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DETERMINANTS OF ACCOUNTING PRECAUTION: An Empirical Study of Consumer Non-Cyclical Sector Companies in Indonesia

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Abstract

This study aims to test and analyze the determinants of accounting prudence. The analysis is carried out by testing the influence of several indicators such as sales growth, capital intensity, and company size. Using a research sample of 42 companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) in 2021-2023. This study analyzes several indicators using multiple linear regression. Based on the results of the tests that have been carried out, it shows that the variables of sales growth and capital intensity do not affect accounting prudence. While company size affects accounting prudence. While the moderating variables of sales growth with good corporate governance moderation, capital intensity with good corporate governance moderation show results that do not affect accounting prudence. While company size with good corporate governance moderation affects accounting prudence.

Keywords : *Sales growth, Capital intensity, Company size, Accounting prudence, Good corporate governance*

1. INTRODUCTION

The current era of globalization increasingly presents challenges for companies to improve the quality of their financial reporting. In financial reporting, this conservatism is very necessary, because stakeholders are trying to reduce the tendency og company managers to be optimistic in presenting their business performance reports (Jensen, 2016). Companies that invest heavily will face the risk of asset value declines if there is a change in technology or a decline in market price. In this case, accounting conservatism is a adopted to recognize potential losses more quicly (Wang, 2009).

In a concervative approach, one tends to record losses even when there is doubt, while profits do not need to be recorded if they are still in doubt. This triggers low values of income and profit along with high values of expenses and liabilities (Watts, 2003). This principle aims to prevent managers and business owners from emphasizing that possible losses are more important to recognize than unrealized profits (Zhafiraah, 2024). Although accounting prudence is considered a practice that can increase the credibility of financial statements by preventing management from opportunistic actions, its existence also raises a number of problem in accounting practice and theory (Mora & Walker, 2015).

The main problem that arises from the application of accounting conservatism is the potential for information distortion that can influence decision making by users of financial reports (Mark et al., 2015). On the one hand, conservatism protects reports users from excessive expectations of the company's financial performance. On the other hand, excessive conservatism can cause financial reports to be less reflective of the actual economic conditions, especially in terms of understatement of assers and profit (Watts, 2002).

Conservatism has the potential to be a managerial tool to hide actual performance, especially in companies with high levels of information asymmetry (Kim et al., 2012). This study aims to evaluate the impact of accounting conservatism on the quality of information in financial statements. With a focus on the balance between protecting users of financial statements from excessive expectations and the risk of information distortion due to excessive conservatism, which can inaccurately influence economic decision making.

The company growth variable based on research by Rahayu et al., (2018) states that company growth has a positive and significant effect on accounting prudence. In addition, Goffar dan Muhyarsyah, (2022) state that sales growth has a negative effect on accounting prudence. The capital intensity variable based on research by Nafi'lnayati Zahro, (2021) has a positive effect on accounting prudence. In addition, Phuong Hong & Tra My, (2024) state that capital intensityhas a negative effect on accounting prudence. The company size variable vased on research by Geimechi & Khodabakhshi, (2015) has a significant effect on accounting prudence.

Most studies tend to study sales growth, capital intensity and company size individually. This is without exploring in depth how these three factors interact simultaneously to influence accounting prudence (Bushman & Piotroski, 2006). Through the explanation above, the aim of this research is to identify whether large or small companies have different levels of caution (Zaini Miftach, 2018). And understand how companies apply this principle in financial reporting and the factors that influence the level of accounting prudence (Watts, 2003).

Sales Growth

Sales growth reflects the success of investments and future sales growth is used as a sales forecast. Significant sales growth can affect the level of accounting prudence (Rifq, 2023). When companies experience increased sales, the pressure to report higher profits also increases. This can encourage companies to reduce the application of conservative accounting, so that profits tend to be reported more optimistically (Mora & Walker, 2015).

These less conservative accounting practices can negatively impact the quality of financial reporting and increase risks for stakeholders (Lara et al., 2010). However, successful sales growth will receive a positive response from the market. So it can be a signal to external stakeholders that the company is worthy of investment or financial support (Covin et al., 1999)

Capital Intensity

Capital intensity is an influence on companies when implementing accounting conservatism. The higher the capital intensity ratio, the more capital-dense the company is (Zhafiraah, 2024). Even though companies try to increase capital intensity and production quality, choosing the wrong source of financing can have a negative impact and be detrimental to the company (Malik, 2019). Fixed assets can incur high fixed costs in achieving their profitability, because the volume of fixed costs does not change according to sales volume, thus causing higher profit fluctuations (Lee, 2024).

The capital intensity ratio is used to determine the amount of company assets in generating profits (Ani & Chavali, 2023). Companies that have a relatively high intensity ratio reflect capital-intensive companies (Zmijewski and Hagerman, 1981: 134). Companies that carry high capital intensity often face greater agency costs. This requires tighter supervision to avoid opportunistic behavior of managers (Watts, 2003).

Company Size

Company size is a measure that describes the size of a company based on various factors, such as total assets, sales level, profit size, tax burden, and other aspects that reflect the size of

the business (Brigham dan Houston, 2011: 4). Company Size shows how much total assets are owned by the company. The larger the company's operational activities, the greater the risks that need to be considered (Karismaratna, 2020).

The optimal firm size in an industry depends on the production costs incurred by that industry. The size of a company is an indicator to observe the amount of political costs that need to be borne by a company. The size of the company is a signal to investors and creditors regarding liquidity capabilities. However, this signal must be understood carefully, because large size does not always guarantee good performance (Levine, 2004).

Accounting prudence

Accounting conservatism stems from incentives related to contracts, litigation, taxes, and political costs (Watts, 2002). Conservative accounting reduces shareholder conflict over dividends and lowers debt financing costs (Zhang, 2005). Managers have greater access to company information and are therefore encouraged to manipulate financial reports (Hirshleifer & Teoh, 2011).

This aims to show better performance in order to achieve performance targets. In accordance with the principle of accounting prudence, even though there is uncertainty about the loss, it is better to tend to record the loss (Oreshkova, 2017). On the other hand, if there is no certainty of profit, then it is not necessary to record the profit. Therefore, reported earnings tend to result in lower total earnings and total assets as a precaution (Stephen, 2005).

Good Corporate Governance

Good corporate governance is a concept that aims to improve company performance by supervising and ensuring that management is accountable to stakeholders in accordance with the applicable regulatory framework. Company management in an effort to achieve profit and sustainability in a balanced manner can be achieved through the implementation of corporate governance (Iriyadi et al., 2020). The effectiveness of a company's good corporate governance is determined by how corporate governance works within the company (Halimatusadiah, 2015).

However, if this mechanism does not function properly, efforts to protect the interests of shareholders and other stakeholders will not be successful (Siregar, 2018). Regarding the application of good corporate governance as a moderator, there is also room to explore how this variable is combined, especially by considering the moderation of good corporate governance (Lara et al., 2010).

2. RESEARCH METHODS

Methodology

This study uses a quantitative approach model using secondary data (Rochmatullah et al., 2020).The population in this study were all Consumer Non-Cyclical Sector Companies listed on the Indonesia Stock Exchange for the 2021-2023 period. The sampling criteria were using purposive sampling techniques (Rochmatullah, 2020).The number of samples used in this study was 42 Consumer Non-Cyclical Sector companies listed on the Indonesia Stock Exchange for the 2021-2023 period.

Data collection in this study used the documentation method accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id). In this study, data processing and drawing conclusions were calculated using SPSS and Microsoft Excel software programs (Rochmatullah, 2024).Multiple linear regression was used to analyze the effect of sales growth, capital intensity, and company size. Multiple linear regression, descriptive statistical analysis, and classical assumption testing are the statistical methods used in this study (Williams et al., 2013).

Operational Definition of Research Variables

According to Schellekens (2000) Prudence is a prudent reaction when facing uncertainty faced by the company. In accordance with the principle of accounting prudence, even though there is uncertainty regarding losses, it is better to tend to record losses (Oreshkova, 2017). Therefore, reported earnings tend to result in lower total earnings and total assets just in case (Stephen, 2005). The measurement in this study refers to (Beaver and Ryan, 2003), namely accounting conservatism is reflected in the low accounting value (book value) relative to the company's market value.

$$\text{MTB} = \frac{\text{Closing Price}}{\text{Equity per Share}}$$

Notes :
MTB = Market to Book Value Ratio
Closing Price = Stock price
Equity per Share = Net Value per Share

Source : (Beaver dan Ryan, 2003)

Menurut (Ramezani et al., 2005) Sales growth reflects the development of a company's business by measuring the performance comparison between the current period and the previous period. The size of a company's sales growth is determined by its own activitie (Delmar et al., 2003). The stronger the growth rate of a company, the more conservative the accounting method chosen by the manager. So that the company can minimize the risk of economic instability in the future (Alhinai et al., 2024). Sales growth information can be obtained through the company's annual financial report.

$$\text{Sales Growth} = \frac{\text{Net sales t} - \text{Net sales t} - 1}{\text{Net sales t} - 1}$$

Source : (Ahmed and Duellman, 2007)

Capital intensity shows how much capital a company has. This is illustrated by the company's assets required to generate income (Eka Putra et al., 2020). Therefore, the capital intensity of a company can be measured using total assets divided by total revenue (sales) during the current year (Oktaviani et al., 2021). Information related to the magnitude of capital intensity is obtained from the company's annual financial report.

$$\text{Capital Intensity} = \frac{\text{Total Assets}}{\text{Company Sales Value}}$$

Source : (Achyani et al., 2021)

Company size refers to the size of the company, which is determined based on the total value of assets owned (S & Machali, 2017). The company size variable is measured by applying the natural logarithm to the company's total assets (Dang et al., 2018). The use of assets is due to the fact that the asset value is relatively stable compared to the market capitalization value or sales when used as a measure of company size (Lim et al., 2019).

$$\text{Firm Size} = \text{Ln}$$

Notes :
Ln = Total Assets

Source : (Ayuba et al., 2020)

GCG as a moderating variable (Z) is defined as a process, system, and series of regulations that regulate relations between parties who have interests in order to achieve company goals (Thomsen, 2004). *Good Corporate Governance (GCG) is a procedure for regulating relations between various related parties with the aim of creating added value for the common good* (Sitorus & Sitorus, 2017). GCG can be proxied through managerial ownership by looking at the proportion of shares controlled by management.

$$KM = \frac{\text{Number of shares owned by management}}{\text{Number of shares outstanding}} \times 100\%$$

Notes :
KM = Managerial Ownership

Source : (Achyani et al., 2021)

3. RESULTS AND DISCUSSION

3.1 Research result

Descriptive Statistics

Table 1. Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
X1	42	0,00	0,47	0,1541	0,11786
X2	42	0,28	2,08	0,8378	0,41686
X3	42	11,10	14,08	12,5882	0,80943
Y	42	0,54	4,36	1,9249	1,19263
Z	42	0,15	0,99	0,6857	0,26002
Valid N (listwise)	42				

Source: Secondary data processed with SPSS, 2025

Based on Table 1. the results of the descriptive statistical test, the number of samples (N) consists of 42 company data from 2021-2023. The results of the study show that sales growth (X1) has a mean or average value of 0.1541 with a standard deviation of 0.11786 then for a minimum-maximum value of 0.00 – 0.47. Capital intensity (X2) has a mean value of 0.8378 with a standard deviation of 0.41686 then for the minimum-maximum value of 0.28 - 2.08. Company Size (X3) has a mean value of 12.5882 with a standard deviation of 0.80943 then for the minimum-maximum value of 11.10 - 14.08. Accounting prudence (Y) has a mean value of 1.9249 with a standard deviation of 1.19263 then for the minimum-maximum value of 0.54 - 4.36. Good Corporate Governance (Z) has a mean value of 0.6857 with a standard deviation of 0.26002 then for the minimum-maximum value of 0.15 - 0.99.

Classical Assumption Test

Table 2. Normality Test Results

Equality	Significance	Information
Equality 1	0,134	Normally distributed data
Equality 2	0,200	Normally distributed data

Source: Secondary data processed with SPSS, 2025

Based on Table 2. the results of the normality test with the Kolmogorov Smirnov (K-S) test show the significance of the unstandardized residual data in equation 1 is 0.134 and equation 2 is 0.200. Both significance values are greater than 0.05 so it can be concluded that the data is normally distributed.

Table 3. Autocorrelation Test Results

	Equality	Significance	Information
Runs Test	Equality 1	0,274	No Autocorrelation Occurs
	Equality 2	1,000	No Autocorrelation Occurs

Source: Secondary data processed with SPSS, 2025

Based on Table 3. the results of the autocorrelation test with the Runs Test show that the significance of the unstandardized residual data in equation 1 is 0.274 and equation 2 is 1.000. Both significance values are greater than 0.05 so it can be concluded that there is no autocorrelation.

Table 4. Results of Heteroscedasticity Test

	Variable	Significance	Information
Uji Spearman's rho	**Equality 1**		
	X1	0,935	No Heteroscedasticity Occurs
	X2	0,475	No Heteroscedasticity Occurs
	X3	0,954	No Heteroscedasticity Occurs
	Equality 2		
	X1	0,966	No Heteroscedasticity Occurs
	X2	0,640	No Heteroscedasticity Occurs
	X3	0,756	No Heteroscedasticity Occurs
	Z	0,939	No Heteroscedasticity Occurs
	X1.Z	0,873	No Heteroscedasticity Occurs
	X2.Z	0,402	No Heteroscedasticity Occurs
	X3.Z	0,911	No Heteroscedasticity Occurs

Source: Secondary data processed with SPSS, 2025

Based on Table 4. the results of the heteroscedasticity test using the Spearman's rho test, show that all variables in equation 1 and equation 2 (sales growth, capital intensity, company size, and good corporate governance) have a Sig value> 0.05 so it can be concluded that there is no heteroscedasticity in the two equations.

Table 5. Multicollinearity Test Results

Variable	Tolerance	VIF	Information
Equality 1			
X1	0,863	1,158	No Multicollinearity Occurs
X2	0,907	1,102	No Multicollinearity Occurs
X3	0,793	1,262	No Multicollinearity Occurs
Equality 2			
X1	0,088	11,349	Multicollinearity occurs
X2	0,066	15,045	Multicollinearity occurs
X3	0,091	11,013	Multicollinearity occurs

Z	0,003	357,681	Multicollinearity occurs
X1.Z	0,080	12,564	Multicollinearity occurs
X2.Z	0,046	21,534	Multicollinearity occurs
X3.Z	0,003	385,542	Multicollinearity occurs

Source: Secondary data processed with SPSS, 2025

Based on Table 5. the results of the multicollinearity test, in equation 1 shows that the variables of sales growth (X1), capital intensity (X2), and company size (X3) have a collinearity tolerance value of > 0.100 and a VIF value of < 10.00, so it can be concluded that there is no case of multicollinearity. While in equation 2 shows that the variables of sales growth (X1), capital intensity (X2), and company size (X3) have a collinearity tolerance value of < 0.100 and a VIF value of > 10.00, so it can be concluded that there is a case of multicollinearity.

Hypothesis Test Results

Table 6. Hypothesis Test Results

Variable	Equality 1			Equality 2		
	Beta	t	Sig	Beta	T	Sig
Constant	-6,576	-2,163	0,037	13,339	1,743	0,090
X1	0,187	0,118	0,907	0,248	0,059	0,953
X2	-0,189	-0,433	0,667	-1,056	-0,773	0,445
X3	0,686	2,851	0,007	-1,050	-1,744	0,090
Z				-22,685	-2,125	0,041
X1.Z				-1,049	-0,193	0,848
X2.Z				1,728	0,691	0,495
X3.Z				2,013	2,412	0,021
R Square	0,198			0,485		
F	3,118			4,572		
Sig	0,037			0,001		

Source: Secondary data processed with SPSS, 2025

From the test Table 6. the results of the regression test above, the following regression equation is obtained:

Equality 1 :

Y = -6,576 + 0,187X1 - 0,189X2 + 0,686X3 + e

- The constant value of -6.576 means that if sales growth, capital intensity, and company size are 0 (constant), then accounting prudence is -6.576. The regression coefficient value of variable X1 is 0.187, this indicates that if variable X1 increases by one unit, it will increase Y by 0.187 assuming other variables remain constant. The value is positive, so it can be said that the direction of influence is in the same direction. The regression coefficient value of variable X2 is -0.189, this indicates that if variable X2 increases by one unit, it will increase Y by -0.189 assuming other variables remain constant. The value is negative, so it can be said that the direction of influence is in the opposite direction. The regression coefficient value of variable X3 is 0.686, this indicates that if variable X3 increases by one unit, it will

increase Y by 0.686 assuming other variables remain constant. The value is positive, so it can be said that the direction of influence is in the same direction.

- The R Square value is 0.198, which means that the contribution of sales growth, capital intensity, and company size to accounting prudence is 19.8%, the rest is influenced by other factors.
- The results of the ANOVA analysis show an F value of 3.118 with a significance level (Sig.) of 0.037<0.05. This means that sales growth (X1), capital intensity (X2), and company size (X3) simultaneously have a significant effect on accounting prudence.

Equality 2 :

KA = 13,339+0,248X1 - 1,056X2 – 1,050X3 – 1,049X1*Z+1,193X2*Z+2,013X3*Z + e

- The constant value is 13.339 so it can be concluded that the variables of sales growth, capital intensity, company size, sales growth * good corporate governance, capital intensity * good corporate governance, and company size * good corporate governance are worth 13.339. The regression coefficient value of sales growth (X1) is positive (+) of 0.248, which means that if sales growth increases, accounting prudence will increase and vice versa. The regression coefficient value of capital intensity (X2) is negative (-) of -1.056, which means that if capital intensity increases, accounting prudence will decrease, and vice versa. The regression coefficient value of company size (X3) is negative (-) of -1.050, which means that if company size increases, accounting prudence will decrease, and vice versa.

  The regression coefficient value of sales growth*good corporate governance is negative (-) of -1.049, which means that if sales growth*good corporate governance increases, accounting prudence will decrease, and vice versa. The regression coefficient value of capital intensity*good corporate governance is positive (+) of 1.193, which means that if capital intensity*good corporate governance increases, accounting prudence will also increase. The regression coefficient value of company size*good corporate governance is positive (+) of 2.013, which means that if company size*good corporate governance increases, accounting prudence will also increase.
- The R Square value is known to be 0.485, which means that the contribution of the influence of sales growth, capital intensity, and company size to accounting prudence after the moderating variable (GCG) is 48.5%, the rest is influenced by other factors.
- The results of the ANOVA analysis show an F value of 4.572 with a significance level (Sig.) of 0.001 < 0.05. This means that after the moderating variable (GCG), sales growth (X1), capital intensity (X2), and company size (X3) simultaneously have a significant effect on accounting prudence.

3.1. Discussion

Sales growth does not significantly affect accounting prudence. This can be indicated that the company must make sales continuously or as much as possible in increasing the company's growth. However, generating high sales does not mean that management can implement the principle of accounting prudence. This is because management maintains the company's value in front of investors so that investors are interested in investing. The results of this study are in line with research (Saragih et al., 2022), but not in line with research (Rifq, 2023) and (Rahayu et al., 2018) which shows that sales growth has an impact on accounting prudence.

Capital intensity does not affect accounting prudence. This can be indicated that capital intensity does not have a direct relationship with the capital or funding aspects of the company, but is caused by changing regulations and applicable regulations. The high or low level of

capital intensity will not affect the application of accounting prudence because the use of assets in generating efficient sales will affect the value of the company for external parties. Therefore, the company will not present its financial statements conservatively. The results of this study are in line with research conducted by (Saputra, 2024) which shows that capital intensity does not affect accounting prudence.

Company size is one of the important factors that can affect the level of caution in accounting practices. Large companies tend to have higher exposure to public attention, regulators, investors, and other stakeholders. Therefore, they are more likely to apply the principle of caution in preparing financial statements. This caution is demonstrated through the application of the principle of accounting conservatism, which is an approach that recognizes and records potential losses or expenses more quickly, while recognition of income is carried out more carefully. One of the main reasons large companies are more careful is to avoid the possibility of political costs (political cost hypothesis). This theory states that large companies are more likely to be the target of government regulation, pressure from the public, and media attention. Thus, large companies tend to lower reported profits so as not to appear too profitable, which can lead to pressure for higher taxes or stricter regulations. The results of this study are not in line with research conducted by (Yanadewi & Laela, 2024) which shows that company size does not affect accounting prudence.

Good corporate governance is unable to moderate sales growth against accounting prudence. This may indicate that the absence of good corporate governance in terms of managerial ownership on accounting conservatism is due to efforts to gain recognition from outside parties by reporting higher profits in order to obtain greater investment by managers. Therefore, the company must generate high sales. However, high sales do not allow management to apply the principle of accounting conservatism because management maintains the company's value in the eyes of investors so that investors are interested in investing. This research is in line with research (Achyani et al., 2021) namely, company growth does not affect accounting prudence. The study supports the research results that good corporate governance is unable to moderate sales growth against accounting conservatism.

Good corporate governance is not able to moderate capital intensity with accounting prudence. This can be indicated that not all management are shareholders or have share ownership so that they tend to use accounting methods or principles that can maximize bonuses, namely by increasing sales. Although the company has assets in increasing sales, companies with high capital intensity do not cause conservative profit reporting because management tries not to present more conservative reports. This research is in line with (Saputra, 2024) namely, capital intensity has no effect on accounting conservatism.

Good corporate governance is able to moderate company size against accounting prudence. The study shows that good corporate governance is able to moderate company size with accounting prudence. This can be indicated that managerial ownership has no effect on company size because of the healthy or unhealthy condition of the company, especially public companies. The existence of managerial share ownership is only used as a symbol to attract investors. Large or small managerial ownership cannot rule out the possibility that the company has financial problems so that the company goes bankrupt. If the company experiences financial difficulties or bankruptcy, the manager will present the company's profit in a high amount. This study is in line with research conducted by (Noviantari et al., 2015) which states that company size influences accounting prudence.

4. CONSLUSION

Based on the test results in the previous chapter, several conclusions can be drawn, namely: Sales growth does not have a significant effect on accounting prudence because management focuses more on profit imaging to attract investors, rather than applying the principle of conservatism. Likewise, capital intensity does not affect accounting prudence, because management prioritizes asset efficiency to increase sales without considering conservative reporting. However, different company sizes, company size affects accounting prudence. This is because large companies tend to be more careful in financial reporting due to political pressure and higher public scrutiny. They apply the principle of conservatism to avoid regulatory pressure. Good corporate governance (GCG) does not moderate the effect of sales growth or capital intensity on accounting prudence, because management focuses more on increasing profits to attract investment. However, GCG moderates the effect of company size on accounting prudence, because although managerial ownership functions as a symbol to attract investors, companies facing financial difficulties tend to present higher profits to maintain their image and attract investors.

Accounting conservatism is a form of protection against uncertainty and potential bias in financial reporting, but it is not merely a detrimental protection. When applied appropriately, conservatism actually strengthens the reliability of accounting information and increases the credibility of financial statements. However, if applied excessively, conservatism does have the potential to reduce the relevance of information by causing distortions such as understatement of assets and profits, so that it no longer reflects the actual economic conditions. Therefore, conservatism cannot be viewed as a threat to relevance, but rather must be viewed as an effort to achieve a balance between reliability and relevance in the face of uncertainty.

Based on these conclusions, the researcher provides the following suggestions: This study uses samples from non-cyclical consumer sector companies listed on the Indonesia Stock Exchange in the 2021-2023 period. For further researchers, they can expand the population, such as using all manufacturing companies listed on the Indonesia Stock Exchange, not just non-cyclical consumer sector companies. Extend the research period, for example four to six years so that the results can better describe long-term conditions and provide more accurate results. Add or replace independent variables that have not been studied, and use moderating variables that have not been widely studied, such as family ownership.

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