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A study of positive accounting practice

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ABSTRACT

Financial accounting, as a branch of science from social science, practically describes the behavior of the presenters of financial statements. This study is confirmatory descriptive research, data obtained from the annual reports of banking companies on the Indonesia Stock Exchange. This study constructs a research model using four variables: accounting conservatism, managerial ownership, debt covenants, and political costs. The data is processed using path analysis, and the test is carried out through two stages: testing the direct and indirect effects. The direct effect finding proved that the bonus plan, debt covenant, and political cost hypothesis had been significantly practiced. Another direct influence finding also proved that managerial ownership has a significant effect on debt covenants and that political costs have a significant effect on debt covenants. This research also demonstrated that debt covenants could not mitigate the impact of political costs and managerial ownership on accounting conservatism practice. The board of commissioners, as the highest supervisory body and the supervisory units, has the responsibility to control the opportunistic behavior of managers so that banks can effectively practice a healthy financial statements process and so that public trust in banks increases.

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Introduction

This research aims to confirm if positive accounting theory is applied in terms of management behavior theory when performing its duty as an agent appointed by the principal. As is well known, positive accounting theory is a theory that predicts management's choice of accounting procedures for the goal of gaining the interests of certain parties or groups, including management as an agent chosen as the owner's representative (Watts & Zimmerman, 1986). The history of positive accounting theory demonstrates that there are consistent behaviour predictions for phenomena that occur where agents have a disposition to win their interests, such as employing accounting methods in the process of presenting financial statements (Watts & Zimmerman, 1979). This research specifically pertains to the public interest theory, which implies that the existence of regulation is a corrective tool for potential and market failures (Pigou, 1938). According to the capture theory of regulation, regulators are entrusted agents, but in actuality, they are units that are biassed in carrying out their functions in order to win their own interests (Stigler, 1971).

The financial reports are a form of management accountability to stakeholders (Indonesian Association of Accountants on Financial Accounting Standard, 2017). The Financial reports must present the company's actual financial condition and be relevant according to the period so that it will increase the confidence of stakeholders (Vakilifard & Mortazavi, 2016). Financial reports must identify and state qualitative financial statement information related to relevancy, reliability, comparability, timeliness, and understandability (Alcock et al., 2011). Financial statements are a form of management accountability to stakeholders (Indonesian Association of Accountants on Financial Accounting Standard, 2017), which must be presented as an accurate reflection of the company's actual and relevant financial condition in order to increase stakeholder trust (Vakilifard & Mortazavi, 2016). Financial reports must be able to identify and present qualitative financial statement information such as relevance, dependability, comparability, timeliness, and understability (Alcock et al, 2011). Financial statements should be presented to users in the form of relevant information so that they can be used as the basis for investment decisions, credit decisions, and other purposes (Marshall et al., 2014). In fact, there are various goals and management actions that can influence how financial statements are presented, where management presents financial reports that are oriented to the company's and management's personal interests (Stickney et al., 2010). It has been discovered that the financial statements presented are aggressive in some cases and conservative in others (Loughran, 2011; Subramanyam & Wild, 2014; Kieso et al., 2014; Shuto & Takada, 2010).

If the company uses accounting conservatism in its financial statements, the quality of those statements will be lower and may be misleading (Godfrey et al., 2010). On another occasion, according to the Indonesian Association of Accountants Financial Accounting Standard, No. 16, the company can choose the accounting method flexibly based on the management strategy, such as the alternative option of recording accounting for inventory and accounting for fixed assets. This independence encourages management to practice accounting conservatism in financial statements. One of the applications of accounting conservatism found is the use of the recording method in which the inventory value is recorded in the statement of financial position, resulting in a lower cost (Stickney et al., 2010). Accounting conservatism is typically practiced by company management to anticipate economic insecurity and as a form of manager's market caution. Conservative financial statements may indicate that the company is violating the principles of good corporate governance, which require companies to be transparent and accountable in order to avoid misleading financial statement users in investment decisions, lending, and government policies (Ruch & Taylor, 2015).

The facts show that political uncertainty caused by the gubernatorial election cycle in the United States in the years preceding the election increased accounting conservatism by 17% when compared to other years (Dai & Ngo, 2018). According to the study (Balakrishnan et al., 2016), in a crisis, the financial statements of non-financial companies show a lower real economic capacity than companies that practice high financial reporting conservatism, reducing their investment potential when viewed from their financial capacity. Another study discovered that when companies with less conservative financial reporting face financial constraints and difficult economic conditions or a crisis, they experience a sharp decline in investment activities when compared to companies with more conservative financial reporting. Because of the high level of political uncertainty, information asymmetry and agency costs increase, resulting in the presentation of more conservative accounting. Rather than cash flows, this political uncertainty has a significant impact on the timeliness of accrual income components and special items (Ruch & Taylor, 2015).

In terms of managerial ownership in influencing the level of conservatism, Shuto and Takada (2010) discovered that middle-level management has a tendency to influence financial statement results to be more conservative, resulting in increased agency costs. According to Lu and Wang (2018), companies with a high level of conservatism reflect managers who are afraid to take risks and innovate in the face of market competition due to high uncertainty. The current members of the independent board of directors are expected to play a larger role in supervision so that management is more creative, so a policy was established to compensate the company's CEO in the form of stock bonuses so that managers are encouraged to take risks and innovate.

In addition to providing compensation to top-level executives, conservatism in financial statements can be reduced if a company attempts to improve financial ratios by extending debt agreements or delaying current loans so that the debt ratio does not rise. The financial statements presented should not be conservative in order to extend the debt covenant with the lender. Debt covenants can cause conservative financial statements to be less conservative because losses are not recognized on time or are not recognized sooner than they should be (Stice et al., 2016). It has previously been discovered that firms with low debt contracting costs will reduce the level of accounting conservatism in their financial statements (Li, 2013).

On other occasions, companies with high profits and a large size are required to meet high political costs by paying higher taxes, participating in corporate social responsibility programs, and adhering to stricter environmental monitoring requirements (Yip et al., 2011). Staubus (2013) argues that companies practice accounting conservatism, in which managers try to reduce profit and asset reports so that companies do not become the focus of government attention on tax obligations and other social responsibilities. However, Ernayani and Oviantari (2015) research does not show the same thing.

Positive accounting theory describes and predicts company managers' actions in selecting accounting methods so that the financial statements presented produce what certain parties expect (Subramanyam & Wild, 2014). This theory outlines three key hypotheses that encourage management to select an accounting method to produce different financial statements. The bonus plan hypothesis, the political cost hypothesis, and the debt covenants hypothesis are the three hypotheses (Shil, 2014). This study investigates the model of positive accounting practice and its relationship to conservative accounting in Indonesian banking firms. This study's findings are expected to have a practical impact on conservative accounting, financial reporting quality, and positive accounting practices. The findings of this study will also serve as an important additional resource for academics and future researchers.

The principal-agent relationship is explained by agency theory, in which the agent acts and makes decisions for the benefit of the owner in order to enrich the principal. The agent does not always act in the best interests of the principal, which results in agency costs during the process of controlling the principal against the agent (Godfrey et al., 2010). Despite supervision, management always has more complete information about the company than the owner, which contributes to information asymmetry (Staubus, 2013). To deal with uncertain market risks, managers tend to be conservative in financial reporting (Subramanyam & Wild, 2014).

Three hypotheses influence managers' decisions to apply certain accounting principles conservatively or aggressively. The first hypothesis is the bonus plan hypothesis, which states that managers will maximize bonus income and rewards by increasing reported earnings and company assets. Second, the debt covenant hypothesis explains how companies that are nearing debt maturity will recognize profits earlier or incorporate future earnings into the current period. Following that, the political cost hypothesis predicts that managers tend to reduce large companies' profits in order to avoid political costs, which can take the form of tax burdens or social and environmental responsibilities (Godfrey et al., 2010). As a result, businesses should implement good corporate governance to ensure that the implementation of company operations includes the principles of responsibility, accountability, and relationships among shareholders, board members, and managers designed to achieve company goals; that the quality of financial reports is maintained; and that business sustainability is maintained (Saidat et al., 2019).

Management is given the opportunity to purchase company stock in order to increase ownership and act to improve financial performance, share value, and company value. Managerial ownership is a type of ownership that is manifested by executive directors' ownership of company stock (Hamdan, 2017). Owners can also grant stock options to management in order to encourage them to purchase shares at market prices based on their acquisition prices (Kieso et al., 2014). Because shares are sold at the highest market price when stock prices rise, managers deserve to be rewarded (Houston & Brigham, 2019). As an incentive for the company to present high-quality financial reports, the executive manager of a company is given the right to own shares (Shuto & Takada, 2010).

In this study, managerial ownership is represented by the manager's percentage of the total number of shares owned. Managers should increasingly present financial statements that are profitable for company owners and managers as the number of shares owned by company managers increases, implying that the financial statements presented are less conservative. This research reflects the bonus plan with managerial ownership, specifically the compensation given to managers for performance, specifically the performance of the executive director, who is also the company's owner. According to the findings of Hamdan's (2017) research, conservatism plays a role in maintaining the positive relationship between managerial ownership and firm performance. Shuto & Takada (2010) note that because managers have incentives in the form of shares, manager ownership can improve company performance, increasing investor confidence in management and reducing agency costs (Shuto & Takada, 2010). When management ownership increases, instead of pursuing bonuses, management tends to try to develop the company, so the financial statements presented tend to be conservative rather than aggressive (Eersteling, 2016). In contrast to Li et al.'s (2020) findings, which state that even as managerial ownership increases, the opportunistic nature of management to pursue bonuses remains high by presenting aggressive financial statements. According to Lu and Wang (2018), there is an insignificant negative relationship between management ownership and conservatism, whereas Salehi and Sehat (2018) found no significant effect of ownership structure on accounting conservatism application.

Companies with a relatively high debt capital structure reflect high debt covenant conditions, resulting in more aggressive financial statements. A high debt ratio indicates high financial risk, with high interest costs and exposure to interest rate movements; if interest rates rise, future profitability will suffer (Kieso et al., 2014). Banks are companies whose primary source of capital is debt, so they are considered to have high financial risk and the potential to present more aggressive financial statements in order for management to be perceived as having adequate and good performance. Most long-term financing agreements include provisions for optimal debt/equity ratios; these agreements encourage creative accounting. Conservative managers will renegotiate debt so that management and the company are seen to be capable of producing performance that meets expectations (Aerts & Walton, 2013).

In this study, debt covenants are measured using a leverage ratio, which shows the proportion of debt used to finance a company's investment. The higher the leverage ratio, the more likely the company's management will increase its earnings report to increase lenders' confidence in the company's ability to pay its debts. The leverage ratio is the total capital in the form of debt in relation to an entity's capital composition (Subramanyam & Wild, 2014). If the company is unable to generate sufficient net assets to pay its maturing debt, the borrower requires a guarantee from the company that the minimum amount of assets must be greater than the contract agreement amount (Hejranijamil et al., 2020). That is, if the company's leverage is high, the company's ability to pay debts is questioned, so managers will increase the income statement to maintain the ability to pay off company debt. Companies that can pay their debts can avoid additional penalties for breaching the debt agreement (Ernayani & Oviantari, 2015).

Stice et al., (2016) support the debt covenant hypothesis, which states that companies with high debt levels, particularly if the debt is due soon, present financial statements with high assets and profits or aggressive, rather than conservative, financial statements. Nikolaev (2010) concludes in his study that there is an inverse relationship, i.e., a positive relationship, between debt covenants and accounting conservatism. This occurs because debtor companies are more stringent in responding to their debtors' financial statements and prefer conservative reports over aggressive ones. Suleiman (2017) presents the findings of his study in the conglomerate sector, which show that debt covenants have a significant negative effect on accounting conservatism, whereas Salehi & Sehat (2018) state that debt agreements that will mature cannot affect the application of accounting conservatism.

Managers, who face economic uncertainty and are influenced by government policies, will make decisions on accounting methods that are in the best interests of the company. Large corporations will try to report earnings that are lower than they actually are in order to avoid undue scrutiny and oversight from the government and regulators (Pangaribuan, 2021). Efforts are also made to provide reports with low profits so that the union does not demand a large salary increase because the company still believes it has limited profits (Kieso et al., 2014). Essentially, political uncertainty can influence the level of conservatism, as evidenced by an increase in agency costs (Dai & Ngo, 2018). The state's involvement in businesses can have an impact on how managers apply accounting policies. Companies in civil law countries with high state involvement recognize good news more slowly and bad news more quickly than companies in countries with low state involvement (Bushman & Piotroski, 2006).

Managers, for example, use one of the last in first out accounting methods, resulting in a high cost of goods sold and a low taxable income in financial statements. Among the various inventory pricing methods, the last in, first out (LIFO) method is the most conservative (Williams et al., 2010). Furthermore, the company postponed taxes in order to encourage the implementation of unconditional conservatism (Qiang, 2007). Companies that must pay large amounts of tax tend to be more conservative than companies that must pay smaller amounts of tax (Suleiman, 2020). The study discovered factors that can be used to reduce political costs, such as audit rotation (Sánchez et al., 2014), infrastructure provision (related to tax registers), and public support in terms of voluntary compliance (Haldenwang, 2017).

Political costs can be proxied by firm size (Godfrey & Jones, 1999; Attia et al., 2016), and firm size can be calculated by performing a natural log of total assets (Yip et al., 2011). The greater the company's size, the greater the political costs imposed on it. Another way to measure political costs is to look at the company's net sales using the net sales log (Chen et al., 2017); the two measurements do not have different results, so both the net sales log and the net asset log can be used as a tool of the company's political cost (Godfrey & Jones, 1999). Meanwhile, Ernayani & Oviantari (2015) calculate the company's political costs based on sales growth. In this study, political costs are measured by company size, specifically logged natural net assets (Yip et al., 2011). According to Asgari & Behpouri (2014), there is a significant and positive relationship between political costs, corporate tax burden, and accounting conservatism. Previous research by Dai and Ngo (2013) found that political uncertainty has a significant impact on the state of conservatism. While Ernayani & Oviantari (2015) discovered no significant effect of political costs on accounting conservatism, Arestis & Karagiannis (2022) asserted that the decline in corporate political costs (tax burden) was more due to a decrease in tax rates.

The emergence of conflicts of interest between owners and agents, as well as the emergence of conflicts of interest between shareholders and bondholders, is further described by agency theory. The existence of a stock bonus for management is expected to reduce shareholder and bondholder conflicts while increasing company performance and value (Hamdan, 2017). Debt covenants demonstrate that managers who act in the best interests of shareholders take the initiative to transfer the wealth of debtholders to shareholders. The lender then raises the interest rate to account for the risky behavior of the debtholders' owners and managers who attempt to transfer their wealth (Godfrey, 2010).

Conservative reporting is preferred by shareholders as a tool for implementing good corporate governance (Hejranijamil et al., 2020). Dispersed ownership can persuade investors to encourage managers to practice accounting conservatism (Ramalingegowda & Yu, 2012), so that ownership concentration maximizes the privileges of both controlling and monitoring firms in order to reduce agency costs (Crane et al., 2016). The agency costs are inherent in the nature of debt financing, which can be avoided by entering into short-term debt agreements that will mature soon (Khurana & Wang, 2015).

The study's findings demonstrate that managerial ownership can lower the cost of debt (Shuto & Kitagawa, 2011). Company owners will provide stock options to managers who own shares in order for them to improve the company's performance and share price in order to receive a larger bonus (Houston & Brigham, 2019). When debt is high and near maturity, executive stock options and managerial ownership can reduce the effect of agency costs between owners and managers (Alcock et al., 2011). Furthermore, firms with a high level of managerial ownership tend to pay out large dividends; there is a positive relationship between managerial ownership and dividends. When the level of managerial ownership is very low, the positive relationship differs from being negative. It was also discovered that managerial ownership had a significant positive effect on the capital structure derived from debt (Shuto & Kitagawa, 2011). Companies with a high level of managerial ownership have a high level of debt capitalization. This is done by management, which is also the company's owner, in order to reduce the company's tax burden (Florackis et al., 2015).

Capital structure management is important because it will ultimately determine the optimal value of the company, namely the effect of a balanced composition of equity and debt. For example, the use of capital derived from debt has an impact on tax savings, thereby increasing the company's present value. Another effect of using debt-derived capital is financial risk, which can even lead to bankruptcy (Sheikh & Wang, 2011).

According to one point of view, there is a relationship between political costs and the capital structure that comes from debt. According to the first point of view, large corporations are more diverse, less prone to bankruptcy, and thus less likely to default. When compared to small businesses, large corporations tend to have large capital structures based on debt under these conditions. According to this point of view, there is a positive relationship between political costs (as measured by total assets) and debt. The study's findings also show a positive and significant relationship between the political costs measured by the company's total assets and the capital structure derived from debt (Sheikh & Wang, 2011; Serrasqueiro & Rogao, 2009; Shahar et al., 2016). On the other hand, the pecking order view or theory, on the other hand, shows a negative relationship between political costs (as measured by firm size) and debt ratios. According to this viewpoint, the problem of information asymmetry in large companies is not as serious as it is in small companies because large companies tend to be better and more complete in conveying information to the public, making management's job easier in conveying information to stakeholders. Sources of capital derived from debt do not need to be large, whereas sources of capital derived from equity are easier to obtain in large quantities. This viewpoint is consistent with the findings, which show that firm size has a significant negative effect on the capital structure derived from debt (Sahoo & Deb, 2022).

Based on the previous studies or description of the theories, this study formulates the following research hypotheses:

H_1: Managerial ownership has a significant impact on accounting conservatism.
H_2: Debt covenant has a significant impact on accounting conservatism.
H_3: Political cost has a significant impact on accounting conservatism.
H_4: Managerial ownership has a significant impact on debt covenant.
H_5: Political cost has a significant impact on debt covenant.
H_6: Debt covenant can significantly mediate the impact of managerial ownership on accounting conservatism.
H_7: Debt covenant can significantly mediate the impact of political cost on accounting conservatism.

Method

This confirmatory study uses secondary data from annual reports of banking companies listed on the Indonesia Stock Exchange from 2018 to 2020. This study's sample consists of 41 banks that provided complete annual reports (including those that presented information about managerial ownership of related bank shares). This study uses three years of the research data range and found 123 research sample data to be processed.

The path model incorporates four research variables, each of which is: Accounting conservatism (Acctg_Consv), is a type of manager caution in anticipating market uncertainty so that the application of conservatism can anticipate potential threats to the company. Zhang's (2008) accrual model measures this variable. The greater the value of Acctg_Consv the greater the practice of conservatism, according to the mathematical formula:

$$\text{Acctg\_Consv} = \frac{\text{Non-operating Accrual x (-1)}}{\text{Total Asset}}$$

Where: Non-operating Accrual = Operating Accrual - Δ Account Receivable -Δ Inventory - Δ Prepaid Expense+ Δ Account Payable + Δ Taxes Payable.

Managerial ownership (Man_Own), is calculated by dividing the number of shares owned by management by the number of shares outstanding. The bonus plan hypothesis is explained by managerial ownership, which indicates a managerial bonus. As an agent, the manager can use methods designed to benefit from satisfying manager performance reports, such as obtaining profits in the form of large managerial bonus shares. The greater the managerial share ownership, the more aggressive the management's accounting practices.

Debt covenant hypothesis (Debt_Coven), predicts that managers will seek to increase profits and assets in order to lower debt contract costs. This hypothesis explains why companies with a lot of debt or that are about to mature tend to shift profits from future periods to current periods or use certain accounting methods to produce bigger current income statements. The greater the amount of debt that is due soon, the more aggressive management's accounting practices. The debt covenant hypothesis is measured using the debt ratio.

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Liabilities + Total Stockholder's}}$$

Political cost (Pol_Cost), refers to the costs incurred as a result of corporate responsibility and compliance with external parties such as the government, trade unions, and community groups, all of which have close interactions with political attitudes and actions. The company wishes to reap the benefits of selecting accounting policies and methods to support it, but large corporations are brought to the attention of the government and are subject to high tax costs, social responsibilities, and union demands for salary increases. The larger a company, the more attention it receives from regulators and politicians. Companies frequently employ accounting methods that have an impact on the presentation of assets and lower profits in order to avoid large political costs. Total assets are used as a proxy for measuring political costs in this study, specifically:

$$\text{LN\_ SIZE} = \text{Log Natural of Total Asset}$$

Path analysis is used to process and analyze the data, and hypothesis testing is done in two stages: testing the direct and indirect effects. The direct influence test involves examining the impact of managerial ownership, debt covenants, and political costs on accounting conservatism, as well as the impact of managerial ownership and political costs on debt covenants. The indirect influence test involves examining the impact of managerial ownership on accounting conservatism via debt covenants, as well as the impact of political costs on accounting conservatism via debt covenants. There were 123 processed data points. The data was free of heteroscedasticity and multicollinearity issues. In addition, the data was free of outliers and extreme data problems in each variable.

Results and Discussions

The correlation test results show that managerial ownership has a negative relationship with accounting conservatism (see Table 1. Correlation). The greater the proportion of management shares owned, the lower the practice of accounting conservatism, implying that management tends to practice aggressive accounting in order to receive a larger bonus. Other findings indicate a negative relationship between debt covenants and accounting conservatism. When the bank has large debts or is about to mature, management tends to practice lower conservatism accounting or to present financial statements with an accounting method that produces aggressive reports in order to increase creditors' trust in the company and make new debt scheduling easier. Next, the correlation results also show a positive relationship between political costs (measured by firm size) and the practice of accounting conservatism. This demonstrates that large corporations practice conservative accounting to avoid political costs such as tax burdens, social and environmental responsibility, labor union attention or demands, and other social responsibilities.

Table 1. Correlations

		Acctg_Consv	**Man_Own**	**Debt_Coven**	**Pol_Cost**
Pearson Correlation	Acctg_Consv	1.000	-.130	-.219	.199
	Man_Own	-.130	1.000	.138	-.169
	Debt_Coven	-.219	.138	1.000	.211
	Pol_Cost	.199	-.169	.211	1.000
Sig. (1-tailed)	Acctg_Consv	.	.075***	.007*	.014**
	Man_Own	.075***	.	.064***	.031**
	Debt_Coven	.007*	.064***	.	.010*
	Pol_Cost	.014**	.031**	.010*	.

Note: *, **, and *** statistically significant at the 1%, 5% and 10% levels, respectively

It was also discovered that companies with a high level of managerial ownership have a favorable relationship with debt covenants. Companies with a high level of managerial ownership tend to have a capital structure that is heavily reliant on debt for the purpose of tax burden efficiency, so that management receives bonuses for the intended tax efficiency performance. The findings also show that there is a positive relationship between political costs (as measured by total assets) and debt covenants. This demonstrates that the increase in the size of the company's assets is primarily due to an increase in the company's capital originating from debt.

Direct Effect Test

Table 2 shows the results of testing the direct influence of managerial ownership, debt covenants, and political costs on the practice of accounting conservatism. The preliminary findings indicate that managerial ownership has a significant impact on the practice of accounting conservatism, as supported by H1. Banks with a high level of managerial ownership have low accounting conservatism, which means they present aggressive financial statements. Management does this to make the financial statements appear better than they should in order to receive a large bonus.

Table 2. Coefficients: First Direct Testing Model

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	-.530	.227		-2.338	.021
Man_Own	-.001	.002	-.052	-.693	.069**
Debt_Coven	-.153	.052	-.264	-2.938	.004*
Pol_Cost	.185	.068	.246	2.728	.007*

a. Dependent Variable: Acctg_Consv
Note: *, ** statistically significant at the 1% and 10% levels, respectively

The test results also show that debt covenants have a significant effect on accounting conservatism practice, which H2 supported. Banks with large amounts of debt, particularly debt that is about to become due, significantly practice financial statements presented at a lower or more aggressive conservative level or exaggerate the company's profits and assets. Management does this so that creditors have more confidence in the company when placing loans for the company and also if they need to restructure the company's loans. Table 3 also demonstrates that political costs have an impact on conservative accounting practices. Banks with high political costs (as measured by total assets) use conservative accounting practices to avoid or minimize political costs such as tax burdens, trade union responsibilities, and other social responsibilities, so H3 is supported.

The result from the first direct testing model has a relatively low predictive power of managerial ownership variables, debt covenants, and political costs on conservative accounting practices, with a value of 9.1%. (Hair et al., 2017).

Table 3. Anova: First Direct Testing Model

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.025	3	.008	5.088	.002[b]
	Residual	.196	119	.002		
	Total	.222	122			

a. Dependent Variable: Acctg_Consv
b. Predictors: (Constant), Pol_Cost, Man_Own, Debt_Coven

Table 3 contains the test results. The significance level for Anova: First Direct Testing Model is 0.002, indicating that the first model in the regression test that was built was well formed.

Table 4. Coefficients: Second Direct Testing Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.233	.396		-.587	.558
Man_Own	.006	.003	.179	2.005	.047**
Pol_Cost	.312	.115	.241	2.705	.008*

a. Dependent Variable: Debt_Covn
Note: *, ** statistically significant at the 1% and 5% levels, respectively

Table 4 summarizes the findings of a study that looked at the direct influence of managerial ownership and political costs on debt covenants. The results of this test, based on the second direct test, show that managerial ownership has a significant and positive effect on the debt covenant, which H4 supports. Banks with large managerial ownership tend to have a large capital structure derived from debt for tax burden efficiency so that management is also rewarded for tax efficiency achieved. The test results also show that political cost (as measured by total assets) significantly and positively affects the debt covenant H5 supported. It was demonstrated that large banks have significantly large capital structures derived from debt, reflecting increased customer confidence in banks.

The second direct testing model has the predictive power of managerial ownership and political cost variables on debt covenants is low, at 6.0%. (Hair et al., 2017).

Table 5. Anova: Second Direct Testing Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.049	2	.025	4.893	.009[b]
Residual	.605	120	.005		
Total	.655	122			

a. Dependent Variable: Debt_Covn
b. Predictors: (Constant), Pol_Cost, Man_Own

Table 5 contains the test results. Anova: Second Direct Testing Model has a significance level of 0.05 (that is, 0.009), indicating that the second model in the built regression test was well formed.

Indirect Effect Test

In the first test model in the model summary table, the value of R^2 was 0.114, so the value of $e_1 = \sqrt[2]{(1 - R\ square)} = \sqrt[2]{(1 - .114)} = 0.941$, and in the second test model proposed, the value of R^2 is 0.075 the value of $e_2 = \sqrt[2]{(1 - R\ square)} = \sqrt[2]{(1 - .075)} = 0.962$.

The path analysis results from the first path diagram equation are shown in Figure 1. Path Analysis Results: Acctg_Consv = -0.052 Man_Own – 0.264 Debt_Coven + 0.246 Pol_Cost + 0.941

The equation for the second path diagram is as follows: Debt_Coven = 0.179 Man_Own + 0.241 Pol_Cost + 0.962. The second stage of the research test (i.e., indirect effect testing) revealed that the direct path coefficient value > the indirect path coefficient value, which is 0.052 > 0.047 (0.179 x 0.264), with a negative sign indicating direction/not weight. It was found that H_6 rejected, debt covenant can not mediate the impact of managerial ownership on accounting conservatism.

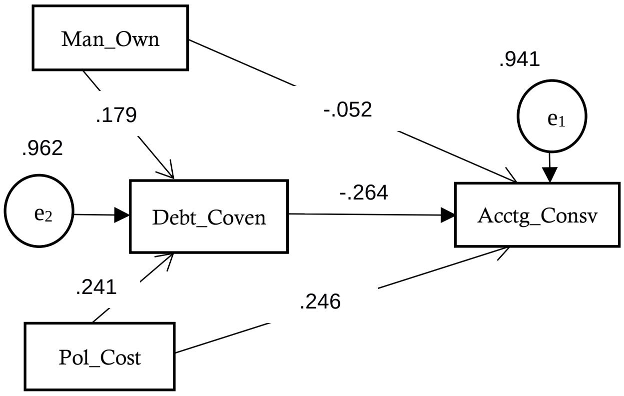

Figure 1. Path Analysis Result
Note: the path negative sign indicates the correlation direction between variables/ not the path weights

The following indirect effect test results demonstrated that the direct path coefficient > indirect path coefficient, which is 0.246 > 0.064 (0.241 x 0.264), indicating that H7 is rejected, and debt covenants cannot mitigate the impact of political cost on accounting conservatism.

Conclusions

In practice, financial accounting, as a child of social science, includes the behavior of financial statement presenters during the presentation process. The findings of this study indicate that the management entrusted with managing and reporting the performance presented in the financial statements is opportunistic. In practice, the larger the bank's shares owned by management, the lower the practice of accounting conservatism or the more aggressive accounting practice is carried out in order for management to receive a larger bonus. Banks with large debts or those that are about to mature tend to use aggressive accounting (lower conservatism accounting practices). This is done by management to give the impression that the bank is in good shape so that creditors continue to believe in the bank and new debt is easier to schedule. It was also discovered that large banks use conservative accounting to avoid political costs, such as social environmental responsibilities, tax burdens, labor union attention or demands, and other social responsibilities. This finding also demonstrates that debt covenants cannot mitigate the impact of political costs and managerial ownership on accounting conservatism in Indonesian banks. The discovery of a direct influence has demonstrated that banks with greater managerial ownership and larger sizes tend to form larger capital structures derived from debt; this is done by management to obtain additional rewards from owners by improving tax efficiency. Banks must be trusted by the public because they contribute significantly to economic activity and business cash flows in a country. It is necessary to have an adequate supervisory role to be able to control management's opportunistic behavior and keep it under control. In order to contribute to controlling this opportunistic nature, such supervision can be carried out by the board of commissioners as the highest supervisor, implementing effective corporate governance, implementing internal audit, and auditing of financial statements of adequate quality. This study is limited to the Indonesian banking industry, with limited data coverage, methods, and processing. Development and testing with more extensive data, as well as a more comprehensive methodology, can be carried out in the future to obtain more generalized conclusions and theoretical and practical implications.

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