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The effect of accounting conservatism on the cost of equity with information asymmetry as an intervening variable and corporate governance as a moderator

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Abstract

This study aims to examine the relationship between accounting conservatism and the cost of equity, both directly and indirectly, and to test the role of information asymmetry as an intervening variable with corporate governance as a moderating variable. The research employs a quantitative method. The sampling technique was determined using purposive sampling. The data type used is secondary data obtained from companies in the Property, Real Estate, and Building Construction sectors listed on the Indonesia Stock Exchange during the 2016-2017 period. The total sample consists of 72 companies. The difference between this study and previous ones lies in analyzing whether the direct or indirect relationship between accounting conservatism and the cost of equity has a more significant effect. Additionally, this study incorporates corporate governance as a moderating variable. The results indicate that accounting conservatism's direct influence on the cost of equity is greater than the indirect effect mediated by information asymmetry. Thus, accounting conservatism has a more significant direct impact on the equity price. Meanwhile, corporate governance is proven to moderate the relationship between accounting conservatism and information asymmetry, and the relationship is significantly positive.

Public interest statements

This research benefits the general public by providing practical insights on how accounting conservatism and good corporate governance can improve the transparency of financial information. It helps stakeholders, especially investors, make smarter investment decisions by minimizing the risk of asymmetric information.

Keywords: Accounting conservatism, information asymmetry, cost of equity, corporate governance, agency theory

Paper type: Research paper

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Abstrak

Penelitian ini berfokus pada pengelolaan dana darurat sebagai instrumen penting dalam Penelitian ini bertujuan untuk menguji hubungan konservatisme akuntansi terhadap cost of equity, baik itu secara langsung atau pun secara tidak langsung serta menguji hubungan asimetri informasi sebagai variabel intervening dengan corporate governance sebagai pemoderasi. Penelitian ini dilakukan dengan menggunakan metode kuantitatif. Teknik pengambilan sampel ditentukan dengan teknik purpose sampling. Jenis data yang digunakan ialah data sekunder dari perusahaan di sektor Property, Real Estate dan Konstruksi Bangunan yang peneliti peroleh dari Bursa Efek Indonesia periode 2016-2017. Jumlah sampel yang peneliti gunakan berjumlah 72 perusahaan. Perbedaan penelitian ini dari yang sebelumnya ialah peneliti akan menganalisa hubungan yang lebih berpengaruh antara konservatisme akuntansi dengan cost of equity, yakni hubungan langsung atau hubungan tidak langsung. Selain itu, penelitian ini juga menambahkan variabel moderasi yakni Corporate Governance. Hasil dari penelitian ini menunjukan bahwa nilai pengaruh langsung antara konservatisme akuntansi terhadap cost of equity lebih besar daripada nilai pengaruh tidak langsung yang terjadi melalui asimetri informasi (0.037 > 0.000), sehingga dapat disimpulkan pengaruh konservatisme akuntansi terhadap cost of equity secara langsung akan lebih memberikan pengaruh yang signifikan. Sedangkan Corporate Governance terbukti mampu memoderasi hubungan konservatisme akuntansi dengan asimetri informasi. Hubungan yang dimilikinya ialah positif.

Pernyataan kepentingan publik
Manfaat penelitian ini bagi masyarakat umum adalah memberikan wawasan praktis tentang bagaimana konservatisme akuntansi dan tata kelola perusahaan yang baik dapat meningkatkan transparansi informasi keuangan. Penelitian ini membantu pemangku kepentingan, terutama investor, dalam membuat keputusan investasi yang lebih cerdas dengan meminimalkan risiko informasi asimetris.

Kata Kunci: Konservatisme akuntansi, asimetri informasi, cost of equity, tata kelola perusahaan, teori keagenan.

INTRODUCTION

The opening of the global industrial market has intensified competition across various industries, forcing companies to continuously innovate to sustain their growth and development. This ongoing innovation requires adequate resources and capital. In addition to the funds owners provide, companies can seek additional financing from external sources, such as creditors and investors. Investors, in particular, represent a significant funding source for companies looking to raise capital. Typically, they base their investment decisions on the information disclosed by the companies. Investors tend to favor companies that provide comprehensive disclosures about their operations because they perceive these companies to carry lower risks (Tandelilin, 2010). Therefore, companies disclose information that is critical for investors when making investment decisions. Ultimately, an investment must generate returns that are at least equal to the costs incurred; otherwise, it is considered unnecessary.

The cost of equity represents the rate of return a company must achieve to meet shareholders' expectations for the funds they have invested (Bodie Zvi et al., 2014). Several factors can influence the Cost of Equity, including information asymmetry. According to Supriyono and Akhmad (2003), information asymmetry arises when principals (shareholders) lack sufficient information about the performance of agents (managers), leading principals to perceive the

company as having a high level of risk. Tandelilin (2010) explains that when investors perceive a company as high-risk, they demand a higher rate of return, thereby increasing the company's Cost of Equity. To avoid information asymmetry, companies must provide high-quality and transparent information to all stakeholders who rely on such information. Financial statements serve as a medium for companies to disclose various types of information, including resources owned by the company and its performance measurements. Financial statements adhering to conservatism can reduce the likelihood of managers manipulating financial reports and mitigate agency costs arising from information asymmetry (Lafond & Watts, 2007).

Accounting conservatism is a principle that accelerates the recognition of expenses and liabilities while delaying the recognition of revenue and assets. Consequently, when applied, a company's financial statements tend to report lower earnings (understatement). The application of accounting conservatism is expected to prevent the reporting of overstated earnings, thereby enhancing the quality of information in financial statements. Overstated earnings can be problematic, especially when information does not align with the company's condition. This is significant because earnings are a crucial benchmark for evaluating managerial performance in company management (Givoly & Hayn, 2002). Critics suggest that financial statements produced using conservative methods may not accurately reflect the company's condition. These criticisms arise because accounting conservatism accelerates the recognition of expenses and liabilities before recognizing revenue and assets. Additionally, the lack of a robust system to support the control over the recognition of costs and revenue exacerbates this issue. Consequently, the principle of conservatism is considered to potentially bias financial statements, rendering them less reliable for future decision-making processes (Kiryanto & Suprianto Edy, 2006).

Based on these differing perspectives, the researcher suspects that another variable may support the concept of accounting conservatism, namely corporate governance. According to (OECD, 2004), corporate governance is a system that guides and controls a company. This system also provides adequate protection for shareholders and creditors, helping to prevent conflicts of interest among shareholders. As a result, investors gain confidence that they will receive returns on the funds they have invested in the company. Research (Bara Bala, 2016) demonstrated that companies with strong corporate governance practices tend to adopt higher levels of accounting conservatism. Consequently, the financial statements presented by such companies are expected to accurately reflect the actual condition of the company, resulting in high integrity and transparent information. According to the National Committee for Governance Policy (KNKG, 2006), companies must have organizational structures within corporate governance to support the sustainable implementation of governance principles. These structures include the general meeting of shareholders, the board of commissioners, the board of directors, and committees that assist the board of commissioners, such as the audit committee. (Alzoubi E & Selamat M, 2012) Argue that shareholders heavily rely on the board of commissioners' ability to monitor management performance. The board of commissioners acts as a supervisory and advisory body, enhancing the monitoring of the company's financial reporting. As a result, the level of accounting conservatism applied by a company is expected to improve (Komalasari Puput & Baridwan Zaki, 2001).

However, it differs from previous studies by examining the direct effect of accounting conservatism on the cost of equity and the indirect effect between these two variables. The influence of accounting conservatism on the cost of equity through the intermediary variable of information asymmetry represents the indirect effect in this study. The researcher will compare the results after calculating direct and indirect effects to determine the more significant impact.

Additionally, this study incorporates a moderating variable, corporate governance, as it is considered a system capable of strengthening or weakening the relationship between the independent variable (accounting conservatism) and the intervening variable (information asymmetry). One aspect of corporate governance deemed capable of moderating this relationship is the board of commissioners. (Alzoubi E & Selamat M, 2012) Argue that shareholders heavily rely on the board of commissioners' ability to monitor management performance. The board functions as a supervisory and advisory body, enhancing the monitoring of the company's financial reporting. Consequently, the level of accounting conservatism applied by a company is expected to improve.

The object of this study also differs from previous research, focusing on companies in the Property, Real Estate, and Building Construction sectors listed on the Indonesia Stock Exchange (IDX) during 2016-2017. The researcher selected these sectors due to their substantial capital structure requirements, which raises interest in analyzing the cost of equity levels in these companies. Furthermore, the researcher aims to examine whether these companies have implemented the principle of conservatism in their financial reporting, given the critical importance of recognizing expenses and assets in these sectors. Companies in these industries incur various costs and possess diverse types of assets, making the application of conservatism particularly relevant. Based on the abovementioned problem formulation, this study aims to analyze several aspects related to accounting conservatism, information asymmetry, and corporate governance. First, the study examines the effect of accounting conservatism on the cost of equity. This can provide insights into how applying conservatism principles in financial reporting impacts the expected return required by investors. Next, the study will investigate the effect of accounting conservatism on information asymmetry to understand how the application of conservatism can reduce the imbalance of information between managers and shareholders. Additionally, this study will explore the impact of information asymmetry on the cost of equity to see how information disparities may affect investment decisions and the equity costs a company must bear. Lastly, the study aims to test the role of corporate governance in moderating the relationship between accounting conservatism and information asymmetry to determine whether solid governance structures can strengthen or weaken the existing relationship between these two variables.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency can be defined as a relationship between two parties that have been agreed upon in a contract, where the manager (Agent) will agree to act based on the interests of the company owner (Principal). In a company whose capital consists of shares, the agency relationship will be described by shareholders acting as Principals and the Chief Executive Officer (CEO) as Agent, where shareholders will employ the CEO to act according to their interests. However, agency theory assumes that a conflict of interest can occur in the principal-agent relationship if each individual is motivated only by self-interest. A conflict of interest will increase when the principal cannot monitor the CEO's daily activities, so the principal no longer has sufficient information about the Agent's performance. This causes an imbalance of information owned by the Principal and Agent (Nasution Marihot & Setiawan Doddy, 2007). This imbalance is called information asymmetry. So, it can be concluded that the information asymmetry between the Principal and Agent will encourage the agent to present information that does not happen to the Principal, primarily if the information is related to performance measurement.

Using accounting conservatism in a company's financial reporting can decrease the information gap between management and investors, ultimately reducing the cost of equity. This is because conservative accounting prevents overstatement of earnings, improving the quality of financial information and reducing investor risk. Therefore, the first hypothesis:

H1: Accounting conservatism hurts the cost of equity

Information asymmetry allows managers to use internal company information to their advantage, potentially leading to performance manipulation and agency costs. Accounting conservatism helps reduce such asymmetry by delaying earnings recognition and ensuring all losses are accounted for. This improves the quality of financial information, thereby reducing information asymmetry. The second hypothesis is:

H2: Accounting conservatism hurts information asymmetry.

Information asymmetry occurs when managers have more knowledge than investors about a company's prospects, leading to higher transaction costs and affecting stock prices. As a result, higher information asymmetry increases the cost of equity. Therefore, the third hypothesis is:

H3: Information asymmetry has a positive effect on the cost of equity.

Effective corporate governance is expected to reduce information asymmetry by improving financial reporting. A robust supervisory role by the board of commissioners, representing shareholders, may enhance the implementation of accounting conservatism and further reduce information asymmetry. The fourth hypothesis is:

H4: The board of commissioners strengthens the negative effect of accounting conservatism on information asymmetry.

RESEARCH METHODE

In this study, the data used is secondary data, which was obtained indirectly through intermediaries or other parties who have recorded it. The data consists of several types: (a) Daily transaction data in the form of historical stock prices (high and low) for the period 2016-2017, obtained from the Indonesia Stock Exchange (www.idx.com). (b) Monthly transaction data in the form of the Composite Stock Price Index (IHSG), sourced from Yahoo Finance (www.finance.yahoo.com). (c) SBI interest rate data obtained from Bank Indonesia (www.bi.go.id). (d) Annual financial report data from the Indonesia Stock Exchange (www.idx.com) and the official company websites.

The population refers to objects that share specific characteristics and will be studied. The sample is a subset of the population that meets specific criteria. The sampling method employed in this study is Purposive Judgment Sampling. With this method, the research sample is selected based on predefined criteria. The criteria include:

1. Companies in the property, real estate, and construction sectors listed on the Indonesia Stock Exchange (IDX) in 2016-2017.
2. Companies that published audited annual reports for 2016-2017.
3. Companies that present their annual reports in Indonesian rupiah have positive profit values.
4. Companies that provided data on stock price offers and demands during 2016-2017.
5. Companies with complete information for the research, including the Composite Stock Price Index (IHSG), the SBI interest rate, and the structure of the board of commissioners throughout the 2016-2017 period.

Participant and procedure

The population in this study is service companies in the property, real estate, and building construction sectors listed on the IDX from 2016 to 2017. The sample of companies successfully obtained and met the criteria was 36. This research will be conducted for 2 years, namely 2016 to 2017, so the total number of samples to be used by researchers is 62 companies. The following is the selection process based on predetermined criteria:

Table 1.
The sample of companies

No.	Criteria	Total
1.	Property and Real Estate companies listed on the IDX from 2016 to 2017	48
2.	Building Construction companies listed on the IDX from 2016 to 2017	16
3.	Companies that are listed above 2016	(7)
4.	Companies whose annual reports are not available on the IDX website or company website from 2016 to 2017	(1)
5.	Companies that have non-positive earnings values	(7)
6.	Companies whose shares are not traded	(13)
7.	Oulier Data	(4)
	The total sample of companies that meet the criteria	**31**
	Research Period	2
	Total sample used in the study	**62**

Measure

In this study, researchers will use Stata version 15 software to process data with the SEM (Structural Equation Modeling) model. SEM is one of the multivariate analysis techniques that can simultaneously test the theory of several variables. According to Maruyama Geoffrey (1998), SEM is a statistical model that can calculate direct and indirect hypothesis relationships (through intervening variables).

Descriptive statistics analysis

Before starting the primary analysis of existing data, researchers must understand the data's characteristics to draw more precise conclusions. Descriptive statistics will be employed as the analytical tool, which serves to describe each variable within the model using metrics such as mean, standard deviation, variance, and range (maximum and minimum values). According to Ghozali Imam (2014), Path Analysis extends linear regression analysis by estimating causal relationships among variables defined by the researcher. This method allows researchers to assess both direct and indirect effects between independent and dependent variables, often mediated by an intervening variable.

RESULTS AND DISCUSSION

Descriptive statistics analysis

The accounting conservatism variable (CONS) in this study has a mean value of 0.039, a standard deviation of 0.079, a minimum value of -0.187, and a maximum value of 0.308. This shows that of

the 62 samples of companies that have been tested, the average company that applies the principle of accounting conservatism in its financial reporting is only 3.9%. This value is still relatively small for companies that choose to apply the principle of accounting conservatism in their financial reporting, so the level of variation of companies that have used it in this study is still less varied.

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The Information Asymmetry (SPREAD) variable in this study has a mean value of 1.333, a standard deviation of 1.355, a minimum value of 0.316, and a maximum value of 7.393. This shows that of the 62 sample companies tested, the average company has a high information asymmetry problem. Hence, the level of variation of information asymmetry contained in the sample companies varies greatly.

Table 2.
Results of Descriptive Statistical Tests

Variabel	Obs	Mean	Std. Dev	Min	Max
CONS	62	0,039	0,079	(0,187)	0,308
SPREAD	62	1,333	1,355	0,316	7,393
COE	62	0,411	0,244	0,034	0,868
ROA	62	0,055	0,039	0,001	0,181
Rit	62	0,004	0,276	(0,586)	0,733
SIZE	62	22,903	1,302	20	25
DER	62	1,072	0,762	0,056	3,827
ROE	62	0,104	0,068	0,001	0,323
Beta	62	0,069	0,217	(0,473)	0,487
DK	62	5,145	2,769	2	18
CONS_DK	62	0,239	0,470	(0,633)	1,850

Notes: SPREAD: Information Asymmetry; COE: Cost of Equity; CONS : Accounting Conservatism; DK: Board of Commissioners; Size : Company Size; DER : Company Leverage; ROA : Return on Assets; ROE: Return on Equity; CONS*DK : Moderating Variable; Stock Beta : Beta Saham; R_{it}: Cumulative Return

The cost of equity (COE) variable in this study has a mean value of 0.411, a standard deviation of 0.244, a minimum value of 0.034, and a maximum value of 0.868. This shows that of the 62 samples of companies tested, the average company can achieve a rate of return for shareholders of 41.1%. The level of variation of the cost of equity in this sample of companies does not vary.

This study's profitability variable (ROA) has a mean value of 0.055, a standard deviation of 0.039, a minimum value of 0.001, and a maximum value of 0.181. This shows that of the 62 samples of companies tested, the average profit after tax owned by the company is only 5.5%, which comes from total assets. That way, the variation in profit after tax derived from the company's total assets in this study is less varied.

The cumulative return variable (Rit) in this study has a mean value of 0.004, a standard deviation of 0.276, a minimum value of -0.586, and a maximum value of 0.733. This shows that of the 62 samples of companies that have been tested, the average change in the company's stock

price that relatively occurred from the previous period is only 0.4%. In comparison, the level of variation in the change in the company's stock price is relatively large.

The company size variable (SIZE) in this study has a mean value of 22.903, a standard deviation of 1.302, a minimum value of 20, and a maximum value of 25. This shows that of the 62 samples of companies tested, the average total assets owned by the company is 22.90%. The level of variation in the total assets owned by the company does not vary because almost the average company has the same total assets. The leverage variable (DER) in this study has a mean value of 1.072, a standard deviation of 0.762, a minimum value of 0.056, and a maximum value of 3.827. This shows that of the 62 samples of companies tested, the average total liabilities owned by the company derived from the company's total equity is only 1.072. The level of variation of the company's total liabilities originating from this equity does not vary.

The return on equity (ROE) variable in this study has a mean value of 0.104, a standard deviation of 0.068, a minimum value of 0.001, and a maximum value of 0.323. This shows that of the 62 samples of companies tested, the average profit after tax owned by the company mostly comes from total equity. The variation of profit after tax derived from the total equity of companies in this study is less varied. The Beta Stock variable in this study has a mean value of 0.069, a standard deviation of 0.217, a minimum value of -0.473, and a maximum value of 0.487. This shows that of the 62 sample companies tested, the average beta risk that can be measured is only 6.9%. In comparison, the level of variation of beta risk owned by companies in this study varies greatly.

The Board of Commissioners (DK) variable in this study has a mean value of 5.145, a standard deviation of 2.769, a minimum value of 2, and a maximum value of 18. This shows that of the 62 samples of companies that have been tested, the average proportion of the board of commissioners owned by the company is above four people, so the level of variation of the average proportion of the board of commissioners in this study does not vary. This study's moderating variable (CONS_DK) has a mean value of 0.239, a standard deviation of 0.470, a minimum value of -0.633, and a maximum value of 1.850.

Hypothesis testing

Based on the goodness of fit test results, the prob > chi2 value of 0.058 is smaller than 0.1, indicating that the model can be considered fit. Therefore, the independent, intervening, and control variables can significantly influence the dependent variable. The test results for the cost of equity variable, as presented in Table 3, indicate that the accounting conservatism variable achieves a significance level of 0.088, which is above the conventional threshold of 0.05 but below the 0.1 level of significance ($\alpha = 0.1$). Consequently, we accept H1. This finding suggests that accounting conservatism influences the cost of equity; however, the impact is relatively weak. The negative regression coefficient of -0.504 for accounting conservatism implies that an increase of 1 unit in accounting conservatism corresponds to a decrease of 0.504 in the cost of equity. In contrast, the results for H3, also detailed in Table 3, reveal that the information asymmetry variable possesses a significance level of 0.004, which is well below the 0.05 alpha level. Hence, H3 is accepted, indicating that information asymmetry has a significant effect on the cost of equity. The regression coefficient for this variable stands at 0.062, which suggests that an increase of 1 unit in information asymmetry results in an increase of 0.062 in the cost of equity. This underscores the substantial effect that information asymmetry has on the pricing of equity.

Table 3.
Results of testing the cost of equity variable

Variable	Hypothesis	*Coefficient*	P > | z |	A
CONS	-	-0.504	0.088	0.1
SPREAD	+	0.062	0.004	0.05
Control Variable				
ROE	-	-0.625	0.118	0.05
DER	+	-0.017	0.657	0.05
Beta Saham	+	-0.431	0.001	0.05

The test results for H2 in Table 4 show that the accounting conservatism variable has a significance level of 0.034, with a level of significance (α = 0.05), so H2 is accepted. This is because the accounting conservatism variable has a p-value of 0.034 < 0.05. Therefore, accounting conservatism can significantly affect information asymmetry. The regression coefficient of -8.199 for this variable indicates that accounting conservatism significantly negatively affects information asymmetry, which mediates the indirect relationship between accounting conservatism and the cost of equity. This means that if the level of accounting conservatism increases by 1, information asymmetry will decrease by 8.199 to affect the price of equity.

The results of testing H4 in Table 3 show that the board of commissioners variable has a significance level of 0.004, with a level of significance (α = 0.05), so H4 is accepted. This is because the information asymmetry variable has a p-value of 0.004 < 0.05. Therefore, the board of commissioners can either strengthen or weaken the influence of accounting conservatism on information asymmetry. The regression coefficient of 1.987 for this variable indicates that the board of commissioners can enhance the relationship between conservatism and information asymmetry. This means that the higher the number of commissioners in a company, the higher the level of accounting conservatism applied within the company.

Table 4.
Results of testing the information asymmetry variable

Variable	Hypothesis	*Coefficient*	P > | z |	A
CONS	-	-8.199	0.034	0.05
CONS_DK	+	1.987	0.004	0.05
Control Variable				
Size	+/-	-0.391	0.000	0.025
ROA	+	7.654	0.060	0.05
Rit	+	0.226	0.676	0.05

Path Analysis

Based on the results of hypothesis testing, it is evident that each independent and intervening variable significantly influences the dependent variable. Therefore, the path analysis testing phase can be conducted. In general, the steps to perform path analysis involve finding the direct and indirect effects between each variable. Below are the values of the direct and indirect effects in this study:

Direct Effect. The impact of accounting conservatism on the cost of equity represents the direct effect of this study. Direct Effect = coef CONS = -0.504

Indirect Effect. The indirect effect in this study is illustrated by the impact of conservatism on the cost of equity through the information asymmetry variable first. This value will be derived from the sum of the coefficient of conservatism on information asymmetry and the coefficient of information asymmetry on the cost of equity. Below is the calculation:

Indirect Effect = coef CONS + coef SPREAD = (-8.199) + 0.062 = -8.137

Total Effect. The total effect in this study will be obtained from the sum of the direct and indirect effects. Below is the calculation:

Total Effect = Direct Effect + Indirect Effect = (-0.504) + (-8.137) = -8.641

Thus, the conclusion can be drawn that the direct effect value > the indirect effect value is -0.504 > -8.137. Therefore, accounting conservatism's impact on the cost of equity directly has a more significant influence than its impact on the cost of equity through the information asymmetry variable.

Discussion

The results of this study strengthen the empirical evidence on the importance of accounting conservatism in reducing the cost of equity and information asymmetry while confirming the moderating role of corporate governance. These findings extend previous research by showing a more detailed relationship between these variables in the property, real estate, and construction sectors, which have significant capital needs. The following discussion will describe how these findings support or extend the existing literature and the implications generated.

The first hypothesis explained that applying the principle of accounting conservatism in a company's financial statements could lead to a decrease in the expected return rate by investors, also known as the cost of equity. The results of the path analysis in this study are consistent with the first hypothesis, which states that applying the principle of accounting conservatism can significantly negatively affect the cost of equity. This means that the higher the accounting conservatism applied by property, real estate, and construction companies, the lower the company's cost of equity. This situation occurs when overstatement of earnings is successfully avoided by applying the principle of accounting conservatism in the company's financial statements. (Lafond & Watts, 2007) Argues that accounting conservatism is essential in reducing agency costs and enhancing the quality of financial reporting. As the quality of financial reporting increases, investors' risk level decreases. When the company's perceived risk is low, the return demanded by investors will also be lower (Tandelilin, 2010). Therefore, this study effectively supports the research hypothesis, which asserts that accounting conservatism hurts the cost of equity.

The second hypothesis suggested that accounting conservatism in financial statements could lower information asymmetry between managers (agents) and investors (principals). The findings from the path analysis in this study align with the second hypothesis, demonstrating that implementing accounting conservatism in property, real estate, and construction companies significantly reduces information asymmetry. In other words, the higher the accounting conservatism adopted by these companies, the more it effectively diminishes the information gap between managers (agents) and investors (principals). This situation occurs when accounting

conservatism appropriately applies to the company's financial statements. (Lafond & Watts, 2007) Argue that financial statements that use the principle of accounting conservatism can reduce the likelihood of managers manipulating financial reports and decrease agency costs arising from information asymmetry. As a result, the financial reports of the company in question will be free from information asymmetry. In conclusion, based on the explanation above, this study successfully supports the research hypothesis, which suggests that accounting conservatism hurts information asymmetry. The findings of this study are consistent with the research (Haniati Sri & Fitriany, 2010), which explains that the higher the accounting conservatism, the lower the information asymmetry.

The third hypothesis explained that the presence of information asymmetry within a company can increase the expected return demanded by investors (cost of equity). The path analysis results in this study support the third hypothesis, which asserts that information asymmetry significantly positively influences the cost of equity. This means that a high level of information asymmetry between managers (agents) and investors (principals) in property, real estate, and construction companies can significantly affect the cost of equity. This occurs when managers possess more significant access to internal company information than investors. The higher the access managers have to obtain information, the more likely every decision will lead to transaction costs affecting the company's stock price. These transaction costs are known as agency costs. The higher the agency costs that investors must pay to the company's management team, the higher the company's stock price. As the stock price increases, the return (cost of equity) expected by investors increases. Thus, it can be concluded that this study successfully proves the existing research hypothesis, which states that information asymmetry positively affects the cost of equity variable. The results of this study align with the research (Murwaningsari, 2012), which explains that information asymmetry positively affects the cost of equity.

The fourth hypothesis explained that good corporate governance within a company can enhance the application of accounting conservatism principles in financial statements. Several corporate governance factors, including the board of commissioners, are believed to make a company's financial reporting more conservative.

The path analysis results in this study support the fourth hypothesis, which suggests that the presence of a board of commissioners can amplify the negative impact of accounting conservatism on information asymmetry. This indicates that as the number of commissioners increases in property, real estate, and construction companies, the application of accounting conservatism within those companies becomes more pronounced. This aligns with stewardship theory, which argues that the proportion of the board of commissioners can increase the level of accounting conservatism within a company. This situation occurs when the board of property, real estate, and construction company commissioners can provide strong oversight of the management team. The stronger the oversight from the board, the more the management's ability to run the company improves, thereby reducing the likelihood of managerial manipulation of financial report information. Therefore, this study successfully proves the existing research hypothesis, which states that the corporate governance variable can strengthen the negative effect of accounting conservatism on information asymmetry. However, this study's results differ from the research conducted by (Bara Bala, 2016), which states that the proportion of the board of commissioners does not affect accounting conservatism.

The first control variable is profitability, measured by Return on Equity (ROE). Based on the results of the path analysis in Table 2, it can be observed that the Return on Equity (ROE) variable has a significance level of 0.118, with a level of significance ($\alpha = 0.05$). This means that the p-value

of 0.118 is more significant than 0.05, indicating that ROE does not affect the cost of equity. This result is in line with the study by (Rebecca and Siregar, 2012), which found that ROE does not influence the cost of equity. The second control variable is leverage, measured by the Equity Ratio (DER). Based on the path analysis results in Table 2, the DER variable shows a significance level of 0.657, with a level of significance (α = 0.05). This means that the p-value of 0.657 is more significant than 0.05, so leverage does not affect the cost of equity. This finding contradicts the study (Rebecca & Siregar, 2012), which showed that a company's leverage ratio can affect the cost of equity. The third control variable is stock beta. Based on the path analysis results in Table 2, it can be seen that the stock beta variable has a significance level of 0.001, with a level of significance (α = 0.05). This means the p-value of 0.001 is less than 0.05, indicating that stock beta significantly affects the cost of equity. The coefficient value of -0.431 indicates that stock beta substantially affects the cost of equity but in the opposite direction of the hypothesis proposed initially. This result aligns with the study by (Murwaningsari, 2012), which found that stock beta significantly negatively affects the cost of equity. Therefore, it can be concluded that the higher the systemic risk of stock beta, the lower the cost of equity. According to (Hanniarsa, 2023), there are several reasons why stock beta can influence the cost of equity; one is that investors are already aware of the risks they bear when investing in a company. In addition to promising high returns, stock beta signals the potential for significant losses due to the high sensitivity of stock return changes and the composite stock price index (IHSG) return changes.

Based on the results of the path analysis in Table 4, it can be seen that the first control variable, company size, has a significance level of 0.000, with a level of significance (α = 0.05). This means the p-value of 0.000 is less than 0.05, indicating that company size significantly affects the level of accounting conservatism applied in the company. The coefficient value of -0.391 shows that company size influences the level of accounting conservatism, but in the opposite direction from the hypothesis initially proposed. This result is consistent with the research by (Wardhani, 2007), which found that company size has a significant adverse effect on the level of accounting conservatism applied.

According to (Tista Kadek and Suryanawa, 2017), there are several reasons why company size can have both a positive and negative effect on accounting conservatism. One reason is the difference in activities among companies. Generally, larger companies have more complex activities, so they adopt more aggressive and optimistic strategies to deal with uncertainties arising from these activities. Therefore, the application of conservative accounting principles tends to decrease in larger companies. On the other hand, smaller companies are more vulnerable to uncertainty and tend to be more cautious in anticipating potential risks. As a result, smaller companies are more likely to adopt a conservative approach. In conclusion, the complexity of a company's operational activities influences its accounting methods. Larger companies are more likely to use less conservative (more aggressive) accounting principles.

The second control variable is profitability, measured by the Return on Asset (ROA) ratio. Based on the path analysis results in Table 3, the ROA variable has a significance level of 0.060, with a level of significance (α = 0.05). This means the p-value of 0.060 is less than 0.05, indicating that profitability significantly affects the company's accounting conservatism level. The coefficient value 7.654 shows that ROA substantially affects the company's accounting conservatism level. This result aligns with the study by (Wardhani, 2007), which found that profitability influences accounting conservatism. Therefore, it can be concluded that the higher the company's profitability, the more likely it is to apply accounting conservatism.

The third control variable is cumulative return, measured using the company's monthly stock return (Rit). Based on the path analysis results in Table 3, the Rit variable has a significance level of 0.676, with a level of significance (α = 0.05). This means the p-value of 0.676 is more significant than 0.05, indicating that cumulative return does not affect the company's accounting conservatism level. This finding is consistent with the study by (Murwaningsari, 2012), which showed that cumulative return does not influence the company's accounting conservatism level.

Limitations

This study has several limitations that need to be considered. First, the scope of the study is limited to the property, real estate, and construction sectors listed on the Indonesia Stock Exchange in the 2016-2017 period, so the results may not be generalizable to other industries or different periods. Second, this study uses secondary data from the company's financial statements, which depend on the transparency and quality of the company's reporting. Third, the corporate governance variables in this study are only measured through the existence and proportion of the board of commissioners, which may not cover other dimensions of corporate governance. Further research is expected to expand the scope of sectors and periods and integrate more comprehensive governance indicators to obtain more in-depth and representative results.

CONCLUSION

This study examines the effect of accounting conservatism on the cost of equity, both directly and indirectly, through information asymmetry and the role of corporate governance as a moderating variable. The study results indicate that accounting conservatism significantly reduces the cost of equity and information asymmetry. In addition, it was found that corporate governance strengthens the effect of accounting conservatism in reducing information asymmetry. This study supports the importance of implementing accounting conservatism and good corporate governance to improve the quality of financial reports, minimize information risk, and create a healthier investment climate.

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