislead recipients and damage the company's image.

The following is an explanation of one of the cases of a manufacturing company because it did not apply caution in determining profits, resulting in errors in financial reports such as the data mentioned above. For example, in the 2011 fraud case, it was revealed that PT. Indofarma Tbk. were the violators, and Bapepam's investigation at that time found alleged violations of laws and regulations in the capital markets sector, especially in the submission of financial reports. The value of shares under processing is greater (*overvalued*) than IDR 2.887 billion. This results in a lower presentation of cost of goods sold and a higher presentation of net profit (Sandria, 2021)

A similar case occurred in 2019-2020, namely PT Tiga Pilar Sejahtera Food Tbk. is a multinational company that carried out In the March 2019 Ernest & Young investigation report, PT TPS Food was suspected of inflating its financial reports with funds of up to IDR 4,000,000,000,000, and was suspected of extorting receivables, fixed assets and inventory. The former management of PT TPS Food is also suspected of distributing IDR 178,000,000,000 to related parties. They not only inflated IDR 4,000,000,000,000, but also IDR 662,000,000,000 in the income account and IDR 329,000,000,000 in the EBITDA (earnings before interest, tax, depreciation and amortization) item in the financial reporting. Apart from these findings, Ernest & Young also stated that they have internal data records that are different from those used by auditors when auditing financial reports (Wareza, 2019)

The PT TPS Food case has not been resolved since 2017 insofar as the case exceeded the funds in the company's financial statements. The Financial Services Authority will ask the new management of PT TPS Food to revise the 2017 and 2018 financial reports and review the financial reports if there are any changes. On the other hand, since July 5 2018, the IDX has suspended PT TPS Food shares until July 5 2020, and will *delist* the issuer if the BEI suspension limit is exceeded (Sidik, 2019)

The case above illustrates that the application of conservative accounting principles in Indonesia is still low, especially in the Consumer Goods Industry. Company management does not pay attention to the presentation of financial reports, resulting in excessive profits. In this case, the company is assumed to have made a profit from *the markup* and may be too optimistic in generating profits (Ganevia et al., 2022) . As a result, the value of winning is greater than reality. Another consequence of the absence of regulatory principles is the potential for manipulation of financial reporting. This can reduce user trust in the financial reports presented by the company (Adeliana & Suryanawa, 2019)

Much research has been conducted on Accounting Conservatism. Including research by El-Habashy (2019) and (Jao & Ho, 2019) . This shows that Debt Contracts influence Accounting Conservatism. Haloman et al., (2021) show that Political Costs do not affect Accounting Conservatism. The research results of Afriani et al., (2019) show that the Bonus Plan influences Accounting Conservatism, while the research of Haniifah et al., (2021) and Haloman et al., (2021) shows that the Bonus Plan has no impact on Accounting Conservatism.

From the explanation above, researchers found that there is a phenomenon of money inflation or a lack of applying conservatism in accounting for consumer goods producers, which is more complex and is used in everyday life. So there is a greater possibility of manipulation of financial reports. Another reason is because previous research is inconsistent.

The principle of corporate conservatism itself has been influenced by several factors in previous research. First, Political Costs show a conflict of interest between the company (manager) as an extension of society and the government. The government has the power to transfer property from companies to local governments in accordance with applicable regulations (taxation and taxation laws, other regulations) which gives rise to Political Costs. The greater the profits the company makes, the greater the political costs it must incur (Sari, 2023) . Big companies also make bigger profits. It cannot be denied that large companies are in the spotlight of both society and the government, because it is certain that the activities of large companies generate greater profits than small companies. For this reason, large companies use conservative accounting treatment when presenting financial reports to reduce political costs. Therefore political costs can influence accounting conservatism (Hariyanto, 2020) .

Second, the debt contract factor projects that management wants to increase profits and assets reducing the costs of renegotiating debt agreements. Managers of companies entering into credit agreements tend to choose the same accounting methods that influence revenue growth to protect external reputation. Managers also do not want their performance to be underestimated when reported profits are low. The higher the company's debt commitment, the closer the company is to the limit required by the debt commitment. The stricter the debt covenant, the more likely it is that the debt covenant will be violated. In this situation, management can reduce the possibility that the company will breach the contract and prevent the company from renegotiating costs by choosing more optimistic accounting policies (Dewi & Heliawan, 2021) . This shows that Debt Contracts can influence the application of the Principle of Conservatism.

In addition to Debt Contracts and Political Costs, Bonus Plans can also influence Accounting Conservatism. Bonus planning refers to the actions taken by management in choosing accounting methods to maximize profits in order to obtain large bonuses. As a general rule, managers of companies with certain Bonus Plans prefer current methods of increasing profits. Managers receive bonuses in the form of incentives or shares. High net profit reflects the manager's success in managing the company and his responsibility as an agent to *the principal* (Martika et al., 2021) .

This goes against the Application of the Principle of Conservatism which leads to diminishing returns. So the Bonus Plan can influence Accounting Conservatism (Hariyanto, 2020) . Based on the explanation of the previous problem formulation, the aim of this research is to determine the influence of political costs on accounting conservatism, to determine the influence of debt contracts on accounting conservatism and to determine the influence of bonus plans on accounting

conservatism. And to find out the influence Political Costs , Debt Contracts and Bonus Plans against Accounting Conservatism.

2. Literature Review

Positive Accounting Theory

Positive Accounting Theory (PAT) is a framework that seeks to explain and predict the accounting choices made by firms. Rooted in economic theory, PAT assumes that individuals act in their own self-interest, and this extends to managers, shareholders, and creditors within a corporate setting. This theory posits that these stakeholders have differing objectives, and accounting policies are often chosen to serve these specific interests. PAT is characterized by three key hypotheses: the bonus plan hypothesis, suggesting managers manipulate accounting figures to maximize their bonuses; the debt covenant hypothesis, proposing that firms with high debt levels choose accounting policies to comply with debt covenants; and the political cost hypothesis, stating that large, profitable firms adopt conservative accounting practices to mitigate political scrutiny. While PAT has been instrumental in understanding accounting choices and their motivations, it has faced criticism for its oversimplification of human behavior and lack of prescriptive guidance. Despite this, PAT remains a valuable tool for investors, creditors, and regulators to make informed decisions, and it has contributed significantly to the development of corporate governance mechanisms and accounting policies that aim to align the interests of managers and shareholders.

Political Costs

According to Savitri (2016) Political costs are the transfer of assets disclosed by the company to the public in accordance with applicable regulations (tax and other regulations). Company executives may choose accounting policies that delay the reporting of income from the current period to the future. This hypothesis is based on the assumption that firms with higher Political Costs are more sensitive to asset transfers, which may be larger in scale than firms with low Political Costs.

Debt Covenant

According to Pambudi (2017) a debt contract is an agreement made between the creditor and the debtor, limiting activities that can affect the value and collection of the loan. Public companies are never free from debt that they can use to grow their business. Debt Contracts explain how managers handle Debt Contracts. In response to violations of arrears agreements, managers try to avoid them by choosing profitable accounting methods.

Bonus Plan

According to Savitri (2016) the Bonus Plan is given to managers by the company owner. Managers of companies with Bonus Plans are more likely to choose an accounting method known as income smoothing, which can substitute reporting future period earnings for the current period. In this hypothesis, when managers rely heavily on bonuses in their payroll system, they tend to choose a payroll method that maximizes payments, such as the accrual method (Daryanto & Santioso, 2020)

Accounting Conservatism

According to Savitri (2016), the principle of conservative accounting is to recognize expenses and liabilities as soon as possible, even if the results are uncertain, only when the income and assets recognized can be received reliably. Confession concept. If the loss is not clear, you should book the loss, but if the gain is unknown, do not book the gain. Therefore, financial statements tend to have lower sales and net worth figures just in case.

This research has similarities with Iskandar's (2016) research , both of which use the same proxy, with the independent variables consisting of *Debt Covenant*, *Political Cost*, and *Bonus Plan*, and the dependent variable is Accounting Conservatism.

The difference between the two lies in the Accounting Conservatism proxy used. Iskandar's (2016) research uses the conditional conservatism proxy model, while in this study the Zhang model proxy is

used. Apart from that, there are two basic differences in research subjects and observation periods. Okto Reyhansyah Iskandar and Sparta conducted a survey of Manufacturing Companies listed on the IDX in the food and beverage subsector from 2012 to 2015. The survey was conducted on Manufacturing Companies listed on the IDX in this industry.

Positive Accounting Theory attempts to explain why Accounting Standards are important to businesses and those interested in financial reporting. Apart from predicting which accounting policies an entity will choose under certain conditions, managers tend to increase profits to hide poor performance because they choose accounting methods that are consistent with their good intentions (Haniifah et al., 2021) . Accounting conservatism is the principle of accelerating expense recognition and slowing revenue recognition. In reality, the company makes very small profits (Daryanto & Santioso, 2020)

Political Costs show companies tend to postpone current revenues to tomorrow's period. The political cost is corporate taxes, which can be avoided by changing accounting policies. This is done by large or capital-intensive companies that prefer to apply the Principles of Accounting Conservatism (Savitri, 2016) .

The debt contract will be violated. If the company has a large amount of debt, then it has violated the debt agreement. Therefore, companies will no longer apply conservative accounting principles. Company management tries to increase company profits by transferring profits or choosing accounting methods that suit their interests in order to appear better in the eyes of creditors and investors (Haryadi et al., 2020) .

If the company uses a Bonus Plan, managers act according to the bonuses awarded. Managers of companies with bonus obligations tend to choose the procedure of transferring profits from the next period to the current period (Daryanto & Santioso, 2020) . This means managers carry out revenue management to meet profit targets or maximize profits. The Bonus Plan can be proxied by the managerial ownership structure. Low management accountability means that financial reporting tends to be less conservative because management prioritizes the pursuit of bonuses (Savitri, 2016) .

3. Methods, Data, and Analysis

The method used in this research is descriptive analysis and verification analysis. Basically, apart from describing or explaining the data collected, this research also tests the truth of the hypothesis using the multiple linear regression analysis method. The nature of the data in this research is quantitative data. The data source used in this research uses secondary data. Secondary data for this research was obtained from annual financial audits and annual reports of Manufacturing Companies in the Consumer Goods Industry Sector which are listed and traded publicly on the Indonesia Stock Exchange from 2017 to 2021. The data was obtained from the official website of the Indonesian Stock Exchange www.idx.co.id.

The sampling technique used in this research is the *purposive sampling method* . *Purposive sampling* is a sample selection method based on certain criteria to obtain a representative sample from the population (Sugiyono, 2018) . After collecting data using several research techniques, the next step is to analyze the data studied using methods that support data processing, analysis and interpretation. The analytical methods used to process data in this research are descriptive analysis, validation/verification analysis, and hypothesis testing.

The research population is Manufacturing Companies listed on the IDX in the Consumer Goods Industry from 2017 to 2021. The survey sample is Consumer Goods Companies listed on the Indonesia Stock Exchange that have published annual financial reports (*audited*) and annual reports for 2017-2021 and have data complete variables from the survey.

Table 2. Sample Companies

No	Company name
1	PT Tri Banyan Tirta Tbk
2	PT Campina Ice Cream Industry Tbk
3	Chitose International Tbk, PT
4	Gudang Garam Tbk
5	Buyung Poetra Sembada Tbk, PT
6	Indofood Sukses Makmur Tbk, PT
7	Kedaung Indah Can Tbk, PT
8	Langgeng Makmur Industry Tbk, PT
9	Mayora Indah Tbk, PT
10	Sekar Laut Tbk, PT
11	Ultrajaya Milk Industry
12	Wismilak Inti Makmur Tbk

Source: Indonesian Stock Exchange (2022).

This research uses three independent variables (Political Costs, Debt Contracts, and Bonus Plans) and one dependent variable (Accounting Conservatism). Research shows political costs based on company size. Company size is the size of the company and is reflected in the company's total assets. The Political Cost Hypothesis predicts that managers will underestimate profits and cut Political Costs. Large companies will also have high political costs (Sari, 2023) . Therefore, in accounting theory, company size is used to calculate Political Costs. In this research, company size is determined by taking the natural logarithm of total assets. Because total assets are considered more stable than sales and other proxies. The formula used to measure political costs is as follows:

$$Size = \text{Log Natural (Total Aset)}$$

Source: (Ganevia et al., 2022)

The debt contract in this research is represented by *leverage* . The *leverage* ratio or *Debt ratio* is the ratio of total debt to total assets and measures the percentage of funds provided by creditors. The *leverage* ratio shows how much a company uses debt to fund or develop its business operations (Haniifah et al., 2021) . The larger the debt-financed company, the greater the value of the Debt Contract, and the smaller the possibility of the company adopting Accounting Conservatism (Sari, 2023) . The following is the formula for calculating *Leverage* :

$$Debt\ to\ total\ asset\ ratio = \frac{Total\ liabilities}{Total\ Assets}$$

The Bonus Plan in this research is proxied by managerial ownership. The more shares management owns, the more it helps increase the value of the company's shares. So managers try to make their company profitable to get big bonuses (Martika et al., 2021) . The Managerial Ownership Formula used is as follows:

$$Kepemilikan\ manajerial = \frac{Jumlah\ saham\ manajerial}{Jumlah\ saham\ yang\ beredar}$$

Source: (Ganevia et al., 2022)

Accounting Conservatism in this research is proxied by *Zhang's Accrual Conservatism model*, or more often abbreviated as *conv_acc*, hereinafter referred to as *CONNAC*. Reserve conservatism in this model is obtained by dividing non-operating reserves by total assets and multiplying by (-1). The higher the *CONNAC score*, the higher the Accounting Conservatism applied.

According to (Savitri, 2016) supported by Zhang's research using *conv_accrual* to measure Accounting Conservatism. Because this proxy is used with accrual recording, that is, recording is done when a transaction occurs even though cash has not been received. However, in this case only *non operating accruals* (not income) are recorded. The following is the mathematical formula to obtain the *CONNAC value*, namely:

$$CONNAC = \frac{\text{Non operating Accrual}}{\text{Total Asset}} \times -1$$

Source: (Savitri, 2016)

Information :

$$\text{Non operating accrual} = \text{Operating accrual} - \Delta \text{Account receivable} - \Delta \text{Inventory} - \Delta \text{Prepaid Expenses} + \Delta \text{Account Payable} + \Delta \text{Taxes Payable}$$

$$\text{Operating accrual} = \text{Net income} + \text{Depreciation} - \text{Net Operating Cash Flow}$$

Net operating cash flow = The difference between cash in and cash out from operating activities.

4. Results and Discussion

Table 3. Descriptive Statistics

Variable	Min	Max	Mean	elementary school
Political Costs	11.1	14.2	12.3	0.86
Debt Contracts	0.10	1.83	0.40	0.24
Bonus Plan	0.02	0.84	0.31	0.34
Accounting Conservatism	-1.15	0.42	-0.02	0.36

Source : SPSS 25.0 *output*, data processed independently, 2022 .

Table 4. Results of multiple linear analysis

Model	B	Std. Error
Political Costs	0.179	0.051
Debt Contracts	-0.071	0.178
Bonus Plan	0.167	0.138

Source : SPSS 25.0 *output*, data processed independently, 2022.

Table 5. Coefficient of Determination Results

Variable	Coefficient of Determination	Percentage
Political Costs	0.454	20.61
Debt Contracts	-0.056	3.13
Bonus Plan	0.264	6.96
Accounting Conservatism	,328	32.8

Source : SPSS 25.0 output , data processed independently, 2022.

Through these calculations it can be seen that the contribution of Political Costs affects Accounting Conservatism, namely 20.61 % . Likewise, Debt Contracts have an influence of 3.13 % on Accounting Conservatism. And the Bonus Plan has an influence of 6.96 % on Accounting Conservatism. Then together Political Costs, Debt Contracts and Bonus Plans have an influence of 32.8 % on Accounting Conservatism.

Table 6. T test

Model	Std. Beta	Q	Sig.
Political Costs	0.179	3,483	0.001
Debt Contracts	-0.071	-0.401	0.690
Bonus Plan	0.167	1,262	0.212
Accounting Conservatism	-2,269	-3,629	0.001

Source : SPSS 25.0 output , data processed independently, 2022.

For every test hypothesis Partial variable independent of the variable dependent can concluded. Following is results t-test: Based on results test t in on seen that t_{count} For Cost Political is 3,482 Which positive on level significance 0.001, And t_{table} based on table distribution t is 2.00247 (attached). Because $t_{count} > t_{table}$ own mark $3,482 > 2.00247$ And mark significance $0.001 < 0.05$ so H_0 rejected And H_1 is accepted. By Because That Cost Political influence Conservatism Accountancy. So that possible For test hypothesis First from study This. Mark t positive show that Cost Political relate one way with Conservatism Accountancy.

Besides That, hypothesis second show that mark t_{count} For Contract Debt is 0.401, Which negative on level significance 0.690, whereas t_{table} based on table distribution t is 2 .00247 (attached). H_0 accepted And H_1 rejected Because $t_{count} < t_{table}$ $0.401 < 2 .00247$ And significance $0.690 > 0.05$. It means Debt Contracts No influential to Accounting Conservatism, so this research cannot test the second hypothesis which shows a different relationship with Accounting Conservatism.

For hypothesis third, Plan Bonus own t_{count} as big as 1,262 Which found positive on level significance 0.212, whereas t_{table} based on table distribution t is 2.00247 . H_0 accepted And H_3 rejected Because $t_{count} < t_{table}$ $1,262 < 2 .00247$ And significance $0.212 > 0.05$. This imply that Plan Bonus No impact on Conservatism Accountancy, so that study This No can prove truth hypothesis third. Mark t positive show that Plan Bonuses no relate direct with Conservatism Accountancy.

Table 7. F test

Model	F	Sig.
Political Costs, Debt Contracts, Bonus Plans Against Accounting Conservatism	5,746	0.002

Source : SPSS 25.0 *output* , data processed independently, 2022.

Based on the Sig column. (significant) in table 4.9 F Test Results above, obtained Sig. 0.002 is smaller than the probability of 0.05 or $0.002 < 0.05$ and the $\text{calculated } F \text{ value} > F \text{ table}$, namely $5.746 > 2.76$, then H_0 is rejected and H_4 is accepted. This means that political costs, debt contracts and bonus plans have an influence on accounting conservatism.

Political Costs of Accounting Conservatism

Based on the results of this research, it was found that Political Costs influence Accounting Conservatism, rejecting H_0 and accepting H_1 . This tests the first hypothesis that Political Costs influence Accounting Conservatism.

The findings of this research are in line with research by Iskandar (2016) which states that Political Costs influence Accounting Conservatism. According to Iskandar (2016) , company size causes higher political costs. Therefore, companies tend to use profitable accounting techniques to reduce Political Costs. Companies tend to cut current profits by redistributing profits into future profits. Government bears Political Costs when corporations are seen as sharing responsibility for the social good of society. One of the relevant government policies is tax obligations. The higher the company's income or turnover, the higher the tax paid.

This research is consistent with Positive Accounting Theory (Savitri, 2016) because of the link between Political Costs and Accounting Conservatism. Positive Accounting Theory (PAT) supports this view, suggesting that companies with high political visibility may adopt conservative accounting practices to reduce reported profits and thus political scrutiny and costs (Watts & Zimmerman, 1986). This is proven by a sample of Manufacturing Companies listed on the IDX in 2017-2021 in the Consumer Goods Industry Sector, with a significant total asset value of IDR 179,356,193,000,000. PT Indofood Sukses Makmur Tbk (INDF) in 2021 tends to apply the Principle of Conservatism Strict accounting with a value of 0.045939891 in determining profit. In contrast, among Manufacturing Companies in the Consumer Goods Industry Sector from 2017 to 2021, the one with the lowest total assets in this research sample was PT Implementation of Accounting Conservatism Kedaung Indah Can Tbk (KICI) amounting to Rp. This means that every company that claims to be a large company will definitely ask the government to supervise it. As a result, large companies are required to bear heavy tax burdens and improve public services. To reduce these assets so that they do not appear too expensive, companies tend to adopt accounting conservatism. This is also supported by analysis of the coefficient of determination of Political Costs, which has an impact of 20.61 % on Accounting Conservatism. From here, we can conclude that Political Costs influence the implementation of Accounting Conservatism in sample companies.

Debt Covenant against Accounting Conservatism .

Based on the results of this research, it was found that Debt Contracts had no effect on Accounting Conservatism, so H_0 was accepted and H_2 was rejected. This means that the second hypothesis that Debt Contracts influence Accounting Conservatism cannot be tested.

The results of this research are in line with research by (Dewi & Heliawan, 2021) and (Haniifah et al., 2021) which states that Debt Contracts have no effect on Accounting Conservatism. On the other hand, the results of this research contradict research (Jao & Ho, 2019) which states that Debt Contracts have an effect on Accounting Conservatism.

A debt contract is an agreement made between the creditor and the debtor limiting activities that can affect the value and collection of the loan. Public companies are never free from debt, which

they can use to grow their business. Debt contracts explain how managers handle debt contracts. In response to violations of arrears agreements, managers try to avoid them by choosing profitable accounting methods (Pambudi, 2017). PAT also predicts that firms nearing debt covenant violations are more likely to adopt conservative accounting methods to manage earnings downward, thus avoiding covenant breaches (Watts & Zimmerman, 1986).

According to (Sari, 2023) found that the higher the debt value, it is more likely that management will need to report more assets and income to fulfill the settlement agreement. The higher the debt value, the more requirements there are for generating assets and profits. Management of heavily indebted firms is motivated to meet their profit goals by honoring debt covenants and avoiding contract renegotiation, thereby promoting conservative financial statement presentation.

However, this research is not in accordance with Positive Accounting Theory (Savitri, 2016) . This is because the average assets of Manufacturing Companies in the Consumer Goods Industry Sector listed on the IDX from 2017 to 2021 come from liabilities which can be seen from the results of descriptive analysis at 0.40. or 40% (less than 50%). Therefore, the average dependence of a company on its creditors is low. This condition makes company management reluctant to meet profit targets to fulfill the Debt Contract. This is also supported by analysis of the coefficient of determination for Debt Contracts, which influences Accounting Conservatism. Only 3.13 % . Thus, the Debt Contract does not affect the application of the Principle of Accounting Conservatism because it does not depend on obligations.

Bonus Plan against Accounting Conservatism

Based on the results of this research, the Bonus Plan is proven to have no effect on Accounting Conservatism, H_0 is accepted and H_3 is rejected. Therefore, the third hypothesis, that the bonus system influences Accounting Conservatism, cannot be verified. The results of this research are in line with research (Haniifah et al., 2021) and (Haloman et al., 2021) which states that the Bonus Plan does not affect Accounting Conservatism. The results of this study are not in accordance with research (Iskandar, 2016) .

According to Haloman et al., (2021) found that the higher the value of the shares owned by a manager, the more motivated the manager is to increase the value of the company's shares. When it comes to bonus plans, management prefers methods that can increase their sustainable profits. The Bonus Plan is given to managers by the company owner. Managers of companies with Bonus Plans are more likely to choose an accounting method known as income smoothing, which can substitute reporting future period earnings for the current period. When managers rely heavily on bonuses in their payroll system, they tend to choose a payroll method that maximizes payments, such as the accrual method (Daryanto & Santioso, 2020). PAT suggests that managers will act in their own interest by manipulating earnings to increase their compensation, often through less conservative accounting methods to report higher earnings in the short term (Watts & Zimmerman, 1986).

However, this research is not in accordance with Positive Accounting Theory (Savitri, 2016) . From 2017 to 2021, the average management ownership value of Manufacturing Companies in the Consumer Goods Sector listed on the IDX is relatively low, namely 31% (less than 50%). Lack of management participation does not affect the implementation of accounting conservatism, especially because the size of bonuses, especially in the form of shares, is still relatively small. This is also reinforced by the analysis of the coefficient of determination of the Bonus Plan which affects balance sheet conservatism by only 6.96 % . Therefore, there is no incentive for management to carry forward profits from future periods to the current period or take steps to maximize profits. If the interests of managers are not in line with considering the interests of shareholders, management does not believe that they own the company and will not influence the application of accounting conservatism principles because the number of shares is still relatively small.

Political Cost, Debt Covenant and Bonus Plan on Accounting Conservatism.

Based on the results of this research, it shows that if political costs, debt contracts and bonus plans influence accounting conservatism, then H_0 is rejected and H_4 is accepted. This tests the fourth hypothesis that Political Costs, Debt Contracts, and Bonus Plans influence Accounting Conservatism. This finding is supported by research (Iskandar, 2016) which states that Political Costs, Debt Contracts, and Bonus Plans jointly influence Accounting Conservatism.

The principle of Accounting Conservatism is to be careful in financial reporting and recognize costs and liabilities as soon as possible even though the results are uncertain, but do not rush to recognize income and profits. Thus, there are several considerations that guide managers to present conservative financial reporting. For example Political Costs, Debt Contracts and Bonus Plans.

Based on a joint analysis of the coefficient of determination of Political Costs, Debt Contracts and Bonus Plans, this has an impact of 32.8% on the Accounting Conservatism of Consumer Goods Producers listed on the IDX during the 2017-2021 period. So, Debt Contract has a role in causing companies to act conservatively. Because the more debt a company has, the more creditors it has overseeing the company's operational activities and accounting policies. In other words, creditors will demand that the company act conservatively because creditors have an interest in the funds lent to the company which are expected to be profitable, especially for the creditors themselves. Meanwhile Political Costs The company's debt level is not a problem when the company's debt level is high, because the interest burden on the debt can reduce political costs companies, for example tax costs, so companies automatically act conservatively. However Bonus Plan companies can influence the implementation of Accounting Conservatism. This is because a company's profit assessment that is too high is considered more dangerous in the eyes of the law because it is considered to be presenting false profits. Thus, companies implementing the Bonus Plan are encouraged to choose the following accounting policies for management that suit certain conditions in the future, namely Accounting Conservatism in the preparation of financial reports. Therefore, although partially the Debt Contract and Bonus Plan have no effect, simultaneously Political Costs, Debt Contract and Bonus Plan do able to influence Accounting Conservatism.

5. Conclusion and Suggestions

The results of this research partially show that Debt Contracts and Bonus Plans have no effect on Accounting Conservatism while Political Costs affect Accounting Conservatism. Simultaneously Political Costs, Debt Contracts and Bonus Plans able to influence Accounting Conservatism. Specifically, higher political costs and stringent debt covenants lead to increased conservatism, whereas the impact of bonus plans is more nuanced, reflecting a balance between short-term earnings management and long-term financial stability. The findings support the application of Positive Accounting Theory in explaining the determinants of accounting conservatism. Companies with higher political visibility and debt constraints are more likely to adopt conservative accounting practices to mitigate potential costs and manage external perceptions. This highlights the role of accounting conservatism as a strategic tool in corporate financial management.

The researcher provides several recommendations based on the research findings and discussions carried out, which can be utilized by the parties involved, where it is hoped that this research can be used as material for considering the size of large companies where Political Cost applies the principle of prudence (Accounting Conservatism) in preparation of company financial reports. And it is hoped that companies with large political costs will be given more attention and chosen because these companies are shown to produce financial reports that tend to apply conservatism practices and companies with small political costs will more often apply conservatism practices.

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