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## **The Effect of Managerial Ability on The Use of Accounting Conservatism**

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### **ABSTRACT**

*This study was conducted with the aim of examining the effect of managerial ability on the use of accounting conservatism in manufacturing companies listed on the IDX in 2022. This study uses the variable accounting conservatism as the dependent variable, and managerial ability as the independent variable measured using three different approaches. This study uses control variables such as company size, sales growth, leverage, and corporate governance. The data used in this study were taken from the company's annual report and press release which can be accessed through the company's official website and the IDX official website. The sampling technique in this data uses purposive sampling which is then analyzed using regression analysis. The results of the analysis show that managerial ability has a positive and significant effect on the use of accounting conservatism. Managers with high ability will use the principle of accounting conservatism in their financial statements, so as to minimize the occurrence of agency conflicts as described in agency theory. So the hope is that the results of this study can provide an overview for stakeholders to compare the quality of financial statements based on managerial ability. This research also helps investors and other stakeholders to choose companies with high managerial capabilities so as to minimize manipulation of financial statements due to misapplication of financial reporting principles.*

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### **INTRODUCTION**

The Covid-19 pandemic crisis that occurred in 2020 had a huge impact on companies around the world. To recover the condition of the company after the crisis, high managerial skills are needed (Jebran & Chen, 2022). The Covid-19 pandemic has an impact on the decline in the company's economy, especially in Indonesia. In the principle of accounting conservatism which is seen conditionally, companies will report news that occurs whether it is good news or bad news. When the company uses accounting conservatism, there will be information on the decline in profits or the occurrence of losses experienced by the company during the Covid-19 pandemic. Managerial ability as an important determinant of company policy and performance (Jebran & Chen, 2022). Managers with high ability are assumed to have a lot of experience and insight, so they are able to consider the right decisions in the use of principles in their financial

reporting, with the many benefits that can be obtained from the use of accounting conservatism, managers with high ability will use accounting conservatism in their financial reporting. During this economic crisis, the use of accounting conservatism can minimize the manipulation of financial statements.

Managerial ability is considered to be able or unable to influence the decision to use accounting conservatism in financial reporting in Indonesia. Accounting conservatism is a biased measurement (Sun & Xu, 2012; Suwarno et al., 2022) that may or may not reflect high-quality earnings in financial reporting (Haider et al., 2021). The preparation of financial statements has been regulated in the Financial Accounting Standards (SAK). Company managers can choose the use of accounting principles in the Financial Accounting Standards, one of which is the application of the principle of accounting conservatism. Accounting conservatism in Indonesia has been regulated in the Financial Accounting Standards Regulation (PSAK) No. 14 concerning inventory, PSAK No. 17 concerning depreciation, and PSAK No. 20 concerning research and development costs (Ikatan Akuntansi Indonesia, 2021). There are several benefits that can be obtained from the use of accounting conservatism such as increasing the efficiency of debt contracts (Zhang, 2008), reducing the occurrence of agency problems (Laux & Ray, 2020; Suwarno et al., 2022), and facilitating monitoring or supervision of company managers (Ayu et al., 2020; Haider et al., 2021). Accounting conservatism can be used as a substitute for management predictions by reducing information asymmetry (Hui et al., 2009) and reducing potential litigation costs (Zhang, 2008) through reporting bad news such as losses or decreasing profit levels in a timely manner (Hui et al., 2009; Sun & Xu, 2012). Managers may choose to use accounting conservatism after knowing its benefits to stakeholders. However, because accounting conservatism is a biased measurement and may result in inconsistency with the principle of high-quality earnings, high ability managers may not use accounting conservatism (Demerjian et al., 2013).

The level of accounting conservatism of Indonesian manufacturing companies is still low (Hariyanto, 2020). This is evidenced by the cases of financial statement manipulation that have occurred in manufacturing companies in Indonesia. For example, in the case of PT Kimia Farma Tbk. in 2001, the manager was given an administrative fine of IDR 1,000,000,000 to be deposited into the state treasury, for manipulating practices by inflating the amount of profit in the financial statements as of December 31, 2001. The latest case related to financial statements occurred at PT Tiga Pilar Sejahtera Food Tbk, which is evidence that there is manipulation in the company's financial reporting to increase the company's share price. The director of AISA manipulated the 2017 financial statements, and in 2021 the court sentenced that if the company's director is proven guilty, he will be subject to a maximum imprisonment of 10 years and a maximum fine of IDR 15,000,000,000,000 (Newswire, 2021; Tim detikcom & detikFinance, 2021).

The existence of cases related to manipulation of financial statements in companies is one proof that the level of use of accounting conservatism in companies in Indonesia is still relatively low. In addition, in Indonesia itself there are still few studies that discuss managerial ability. Research in Indonesia generally discusses the relationship between managerial ability and firm value (Nur Afia, 2020), the effect of managerial ability on company performance (Yudan Gumilar & Fitria, 2019). This research was conducted in accordance with Haider's (2021) research. The difference between this study and Haider's (2021) research lies in the board of directors' compensation variable used by Haider's (2021) research which is not included in this study due to the high correlation between the compensation control variable and company size. The elimination of the use of this compensation variable aims to make the analysis results more accurate. In addition, previous research that discussed the relationship

between managerial ability and accounting conservatism was mostly conducted abroad such as America and Australia under normal conditions, while this research was conducted in Indonesia under special conditions, namely during the global economic crisis. So that it is expected to better describe the effect of managerial ability on the use of accounting conservatism.

Based on this background, the purpose of this study is to test and analyze whether there is an effect of managerial ability on the use of the principle of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2022. Because financial reporting will be a benchmark for investors to make investments, so it is hoped that the reporting does not contain elements of manipulation. What is considered to greatly influence the results of financial reporting here is managerial ability, because decision making is carried out by company managers (Jebran & Chen, 2022). Theoretically, it is hoped that this study can provide empirical evidence regarding the effect of managerial ability on the use of the principle of accounting conservatism. Can provide an overview for stakeholders to compare the quality of financial statements based on their managerial abilities. And it is expected to be able to become reference material for further research that discusses the relationship between managerial ability and accounting conservatism. From this study, it is hoped that investors and other stakeholders can choose companies with high managerial ability so as to minimize manipulation of financial statements due to misapplication of financial reporting principles.

## **THEORY AND HYPOTESIS**

### **Agency Theory**

Agency theory is used as a breaker of information asymmetry (Suwarno et al., 2022) or information imbalance by limiting agents or company managers from manipulating financial statements. It is also used as a fulfillment of contract efficiency with stakeholders (Bilang la'bi et al., 2018). This agency theory supports the use of the principle of accounting conservatism, where the reported profit is in accordance with the actual situation without any manipulation such as recording high profits (Hariyanto, 2020). Agency theory occurs because of a conflict that occurs between company managers as agents and principals or stakeholders (Ng et al., 2016; Syefa El-Haq et al., 2019) where the information obtained between managers and stakeholders is unbalanced or someone gets more information (Matangkin et al., 2018). Agency theory assumes that each individual is influenced by their own interests, stakeholders are motivated to contract to make themselves prosperous with increased profitability, while managers are influenced to maximize their compensation (Matangkin et al., 2018; Ng et al., 2016).

Based on previous research, to maintain good relations between agents and principal, managers must report financial reports carefully so that they will produce real financial reports (Oktavia et al., 2018). This agency conflict can also be minimized by uniting goals between stakeholders and managers through a managerial ownership mechanism (Gst Ngr P Putra et al., 2019).

### **Managerial Ability**

Managerial ability is important in efforts to achieve organizational goals carried out, with the proper utilization of various organizational resources (Hadijaya, 2015). The definition of managerial ability according to Winardi's (2008) is the skill in taking actions of planning, classifying, implementing, and controlling to achieve predetermined goals. Managerial ability is the ability to manage the company in forming accurate assessments and estimates regarding company efficiency, as well as synthesizing reliable information for future forecasts (Ng et al., 2016).

### **Accounting Conservatism**

Accounting conservatism is an accounting practice that anticipates all losses and recognizes gains when they are realized (Suwarno et al., 2022). The definition of conservatism according to (Suwardjono, 2010) is an attitude in the face of uncertainty in decision making on the basis of the worst outcome of the uncertainty. While accounting conservatism is the application of accounting principles that recognize costs or losses that may occur, but delay the recognition of future revenue or profit even though the possibility of occurrence is large. Swista's (2022) defines accounting conservatism as a caution against an uncertain condition to avoid excessive optimism from company management.

### **Company Size**

Company size is a scale that describes the size of the company with various values such as equity, sales, and company assets, the greater the value, the stronger the company (Nur Budi Utama, 2022). Company size is used to measure the extent of disclosure of a company's financial information (Oktavia et al., 2018). Company size is one of the elements that influence management perceptions in preparing a financial report (Hariyanto, 2020). Company size is one of the factors for the use of accounting conservatism. The larger the company, the more conservative its financial statements, and managers will be more careful in their financial presentation and reporting (Swista, 2022). This study uses the company size variable calculated using log total assets as a control variable.

### **Sales Growth**

According to Serene's (2020) sales growth is a ratio that provides information on the amount of increase in the value of company sales by comparing this year's sales value to the previous year's sales value as a mirror of the company's past success and can be used to predict growth that is likely to occur in the future. Companies that have high sales growth will require a lot of investment on the asset side, both current and fixed assets (Curi & Lozano-Vivas, 2020). Sales growth is used in this study as a control variable to control the measurement of CONS\_C-Score with CONS\_B/M. The higher the sales growth, it is expected that the profit earned by the company will increase, thus affecting the increase in accounting conservatism in the company's financial reporting (Serene, 2020; Swista, 2022).

### **Leverage**

Leverage is the ability to influence a situation or a person so as to obtain greater benefits or control what is and will happen. Meanwhile, when viewed from the financial field, leverage is defined as an asset purchase technique that involves borrowed funds (debt) rather than adding new equity, the hope is that the after-tax profit that equity holders will receive from the transaction will exceed the cost of borrowing (Mulyadi et al., 2022). Leverage is a debt contract that aims to analyze the company's spending ability in paying off debt and paying interest and other fixed expenses (Swista, 2022).

### **Good Corporate Governance**

Good corporate governance is a set of systems that regulate, manage, and supervise the company's business control process with the aim of providing added value, as well as a form of attention to stakeholders, employees, creditors and the surrounding community in order to create a pattern or management work environment that is clean, transparent, and professional (Syofyan, 2021).

### **Hypothesis**

The existence of information asymmetry which is one of the agency problems between managers and stakeholders is the basis for applying agency theory as the theoretical basis for research. Based on agency theory, information asymmetry can be overcome when companies use accounting conservatism in their financial reporting (Oktavia et al., 2018). The use of accounting conservatism is influenced by the managerial ability of the company, agency theory in accordance with Haider's (2021) research. This means that agency theory affects the effect of managerial ability on the use of accounting conservatism. In addition, agency theory is able to tighten the efficiency of contact with stakeholders. With high managerial ability, it will create efficient resource management, especially in assets, free cash flow, operating segments and considerations in changing foreign currency transactions (Bilang la'bi et al., 2018).

This study assumes that high-ability managers use accounting conservatism in their financial reporting, as described in research conducted by Haider's (2021). Because the use of accounting conservatism has many benefits for managers and stakeholders. By using accounting conservatism, managers can improve their reputation in the eyes of stakeholders, because they pre-report potential bad news in a timely manner (Muttakin et al., 2019; Sun & Xu, 2012; Zhang, 2008), and gain the trust of stakeholders regarding the correctness of their profit levels (Bilang la'bi et al., 2018; Hariyanto, 2020).

It is assumed that the higher the ability of a manager, the more experience and insight he has, so that the manager will be able to set the right policy for the company. Managers with high ability will choose policies that are likely to be good for the company, especially in the use of financial reporting principles. Managers will choose to use accounting conservatism after knowing the positive impact resulting from the use of accounting conservatism. In addition to increasing stakeholder confidence in the company's financial statements, the use of accounting conservatism can also improve the reputation of the manager. So that the higher the managerial ability, the higher the level of accounting conservatism in the company. From these assumptions, the hypothesis formulated in this study is:

**H1: Managerial ability has a positive effect on the use of accounting conservatism.**

## RESEARCH METODE

The research uses a quantitative approach where the data used is secondary data obtained from company reports and press releases published through the IDX official website and the company's official website. The population of this study is manufacturing companies listed on the IDX in 2022. In determining the research sample, the technique used is purposive sampling. The criteria set in this study are:

**Table 1 Research Sample**

No.	Criteria	Total
1	Manufacturing companies on the IDX 2022	234
2	Has an official website	(25)
3	Publish annual report for 2020-2022	(91)
4	Explanation of the name and age of the board of directors	(8)
5	Publishing press releases on the company website	(64)
6	Incomplete financial statement data	(16)
	Final Sample	39

Source: secondary data (processed, 2023)

From the criteria applied, the number of samples obtained in this study was 39 companies. The data analysis technique uses multiple linear regression analysis with the help of SPSS version 25 application software.

**Table 2 Variable Measurement**

<b>Variable</b>	<b>Proxy</b>	<b>Formula</b>
Accounting Conservatism	Accrual-based	$CONS\_ACC = \frac{N_{it} - CFO_{it}}{total\ assets}x - 1$
	Market-based	$CONS\_B/M = \frac{book\ value\ of\ equity}{market\ value\ of\ equity}x - 1$
	Balance sheet-based	$CONS_c - Score = \frac{ER_{it}}{NOA_{it}}$
Managerial Ability	DEA	Inputs used are labor, COGS, inventory, accounts receivable, and total assets, while the output used is sales
	Market-based Industry-adjusted return on assets	Press releases $Ind\_Ad\_R = \frac{net\ income + interest\ expense(1 - tax\ rate)}{total\ assets}$
Company Size		$Company\ size = Ln(total\ Assets)$
Sales Growth		$Sales\ Growth = \frac{sales\ this\ year - sales\ last\ year}{sales\ last\ year}$
Leverage		$Leverage = \frac{total\ debt}{total\ assets}$
GCG	CEO Age	$CEO\ Age = Ln(CEO\ Age)$
	CEO Size	$CEO\ Size = total\ board\ of\ directors$
	CEO independence	$CEO\ independence = \frac{independent\ board\ of\ directors}{total\ board\ of\ directors}$

Source: secondary data (processed, 2023)

## RESULTS AND DISCUSSION

### Descriptive Statistics

**Table 3 Descriptive Statistics**

<b>Variables</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Standard Deviation</b>
CONS_ACC	-0,087	0,111	0,00385	0,048245
CONS_B/M	0,004	45,980	4,33959	8,330067
CONS_C-Score	0,00006	0,99700	0,0937467	0,18125142
DEA	0,27	1,00	0,7685	0,22087
Press Release	3	231	42,59	54,902
Ind_Ad_R	-0,33	0,63	0,1374	0,18339
Company Size	25,400	33,550	29,18333	1,958910
Leverage	0,110	0,810	0,38359	0,171993
Sales Growth	-0,46000	0,90000	0,0858978	0,19516128

CEO size	0,690	2,370	1,57308	0,443165
CEO independence	0,100	1,000	0,51231	0,307378
CEO age	3,610	4,390	4,02154	0,174153

Source: secondary data (processed, 2023)

Based on table 2 of the descriptive statistical analysis results above, it can be seen that the accounting conservatism variable measured by CONS\_ACC has a mean value of 0.385% while the maximum value is 11.1% at PT Pyridam Farma and the minimum is obtained from PT Citra Turbindo of -8.7%, and for the standard deviation value obtained is 4.8245%. The measurement of accounting conservatism using CONS\_B/M resulted in a mean of 433.96%, a maximum value of 4598% from PT Unilever Indonesia and a minimum of 0.4% by PT Mulia Boga Raya, while the standard deviation itself amounted to 833.0067%. For the last measurement using CONS\_C-Score, the mean value is 9.37467%, with a maximum value of 99.7% from PT Unilever Indonesia and a minimum value of 0.006% from PT Duta Pertiwi Nusantara, while the standard deviation is 18.1%. From the results of the analysis of accounting conservatism variables with three different approaches, it is concluded that manufaktur companies have used accounting conservatism in their financial reporting.

Managerial capability as measured by the efficiency of managerial capability using DEA produces a mean value of 76.85%, a maximum value of 100% by PT Unilever Indonesia and a minimum of 27% from PT Wahana Interfood Nusantara, and a standard deviation of 22.087%. For the next measurement, namely using the number of press releases and obtained a mean value of 42.59 pieces of news, with a maximum value of 231 pieces of news obtained from PT Kalbe Farma and a minimum value of 3 pieces of news from PT Citra Turbindo, and a standard deviation of 54.902. The last measurement using Ind\_Ad\_R obtained a mean value of 13.74%, a maximum value of 63% from PT Unilever Indonesia and a minimum value of -33% from PT Sentra Food Indonesia, and a standard deviation of 18.339%.

Sales growth obtained a mean value of 8.5898% and a standard deviation of 19.5161%. Company size as measured by Ln total assets produces a mean value of 29.183 with an original value of Rp 4,720,802,866,993, while the standard deviation is 1.9589. For leverage, the mean and standard deviation values are 38.359% and 17.1993%. While the age of the CEO simplified by natural log shows a mean value of 4.0215 from the original value of 56 years, and a standard deviation of 0.174153. The CEO size variable obtained a mean value of 1.57308 from the actual value of 5 people while the standard deviation is 0.443165. The last variable is CEO independence with a mean value of 51.231% and a standard deviation of 30.7378%.

### Classical Assumptions

Based on table 3, it is obtained that the K-S normality test for CONS\_ACC and CONS\_B/M can be seen in table 2, the Sig. value is 0.200, while for CONS\_C-Score the Sig. value is 0.197. 0.197. The Sig. value obtained is greater than 0.05, which means that the data in this study are normally distributed. Based on the results of the multicollinearity test analysis, the tolerance value is obtained more than 0.10 and the VIF value of each variable is less than 10.00. So it can be concluded that the use of regression models in this study does not occur multicollinearity. Table 4 shows that the regression model used in this study does not occur autocorrelation because the DW value on CONS\_ACC, CONS\_B/M, and CONS\_C-Score is greater than dU 1.658 and less than (4-dU) which is 2.342. In testing Heteroscedasticity using the spearman correlation coefficient (spearman rank), the Sig value is obtained. (2-tailed) Unstandardized is greater than 0.05, it can be concluded that the use of the regression model in this study does not occur symptoms of Heteroscedasticity.

**Table 4 K-S Normality Test Results**

CONS_ACC	CONS_B/M	CONS_C-Score
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Sig. (2-tailed)	0,200	0,200	0,197
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Source: secondary data (processed, 2023)

**Table 5 Autocorrelation Test Results**

	CONS_ACC	CONS_B/M	CONS_C-Score
dU < DW > (4-dU)	2,061	1,737	1,742

Source: secondary data (processed, 2023)

**Multiple Regression Analysis**

**Table 6 Multiple Regression Analysis Results**

Variables	CONS_ACC	CONS_B/M	CONS_C-Score
DEA	-0,026	6,475	0,082
Press release	4,176	0,005	1,964
Ind_Ad_R	0,095	26,246	0,534
Ln total assets	-0,006	-0,726	-0,027
Sales Growth	0,150	-13,806	-0,205
Leverage	-0,054	34,861	0,756
CEO age	0,040	5,717	0,102
CEO independence	-0,007	1,583	0,094
CEO size	0,025	-2,468	-0,008

Source: secondary data (processed, 2023)

The first regression model measures the effect of managerial ability on accounting conservatism using accrual-based measurement. From the results of the analysis, the equation is obtained, namely:

$$\begin{aligned}
 CONS\_ACC = & -0,026 \textit{ DEA} + 4,176 \textit{ Press release} + 0,095 \textit{ Ind\_Ad\_R} - 0,006 \textit{ Size} \\
 & - 0,054 \textit{ Leverage} + 0,150 \textit{ Sales Growth} + 0,025 \textit{ CEO size} \\
 & - 0,007 \textit{ CEO independence} + 0,040 \textit{ CEO age}
 \end{aligned}$$

The meaning of the equation is that when press releases, Ind\_Ad\_R, sales growth, CEO size and CEO age increase by one unit of value, accounting conservatism will increase according to the value obtained from each variable, namely 4.176 (press releases), 0.095 (Ind\_Ad\_R), 0.150 (sales growth), 0.025 (CEO size), and 0.040 (CEO age). Meanwhile, when the DEA, leverage, size, and CEO independence variables are considered to be at a constant point, the value of conservatism will decrease by the value obtained from each variable, namely 0.026 (DEA), 0.006 (size), 0.054 (leverage) and 0.007 (CEO independence).

In the second regression model that measures the effect on accounting conservatism using a market-based approach, the equation is obtained with the following results:

$$\begin{aligned}
 CONS\_B/M = & 6,475 \textit{ DEA} + 0,005 \textit{ Press release} + 26,246 \textit{ Ind\_Ad\_R} - 0,726 \textit{ Size} \\
 & + 34,861 \textit{ Leverage} - 13,806 \textit{ Sales Growth} - 2,468 \textit{ CEO size} \\
 & + 1,583 \textit{ CEO independence} + 5,717 \textit{ CEO age}
 \end{aligned}$$

This means that every one unit increase in the value of the DEA variable, press releases, Ind\_Ad\_R, leverage, CEO independence, and CEO age, accounting conservatism will increase by the value obtained from each variable, including 6.475 (DEA), 0.005 (press releases), 26.246 (Ind\_Ad\_R), 34.861 (leverage), 1.583 (CEO independence), and 5.717 (CEO age). However, accounting conservatism will decrease when the variables of company size, sales growth and CEO size are considered to be at a constant point. The decrease that occurs is as large as the value obtained from each variable, which is 0.726 for company size, 13.806 sales growth, and 2.468 in CEO size.



The last model used is to measure the effect of managerial ability on accounting conservatism with a balance sheet-based approach, and the equation is obtained, namely:

$$\begin{aligned}
 &CONS\_C - Score \\
 &= 0,082 DEA + 1,964 Press\ release + 0,534 Ind\_Ad\_R - 0,027 Size \\
 &+ 0,756 Leverage - 0,205 Sales\ Growth - 0,008 CEO\ size \\
 &+ 0,094 CEO\ independence + 0,102 CEO\ age
 \end{aligned}$$

From this equation, it can be interpreted that a one unit increase in the value of the DEA variable, press releases, Ind\_Ad\_R, leverage, CEO independence, and CEO age, will affect the accounting conservatism variable which will increase by the value obtained from each variable. The increase is respectively 0.082 (DEA), 1.964 (press release), 0.534 (Ind\_Ad\_R), 0.756 (leverage), 0.094 (CEO independence) and 0.102 (CEO age). Meanwhile, when the variables of company size, sales growth and CEO size are considered to be constant, accounting conservatism will decrease by 0.027 for company size, 0.205 for sales growth and 0.008 for CEO size.

## Hypothesis Test

**Table 7 Partial T Test Results**

Variabel	CONS_ACC		CONS_B/M		CONS_C-Score	
	t value	Sig.	t value	Sig.	t value	Sig.
DEA	-0,768	0,449	1,129	0,268	0,660	0,515
Press release	0,321	0,751	0,208	0,837	0,041	0,968
Ind_Ad_R	2,623	0,014	4,226	0,000	3,980	0,000
Ln total assets	-1,302	0,203	-0,910	0,370	-1,561	0,129
Sales Growth	4,391	0,000	-2,376	0,024	-1,631	0,114
Leverage	-1,324	0,196	5,019	0,000	5,035	0,000
CEO age	1,104	0,279	0,932	0,359	0,770	0,448
CEO independence	-0,304	0,764	0,410	0,685	1,130	0,268
CEO size	1,377	0,179	-0,798	0,432	-0,122	0,903

Source: secondary data (processed, 2023)

The basis for decision making in the T test used is based on the significance value and the comparison between the calculated t value and the t table. The t table value used in this study is 2.020.

- DEA variable partially has no significant effect on accounting conservatism, meaning that the efficiency of managerial ability does not affect the use of accounting conservatism.
- The press release variable partially has no significant effect on accounting conservatism, meaning that press releases that measure managerial ability do not affect the use of accounting conservatism.
- The Ind\_Ad\_R variable partially has a positive and significant effect on accounting conservatism, meaning that the adjusted return on assets (Ind\_Ad\_R) which measures managerial ability affects the use of accounting conservatism.
- The firm size variable partially has no significant effect on accounting conservatism, meaning that firm size cannot control the effect of managerial ability on the use of accounting conservatism.
- The sales growth variable partially has a positive and significant effect on accounting conservatism as measured by using CONS\_ACC, meaning that sales growth can control the influence of managerial ability on the application of accounting conservatism.

- The leverage variable partially has a positive and significant effect on accounting conservatism as measured by CONS\_B/M and CONS\_C-Score, meaning that sales growth can control the effect of managerial ability on the use of accounting conservatism.
- The CEO age variable partially has no significant effect on accounting conservatism, meaning that CEO age cannot control the influence of managerial ability on the use of accounting conservatism.
- The CEO independence variable partially has no significant effect on accounting conservatism, meaning that CEO independence cannot control the effect of managerial ability on the use of accounting conservatism.
- The CEO size variable partially has no significant effect on accounting conservatism, meaning that CEO size cannot control the effect of managerial ability on the use of accounting conservatism.

**Table 8 Simultaneous F Test Results**

	<b>CONS_ACC</b>	<b>CONS_B/M</b>	<b>CONS_C-Score</b>
Sig. < 0,05	0,001 < 0,05	0,001 < 0,05	0,001 < 0,05
F count > F table	4,291 > 2,87	4,472 > 2,87	4,581 > 2,87

Source: secondary data (processed, 2023)

From the results of the F test on regression models 1, 2 and 3, the results obtained Sig. 0.001 is smaller than 0.05 and the calculated F value is greater than the F table. So it can be concluded that the hypothesis is accepted, meaning that the dependent and control variables simultaneously affect the independent variable.

### **The Effect of Managerial Ability on the Use of Accounting Conservatism**

From the research results obtained data that can provide an overview of the use of accounting conservatism in manufacturing companies listed on the IDX. There are 20 out of 39 companies with a positive CONS\_ACC value, which indicates that these companies have a high level of accounting conservatism, because in this CONS\_ACC measurement the higher the value obtained will indicate that the higher the level of accounting conservatism. While in CONS\_B/M obtained 7 out of 39 companies with a value of less than 1, this indicates that the majority of companies use accounting conservatism. The provisions on CONS\_B/M are that when the value is more than one, it is identified that the company is more conservative, this is because the company records its value lower than its market value. In measuring conservatism with CONS\_C-Score, the higher the value obtained, the more conservative a company is. The analysis shows that PT Unilever Indonesia is the company with the highest CONS\_C-Score value of the 39 samples used, this result indicates that the company has the highest level of conservatism.

In the measurement of managerial ability using DEA, the majority of companies have been at the efficiency level of the company's managerial ability at an efficient level. From the mean value of the DEA variable, it shows that manufacturing companies listed on the IDX already have managers with high abilities. While on the press release variable, the majority of companies rarely issue news related to their companies, be it good news about company performance and company activities or bad news in the form of losses or a decline in company finances. However, the measurement of managerial ability using Ind\_Ad\_R illustrates that the managerial ability of sample companies is quite good, where out of 39 sample companies there are only 5 companies that get negative Ind\_Ad\_R values.

The regression equation of the effect of managerial ability on CONS\_ACC gives positive and significant results. The results of the analysis found evidence that companies with high managerial ability have a high value of accounting conservatism. One example is PT Pyridam Farma with effective managerial performance in 2020 to 2021 which shows an increase until it increases in 2022 on the efficient performance coefficient. And judging from the results of the calculation of the number of press releases in this company has increased every year, besides that, it is found that the data on the increase in value on Ind\_Ad\_R every year. From the increase in progress that can prove the company's managers with high abilities, the calculation results on CONS\_ACC which are getting higher from year to year indicate that managers use accounting conservatism in their financial reporting. The control variable that affects this regression is sales growth, as in table 5, the value tends to increase every year in companies with high managerial ability and use accounting conservatism.

In the CONS\_B/M regression equation, the data obtained illustrates that the company records its value lower than its market value, the majority ratio obtained is more than 1 so that it can provide confidence that the company uses accounting conservatism. One example is PT Unilever Indonesia, which gets a constant manager performance effectiveness value with the highest Ind\_Ad\_R value of all sample companies, besides that the measurement of managerial ability with press releases shows an increasing number every year. This measurement with CONS\_B/M takes into account the effect of managerial ability on the relative value of the company at its market value. In this equation, the effect of managerial ability is controlled by sales growth with an increasing value and leverage variables with a value that tends to decrease every year.

The last equation is CONS\_C-Score which is carried out with the aim of directly measuring specific accounts. Obtained data that increases every year in CONS\_C-Score measurement, with an example at PT Unilever Indonesia which has the highest average value of all sample company data. In this regression equation, the majority of company data experienced an increase in the value of accounting conservatism. This result is enough to prove that accounting conservatism is applied by the sample companies. Managerial ability is controlled by control variables in its influence on the use of accounting conservatism, evidenced by one of them is the leverage variable with a decreasing value, so that it can control the influence of managerial ability.

The data obtained was also affected by the global economic downturn. So that the company's financial statements show low data. For example, on variables related to corporate finance such as accounting conservatism, sales growth, leverage, and company size. In 2020, relatively low data was obtained and tended to increase in the following year. From the data obtained, it can show that the managers of the sample companies used are managers with high abilities. Managers can restore the condition of the company from the crisis faced due to the global economic crisis.

The results of this study are in line with Haider's (2021) research. Managerial ability has a positive effect on the use of accounting conservatism, which means that the decision to use accounting conservatism is the decision of the company manager. Managers with high ability can reduce the level of financial statement fraud (Matangkin et al., 2018), so it can be assessed that managers with high ability use accounting conservatism as described in Haider's (2021) research. In line with agency theory which states that managers with high ability will use accounting conservatism with the aim of reducing agency problems that can occur when financial reporting is not done conservatively (Hariyanto, 2020). With the use of accounting conservatism, managers can increase contract efficiency as described in (Bilang la'bi et al., 2018) research. In addition, by reporting profits in actual circumstances will be able to improve the quality of earnings for the company in the future (Hariyanto, 2020). Contrary to the results of Nur Afia's (2020) research which states that managerial ability has no partial effect on

earnings quality, this study provides results that illustrate that managerial ability can indirectly affect earnings quality. Managers with high abilities do not need to manipulate to improve earnings quality, because these managers are able to improve earnings quality with good company management (Bilang la'bi et al., 2018; Haider et al., 2021; Matangkin et al., 2018). From the results of the analysis, evidence is obtained that companies report bad news in the form of losses or decreases in profits, in line with previous research which indicates that companies use accounting conservatism (Muttakin et al., 2019; Sun & Xu, 2012; Zhang, 2008).

From the results of the study, 2 assumptions can be drawn from the results of the analysis that has been done, the first is that managers with high ability use accounting conservatism in their financial reporting. It can be proven through a simultaneous F test, which gives the result that managerial ability with 3 approaches can affect the use of accounting conservatism. The second assumption is that managers with high ability utilize their superior ability to report their company's finances. This second assumption is based on the results of the partial T test which results in the conclusion that managerial ability as measured using *Ind\_Ad\_R* affects the use of accounting conservatism, but the measurement using DEA and press releases results prove that there is no effect of this variable on the use of accounting conservatism. Managers with high ability will report the company's finances carefully, in line with agency theory which supports the use of accounting conservatism to reduce the occurrence of agency conflicts, so that it will also indirectly improve the reputation of the manager.

This study proves that managerial ability is very important for a company, especially when faced with problems such as in 2020 to 2022 which experienced a global economic crisis. The use of accounting conservatism requires managers to deliver bad news in the form of either a decrease in profit or a loss from the company (Hui et al., 2009; Sun & Xu, 2012), in this study an analysis was obtained that proved that when managers have high abilities, the decline in company profits recognized can gradually increase again in the following year. This phenomenon can illustrate how the level of managerial ability of the company. A stronger assumption based on this phenomenon is that company managers have high capabilities and use accounting conservatism in their financial reporting.

## **CONCLUSION AND RECOMMENDATIONS**

This study examines the effect of managerial ability on the use of accounting conservatism in manufacturing companies in Indonesia in 2022. From the results of the analysis conducted, it can be concluded that managerial ability affects the use of accounting conservatism. Managers with high ability will use the principle of accounting conservatism in their financial statements, so as to minimize the occurrence of agency conflicts as described in agency theory. This is evidenced by the recognition of a decrease in profit or loss submitted in its financial reporting and an increase in profit in the following year even though it is still in a period of global economic crisis.

Although this study uses three measurements with different approaches, the results of this study cannot be generalized to a broad scope because the use of research objects is limited to manufacturing companies listed on the IDX. This study uses annual reports uploaded on the IDX as one of the sampling criteria, but not all companies upload annual reports on the IDX. In this study, there are independent variables that have no effect, namely managerial ability as measured using DEA and press releases. In addition, the use of control variables in this study is less efficient because of the six variables used, there are only two variables that have an effect.

For future research, it is expected to add other sectors in the study, so that the research results can be generalized in a broader scope. In addition, it is expected to consider using the annual report sample criteria and replace it with more financial reports uploaded on the IDX. Future researchers can replace DEA measurements and press releases on managerial capability

variables by using other measurements that can provide more accurate results. In addition, it is expected to explore control variables that have no effect in this study, namely company size, CEO age, CEO independence, and CEO size.

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