

The Influence of Debt Covenants, Managerial Ownership, Political Costs, and Litigation Risk on Accounting Conservatism

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Article Info	Abstract
<p>Keywords:</p> <ul style="list-style-type: none">○ Debt covenants,○ Managerial ownership,○ Political costs,○ Litigation risk	<p>Objective - This study aims to obtain empirical evidence on the influence of Debt Covenants, Managerial Ownership, Political Costs, and Litigation Risk on Accounting Conservatism.</p>
<p>Article History</p> <p>Received: 06-10-2025 Accepted: 26-10-2025 Published: 30-10-2025</p>	<p>Design/methodology/approach - The quantitative research method uses secondary data. The population in this study is Property & Real Estate companies that publish annual reports audited by independent auditors and sustainability reports listed on the Indonesia Stock Exchange in 2019-2023. Through a purposive sampling method, panel data of 110 observations was obtained. The analytical technique used to test the hypotheses was multiple linear regression analysis using Eviews 9 software.</p>
	<p>Findings - The results of this study found that Debt Covenants and Managerial Ownership have a positive but statistically insignificant effect on Accounting Conservatism. Political Costs and Litigation Risk have a positive and significant effect on Accounting Conservatism.</p>
	<p>Research limitations/implications - This study was conducted only on companies in the property and real estate sub-sector listed on the Indonesia Stock Exchange during the period 2019-2023, This research only used sources from the companies' financial statements and sustainability reports.</p>

INTRODUCTION

In the disclosure of information in financial statements, there are several concepts that can be applied, one of which is a concept known as accounting conservatism. The principle of conservatism is a concept that requires the recognition of expenses and liabilities promptly, even when the outcomes are uncertain, while revenues and assets are only recognized when their receipt is assured. Accounting conservatism is also interpreted as a principle of prudence applied by management in recording income and expenses, with the aim of considering all potential risks. From a more optimistic standpoint, management tends to recognize certain expenses or losses rather than anticipated gains or revenues that may be realized in the future (Zahrani et al., 2023). The main objective of applying conservatism in accounting is to reduce the risk caused by overconfidence of managers or company owners in recording profits that exceed the actual performance (Fitriani & Ruchjana, 2020).

A case example occurred with PT Hanson International Tbk, where the Financial Services Authority (OJK) discovered manipulation in the financial statements related to the recognition of revenue from the sale of ready-to-build land plots, with a gross value of IDR 732 billion, which led to an inflated company revenue. PT Hanson International Tbk recognized this revenue using the full accrual method in its financial statements. The company was found to have violated PSAK 44 regarding the accounting for real estate activities. This case illustrates a lack of application of the accounting conservatism principle due to the non-conservative nature of the report. From the case explained above, it can be concluded that the principle of conservatism plays an important role as one of the key concepts in financial statement disclosure. This is because accounting conservatism requires losses to be recognized earlier, while revenues are only recorded when they are certain to be received. This helps prevent the overstatement of profits. In addition, the conservatism principle supports more objective financial reporting by carefully reflecting the company's financial condition, especially in the face of uncertainty.

In the context of accounting conservatism, several variables influence the implementation of this principle, one of which is the debt covenant. A debt covenant refers to a contractual agreement imposed by creditors on borrowers with the purpose of safeguarding the creditors' interests against potentially detrimental managerial actions—such as excessive dividend distributions or the reduction of equity below a specified threshold—as such actions may elevate the level of risk borne by the creditors (Wahyuni, 2023). According to Theresia Widyawati Budiman (2024), debt covenants have a positive impact on accounting conservatism. The findings of the study indicate that companies subject to stricter debt covenant requirements tend to adopt a more conservative approach in recognizing profits and assets. This application of accounting conservatism serves as a preventive measure to avoid violations of the terms outlined in the covenants. A company's compliance with covenant provisions aims to prevent additional costs and issues that could hinder managerial performance. Similar findings were reported by Wahyuni (2023) in her study on consumer goods companies listed on the Indonesia Stock Exchange, which also demonstrated a positive effect on accounting conservatism. In contrast, Riani et al. (2023) found that debt covenants have no significant effect on accounting conservatism. This is attributed to the assumption that as the amount of borrowing increases, companies are more likely to present favorable performance to creditors. This strategy is employed to reduce the level of conservatism by reporting the highest possible values for assets and profits, while minimizing reported expenses, thereby increasing the likelihood of obtaining the desired loans.

In addition, managerial ownership is also considered an important factor that may influence the application of accounting conservatism. Managerial ownership refers to the proportion of shares held by the company's management, who are actively involved in corporate decision-making, such as directors and commissioners. It is typically measured as the ratio of shares owned by managers, directors, or commissioners to the total number of outstanding shares. A study conducted by Cindi Furwati (2022) revealed that managerial ownership has a positive influence on accounting conservatism. The findings suggest that companies with managerial ownership—i.e., shares owned by members of management—may be more likely to adopt conservative accounting practices, as managerial shareholding can influence decision-making processes and the selection of accounting principles. Similarly, Yuniarsih and Permatasari (2021) also found that managerial ownership has a significant effect

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on accounting conservatism. However, contrasting results were presented by Ganevia et al. (2022), who found that managerial ownership has a negative effect on accounting conservatism. Their findings indicate that the greater the proportion of shares held by management, the lower the level of conservatism applied in profit reporting.

Another factor that may influence accounting conservatism is political cost. According to Ferdiansyah and Susanti (2022), political cost refers to expenses that arise due to the conflicting interests between companies and the government, which acts as a representative of the public and has the authority to redistribute a company's wealth to society through tax regulations or other policies. Companies with high profits tend to attract government attention. The greater the profits earned by a company, the higher the political costs it is likely to bear. A study conducted by Novitasari et al. (2020) found that political cost has a positive effect on accounting conservatism. The study explains that the larger the scale of the issuer, the greater the political cost that must be borne; therefore, companies tend to apply conservative accounting practices to reduce such costs. Similar findings were reported by Fiorent (2022), who also concluded that political cost positively influences accounting conservatism. The study notes that large-scale companies typically attract more attention from the government, and in an effort to avoid high political costs, they tend to reduce reported profits and assets. Additionally, large companies often interact with various external stakeholders, which encourages them to adopt conservative accounting principles in order to ensure that the financial information presented is more reliable and accountable. Conversely, a different result was presented in a study by Ferdiansyah and Susanti (2022), which stated that political cost does not have a significant effect on accounting conservatism. Their findings suggest that the lack of influence may be due to the fact that not all large companies attempt to avoid political costs, such as taxes, through the application of conservative accounting principles.

Litigation risk refers to the inherent risk faced by companies, which includes the possibility of legal claims or lawsuits from various stakeholders such as investors, creditors, and regulatory authorities. This risk typically arises from errors or misstatements in financial reporting and is commonly observed in companies that have gone public (Tatar & Sujana, 2021). A study conducted by Damayanty and Masrin (2022) found that litigation risk has a positive influence on accounting conservatism. This is due to the positive relationship between litigation risk and conservatism, where the higher the potential for legal claims from various parties, the stronger the motivation for managers to apply conservative accounting principles. A similar finding was reported by N. Nurhayati (2021), who stated that litigation risk has a positive and significant effect on accounting conservatism. However, contrasting results were presented by Maharani and Dura (2023), who found that litigation risk does not influence accounting conservatism. Their study showed that during the research period of 2019–2020, litigation risk did not have a significant impact on either increasing or decreasing the level of accounting conservatism.

Numerous studies have been conducted in Indonesia on various factors presumed to influence the application of accounting conservatism in companies. However, the findings and the variables examined still show variation across different studies.

LITERATUR REVIEW

Agency Theory

Agency theory explains the relationship between the agent and the principal. In this context, the principal refers to the owner of the company, while the agent refers to the company's management, or more specifically, the manager. The agent is entrusted with carrying out activities within the company owned by the principal. According to Jensen and Meckling, as cited in Yusri (2020, p. 23), an agency relationship arises when one or more parties (the principal) engage another party (the agent) to perform certain services on their behalf and delegate decision-making authority to the agent. The principal is typically the shareholder or investor, while the agent refers to the management responsible for running the company.

The essence of the agency relationship lies in the separation of roles between ownership, held by investors, and control, exercised by management. This separation of functions between the owner and management can potentially give rise to conflicts of interest. Such conflicts occur because management may not always act in line with the interests of the owner, thereby leading to what is known as agency costs. Agency costs refer to the expenditures incurred by the owner to monitor and supervise the performance of management.

Positive Accounting Theory

According to Watts and Zimmerman, as cited in Yusri (2020, p. 15), Positive Accounting Theory (PAT) focuses on predicting corporate behavior, such as the selection of accounting policies and how companies respond to the introduction of new accounting standards. Based on this theory, companies are not required to adopt uniform accounting procedures similar to those of other firms. Instead, they are granted the flexibility to choose from a range of available accounting methods with the aim of reducing contracting costs and enhancing firm value.

Based on the definition of Positive Accounting Theory described above, it can be concluded that the theory allows companies the flexibility to choose the accounting methods they wish to apply—one of which is accounting conservatism. In this context, accounting conservatism serves as a strategic option that management can adopt to manage risk and political costs, as well as to reduce information asymmetry between management and shareholders by delaying the recognition of excessive profits and accelerating the recognition of losses.

Accounting Conservatism

According to Watts, as cited in E. Savitri (2016), conservatism can be defined as a principle of prudence in financial reporting, whereby companies are not hasty in recognizing and measuring assets and profits, but instead promptly recognize losses and liabilities that are likely to occur. The application of this principle results in the reporting of lower profits or asset values and higher liabilities. According to the conservatism principle, when there is uncertainty regarding potential losses, such losses should be recognized. However, if there is uncertainty surrounding potential gains, such gains should be avoided in the financial reporting. As a result, income statements generally present lower profit figures and asset values as a precautionary measure.

Debt Covenant

A debt covenant is a contract established by creditors to restrict the borrower's activities

that may potentially harm the value of the loan or hinder the loan recovery process. This agreement includes provisions that require the borrower to comply with specific terms and conditions as stipulated in the contract. In this study, the debt covenant is proxied using the solvency ratio. According to Fitriana (2024), the solvency ratio is used to measure a company's ability to meet all of its obligations, both short-term and long-term, by relying on its existing assets or resources. This ratio serves as an indicator of whether the company is capable of repaying its debts in the event of liquidation or dissolution. The solvency ratio, also known as the leverage ratio, compares the company's total liabilities to its equity and total assets.

Managerial Ownership

Managerial ownership refers to the share ownership held by members of a company's management who are actively involved in the operational management of the company. It reflects the proportion of shares owned by management, indicating the extent of their involvement in the company's decision-making processes. When poor decisions are made, management—either directly or indirectly—will also bear the consequences (Rustan, 2023). In this study, managerial ownership is calculated by comparing the number of shares owned by management to the total number of outstanding shares.

Political Cost

Political cost refers to the expenses incurred due to conflicts between a company and the government, which has the authority to redistribute corporate wealth to the public in accordance with applicable regulations, whether through tax policies or other forms of regulation (Ferdiansyah & Susanti, 2022). The political cost hypothesis posits that large companies tend to face higher political costs compared to smaller firms. Large firms that attract attention from both the government and the public are more likely to apply the principle of conservatism in their financial reporting. In this study, political cost is measured using the size variable (company size). Company size is an indicator used to classify whether a firm is considered large or small, while also reflecting the wealth owned by the company. This measure is typically easily observable and serves as an important point of interest for the company's stakeholders.

Litigation Risk

Litigation risk refers to the risk associated with legal issues that a company may face, which often involve substantial costs due to legal proceedings with related parties. This risk reflects the company's external environment, particularly when conflicts of interest arise among shareholders, creditors, and management. If the company fails to fulfill its rights and obligations, it is highly likely that the aggrieved party will pursue legal action (Damayanty & Masrin, 2022). In this study, the author uses the Debt to Equity Ratio (DER), which is a ratio that compares a company's total liabilities to the amount of capital used to operate the business, known as equity (Yusri, 2020). This is because the DER can be used to evaluate the financial condition and capital structure of companies in the property and real estate subsector.

Debt Covenants on Accounting Conservatism

Companies with strict debt covenants tend to be more conservative in recognizing profits and assets. The application of accounting conservatism is a strategic effort to avoid

violations of the provisions outlined in the covenant. Additionally, creditors, through debt covenant agreements, have the right to access information and monitor the company's operational activities. A higher level of debt covenant enforcement in a company tends to increase the degree of accounting conservatism (Theresia Widyawati Budiman & Rilo Pambudi, 2024). This hypothesis aligns with the findings of Wahyuni (2023), who stated that the debt covenant variable, measured using leverage, has a positive effect on accounting conservatism. This is because applying a conservative accounting method is necessary to prevent covenant violations.

Based on the explanation above and the argument regarding the influence of debt covenants on accounting conservatism, the researcher formulates the following hypothesis:

H₁: Debt Covenant has a positive effect on accounting conservatism.

Managerial Ownership on Accounting Conservatism

In the context of the conservatism principle, managerial ownership can serve as a monitoring tool for financial reporting. When management and the internal board effectively perform their supervisory roles, they are required to apply a high level of conservatism and present high-quality financial statements. Therefore, the greater the proportion of ownership held by management, the stronger the company's tendency to implement conservatism in financial reporting. This hypothesis is also supported by research conducted by Cindi Furwati et al. (2022), which states that managerial ownership has a positive effect on accounting conservatism. This means that companies with high managerial ownership tend to adopt a more conservative pattern in reporting their earnings. Managerial ownership also reduces agency conflicts between principals and agents. Based on these arguments and explanations regarding the influence of managerial ownership on accounting conservatism, the researcher formulates the following hypothesis:

H₂: Managerial ownership has a positive effect on accounting conservatism.

Political Cost on Accounting Conservatism

The political cost hypothesis, which is part of positive accounting theory, can also be considered in the application of the conservatism principle. Political costs include all burdens that a company must bear related to government regulations, taxes, demands from labor unions, and other external factors (Elmaresa, 2023). The size of the company affects the political costs incurred. The larger the company, the greater the political costs it will incur. This hypothesis is in line with research conducted by Novitasari (2020), which shows that political cost has a positive effect on accounting conservatism. The focus is that to reduce these political costs, a conservative accounting method is required. Based on the arguments and explanations above regarding the influence of political cost on accounting conservatism, the researcher formulates the following hypothesis:

H₃: Political cost has a positive effect on accounting conservatism.

Litigation Risk on Accounting Conservatism

Litigation risk is closely related to the amount of legal costs that must be borne, where the size of these costs is influenced by the company's reported earnings or asset values. From this, it can be concluded that the greater the litigation risk faced, the more likely the company is to choose a more conservative accounting method. The board of directors will be encouraged

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to apply the conservatism principle so that the company's liabilities are recognized promptly, while uncertain or small-value benefits are not immediately recorded. This hypothesis aligns with the research conducted by Damayanty & Masrin (2022), which states that litigation risk has a positive effect on accounting conservatism. This is because management in large companies tends to delay periodic earnings recognition in order to avoid existing legal claims. Based on the arguments and explanations above regarding the influence of litigation risk on accounting conservatism, the researcher formulates the following hypothesis:

H₄: Litigation risk has a positive effect on accounting conservatism.

RESEARCH METHOD

Research Design

This study aims to examine the potential influence of the variables debt covenant, managerial ownership, political cost, and litigation risk on accounting conservatism. The research approach is based on the positivist paradigm, which relies on an understanding of objective facts that can be measured and verified through empirical observation or testing. The positivist paradigm begins with the formulation of hypotheses that are then tested. The data used in this study is quantitative, with specific criteria and phenomena. The research strategy employed is a case study, aimed at investigating and understanding a particular event or phenomenon. For the sampling design, this study uses probability sampling. Regarding the research setting, this study involves no intervention (non-contrived). For the time frame, the researcher uses panel data, which is a combination of time series and cross-sectional data, to conduct hypothesis testing (Zahriyah et al., 2021).

Population

This study uses probability sampling with the cluster sampling method. In this method, the population is divided into several clusters, and these clusters are then randomly selected. All or some elements from the selected clusters are then used as research samples (Zahriyah, 2021). The population in this study consists of property and real estate sector companies listed on the Indonesia Stock Exchange. The total population includes 90 companies from the property and real estate sub sector that have undergone audits.

Sample

Based on the predetermined population, the researcher used a purposive sampling method and established specific criteria for selecting the sample in this study. The criteria used by the researcher for sample selection are as follows:

1. Companies in the property & real estate subsector that were listed on the Indonesia Stock Exchange as of December 31, 2023.
2. Companies in the property & real estate subsector that submitted their financial statements consecutively from 2019 to 2023.
3. Companies in the property & real estate subsector that had managerial ownership (shares owned by management) during the period 2019–2023.

Data Source

This study utilizes secondary data from www.idx.co.id in the form of financial

information from companies in the property and real estate subsector listed on the Indonesia Stock Exchange during the period 2019–2023.

Variable Operationalization

The following is a table containing the indicators for each variable:

Table 1. Variable Operationalization

Variable	Measurement	Source
X1= Debt Covenant	DAR = Debt / Assets	(Mawaddah, 2020)
X2=Managerial Ownership	KP = Management Shares / Outstanding Shares	(Yamin & Ramadhani, 2024)
X3= Political Cost	Size = Ln (Assets)	(Elmarea, 2023)
X4= Litigation Risk	DER = Debt / Assets	(Wulandari, 2022)
Y= Accounting Conservatism	TA = (Net Income - Cash Flow from Operations) / Total Assets	(E. Savitri, 2016)

RESULTS

Descriptive statistics

Descriptive statistics are used to provide an overview of the variables used in this study, both independent and dependent variables. The independent variables analyzed include debt covenant, managerial ownership, political cost, and litigation risk, while the dependent variable is accounting conservatism. Through this analysis, information is obtained regarding the minimum, maximum, mean, and standard deviation of each variable during the observation period from 2019 to 2023. The descriptive statistics results are presented below.

The table above shows a total of 110 observations (balanced) for the research period from 2019 to 2023. The following is a descriptive statistical explanation of the data:

1. The accounting conservatism variable ranges from a minimum value of -0.30 to a maximum of 0.06. The mean value of accounting conservatism is -0.03, with a standard deviation of 0.07 or 7%. This indicates that the application of accounting conservatism in Property & Real Estate sector companies during 2019–2023 is in accordance with the established guidelines.
2. The minimum value of the debt covenant variable, measured using the debt-to-asset ratio, is 0.07, while the maximum value is 1.12, which exceeds the generally accepted optimal threshold of 0.5 (or 50%). This suggests that a significant portion of company assets is financed by debt, potentially leading to long-term risk. The mean value for the debt covenant variable is 0.44, with a standard deviation of 0.21 or 21%. The company with the highest debt covenant is PT Binakarya Jaya Abadi Tbk in the year 2023.
3. The minimum value of the managerial ownership variable is 0.0007, indicating managerial ownership of only around 0.07%. The maximum value is 0.76 or 76%, suggesting that high

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managerial ownership tends to influence the application of accounting conservatism. The mean value of managerial ownership is 0.14, and the standard deviation is 0.21 or 21%. The highest managerial ownership was recorded by PT Binakarya Jaya Abadi Tbk in 2020.

4. The political cost variable, measured by firm size, has a minimum value of 27.29 and a maximum of 31.83, reflecting the substantial asset value held by these companies. The mean value is 29.71, with a standard deviation of 1.35 or 135%. The highest political cost among the 22 sample companies was recorded by PT Bumi Serpong Damai Tbk in 2023.
5. The litigation risk variable, measured using the debt-to-equity ratio, has a minimum value of -21.05 and a maximum of 4.99. The mean value is 0.45, with a standard deviation of 2.82. The company with the highest litigation risk was PP Properti Tbk in 2023.

Selection of Panel Data Regression Model

Table 2. Chiw Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	7.503779	(21,84)	0.0000
Cross-section Chi-square	116.201940	21	0.0000

Source: Data processed using Eviews (2025)

Based on the results of the Chow Test conducted using Eviews9, the probability value of the Cross Section F is 0.00, which means it is smaller than the significance level ($\alpha = 0.05$). This indicates that the best model to use is the Fixed Effect Model (FEM). Therefore, the Hausman Test is needed to select the best model between the Fixed Effect Model and the Random Effect Model."

Table 3 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.239544	4	0.0042

Source: Data processed using Eviews (2025)

Based on the results of the Hausman Test conducted using Eviews9, the probability value obtained is 0.042, which means it is greater than the significance level ($\alpha = 0.05$). This indicates that the best model to use is the Fixed Effect Model. Since the Fixed Effect Model has been selected as the best model, the Lagrange Multiplier Test does not need to be performed."

Hypothesis Testing

Hypothesis testing is a fundamental statistical procedure that allows us to make decisions about population parameters based on information from a sample. The process always begins with formulating two conflicting hypotheses: the null hypothesis, which states

there is no effect or difference (the default claim), and the alternative hypothesis, which states there is an effect or difference (the claim we want to prove). To choose the right type of test, we need to consider the type of data (e.g., continuous, categorical), the number of samples (one, two, or more), and the purpose of the analysis (e.g., comparing means, proportions, or variances). The correct choice of test will determine which test statistic to calculate, which will ultimately lead to the decision to reject or fail to reject.

Table 4 Coefficient of determination (R²)

R-squared	0.680296	Mean dependent var	-0.036125
Adjusted R-squared	0.585146	S.D. dependent var	0.070411
S.E. of regression	0.045351	Akaike info criterion	-3.145709
Sum squared resid	0.172763	Schwarz criterion	-2.507413
Log likelihood	199.0140	Hannan-Quinn criter.	-2.886813
F-statistic	7.149714	Durbin-Watson stat	2.321877
Prob(F-statistic)	0.000000		

Source: Data processed using Eviews (2025)

Based on the results, the R-Squared value is 0.585, which means that 58% of the variables debt covenant, managerial ownership, political cost, and litigation risk can explain the accounting conservatism variable.

Table 5 Partial t-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.056329	2.129705	-3.782837	0.0003
DEBCOV	0.065380	0.084329	0.775301	0.4403
KEPMAN	0.000465	0.072675	0.006393	0.9949
POLCOS	0.268883	0.071798	3.745006	0.0003
RISLIT	0.005731	0.002864	2.000848	0.0486

Source: Data processed using Eviews (2025)

The test results using the Fixed Effect Model (FEM) can be concluded as follows:

- The independent variable Debt Covenant, with a probability value of $0.4403/2 = 0.22015$, is not significant at the $\alpha = 5\% (0.05)$ level, meaning that the debt covenant variable has a positive but statistically insignificant effect on accounting conservatism.
- The independent variable managerial ownership, with a probability value of $0.9949/2 = 0.49745$, is not significant at the $\alpha = 5\% (0.05)$ level, meaning that the managerial ownership variable has a positive but statistically insignificant effect on accounting conservatism.
- The independent variable political cost, with a probability value of $0.0003/2 = 0.00015$, is significant at the $\alpha = 5\% (0.05)$ level, meaning that the political cost variable has a positive and statistically significant effect on accounting conservatism.
- The independent variable litigation risk, with a probability value of $0.0486/2 = 0.0243$, is significant at the $\alpha = 5\% (0.05)$ level, meaning that the litigation risk variable has a positive and statistically significant effect on accounting conservatism.

DISCUSSIONS

The Influence of Debt Covenant on Accounting Conservatism

Based on the partial test (t-test) using the Fixed Effect Model (FEM), the coefficient value is 0.065 with a probability value of 0.4403. Since this study uses a one-tailed hypothesis, the probability value is divided by two ($0.4403/2 = 0.22015$), which is greater than the significance level at $\alpha = 5\%$ (0.05). This indicates that the debt covenant (X1) has a positive effect on accounting conservatism (Y), but the effect is statistically insignificant. Therefore, the first hypothesis (H1) is accepted. The test results support the theory that the existence of debt covenants encourages management to apply the principle of conservatism in financial reporting to maintain compliance with the terms specified in the debt contract and to avoid potential violations (covenant violation). Conservatism is used as a strategy to suppress the possibility of overstated earnings reporting, thereby minimizing the risk of covenant violations resulting from financial instability reflected in the financial statements. In agency theory, conservatism is viewed as a mechanism that can reduce conflicts between principals and agents. The results of this study are in line with the research conducted by Salsabiil (2024), which used a sample of manufacturing companies listed on the Indonesia Stock Exchange during the period 2020–2022. The study found that debt covenants have a positive but statistically insignificant effect on accounting conservatism.

The Influence of Managerial Ownership on Accounting Conservatism

Based on the partial test (t-test) using the Fixed Effect Model (FEM), the coefficient value is 0.000465 with a probability value of 0.9949. Since this study uses a one-tailed hypothesis, the probability value is divided by two ($0.9949/2 = 0.49745$), which is greater than the significance level at $\alpha = 5\%$ (0.05). This indicates that managerial ownership (X1) has a positive effect on accounting conservatism (Y), but the effect is statistically insignificant. Therefore, the second hypothesis (H2) is accepted. According to the results, agency theory suggests that managers have a direct interest in the company's well-being because they also act as shareholders. Therefore, managerial share ownership can reduce the potential for conflicts of interest between management and the company's owners. The greater the manager's sense of ownership in the company, the stronger the motivation to focus on the company's growth and development, rather than merely pursuing incentives such as bonuses tied to profit targets. In addition, the insignificance of managerial ownership's effect on accounting conservatism is suspected to be due to the relatively low average share ownership by management, which is around 0.14 or 14%. According to E. Savitri (2016), public share ownership also influences management's decisions regarding the application of accounting conservatism. The more shares held by the public, the more likely management is to report profits optimistically or at higher values. This is in line with the study conducted by Susanto Salim (2020), which used a sample of manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2022 period, and found that managerial ownership has a positive but statistically insignificant effect on accounting conservatism.

The Influence of Political Cost on Accounting Conservatism

Based on the partial test (t-test) using the Fixed Effect Model (FEM), the coefficient value is 3.745 with a probability value of 0.0003. Since this study uses a one-tailed hypothesis, the

probability value is divided by two ($0.0003/2 = 0.00015$), which is smaller than the significance level at $\alpha = 5\%$ (0.05). This indicates that political cost (X3) has a positive and statistically significant effect on accounting conservatism (Y). Therefore, the third hypothesis (H3) is accepted.

The research findings show that political cost has a positive and significant effect on accounting conservatism, as companies facing potential political pressure tend to be more cautious in preparing their financial statements. In this study, political cost is also measured using firm size. Political cost refers to the threat of external interference from parties such as the government, regulatory bodies, labor unions, or the public – generally experienced by large-scale companies, those with strong market power, or those demonstrating strong financial performance. This is consistent with the view of Positive Accounting Theory, which states that companies with high exposure to political costs tend to adopt conservative accounting policies as a protective measure. Therefore, the greater the political pressure faced, the more likely management is to apply conservatism in financial reporting. In Yusri's (2020) book, Watts and Zimmerman mention the political cost hypothesis, which suggests that large companies or companies with high profits are more likely to become targets of government, regulatory, or public intervention. This is in line with the study conducted by Putri et al. (2023), which used a sample of banking sector companies listed on the Indonesia Stock Exchange for the period 2016–2020, and found that political cost has a positive and significant effect on accounting conservatism.

The Influence of Litigation Risk on Accounting Conservatism

Based on the partial test (t-test) using the Fixed Effect Model (FEM), the coefficient value is 2.000 with a probability value of 0.0486. Since this study uses a one-tailed hypothesis, the probability value is divided by two ($0.0486/2 = 0.0243$), which is smaller than the significance level at $\alpha = 5\%$ (0.05). This indicates that litigation risk (X4) has a positive and statistically significant effect on accounting conservatism (Y). Therefore, the fourth hypothesis (H4) is accepted. The results of this study show that litigation risk has a positive and significant effect on accounting conservatism because companies that are likely to face legal claims tend to be more cautious in preparing financial statements to avoid presenting misleading or overly optimistic information. In this context, accounting conservatism functions as a protective mechanism adopted by management to reduce the likelihood of legal action due to reporting errors.

This aligns with Positive Accounting Theory, which posits that managers tend to choose accounting policies that minimize conflict and legal risk, especially when under external pressure. Therefore, the greater the litigation risk faced by a company, the more likely management is to apply conservative principles in its financial reporting. This is consistent with the study conducted by Indraswari et al. (2023), which used a sample of manufacturing companies listed on the Indonesia Stock Exchange during the 2015–2019 period and found that litigation risk has a positive and significant effect on accounting conservatism.

CONCLUSIONS

Based on the results of the study on the effects of debt covenants, managerial ownership, political cost, and litigation risk on accounting conservatism in property and real

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estate sub-sector companies during the period 2019–2023, using 22 companies as the research sample, the following conclusions can be drawn:

- a. Debt covenants have a positive but statistically insignificant effect on accounting conservatism. The insignificance of this result is due to the fact that not all companies in the property and real estate sub-sector have strict debt covenants, leading to varying degrees of pressure to apply accounting conservatism. These differences result in management not fully adopting conservative principles in financial reporting. In addition, creditors tend to focus more on asset-based or cash-based covenants rather than profit-related agreements, making financial statements less conservative.
- b. Managerial ownership has a positive but statistically insignificant effect on accounting conservatism. This is because the average share ownership by management is only around 0.14, or 14%. According to E. Savitri (2016), public share ownership also influences management's decision regarding the application of accounting conservatism. The more shares held by the public, the more management is encouraged to report higher or more optimistic earnings. This is because shareholders are generally more attracted to high reported profits, which translate into greater capital gains. Similarly, management also benefits from higher reported profits in the form of bonuses or incentives.
- c. Political cost has a positive and statistically significant effect on accounting conservatism. This is because companies facing potential political pressure tend to be more cautious in preparing their financial statements. In this study, political cost is also measured using firm size. Political cost refers to the threat of external interference from parties such as the government, regulatory agencies, labor unions, or the public, which typically affects large companies with strong market power or strong financial performance. To minimize negative attention and avoid political burdens, companies often adopt a conservative accounting approach. This approach results in lower reported profits, which may reduce the likelihood of becoming a target of external intervention.
- d. Litigation risk has a positive and statistically significant effect on accounting conservatism. This is because companies with a high risk of facing lawsuits tend to be more cautious in preparing financial reports to avoid presenting misleading or overly optimistic information. In this context, accounting conservatism serves as a protective mechanism adopted by management to reduce the likelihood of legal claims arising from reporting errors. Companies with high litigation risk – such as publicly traded companies, entities in highly regulated industries, or organizations with numerous external stakeholders – are more vulnerable to lawsuits from investors, authorities, or other stakeholders if their financial statements fail to reflect the true financial condition of the company.

IMPLICATION and LIMITATION

This study has several limitations that may have affected the results and reduced the comprehensiveness of the findings. The limitations of this research include the following: The study focuses solely on the property and real estate sub-sector for the period 2019–2023, The variables used in this research are limited to four: debt covenant, managerial ownership, political cost, and litigation risk, Only 22 out of 90 companies met the criteria to be included as the research sample, Many companies did not report managerial ownership in their financial statements.

Based on the analysis, discussion, and conclusions drawn, this study offers several

implications in the form of recommendations for future improvements. These suggestions aim to enhance the quality and relevance of future research results, as follows:

For Investors, the findings of this study provide valuable insights into the factors that influence accounting conservatism. Investors can use the level of conservatism in financial statements as an indicator of management's prudence in presenting financial information. For Companies, particularly in the property and real estate sub-sector – which generally has high leverage and is exposed to government regulation – these findings highlight that external pressures such as political cost and litigation risk can encourage management to be more cautious in financial reporting. Companies should recognize the importance of accounting conservatism as a strategy to build investor trust and minimize potential conflicts with regulators or third parties. In addition, management may consider evaluating internal ownership structures and the terms of debt covenants to avoid triggering aggressive reporting practices, which could lead to market distrust or legal risks.

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