THE DETERMINANTS OF ACCOUNTING PRUDENCE AMONG INFRASTRUCTURE SECTOR COMPANIES IN INDONESIA

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Abstract

This study aims to identify the factors influencing the application of accounting prudencein Indonesian infrastructure sector companies. These factors encompass capital intensity,growth opportunities, company size, profitability, leverage, and audit committees. A quantitative approach is employed in this research, with the population consisting of infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) from 2018to 2022. The sample selection utilizes purposive sampling techniques, resulting in a finalsample of 35 companies with a 5-year observation period, comprising 114 analyzable units of data. Descriptive and inferential statistical analyses are conducted using IBM SPSS version 26. The research findings indicate that capital intensity, company size, profitability, and leverage significantly impact accounting prudence. However, growth opportunities and audit committees do not have a significant effect on accountingprudence. The novelty of this study is in the simultaneous utilization of 6 independent variables. Previous study has not used these 6 independent variables simultaneously. The population consists of infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

Keywords: Accounting Prudence, Capital Intensity, Growth Opportunity, Company Size, Profitability, Leverage, Audit Committee.

1. INTRODUCTION

Financial statements are made to describe the condition of the company and provide information to parties who need financial statements. Financial AccountingStandards (SAK) give companies freedom to apply a principle. A very important principle to apply is the principle of prudence. Accounting prudence increases prudence in presenting financial statements. Accounting prudence minimizes and even prevents overstatement of financial statements and avoids information asymmetry. Accounting prudence encourages companies to present financial statements according to actual conditions.

Infrastructure sector companies have intense competition, because this sector is the key to the sustainability of Indonesia's economic development. Infrastructure sector companies require a large amount of funds making it important for infrastructure sector companies to apply accounting prudence. So that the financial statements presented are not overstatement, do not cause information asymmetry and do not cause manipulation of financial statements.

The phenomenon of low accounting prudence can be seen in the irregularities inthe 2018 financial statements of PT Garuda Indonesia. PT Garuda Indonesia too quickly recognized revenue from the collaboration with PT Mahata Aero Teknologi,while the revenue has not met the requirements for revenue recognition (Hidayati, 2019). Another phenomenon regarding accounting prudence is seen in the possibilityof manipulating the financial statements of infrastructure sector companies, namely PT Wijaya Karya (WIKA). The reported financial statements do not match the actual conditions. In the financial statements, the company experienced profits but in realitythe company's cash flow was never positive (Nurmutia, 2023).

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There are still inconsistencies that become research gaps in the results ofpreviously conducted studies. Such as capital intensity according to (Atmojo & Adi,2021) has a significant effect on accounting prudence. Meanwhile, capital intensity according to Khasanah & Henny, (2023) has no effect on accounting prudence. Growth opportunity according to Idrus et al., (2022) has a significant effect on accounting prudence. Meanwhile,

Growth opportunity according to Widaryanti, (2022) has no effect on accounting prudence. Company size according to Wiharno et al., (2023) has a significant effect on accounting prudence. Profitability according to Setiadi et al., (2023) has a significant effect on accounting prudence. Leverage according to Rifqi & Sasongko, (2023) leverage has a significant effecton accounting prudence. According toRizki et al., (2023) the audit committee has no effect on accounting prudence.

2. LITERATURE STUDY

Positive accounting theory in research, precisely on the political cost hypothesis,assumes that with high capital intensity the company has high political costs. So thataccounting prudence increases so that the financial statements describe the actual situation and are not too optimistic. When the financial statements are careful and describe the actual situation, it is likely that the political costs borne by the companywill be smaller. Infrastructure sector companies have recently been dragged into a case of possible manipulation of financial statements which shows a lack of application of accounting prudence. The company dragged into this case is BUMN Karya, namely PT Wijaya Karya (WIKA), the possibility of this manipulation is because the financial statements reported by the company do not match the actual conditions. In the financial statements, the company experienced profits but in reality the company's cash flow was never positive (Nurmutia, 2023).

Research by Atmojo & Adi, (2021) and Sanjaya et al., (2021) states, when the company's capital intensity is high, accounting in the company will decrease. This shows that this theory is not applicable to companies in Indonesia. Because with highcapital intensity, companies are optimistic that they can finance all the political coststhey are responsible for. With high capital intensity, companies need large capital assistance from external parties. This makes management tend to present optimistic financial statements and reduce accounting prudence so that the financial statementspresented match investor expectations.

H1: Capital intensity has a significant effect on accounting prudence

Agency theory in the study, describing the agreement between shareholders and management, shows that when experiencing increased growth, the company will require large funds from external parties. The company will strive to producefinancial reports that can attract investors. The company assumes that by doing this, the relationship between company management and shareholders will remain well established.

Research by Idrus et al., (2022) and Majidah & Deaprila, (2022) states that growth opportunity has a significant effect on accounting prudence. When thecompany's growth opportunity is high, management will reduce accounting prudence by making optimistic financial reports to attract investors to invest in the company. A decrease in accounting prudence in the company will result in optimistic financialreports. With optimistic financial reports, management assumes that investors and shareholders will also assume that they are optimistic about the company's performance.

H2: Growth opportunity has a significant effect on accounting prudence

Positive accounting theory in research, precisely on the political cost hypothesis (political cost hypothesis) large-sized companies have high political costs. Large companies tend to get more attention from the government. This is because the political costs that the government will receive from large companies are greater thanthe political costs received from small companies. If the financial statements are careful and describe the actual situation, it is likely that the political costs that the company will bear will be smaller.

Research by Abbas & Hidayat, (2022) and Wiharno et al., (2023) stated that company size has a significant effect on accounting prudence. The greater the size ofthe company, the application of accounting prudence will also increase. The purposeof the increase in application is to ensure that the company's financial statements accurately reflect the actual situation and avoid excessive optimism.

H3: Company size has a significant effect on accounting prudence

The signal theory in the study illustrates that profitability will signal to externalparties regarding the company's ability to earn profits. With high profitability,external parties assume that the company is able to utilize its capital to generate profits. Research by Suyono (2021), Pratidina & Majidah, (2022) and Setiadi et al., (2023) stated that profitability has a significant effect on accounting prudence. Increased profitability makes companies tend to reduce accounting prudence. The decrease in the application of accounting prudence is due to the company's optimisticcondition towards the performance and financial statements it produces. In addition,this is done so that the company's assessment in the eyes of the public and investors remains good value and attractive.

H4: Profitability has a significant effect on accounting prudence

Positive accounting theory in research, specifically the debt covenanthypothesis. Debt covenant hypothesis states that when the debt ratio is high, companies choose to reduce accounting prudence. The decrease in the application ofaccounting prudence is done so that the company's financial statements become moreoptimistic. Research by Rifqi & Sasongko, (2023) and Suyono (2021) states that leverage has a significant effect on accounting prudence. A decrease in accounting prudence is done so that creditors do not stop lending to the company.

H5: Leverage has a significant effect on accounting prudence

Agency theory in research, explains the relationship between shareholders and management. This theory supports the existence of an audit committee in thecompany. The audit committee will ensure quality financial reports and avoidmanipulation. In order to avoid information asymmetry that may occur between shareholders and management. Yuniarti & Pratomo, (2020) states that the audit committee has a significant effect on accounting prudence. The more the number ofcompany audit committees, the accounting prudence will also increase.

H6: Audit Committee has a significant effect on accounting prudence

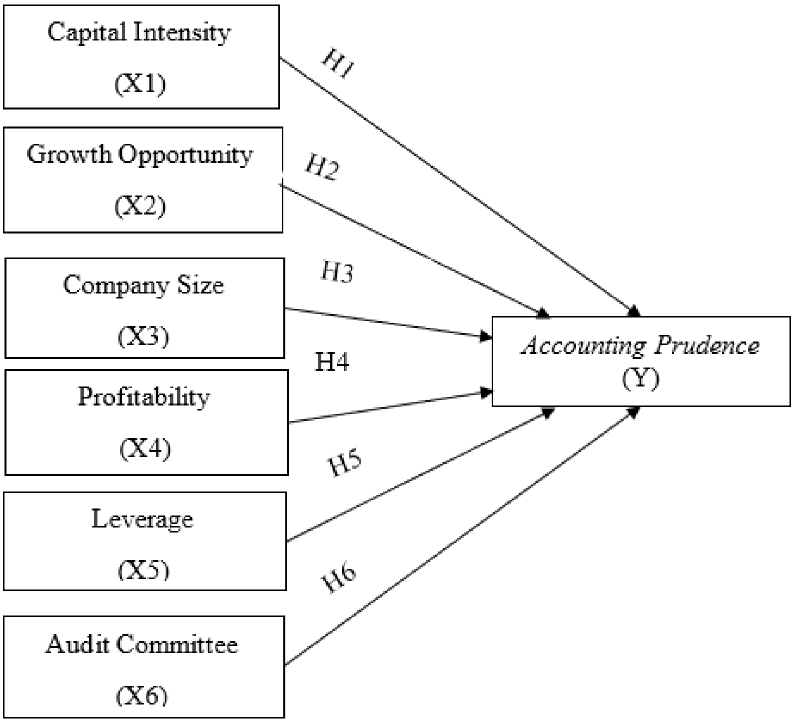

Figure 1. Research Hypothesis

3. RESEARCH METHODOLOGY

This research uses a quantitative approach. With a population of infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during 2018 to 2022.Sample selection using purposive sampling technique which formed the final sampleof 35 companies with 5 years of observation, with data that can be analyzedamounting to 114 units of analysis. The research sampling criteria are presented in table 1:

Table 1. Research Sampling Criteria

No	Criteria	Total
1.	Infrastructure sector companies in Indonesia	65
2.	Infrastructure sector companies listed on the Indonesia StockExchange (IDX) from 2018 to 2022.	(25)
3.	Infrastructure sector companies that consistently publish financial reports for 5 years of observation, from 2018 to 2022.	(5)
4.	Total of sample companies	35
5.	Year of observation (2018-2022)	5
6.	Unit of Analysis (35 x 5)	175
7.	Incomplete Data and *Outliers*	(61)
8.	Infrastructure sector companies in Indonesia	65
	Total Sample	**114**

Source: Processed secondary data, 2023

This study uses accounting prudence as the dependent variable. With 6 independent variables consisting of capital intensity, growth opportunity, company size, profitability, leverage and audit committee. The variables formulas can be seenin table 2 below:

Table 2. Variable Formulas

Variables	Formulas
Accounting Prudence (Y)	$CONAC = \frac{(NIO + DEP - CFO)x - 1}{Total\ Asset}$
Capital intensity (X1)	$Capital\ Intensity = \frac{Fixed\ Asset}{Total\ Asset}$
Growth Opportunity (X2)	$Total\ Asset\ Growth\ Ratio = \frac{Total\ Asset(t) - Total\ Asset\ (t-1)}{Total\ Asset\ (t-1)}$
Company Size (X3)	$Company\ Size = LN\ Total\ Asset$
Profitability (X4)	$Return\ on\ Equity = \frac{Net\ Profit}{Total\ Equity}$
Leverage (X5)	$Debt\ to\ Equity\ Ratio = \frac{Total\ Liability}{Total\ Equity}$
Audit Committee (X6)	$Audit\ Committee = \Sigma\ Audit\ Committee$

Source: Developed by Research, 2023

This study uses secondary data sourced from the annual financial statements of infrastructure sector companies listed on the IDX from 2018 to 2022. Descriptive andinferential statistical analysis was used as an analysis technique in this study throughIBM SPSS version 26. Inferential statistical analysis of research such as classical assumption tests include residual normality tests, multicollinearity tests, autocorrelation tests and heteroscedasticity tests. With multiple linear analysis tests and hypothesis testing which includes the coefficient of determination (R2) test, F statistical test (F Test) and T statistical test (T Test). The regression equation modelof this study is

$$\mathbf{CONACC = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \beta 4\ X4 + \beta 5\ X5 + \beta 6\ X6 + £}$$

4. RESULT AND DISCUSSION

This study begins with a descriptive statistical analysis to determine the distribution of research data, Descriptive statistic analysis results of research in table3 below:

Table 3. Descriptive Statistic Analysis

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Accounting Prudence	114	-0,791	0,023	-0,29539	0,239893
Capital Intensity	114	0,084	0,949	0,57346	0,260259
Growth Opportunity	114	0,082	1,379	1,05161	0,108413
Company Size	114	12,706	18,227	15,65072	1,395742
Profitability	114	-0,220	0,349	0,05110	0,096077

Leverage	114	-2,180	3,862	1,37954	1,008357
Audit Committee	114	2	6	3,14	0,477
Valid N (listwise)	114				

Source: IBM SPSS 26, Processed secondary data, 2023

Based on descriptive statistical analysis, the average application of accounting prudence in Indonesia is -0.29539. The average capital intensity is 0.57346. The average growth opportunity is 1.05161. The average company size is 15.65072. Average company profitability of 0.05110. The average company leverage is 1.37954. The average audit committee owned by the company is 3 people. The resultsof the study can be seen in table 4 below:

Table 4. T Test Result

Coefficients[a]					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	-0,687	0,289		-2,526	0,013
Capital Intensity	-0,713	0,067	-0,774	-10,655	0,000
Growth Opportunity	-0,216	0,151	-0,098	-1,433	0,155
CompanySize	0,073	0,018	0,426	4,132	0,000
Profitability	-0,392	0,180	-0,157	-2,186	0,031
Leverage	-0,072	0,023	-0,303	-3,112	0,002
Audit Committee	0,000	0,035	0,000	-0,001	0,999

Source: IBM SPSS 26, Processed secondary data, 2023

Capital intensity has a significant effect on accounting prudence

This study proves that capital intensity has a significant effect on accounting prudence. When capital intensity is high, optimistic companies are able to pay their political costs. High capital intensity makes companies choose to reduce accountingprudence, so that the resulting financial statements are optimistic and in line with investor expectations. With optimistic financial statements, the company hopes that old investors will continue to invest in the company and can attract new investors to invest. This finding shows that positive accounting theory is not applicable to companies in Indonesia. High capital intensity makes companies optimistic that theycan finance their political costs. This finding is in line with the findings of Atmojo &Adi (2021) and Sanjaya et al., (2021) which have been carried out previously.

Growth opportunity has a significant effect on accounting prudence

This study proves that growth opportunity has no influence on accounting prudence. An increase or decrease in growth opportunity has no effect on the application of accounting prudence. The high and low growth opportunity of the company is accompanied by good governance. This governance has certainly adjusted to the conditions of the company. Growth opportunity shows that the company has good governance. With good governance in corporate growth there is no need to make overly optimistic financial statements. This finding is not in line with agency theory. Growth opportunity does not cause companies to make optimistic financial reports to maintain the relationship and agreement between company management and shareholders. So that growth opportunity has no influenceon accounting prudence. The findings of this study are in line and supported by the research findings of Mubarok et al., (2022) and Widaryanti (2022) which have beenconducted previously.

Company size has a significant effect on accounting prudence

This study proves that company size has a significant effect on accounting prudence. When the size of the company is getting bigger, political costs will also increase. The larger company size makes the company get more attention from the government. The government will impose higher political costs on large companies.With the financial statements already applying accounting prudence and describing the actual situation, it is likely that the political costs that the company will bear willbe smaller. So that company size has a significant effect on accounting prudence. The results of this study support positive accounting theory on the political cost hypothesis. With the assumption that large companies have high political costs, so companies will try to reduce their political costs. The findings of this study are in line with the research findings of Abbas & Hidayat (2022) and Wiharno et al., (2023)which have been conducted previously.

Profitability has a significant effect on accounting prudence

This study proves that profitability has a significant effect on accounting prudence. When profitability increases, the company's ability to utilize its operatingcapital to generate profits is getting better. Increased company profitability gets attention and good judgment from the public and investors. A good and attractive company image for the public and investors makes the company reduce the application of accounting prudence. In addition to maintaining the company's image,accounting prudence is reduced because the company feels that it can overcome all the risks that may occur in the company. The results of this study support signal theory which assumes that the company's ability is reflected by profitability. Profitability is a signal received by external parties such as the public and investors.With the assumption that the higher the profitability, the more signals received by external parties such as the public and investors. The findings of this study are in linewith the research of Suyono (2021), Pratidina & Majidah, (2022) and Setiadi et al., (2023) which have been conducted previously.

Leverage has a significant effect on accounting prudence

This study proves that leverage has a significant effect on accounting prudence.When leverage increases, the company has more pressure. This pressure is obtainedfrom creditors, because the company has debt dependents that must be paid to creditors. This encourages companies to make optimistic financial reports, so that creditors continue to provide loans. To make optimistic financial statements when leverage is high, companies choose to reduce the application of accounting prudence.The results of this study support positive accounting theory on the debt covenant hypothesis, which assumes that when the company's debt ratio is high, the companychooses to reduce the application of accounting prudence. The findings of this study are in line with the findings of Rifqi & Sasongko (2023) and Suyono (2021) which have been conducted previously.

Audit committee has a significant effect on accounting prudence

This study proves that the audit committee has no influence on accounting prudence. Many or few audit committees have no effect on accounting prudence. Theaudit committee in the company is not related to the prudence carried out by the company. The number of audit committees in the company still has the same duties and functions. The existence of an audit committee in the company is tasked with supervising. Not to be directly involved and influence

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decision making and policiesused by management in the preparation of financial statements. With this task, the audit committee cannot ask management to increase or decrease the application of accounting prudence. The results of this study are not in line with agency theory. Because the audit committee cannot encourage management to apply accounting prudence to avoid information asymmetry that may arise between company management and shareholders. The findings of this study are in line with the findingsof Pratidina & Majidah (2022) and Rizki et al., (2023) which have been conducted previously. Which states that the audit committee has no effect on accounting prudence.

5. CONCLUSION

Based on the research results, the average accounting prudence is in the low category. With the average capital intensity, growth opportunity, company size, profitability and leverage in the medium category. While the average audit committee is in the small category. This research proves the influence of capital intensity, company size, profitability and leverage on accounting prudence. While growth opportunity and audit committee show no influence on accounting prudence.

Companies should monitor the trend of capital intensity, company size, profitability and leverage because it affects the company's accounting prudence. Investors should also pay attention to this before making a decision. A limitation of this study is that it focuses solely on infrastructure sector companies as samples. Therefore, future researchers can broaden the scope of the study by includingcompanies from other sector.

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