The Implement of Proprietary and entity theory in Chemical Corporation

Selvy De Balqis[1], T.Khairunnisa[2], Iskandar Muda[3]
[1,2,3]*Universitas Sumatera Utara, Medan, Indonesia*
sdbalqis@gmail.com

ABSTRACT
This research was conducted to find out how the implementation of Proprietary and entity theory in chemical companies. This research is a quantitative research with a descriptive method which provides an overview regarding the implementation of the Proprietary and entity theory, to find out the impact and interrelationships of this theory on financial performance or its impact on the company. This research was conducted by collecting various literature related to the topic under study, which was sourced from libraries and the internet and financial reports from chemical companies which became a reference source in determining the description of the implementation of the Proprietary and entity theory. Based on the findings of this study, through the observed data, it was found that the application of the Proprietary Theory was still not optimal, which was illustrated by the DAR value of chemical companies that were still under the less good category, namely below 30%, it could be concluded that the Proprietary Theory that in a sense it will help the company to optimize the optimal ownership structure for the company. Then through the DER data that has been collected by researchers it is found that the value of the DER ratio of chemical companies is in a good category, which is above 90%, this indicates that entity theory has been optimally implemented by chemical companies, in which entity theory is able to help companies create entity structures. through DER optimally to the company.
Keywords*:* Proprietary Teory, Entity Teory, Chemical Corporation.

INTRODUCTION

Innovation remains critical as the industry continues to find new ways to satisfy increasingly demanding, discerning and environmentally conscious consumers in an increasingly competitive world (Binh et al., 2022, Hai Yen et al., 2022). The chemical industry's products can be divided into three categories: Basic Chemicals, Specialty Chemicals and Consumer Chemicals. A few other taxonomies are used, but this one is simple and useful in the context of this site. Production volumes vary greatly. Basic chemicals are produced in large quantities (millions of tons), while some specialty chemicals are produced in small kilograms but of very high value. As discussed in the Chemical Reactor lesson, the choice of reactor is determined by the amount of chemical produced. With the current development, the company's management process and even accounting process are coming to the fore, but in order to achieve and achieve the company's goals, we will prioritize good quality and improve the company's financial performance. According to the proprietary theory, the purpose of the company, the nature of the capital, the importance of the account, etc. are considered from the perspective of the owner (Mulawarman, 2009), so in this concept the company is aimed solely at the welfare of the people. . owner. The business is considered an agent or representative of the owner and the focus of attention that needs to be provided through accounting information is on the owner. The accounting information that must be provided is the determination and analysis of the company's net worth attributable to owners (Harahap, 2015).

This unique theory concept puts the owner at the center of all interests, leading to legitimacy consequences and the stimulation of selfish and personal behavior. According to Setabaudi and Triyuwono (2002), the original theory implicitly expresses a centralized hierarchy of power over wealth, which can even become totalitarian, depending on the strength of the urge to pursue wealth. It can lead

to repetition of social roles. . The concept of proprietary theory dominated the U.S. corporate model until the early 20th century, when proprietary theory became the focus of the economic interests of the owner and existentially contributed to increasing net present value. was intended (Zanoni, 1998). Due to the rapid changes in the industrial environment, global developments in financial markets, and the ever-increasing reliability of accounting information, the development of proprietary theory is no longer current. Then came the concept of entity theory, which changed perspective and focused on economic units, making a distinction and separation of ownership between entities and individuals. Entity theory is a concept that purports to separate corporate transactions from those of their owners. Theoretically, the owner's assets should not be confused with the company because the owner cannot be personally liable for the company's liabilities. Entity theory allows you to accurately determine the financial condition of a company by distinguishing between personal and business assets and liabilities.

The concept of entity theory considers the business to be separate and distinct from the investors. As such, the business entity is the focus of attention that must be served and the focus of accounting interest, rather than the owner. Business units own corporate resources and are accountable to both owners and creditors. Another difference between owner theory and entity theory is that it has nothing to do with present value, as it does not focus on accountability of costs to owners or other stakeholders. The basis of valuation used in entity theory is historical cost. This entity theory concept still bears similarities to the original theory in which accounting information is presented in order to find investment capital and obtain maximum return on investment. According to Triyuwono (2006), accounting is an important instrument (in a capitalist economic system) controlled by the owners of capital, with the capitalist holding sole power. Finally, accounting tends to reinforce the exploitative culture of those involved and the exploitation of others, such as the exploitation of nature. This form of exploitation means that corporate sustainability is not just about the company itself, it must also pay attention to its stakeholders. When we start to pay attention to stakeholders and change the direction of business goals, he above cannot be answered with two theories, resulting in another theory, namely business theory. The implication of this concept is that the business activities of the company become a separate entity, separate from the identity of the owner. This means that personal interests are separated from corporate interests. Therefore, the transactions/events recorded and accounted for are transactions involving the Company. A company is considered to represent its own interests other than those of its owners.

The concept of business entities, or in accounting theory literature, is known as entity theory. It was put forward by William A. Peyton, a professor at the University of Michigan. He emphasized that the existence of entity theory separates a company from its owner. The assets are owned by the company and different rights exist between the obligations to the assets and the investor's shareholders. Based on this concept, we can formulate in the financial position or balance sheet that assets equal the sum of liabilities and equity. This concept embodies a business entity as a person who can perform legal and economic acts such as entering into contracts and owning assets. According to him, as a result of the entity concept, the relationship between an entity and its owner is viewed as a business relationship, especially in terms of rights and obligations or liabilities.

LITERATURE REVIEW

Proprietary Theory

This concept begins with a basic accounting equation that puts the owner at the center. Assets are considered to belong to the owner and liabilities to the owner. This concept is called the concept of wealth because the value of a business over the life of the business is equal to the initial and additional investments plus the cumulative net income minus the owner's income. This theory applies best to sole proprietorships. However, it is also suitable for partner companies. Proprietary theory refers to owners and owners at the center of accounting interests (Kam, 1990). Rosenfield (2005) defines an owner as the individual or persons who have a stake in the success or failure of a firm, whereas (Mulawarman, 2009) argues that an owner may be divided into two groups such that dual registration occurs. It argues that the double registration system needs to be substantive. The entity theory reason for the emergence of dual registrations. Accounting (Cam, 1990).

According to the proprietary theory, the purpose of the company, the nature of the capital, the importance of the account, etc. are considered from the perspective of the owner (Mulawarman, 2009), so in this concept the company is aimed solely at the welfare of the people. owner. The business is considered an agent or representative of the owner and the focus of attention that needs to be provided through accounting information is on the owner. The accounting information that must be provided is the determination and analysis of the company's net worth attributable to owners (Harahap, 2015).

This theory focuses on the interests of the owner, with the goal of increasing the owner's wealth, everything is seen from the owner's point of view, which is reflected in accounting and the preparation of financial reports (Muda et al., 2019). Therefore, in this theory, the owner is considered to be the center of all activities and owns all assets and liabilities of the company. From this description, the accounting equation can be explained as follows.

$$\text{Assets} - \text{Liablities} = \text{Equity}$$

The use of Proprietary Theory in accounting, according to Imam and Anis (2007) can provide several implications, namely:

1. All events/transactions that affect changes in the owner's wealth/prosperity in one period must be included as a determinant of profit
2. The company is a tool for the owner to achieve his goals, not as an independent entity separate from the owner
3. Dividends are distributions of profits to owners
4. Loan interest and income tax are considered expenses
5. Salary paid to the owner as an employee cannot be treated as an expense because the owner is considered the same as the company.

Entity Theory

Entity theory emphasizes the management concepts of “control” and “accountability,” and companies must comply with legal requirements and maintain good relationships with shareholders by ensuring business continuity and accountability for their shareholders (Amnah et al., 2022). I am interested in the level of financial information. This will allow you to easily access your funds in the future. The concept of entity applies to legal entities, sole proprietorships, legal entities (both corporate and unincorporated), small businesses and large corporations. Entity theory (entity theory) considers an entity to be separate and distinct from the owner, but not the person who invests in the company or business unit in the spotlight and provides the information it needs to provide. Business units (entities) are considered to own the assets and liabilities of the company to both creditors and owners (Suwardjono, 2010).

Entity theory is primarily concerned with the concept of limited liability as it applies to corporations and limited liability companies (LLCs) as opposed to sole proprietorship structures. It states that the owner has a separate identity from the corporation and is not personally liable to corporate creditors for corporate debt. Entity theory is essential for facilitating commerce through the separation of ownership and control. The owner's finances should not be tied to the company to avoid liability to creditors. Entity Theory is often compared to Proprietary Theory, which is essentially the opposite of Entity Theory. The original theory states that there is no fundamental difference between the company owner and the company itself. In principle, a company does not exist independently of its owner. The ownership theory applies to sole proprietorships, where the company's assets and liabilities are owned by the owner. Under the ownership theory, there is no such thing as limited liability. The accounting equation according to its own theory is:

The entity theory is generally considered to have originated around 1600 when it was promulgated by Lord Cork. In doing so, Lord Cork explained that corporations are separate beings or human beings created by sovereignty. This was perfectly articulated by Chief Justice John Marshall in the famous case of Dartmouth College v. Woodward, 4 Wheat (US 7 51S). There was no agreement as to whether the entity was created by law or by contractual relationship. The case of Salomon v. Salomon & Co. Ltd (1897) is another milestone in the emergence of entity theory. Salomon is a sole proprietor and started

his business by setting up a limited company. He appointed his two sons and himself as directors of the new company. He purchased the company's stock and debentures and became a secured shareholder. However, less than a year later, the company ran into challenges, and several issues resulted in pending liquidation. Solomon was relieved to believe he was the secured creditor/shareholder. The appointed liquidator had to first pay unsecured creditors before paying Salomon after creditors claimed the company was merely an agent for Salomon. Solomon was not satisfied with this, believing that he was a secured creditor and that he was entitled to payment first.

The entity theory is also called business entity. The emergence of Entity Theory aims to overcome the weaknesses of Proprietary Theory. In this theory the company is considered as an entity separate from the owner where the separation occurs in the interests of the owner and the equity holders. The accounting equation of this theory can be described as follows.

$$\text{Assets} = \text{Liablities} + \text{Equity}$$

This theory states that creditors and shareholders are shareholders with different rights regarding income, risk, control and liquidation. Shareholder rights are measured based on the valuation of assets originally paid, earnings earned and reinvested, and revaluation (if any). However, a shareholder's right to receive dividends and share of assets (if liquidated) is a shareholder's right, not a fund owner's right. Therefore, it can be said that this theory is an income-oriented theory. The revenue generated by a business unit is the right of the business unit to be distributed to shareholders as dividends (Hendry and Iwan, 2000). This entity theory is suitable for application to limited liability companies (PTs), but it can also be applied to other entities apart from owners. This theory lends itself to the preparation of consolidated financial statements (Imam and Anis, 2007)

Entity theory considers an entity to be separate and distinct from the company or business unit that invests in the company or business unit that attracts attention and provides the information it needs to provide, rather than its owner. A business division (business entity) is considered to own the company's assets and liabilities to both creditors and owners. According to Kam, quoted by Triyuwono, the main idea of this entity theory is to understand a company as a separate entity from its owner. This theory was created with the intention of alleviating the weaknesses of the proprietary owner-centered theory. However, entity theory does not differ fundamentally from its predecessor, its own theory.

Characteristics of an Entity

A corporation can be described with the following attributes:

1. It has its own name and exists as a separate entity or as an individual.
2. It is a going concern, which means it has a continuous existence notwithstanding changes in shareholders.
3. Shareholders have limited liability.
4. Obligations arise only from acts of agents and/or officers of the business.
5. Profits belong to the corporation until dividends are declared.

Debt to Aset Ratio

According to Shara (2018) "The Debt to Equity Ratio is the ratio used to calculate debt and equity". The ratio that describes the extent to which the owner's capital can cover debts to outsiders. According to Sujarweni (2017: 61) says that: "Debt to Equity Ratio (DER) is a comparison between debt and equity in company funding and shows the ability of its own capital, the company to fulfill all of its obligations." According to Bambang (2017: 22-23) Debt to Equity Ratio (DER) is the ratio used to determine the amount of funds provided by creditors with creditor owners and shareholders or shareholders, in other words a high Debt To Equity Ratio (DER). has a negative impact on company performance because the higher the debt level, the greater the interest expense, which means it will reduce profits.

The Debt to Assets Ratio (Debt Ratio) according to Kasmir (2016: 156) is: Debt Ratio is the debt ratio used to measure the ratio between total debt and total assets. In other words, how much the

company's assets are financed by debt or how much the company's debt affects asset management. According to Kasmir (2016: 156) the standard for the DAR ratio is 35%. The formula used to calculate the Debt to Assets Ratio is as follows:

$$DAR = \frac{Total\ liability}{total\ aktiva} x100\%$$

Debt to Equity Ratio

According to Munawir (2014), the Debt to Assets Ratio shows the importance of the source of loan capital and the level of security owned by creditors. According to Harahap (2016: 304), the Debt to Assets Ratio, namely the ratio of debt to assets, shows the extent to which debt can be covered by assets, the ratio is greater, the ratio is more secure (solvable). Debt to Total Assets Ratio (DAR) is one of the ratios used to measure a company's solvency level. The company's solvency level is the company's ability to pay the company's long-term obligations. A company is said to be solvable, meaning that the company has sufficient assets and wealth to pay its debts. This ratio shows the amount of total debt to the total assets owned by the company. This ratio is the percentage of funds provided by creditors to the company.

The Debt to Equity Ratio according to Kasmir (2016: 157) is: Debt to Equity Ratio is the ratio used to assess debt with equity. This ratio is sought by comparing all debt, including current debt with all equity. This ratio is useful for knowing the amount of funds provided by borrowers (creditors) with company owners. In other words, this ratio serves to find out every rupiah of own capital that is used as collateral for debt. According to Kamir (2016: 156) the standard for the DER ratio is 90%. The formula used to calculate the Debt to Equity Ratio is as follows:

$$DER = \frac{Total\ Liability}{total\ Equity} x100\%$$

METHODS

This research is a quantitative research with a descriptive method which provides an overview regarding the implementation of the Proprietary and entity theory, to find out the impact and interrelationships of this theory on financial performance or its impact on the company. This research was conducted by collecting various literature related to the topic under study, which was sourced from libraries and the internet and financial reports from chemical companies which became a reference source in determining the description of the implementation of the Proprietary and entity theory. This research was conducted by collecting various references from various previous studies and financial data of chemical companies in Indonesia. By collecting previous literature reviews as well as financial data from companies and connecting them with the theory that will be presented and explained in depth regarding how to implement Proprietary and entity theory for chemical companies.

RESULTS AND DISCUSSION

RESULTS

Debt to Aset Ratio

Companies	2019	2020	2021

Aneka Gas Industri Tbk	53%	53%	56%
Barito Pacific Tbk	35%	37%	34%
Intan Wijaya International Tbk	16%	17%	26%
Ekadharma International Tbk	12%	12%	11%

Through the DAR ratio data table above, it can be seen that from a number of sample companies there are still those that are below the optimal DAR level standard, namely below 30%, and some are above 30%. This indicates that through financial data observed by implementation researchers from Proprietary optimal theory and some are not optimal where the Proprietary theory describes company ownership through capital between debt and assets owned, this can be illustrated that the implementation of Proprietary theory provides an overview of how the ownership structure is in chemical companies.

Debt to Equity Ratio

Companies	2019	2020	2021
Aneka Gas Industri Tbk	128%	111%	113%
Barito Pacific Tbk	92%	97%	73%
Intan Wijaya International Tbk	135%	121%	119%
Ekadharma International Tbk	135%	136%	131%

Through the DER ratio data table above, it can be seen that chemical companies through the DER ratio are already in a good category, which is above 90%, this indicates that through financial data observed by researchers implementing Entity theory optimally and which Entity theory describes the structure and description of corporate entities through capital between liabilities and equity owned, this can be illustrated that the implementation of Entity theory provides an overview regarding how the structure of entities and capital in chemical companies.

DISCUSSIONS

Implementation of Proprietary Theory

Proprietary theory relates to ownership and owners being the center of accounting interests itself (Kam, 1990). Rosenfield (2005) defines a Proprietor as one or many people who have an interest in the success and failure of a business, while Niswonger et al. (1993) defines as a company owned by the company. Litleton (Mulawarman, 2009) considers that proprietorship makes the double-entry system a substance so that this double-entry system is the reason for Entity Theory for the emergence of double-entry book keeping (Kam, 1990). According to the Proprietary Theory, the purpose of the company, the type of capital, the meaning of accounts and others are all seen from the owner's point of view (Mulawarman, 2009) so that the company in this concept is all aimed at the prosperity of the owner. Business entities are considered as agents or representatives of owners so that owners become the center of attention that must be served by accounting information. The accounting information that needs to be presented is the determination and analysis of the company's net worth which is the right of the owner (Harahap, 2002).

Through a review of the literature and also theories from experts as well as through data that has been observed by the researcher, it provides an overview of how the optimal ownership structure of the company is, so that with good implementation and application of the Proprietary Theory it will increase

and optimize the ownership structure through capital between debt and assets. as measured through the Debt to Asset Ratio (DAR), it was found that by applying the Proprietary Theory it would have a good impact on the company which would provide an optimal value for the Debt to Asset Ratio (DAR) of chemical companies.

Implementation of Entity Theory

Entity theory emphasizes the management concept of "stewardship" and "accountability" where businesses are concerned with the level of business continuity and business financial information for equity owners in order to fulfill legal needs and maintain a good relationship with these equity holders in the hope of easy access to funds in the future . The entity concept applies to firms, sole proprietorships, corporations (both corporations and non-corporations), as well as small and large corporations. Entity Theory (Entity Theory) views the entity as something separate and different from those who invest in companies and business units that are the center of attention and provide information that must be served, not the owner. The business unit (entity) is considered to have the company's assets and obligations both to creditors and to owners (Suwardjono, 2010: 117).

Entity Theory (Entity Theory) views the entity as something separate and different from those who invest in companies and business units that are the center of attention and provide information that must be served, not the owner. The business unit (entity) is considered to have the company's assets and liabilities both to creditors and to owners. According to Kam, quoted by Triyuwono, the main idea of this entity theory is to understand the company as an entity that is separate from its owner. This theory emerged with the intention of reducing the weaknesses that exist in the proprietary theory where the owner is the center of attention. However, entity theory basically does not differ much from its predecessor, the proprietary theory.

Through a review of the literature and also theories from experts as well as through data that has been observed by researchers, it provides an overview of how the optimal entity structure of the company is, so that with good implementation and application of Entity Theory it will improve and optimize the structure of entities through capital between debt and equity. as measured through the Debt to Equity Ratio (DER), it was found that by applying Entity Theory it would have a good impact on the company which would provide an optimal value for the Debt to Equity Ratio (DER) of chemical companies.

CONCLUSIONS

Based on the findings of this study, through the observed data, it was found that the application of the Proprietary Theory was still not optimal, which was illustrated by the DAR value of chemical companies that were still under the less good category, namely below 30%, it could be concluded that the Proprietary Theory that in a sense it will help the company to optimize the optimal ownership structure for the company.

Then through the DER data that has been collected by researchers it is found that the value of the DER ratio of chemical companies is in a good category, which is above 90%, this indicates that entity theory has been optimally implemented by chemical companies, in which entity theory is able to help companies create entity structures. through DER optimally to the company.

According to the entity theory, a corporate entity is commissioned by a country or state and enjoys all rights and privileges as granted by the law of the land. It exists independently of its shareholders, officers, creditors, employees, customers, government, and society in general. Despite the criticism, the entity theory has shaped the accounting of limited liability companies and their disclosure requirements. There has also been a comparison of the entity theory and the proprietary theory concerning the connection between owners and entities.

BIBLIOGRAPHY

Amnah, Filzah, Rujiman (2022). The Influence of Institutional Ownership and Dividend Policy On Company Value with Debt Policy As An Intervening Variable In Pharmaceutical Company Listed. *Journal of Pharmaceutical Negative Results*. 13(9). 10050-10056. https://doi.org/10.47750/pnr.2022.13.S09.1174

Bambang, Sugeng. (2017). *Manajemen Keuangan Fundamental*. Yogyakarta: Deepublish

Binh An, N., Kuo, Y. L., Mabrouk, F., Sanyal, S., Hishan, S. S., & Abdulrehman, N. (2022). Ecological innovation for environmental sustainability and human capital development: the role of environmental regulations and renewable energy in advanced economies. *Economic Research-Ekonomska Istraživanja*, 36(1), 243-263. https://doi.org/10.1080/1331677X.2022.2120046

Hai Yen, T. T., Wong, W. K., Al-Abyadh, M. H. A., Julca-Guerrero, F., Hishan, S. S., & Islam, M. M. (2022). The impact of ecological innovation and corporate social responsibilities on the sustainable development: Moderating role of environmental ethics. *Economic Research-Ekonomska Istraživanja*, 1-20. https://doi.org/10.1080/1331677X.2022.2153260

Harahap, Sofyan Syafri. (2015). Analisis Kritis atas Laporan Keuangan. Edisi 1-10. Jakarta: Rajawali Pers.

Simamora, Henry (2000). Akuntansi Manajemen. Jakarta: Salemba Empat

Kasmir, (2016). Analisis Laporan Keuangan". Jakarta : PT. Raja Grafindo Persada.

Muda, I., Erlina, E., Diharja, M. P., Omar, N. H., & Said, J. (2019). The role of institutional ownership in strengthening to the enterprise value on the banking issuers. *Banks & bank systems*, (14, Iss. 1), 42-54. http://dx.doi.org/10.21511/bbs.14(1).2019.05

Mulawarman, A. D.(2009). Akuntansi Syariah Teori, Konsep dan Laporan Keuangan. Jakarta: E Publishing.

Munawir. S. (2014). Analisis Laporan Keuangan. Yogyakarta : Liberty

Rosenfield, Mark. (2010). Computer Vision Syndrome: Acmodative & Vergence Facility. Journal of Behavioral Optometry, 21(5): 119-122

Setiabudi, Henry Y. dan Iwan Triyuwono. (2002). Akuntansi Ekuitas dalam Narasi Kapitalisme, Sosialisme dan Islam. Jakarta: Salemba Empat.

Shara Puspita. (2018). "Pengaruh Debt To Asset Ratio dan Debt To Equity Ratio Terhadap Return On Assets Pada PT.Sarana Agro Nusantara Medan Periode 2007-2016". Skripsi. Universitas Muhhamadiyah Sumatera Utara

Suwardjono. (2010). Teori Akuntansi: Pengungkapan dan Sarana Interpretatif. Edisi Ketiga. BPFE, Yogyakarta.

Triyuwono, Iwan, (2006). Perspektif, Metodologi, dan Teori Akuntansi Syariah. PT Raja Grafindo Persada, Jakarta

Vernon Kam.(1990). Accounting Theory. Canada

Zanoni, P.,Farrow, J.A., Phillips, B.A., and Collins, M.D. 1987. Lactobacillus pentosus (Fred, Peterson, and Anderson) sp. nov., norn, rev. International Journal of Systematic Bacteriology Vol 37(4): 339-341.