JURA : JURNAL RISET AKUNTANSI
Vol.2, No.1 Februari 2024
e-ISSN: 2985-7651; p-ISSN: 2985-6264, Hal 210-224
DOI: https://doi.org/10.54066/jura-itb.v2i1.1357

Foreign Direct Investment And Accounting Conservatism: IFRS Adoption As Moderating Variable

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Abstract. *This study examines the effect of moderation in IFRS adoption on the relationship between Foreign Direct Investment (FDI) and accounting conservatism. The object of research is companies listed on the Indonesia Stock Exchange (IDX) mining sector. Seventeen companies were the final samples, and three hypotheses were tested in this study. This study also uses control variables: company age, size, and profitability. Hypothesis testing uses Moderate Regression Analysis (MRA) SPSS version 16.0. The results of this study indicate that (i) Foreign Direct Investment (FDI) has a positive effect on accounting conservatism, (ii) The adoption of IFRS does not affect accounting conservatism, and (iii) the Adoption of IFRS cannot moderate the relationship of Foreign Direct Investment (FDI) and accounting conservatism. For the control variable, only the profitability variable has a negative effect on accounting conservatism.*

Keywords: *Accounting Conservation, Foreign Direct Investment, IFRS Adoption*

Abstrak. Studi ini mengeksplorasi efek moderasi adopsi IFRS hubungan antara Investasi Langsung Asing (FDI) dan konservatisme akuntansi. Objek penelitian adalah perusahaan yang terdaftar di Bursa Efek Indonesia (IDX) sektor pertambangan. Tujuh belas perusahaan adalah sampel akhir, dan tiga hipotesis diuji dalam penelitian ini. Studi ini juga menggunakan variabel kontrol: usia perusahaan, ukuran, dan profitabilitas. Pengujian hipotesis menggunakan moderate regression analysis (MRA). Hasil penelitian ini menunjukkan bahwa (i) Investasi Langsung Asing (FDI) memiliki efek positif pada konservatisme akuntansi, (ii) adopsi IFRS tidak mempengaruhi konservatisme akuntansi, dan (iii) adopsi IFRS tidak memoderasi hubungan antara Investasi Asing Langsung dan Konservatisme Akuntansi. Untuk variabel kontrol, hanya variabel profitabilitas yang berdampak signifikan (negative) terhadap konservatisme akuntansi.

Kata Kunci: Konservatisme Akuntansi, Investasi Langsung Asing, Adopsi IFRS

RESEARCH BACKGROUND

Financial statements are reports that describe and assess the good or bad performance of a company in the form of financial information in one year by the company as a form of management accountability. Financial statements are prepared based on Financial Accounting Standards (SAK) designed by the Financial Accounting Standards Board (DSAK). In presenting financial statements, managers are given the flexibility to determine accounting methods and estimates. Managers can utilize the nature of flexibility in SAK to choose alternative methods of estimation and recording tailored to a company's economic conditions. The uncertain economic situation in the future requires all companies to choose accounting methods carefully tailored to the economic circumstances of a company in presenting financial statements. This prudent action is called accounting conservatism.

Indonesia has experienced developments in accounting practices by adopting IFRS since 2012. In IFRS, the principle of conservatism has been replaced with prudence. The two principles have contradictory conceptual meanings, but in their application, both concepts are

Received: Oktober 29, 2023; Accepted: Desember 22, 2023; Published: February 28, 2024
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equally intended so that every company can apply the principle of conservatism in every evaluation of items in the financial statements when there is uncertainty in the future (Oktavia, Sinambela, & Spica, 2018). In financial statements, the main focus is the profit information of a company, which is usually the principle related to profit information and accounting conservatism.

Accounting conservatism is the principle of prudence in accounting, which can affect accounting practices in preparing financial reporting. The doctrine of conservatism can be seen when recognizing expenses and revenues, which will realize costs as soon as possible where the expense is still likely to occur, while revenue is not immediately identified with the aim that the net profit obtained in the information is lower. The principle of conservatism is believed to anticipate all losses in line with financial reporting, which tends to require higher certainty to recognize profits from losses in the company (Basu, 1997). In addition to anticipating losses, conservatism is also used to offset the over-optimism of company owners and managers in some agreements listed in the financial statements. In addition, it can have an impact on internal parties as well as external parties such as investors. Usually, investors who invest their capital directly or what is called Foreign Direct Investment (FDI) want conservative financial information, and the information asymmetry is low. Therefore, each company must apply the principle of conservatism.

The phenomenon occurred in 2015 when PT Timah Persero Tbk allegedly falsified information in the first semester financial statements. The Timah Employees Association (IKT), represented by the Chairman of IKT, explained how the company's financial condition from three years ago had decreased, resulting in losses. The Chairman of the Timah Employees Association (IKT) revealed that the board of directors had made various lies to the public and conveyed them to the media. PT Timah Persero Tbk claimed that the company's efficiency and strategy had resulted in a positive performance based on the first semester 2015 financial report. But in reality, the company has suffered a loss of Rp. 59 billion. The company also experienced an increase in debt of almost 100 per cent compared to 2013. The Timah Employees Association (IKT) speculates that the company presents this fictitious financial report activity to cover up the alarming financial performance of the company. The inability of the company's board of directors to solve this loss problem led to the distribution of PT Tiah's mining area to business partners as much as 80% (www.tambang.co.id, 2017).

Research on accounting conservatism has been conducted by many previous studies (Crockett & Ali, 2015; Ji, Lu, & Qu, 2016; Kim, Sonu, & Choi, 2015; Mohammed, Ahmed, & Ji, 2015; Nasr & Ntim, 2018; Rickett, Maggina, & Alam, 2017; Zeghal & Lahmar, 2016). Many of these studies were conducted in various Anglo-Saxon countries, including the United States. Although there have been many studies originating from Indonesia regarding conservatism, post-IFRS adoption research is still limited. In addition, most previous studies discuss the company's internal mechanisms. So, this study discusses those related to external mechanisms, which are rarely discussed. This study examines the moderating effect of IFRS adoption on the relationship between Foreign Direct Investment (FDI) and accounting conservatism. This article has several sections: background, research, theory and hypothesis development, research methods, results and discussion, and conclusions and suggestions.

THEORITICAL REVIEW

Accounting Conservatism

Conservatism is an action taken with caution to prepare financial statements in which the company does not recognize and measure assets and profits in a hurry but will immediately recognize debts that are likely to occur (Watts, 2003). The principle of accounting conservatism can be explained from the agency theory perspective. The relationship between agency theory and accounting conservatism, where agency theory will force each company to present and explain all costs and revenues that occur in the company. The manager must disclose all expenses and revenues in the company according to the circumstances that occur, which will impact investors who will believe what the company discloses. Every company needs to apply the principle of conservatism. In addition to creating quality financial statements, companies facing high uncertainty conditions can also use this principle. Applying the principle of conservatism can be one way to overcome moral hazard due to information asymmetry between stakeholders. The mechanism of internal and external parties of the company can influence the principle of conservatism itself. One of the factors that can affect conservatism is the company's external parties, such as Foreign Direct Investment (FDI) and IFRS adoption.

Foreign Direct Investment

Foreign Direct Investment (FDI) is one factor in building the national economy. Foreign Direct Investment (FDI) is an activity of lending or purchasing ownership of foreign companies whose capital is mostly owned by residents of the investing country (Krugman & Obstfeld, 2003). Indonesia itself is a country that still needs large funds to carry out national development, so it still needs to bring in outside investors who are willing to invest in Indonesia. The government made various efforts to attract investors, including issuing the Foreign Investment Law (UU. No.1/1967) to develop the national economy. The existence of foreign capital ownership that invests in Indonesia certainly also impacts companies that stand in Indonesia. The investor will inject its capital into the selected company and hopes that the company can provide a level of return following investor expectations. Companies whose ownership includes foreign capital will usually face various pressures to present more varied information (Oktariani & Mimba, 2014). Companies with foreign ownership usually face information asymmetry problems due to language and geography. Usually, companies with large foreign capital ownership will be encouraged to report or disclose their information voluntarily and widely (Septiawan & Wirawati, 2016). In addition, these companies usually apply the principle of prudence or conservatism in preparing financial statements to avoid uncertain future problems in the Indonesian economy. Research (Hämäläinen & Martikainen, 2015) shows that FDI positively influences accounting conservatism. This indicates if the application of the principle of conservatism will increase FDI. It can be concluded that applying the principle of accounting conservatism in the presentation of financial information can produce financial information that is conservative in providing quality financial information and also free from bias to reduce information asymmetry. As a result, investors who are interested in doing FDI will increase to invest their capital.

H_1: Foreign Direct Investment (FDI) positively affects accounting conservatism.

IFRS Adoption

Each country has different rules for presenting financial statements. This difference is one of the problems for every user of financial information that is regionally and internationally related (Simangunsong & Yuyeta, 2015). Due to this, accounting standards for each country are compiled called the IFRS (International Financial Reporting Standard) made by the IASB to harmonize accounting standards in each country (Simangunsong & Yuyeta, 2015). IFRS is an accounting standard for financial statement preparers to guide global financial reporting. Indonesia adopted IFRS in 2012, which is applied to all companies in Indonesia. Adopting IFRS itself aims to make the information asymmetry in the financial statements have a low level so that the financial information is of high quality and also financial information that is impartial to anyone so that it can increase the principle of conservatism. In IFRS, the principle of conservatism is more directed towards prudence. Although the existence of IFRS standards in the presentation of financial statements can minimize the application of conservative accounting methods, it does not mean that the principle of conservatism is not used at all. The principle of conservatism is still maintained in certain areas even though the IFRS itself no longer implies the application of the principle of conservatism. IFRS adoption as a moderating relationship between FDI and accounting conservatism has been carried out by (Manawadu, Che Azmi, & Mohamed, 2019), who found that IFRS adoption as a moderating variable on the relationship between FDI and dependent variable has a positive effect which means strengthening the relationship between FDI and dependent variable.

H_2: IFRS adoption has a positive effect on accounting conservatism

H_3: The IFRS adoption moderates the relationship between Foreign Direct Investment and accounting conservatism.

RESEARCH METHOD

In this study, the objects used are mining companies in Indonesia. As for the population, namely, all mining companies listed on the Indonesia Stock Exchange (BEI) for the 2014-2018 period with 49 companies. The sampling technique uses a purposive sampling method in which research is carried out based on certain criteria to obtain information from a more specific target group (Ghozali 2016). The type of data used in this study is a type of secondary data. Secondary data is collected by researchers, data published in statistical and other journals, and information available in published or non-published sources from inside or outside the organization can be useful to researchers (Ghozali, 2016). Data was obtained from the annual financial statements of mining companies listed on the IDX during 2014-2018, documented at www.idx.co.id and other appropriate sources needed.

The dependent variable used in this study is accounting conservatism, while the independent variable is foreign direct investment (FDI). In addition, this study also uses moderating variables, IFRS adoption, and control variables consisting of company size, company age, and profitability. For accounting conservatism, measurement is based on the accrual value (Givoly & Hayn, 2000). FDI is measured by calculating the percentage of foreign-owned share ownership in a company (Priutami, 2012). IFRS adoption can be measured by the percentage of PSAKs that have adopted IFRS in a particular year, where the percentage is obtained by the number of PSAKs used by the company in the financial statements for a certain period divided by the total PSAKs that IFRS has adopted in that period (Puttri & Novianti, 2018). This research model used analytical tools such as multiple linear regression and Moderating Regression Analysis (MRA) using quantitative analysis techniques. So, it can be concluded that this research model uses multiple linear regression equations as follows:

$KA = \alpha + \beta_1 FDI + \beta_2 UKP + \beta_3 UP + \beta_4 Pro + \varepsilon$……………………………(model 1)

$KA = \alpha + \beta_1 FDI + \beta_2 AI + \beta_3 UKP + \beta_4 UP + \beta_5 Pro + \varepsilon$…………………...(model 2)

$KA = \alpha + \beta_1 FDI + \beta_2 AI + \beta_3 FDI{*}AI + \beta_4 UKP + \beta_5 UP + \beta_6 Pro + \varepsilon$………(model 3)

Where accounting conservatism (KA), Foreign Direct Investment (FDI), IFRS adoption (AI), firm size (UKP), firm age (UP), and profitability (Pro). Before regression, the data is processed using statistical descriptions using average, minimum, maximum, and standard deviation analysis. The classical assumption test is used in multiple regression, namely normality, heteroscedasticity, autocorrelation, and multicollinearity (Sekaran, 2013). Hypothesis testing in this study uses a statistical t-test tool where the significance value has a value limit of 5% (Hair, William, Babin, & Anderson, 2014). Before interpreting the statistical value, it is necessary to see the R2 and F statistical values.

RESULT AND RECOMMENDATION

Bagian As previously informed, the object of this research is mining sector companies. Meanwhile, the population in this study was forty-nine (49) companies. Descriptive statistics of the variables in this study can be seen in Table 1.

Table 1

Descriptive statistics test

Variables	Min	Max	Mean	Std. Dev
Accounting Conservatism (Index)	-0.08	0.77	0.25	0.13
Foreign Direct Investment (%)	0	97	31.14	31.47
IFRS Adoption (Index)	0.05	0.39	0.24	0.09
Company Size (Rp Millions)	4,190,956	10,000,000	2,850,000	3,563,000
Company Age (Year)	7	57	27	13
Profitability (%)	0.02	39.41	8.26	8.49

Source: Data Processing Results, SPSS 16.0

Table 1 shows that accounting conservatism posses a minimum rate of -0.08, a maximum value of 0.77, and a mean value of 0.25. The mean value of 0.25 indicates that few mining sector companies still apply the principles of accounting conservatism in preparing financial statements. Foreign Direct Investment (FDI) own a minimum rate of 0.00, a maximum utility of 97.00 (97%), and a mean or average rate of 31.14 (31%). The mean value indicates that only 31% of mining sector companies own foreign shares. IFRS adoption has a minimum value of 0.05, a maximum value of 0.39, and a mean value of 0.24. The mean value shows that few mining companies still prepare financial reports using full IFRS adoption. Size of company has a minimum utility of Rp.4,190,956, a maximum value of Rp.10,000,000, and a mean value of Rp.2,850,000. The mean value indicates that mining sector companies have total assets of billions or around 2 billion. Company age has a minimum value of 7.00 (7 years), a maximum value of 57.00 (57 years), and a mean of 27.00 (27 years). The mean value indicates that the average mining company has been established for 27 years. Profitability has a minimum rate of 0.02 (2%), a maximum rate of 39.41 (39%), and a mean utility of 8.26 (8%). The mean value indicates that the ability of mining companies to earn profits with their assets is quite low.

Table 2

Data Outliers and Descriptive Statistics

Variables	Σ Outlier	% Outlier	Min	Max	Mean	Std. Dev
Accounting Conservatism (Index)	1	0.012	-0.08	0.51	0.25	0.11
Foreign Direct Investment (%)		0.000	0	97	31.14	31.47
IFRS Adoption (Index)		0.000	0.05	0.39	0.24	0.09
Company Size (Rp Millions)		0.000	4,190,956	10,000,000	2,850,000	3,563,000
Company Age (Year)		0.000	7	57	26.59	13.02
Profitability (%)	2	0.023	0.02	31.75	7.83	7.37

Source: Data Processing Results, SPSS 16.0

In Table 2, after performing the outlier test for all variables, only two were detected as outliers: the accounting conservatism variable and the profitability control variable. Accounting conservatism variable after outlier data has a minimum value of -0.08, a maximum value of 0.51, an mean value of 0.25, and a value of standard deviation of 0.11. The profitability variable shows a minimum value of 0.02, a maximum value of 31.75, an mean value of 7.83, and 7.37 for standard deviation value.

Table 3

Normality Test Results

Variables	Asymp Sig	Conclusion	Transformation		Conclusion
			Ln	Sqrt	
Accounting Conservatism	0.45	Normal	-	-	Normal
Foreign Direct Investment	0.16	Normal	-	-	Normal
IFRS Adoption	0.32	Normal	-	-	Normal
Company Size	0.00	Not Normal	0.00	0.17	Normal
Company Age	0.72	Normal	-	-	Normal
Profitability	0.04	Not Normal	0.21	-	Normal

Source: Data Processing Results, SPSS 16.0

Before discussing the regression test results in this study, it must perform a classical assumption test consisting of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test (Wooldridge, 2003). In Table 3 above, the asymp sig shows that there are four normally distributed variables, namely accounting conservatism, which has an asymp sig value of 0.45 > 0.05, the FDI variable has an asymp sig value of 0.16 > 0.05, IFRS adoption has an asymp sig value of 0.32 > 0.05, and company age has an asymp sig value of 0.72 > 0.05. Then, on other variables, transform Ln and Sqrt are performed. For the company size variable after the Sqrt transform, the value is 0.17 > 0.05, and the profitability variable after the Ln transform is 0.21 > 0.05, so it can be concluded that the company size and profitability variables are normally distributed.

Table 4

Multicollinearity Test Results

Variables	Model 1		Model 2		Model 3		Conclusion
	TOL	VIF	TOL	VIF	TOL	VIF	
Foreign Direct Inv.	0.78	1.28	0.78	1.29	0.11	9.01	No Multicollinearity
IFRS Adoption			0.96	1.04	0.47	2.11	No Multicollinearity
Company Size	0.42	2.36	0.42	2.37	0.42	2.37	No Multicollinearity
Company Age	0.54	1.87	0.52	1.91	0.51	1.93	No Multicollinearity
Profitability	0.76	1.32	0.76	1.32	0.75	1.34	No Multicollinearity
FDI*AI					0.11	9.56	No Multicollinearity

Source: Data Processing Results, SPSS 16.0

The next test is the multicollinearity test, which uses the VIF test tool with a small value limit 10 (Gujarati, 1995). In model 1, Foreign Direct Investment (FDI), company size, age, and profitability have a tolerance value > 0.10 with a VIF value < 10. All variables entered into the regression equation are not identified or free from multicollinearity symptoms. In model 2, Foreign Direct Investment (FDI), IFRS adoption, company size, company age, and profitability with a tolerance value> 0.10 with a VIF value < 10 means that all research variables entered into the regression equation are not identified or free from multicollinearity symptoms. In model 3, Foreign Direct Investment (FDI), IFRS adoption, company size, company age, profitability, and the moderating variable relationship between FDI and accounting conservatism with a tolerance value> 0.10 with a VIF value < 10 means that all research variables entered into the regression equation are not identified or free from multicollinearity symptoms.

Table 5

Autocorrelation Test Results

Model	Durbin Watson	Conclusion
Model 1	1.24	No Autocorrelation
Model 2	1.21	No Autocorrelation
Model 3	1.19	No Autocorrelation

Source: Data Processing Results, SPSS 16.0

Furthermore, the autocorrelation test is carried out using the Durbin-Watson (DW) test (Durbin & Watson, 1950) and the Durbin-Watson value between -2 and +2 indicates if there is no autocorrelation problem (Suliyanto, 2011). In model 1, the Durbin-Watson value is 1.24, where -2 < 1.24 < +2. So, it can be concluded that model 1 does not cause autocorrelation problems. In model 2, the Durbin-Watson value is 1.21, where -2 < 1.21 < +2. So, it can be concluded that model 2 does not occur autocorrelation problems. And in model 3 the Durbin-

Watson value is 1.19, where -2 < 1.19 < +2. So it can be concluded that model 3 does not occur autocorrelation problems.

Table 6

Heteroscedasticity Test Results

Variables	Model 1 Sig	Model 2 Sig	Model 3 Sig	Cut Off	Conclusion
Foreign Direct Inv.	0.42	0.46	0.74	Alpha value > 0.05	No Heteroscedasticity
IFRS Adoption		0.72	0.46		No Heteroscedasticity
Company Size	0.25	0.31	0.29		No Heteroscedasticity
Company Age	0.53	0.60	0.65		No Heteroscedasticity
Profitability	0.85	0.92	0.95		No Heteroscedasticity
FDI.AI			0.50		No Heteroscedasticity

Source: Data Processing Results, SPSS 16.0

The heteroscedasticity test uses the Glejser test tool to detect the presence or absence of heteroscedasticity, with a significant probability above the 5% confidence level indicating no heteroscedasticity problem (Gujarati, 1995). In model 1, it can be seen that the variables of Foreign Direct Investment (FDI), company size, company age, and profitability have a value > α. So, it can be concluded that model 1 regression has no heteroscedasticity problem.

In model 2, it can be seen that the variables of Foreign Direct Investment (FDI), IFRS adoption, company size, company age, and profitability have a value > α. So, it can be concluded that model 2 of the regression also does not cause heteroscedasticity problems. For model 3, it can be seen that Foreign Direct Investment (FDI), IFRS adoption, company size, company age, profitability, and the moderating variable relationship between FDI and accounting conservatism have a value > α. So, it can be concluded that model 3 also does not cause heteroscedasticity problems.

Table 7

Simultaneous Significance test results from R^2 Test, F Test, t-Test

Research Variables	Model 1		Model 2		Model 3	
	Coefficient	Sig	Coefficient	Sig	Coefficient	Sig
Constant	0.30	0.00	0.32	0.00	0.35	0.00
Foreign Direct Inv.	0.00	0.09*	0.00	0.08*	-0.001	0.17
IFRS Adoption			-0.09	0.49	-0.19	0.31
Company Size	0.00	0.93	0.00	0.91	0.00	0.89
Company Age	0.00	0.85	0.00	0.93	0.00	0.98
Profitability	-0.02	0.01	-0.02	0.01	-0.02	0.00
FDI.AI					0.00	0.45
R^2	0.16		0.17		0.17	
F Sig	0.00		0.01		0.02	

Note. *Significant α=10%

Based on table 7 explains the effect of the independent variable Foreign Direct Investment (FDI), the moderating variable of IFRS adoption, as well as the control variables, namely company size, company age, and profitability, consisting of several models. The R^2 value of model 1 is obtained at 0.16. This means that the FDI variable, company size, company age, and profitability can explain the variable contribution of 16% and the remaining 84% is not included in this model. While the F test in model 1 obtained a significant value of 0.00 < α. So that the variables of FDI, company size, company age, and profitability are worthy of research.

The R^2 value of model 2 is obtained at 0.17. This means that the FDI variable, IFRS adoption, company size, company age, and profitability can explain the variable contribution of 17% and the remaining 83% is not included in this model. While the F test in model 2 obtained a significant value of 0.01 < α. So, the variables of FDI, IFRS adoption, company size, company age, and profitability are worthy of research. The R^2 value of model 3 is obtained at 0.17. This means that the independent variable FDI, the moderating variable IFRS adoption, the control variable company size, company age, profitability, and the moderating variable relationship between FDI and accounting conservatism can explain the varying contribution of 17% and the remaining 83% is not included in this model. While the F test in model 3 obtained a significant value of 0.02 < α. So, the independent variable of FDI, the moderating variable of IFRS adoption, the control variable of company size, company age, and profitability, and the moderating variable relationship between FDI and accounting conservatism are worthy of research.

Foreign direct investment and accounting conservatism

The first hypothesis in this study is the effect of Foreign Direct Investment (FDI) on accounting conservatism. The results of this study indicate that the regression coefficient number owned by Foreign Direct Investment (FDI) is 0.00 and a significant value of 0.09. So it can be concluded that the results obtained show the significant value of 0.09 > alpha α, then the decision is H_0 rejected while H_1 is accepted. So, it can be concluded that FDI itself influences accounting conservatism.

The theory that explains accounting conservatism is agency theory. The theory explains an agency relationship between shareholders (principal) and managers (agent) in which each individual is assumed to have their self-interest, causing a conflict of interest between the two parties. The relationship between agency theory and Foreign Direct Investment (FDI) lies where the principal will force the agent to present quality financial reports. With the existence of FDI parties who will invest in a company, FDI usually wants high-quality financial information, so shareholders will force the agent as the person responsible for producing financial reports to explain all costs and revenues experienced by the company so that the resulting information asymmetry is low and also to improve the quality of financial information. Quality financial information can make it easier for FDI to evaluate the potential for investment in foreign capital markets with lower risk.

This study's results similar with research's result documented by (Hämäläinen & Martikainen, 2015), which found that FDI positively affects the principle of accounting conservatism. An FDI relationship that involves accounting conservatism exists because FDI parties usually require quality and unbiased financial information, so it is necessary to apply the principle of conservatism in corporate financial reporting to reduce information asymmetry. So that later investors who are interested in doing FDI will increase to invest their capital.

However, in previous research conducted in 2017, the results were inversely proportional to this study. The research was conducted (Wang, 2017), which concluded that FDI has a negative effect on accounting conservatism. FDI parties who want quality financial reports will pressure company management to apply high conservatism principles, which can increase information asymmetry, where the accountant will tend to identify more losses to increase profits. As a result, the financial information provided is not real and can increase information asymmetry.

IFRS adoption and accounting conservatism

The second hypothesis in this study is the effect of IFRS adoption on accounting conservatism. After the regression test, it can be concluded that the regression coefficient number owned by the IFRS adoption variable is -0.09, a significant rate of 0.49. This indicate that if the significant value of 0.49 > alpha α (0.10), it can be deduced that H_0 failed to reject and H_2 is declined. So, it can be stated that IFRS adoption does not influence accounting conservatism.

The theory that explains accounting conservatism is agency theory. The theory states that an agency relationship between shareholders (principal) and managers (agent) arises because of a contract involving the agent to use and control existing resources. The relationship between the theory and IFRS adoption is that agency theory cannot be separated from agency conflicts between managers (Principal) and shareholders (Agent). With the application of new standards (IFRS) to a company, conflicts between managers and shareholders can be minimized because reporting on IFRS can increase transparency, increase accounting information and make it easier for investors to evaluate potential investments in foreign capital markets with lower risk.

Previous research (Prayanthi & Pantow, 2018) concluded results that align with this study, where IFRS adoption has no effect on accounting conservatism. IFRS itself no longer emphasizes the principle of conservatism. Still, IFRS highlights the principle of prudence, which means that the company's management function responsible for preparing financial statements is carried out carefully. However, this study does not support research conducted by (Samuel & Juliarto, 2015), which states that IFRS adoption positively affects accounting conservatism. The higher the level of adopting IFRS in preparing financial statements, the higher the principle of conservatism. High future uncertainty requires the company management responsible for preparing the financial statements to apply the principle of conservatism to anticipate the risks that arise in the future due to market competition.

IFRS adoption moderates the relationship between foreign direct investment and accounting conservatism.

The third hypothesis in this study is that the role of IFRS adoption moderates the relationship between Foreign Direct Investment (FDI) and accounting conservatism. The coefficient of the interaction variable of FDI and IFRS adoption is 0.00, which has a significant rate of 0.45. This indicates that with the significant rate of 0.45 > alpha α, the decision is H_0 failed to reject and H_3 declined, so it can be concluded that the IFRS adoption variable does not act as a moderating variable between Foreign Direct Investment (FDI) and accounting conservatism.

The finding of this study is inconsistent with research conducted by (Manawadu et al., 2019), who found that IFRS adoption strengthens the relationship between Foreign Direct Investment (FDI) and accounting conservatism. The problem of information asymmetry can be reduced by applying the principle of conservatism so that later, it produces quality financial information and can be one of the attractions of investors who make FDI to make decisions in investing their capital.

Control Variable

It is evidenced (Table 7), the control variable, namely company size, after statistical testing, the result is 0.00, with a significant value of 0.93 > 0.10. So, it can be interpreted that company size as a control variable does not affect accounting conservatism. In model 2, namely company size, after statistical testing, the results were obtained with a significant rate of 0.91 > 0.10. The conclusion is that company size as a control variable does not affect accounting conservatism. In model 3, namely company size, after statistical testing, the results were obtained with a significant rate of 0.89 > 0.10. The conclusion is that the control variable company size as a control variable does not affect accounting conservatism.

In model 1, the second control variable, company age, after statistical testing, the results are obtained with a significant rate of 0.85 > 0.10. The conclusion is that company age as a control variable does not affect accounting conservatism. In model 2, namely company age, after statistical testing, the results were obtained with and a significant rate of 0.94 > 0.10. The conclusion is that company age as a control variable does not affect accounting conservatism. In model 3, namely the company's age, after statistical testing, the results were obtained with a significant mark of 0.98 > 0.10. The conclusion is that the company's age as a control variable does not affect accounting conservatism.

In Model 1, the third control variable is profitability. After statistical testing, the results are obtained with a coefficient of -0.02 and a significant rate of 0.01 < 0.10. The conclusion is that profitability as a control variable affects accounting conservatism. In model 2, profitability, after statistical testing, the results were obtained with a coefficient of -0.02 and a significant value of 0.01 < 0.10. The conclusion is that profitability as a control variable affects accounting conservatism. In model 3, profitability, after statistical testing, the results were obtained with a coefficient of -0.02 and a significant rate of 0.00 < 0.10. The conclusion is that profitability as a control variable affects accounting conservatism

CONCLUSION AND RECOMMENDATION

Based on the research objectives, there is a sample of 85 data from 17 companies. There are several conclusions from this study, including (i) Foreign Direct Investment (FDI) has a positive effect on accounting conservatism, (ii) IFRS adoption has no influence on accounting conservatism, (iii) IFRS adoption does not moderate the relationship between Foreign Direct Investment (FDI) and accounting conservatism, (iv) The company size control variable does not affect accounting conservatism, (v) The control variable of company age has no effect on accounting conservatism, and (vi) The control variable of profitability has a negative influence on accounting conservatism. This study has several limitations as follows: (i) Conducted on mining companies on the Indonesia Stock Exchange (BEI) 2014-2018; (ii) Only uses one independent variable, namely Foreign Direct Investment (FDI) and 1 moderating variable, namely IFRS adoption, and (iii) This study only took a sample of mining companies that were consistent during the 2014-2018 period as many as 45 companies. Recommendation for future investigators is (i) To add indicators or other variables to the research, (ii) Further researchers are expected to use moderating variables other than IFRS adoption, and (iii) Further researchers are expected to use empirical studies other than mining companies.

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