The Effect of Leverage, Financial Distress and Profitability on Accounting Conservatism

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Abstract— One principles used is principle conservatism. Is principle caution to something circumstances that are not Certain For avoid optimism excessive from management and owner company. Objective from study This is for analyze influence of leverage, financial distress and profitability to conservatism accounting at the company manufacturing in Indonesia in 2019–2021. Research data This is report finance from 123 samples, the outliers once became 122 companies manufacturers listed on the Indonesia Stock Exchange Method research used is method multiple linear analysis Test results show that in a manner Partial show that leverage and financial distress are not influential to conservatism accounting Variable profitability influential negative significant to conservatism accountancy company sector mining.

Keywords— Leverage, financial distress, profitability, accounting conservatism, manufacturing.

I. INTRODUCTION

Every company what we can be certain of its own standard alone in drafting report finance, company can choose method appropriate accounting with condition company the so that company can more flexible in adapt method accounting to be used with condition experienced economy company. There is a number of method that can used by companies depends existing internal policies in company. So that method selected accounting company will own level conservatism different accounting. the information conveyed in report finance be one important information for parties interested parties in company Good internal party like directors etc, as well party external like creditor so that report presented finances must fulfil applicable rules as well as principles used so that report finance the accountable and useful in take decision for interested parties (Suwarjono, 2005).

Conservatism own rule tree that is No can confess profit before happened, however must confess very possible loss happened. Besides that, when faced with two or more choice method accounting, then accountant must choose least method profitable for company (Dewi & Suryanawa, 2019).

High leverage showing how much large loan capital company used For financing assets company. The more tall results from ratio This so tend the more big risk finance for creditor nor holder stock.

Financial distress is circumstances company moment experience condition moderate finances hard to cause company difficulty in pay off existing debts pass date predetermined time. Condition finance in facing a difficult time will make investors think for replace party manager company because consider party manager No Can arrange company with Good threat like That resulted pattern profit accountancy arranged returned by the manager which pattern profit become criteria in evaluate performance manager so that make manager engineering level application conservatism accounting (Gunawan, 2016).

Profitability is ratio used for show success company in the produce profit. Investors will analyze with careful continuity something company as well as ability in produce profit. The more Good ratio profitability, then describe that company have good ability in obtain profit.

Study about conservatism has Lots done, however result Still Not yet consistent. For example, results research conducted by (Tazkiya & Sulastiningsih, 2020) and (Sulastri 2018) and (Viola & Diana, 2016) based on results study they argue that Financial Distress has an effect significant to conservatism accounting. However No in line with research conducted by (Ramadhani & Sulistyowati, 2019) and (Saputra, Kamaliah, & Hariadi, 2016) which revealed that financial distress is not influential significant to conservatism accounting.

Study This refers to research conducted by (Sulastri, 2018) regarding the effect of financial distress and leverage on conservatism sector accounting mining. Researcher This try measure the effect of leverage and financial distress on Conservatism Accounting in companies Manufacturing listed on the IDX in 2019. On research previously presented previously that the leverage and financial distress variables show inconsistency to conservatism accounting. So from That study This replace object previously from mining become company manufacture in period 2019-2021 time.

II. LITERATURE REVIEW AND HYPOTESIS

Agency Theory

Agency theory) explains that connection agency appear one person or more (principal) hire someone else (agent) to give something services and then delegate authority taking decision to agent (Jensen and Meckling, 1976). Conflict interest between managerial (agent) and stakeholder (principal) causes exists problem agency, management No always Act For stakeholder interests, however sometimes For interest management That Alone without notice the resulting impact to stakeholders. Imbalance information (information asymmetry) also causes exists problem agency, because difference information from party management (agent) and

stakeholders (principal). management Can manipulation information report finance without the truth of the stakeholders is known.

Conservatism Accountancy

According to the FASB Statement of Concept No.2, conservatism accountancy is reaction Be careful face inherent uncertainty in company For try ensure that internal uncertainty and risk environment business Already Enough considered. Uncertainty and risk the must mirrored in report financial order value predictability and neutrality Can repaired. Based reporting caution will give the best benefits For all user report finance. Conservatism is one standard required accounting accountant For choose methods and estimates are keeping mark book profit clean relatively low in situation uncertainty. Conservatism accountancy influence quality reported numbers in balance sheets, reports profit loss and reports finance other.

Leverage

Leverage is use assets and sources of funds by the company that owns them cost fixed (load fixed) with intent to improve profit potential holder stock. Company with level high debt tend make company more be careful heart Because will become threat for continuity life company. this caused company with high level of leverage make creditors have more rights big for know and watch maintenance operations and accounting company, p That will make manager A little difficulty For hide information from creditors (Suwardjono, 2013).

Financial Distress

Financial distress is condition when A company experience crisis finance and fail fulfil obligation debtor Because No have funds for forward business them. Condition This accompanied with decline profit as well as asset regular and normal happen approaching bankruptcy. According to Brigham and Daves (2003), the phenomenon of financial distress itself often happen Because a number of reason. Among them is, often happening series error, retrieval less decisions appropriately by managers, and weaknesses mutual weakness relate that can donate in a manner direct nor No direct to management as well as No exists or lack of effort supervise condition finance so that no use of money in accordance with necessity. Failure manager in manage company can reflected through report presented finances. Experienced manager failure in manage company will showed with condition bad finances_ Then reflect level difficulty high finances Threat the push manager For regulate and supervise presentation report finances to be used by the holder shares and creditors (Sulastri and Anna, 2018). Financial distress also has stages start from stage A, stage B, stage C, and stage D

Profitability

According to Brigham and Houston profitability is income clean from series policies and also decisions, set with method count various reject relevant measure. _One used that is ratio finance, which is made as analyst in analyze condition finance something company, results operation, until income. The more tall mark ratio, then will the more good condition too company

based on ratio profitability. High score the symbolize level profit as well as efficiency companies that are high in money can seen from income as well as cash flow. Ratio profitability This will give information important For Then compared to with ratio period before and ratio competitors. Where is the ratio profitability it also has function For see results end from all policy finances and decisions operations made by management company Where system petty cash records as well effect.

III. METHODOLOGY

Object study This is whole company manufacturers listed on the Indonesia Stock Exchange (IDX) which publish annual reports for 2019-2021. Based on criteria samples that have determined in study this, then obtained sample study as many as 123 companies. So the total sample used is as many as 123 and outliers use residual value ie with filter unstandardized results from smallest until biggest Then extreme data outliers. Outliers as much as 1 so compliant sample criteria as many as 122 companies.

This study uses following measurements:

TABLE 1

Variable	Indicators	Source
Accounting Conservatism	$CONACC = \dfrac{(NI+DEP)-CFO}{TA}$	Ahmed & Duellman (2007)
Leverage	$DER = \dfrac{Total\ Debt}{Total\ Ekuitas}$	(Kasmir, 2015:157)
Financial Distress	$G = 1{,}650X1 + 3{,}404X3 - 0{,}016ROA + 0{,}057$	Grover (2001)
Profitability	ROA = Net income/ Total assets	Hery (2016:106)

IV. RESULT AND DISCUSSION

TABLE 2. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Laverage	122	.001	3.413	.84090	.641395
Financial_Distrest	122	.051	7.581	.87348	.945078
Profitabilitas	122	.000	1.163	.09644	.144348
Konservatisme	122	-.599	1.159	.15598	.294052
Valid N (listwise)	122				

Source: data processed author, 2023

Based on the table, it shows that the Leverage variable has the lowest (*minimum*) value of 0.001 and the highest (*maximum*) value of 3.413 with an average (*mean*) of 0.84090 and a standard deviation of 0.641395. This minimum value indicates that the percentage of leverage that the company generates on the ratio low debt of 0.1 % and the highest value of 341.3 %. With an average value of 84.09 % and a standard development of 64.13 % .

Financial Distress variable has the lowest (*minimum*) value of 0.051 and the highest (*maximum*) value of 7.581 with an average (*mean*) of 0.87348 and a standard deviation of 0.945078. This minimum value shows that the percentage of companies the potentially experience bankruptcy of 5.1 % and the highest value of 758.1 %. With an average value of 87.348 % and a standard deviation of 94.50 %.

Profitability variable has the lowest (*minimum*) value of 0.000 and the highest (*maximum*) value of 1.163 with an

average (*mean*) of 0.09644 and a standard deviation of 0.1 44348. The minimum value indicates that the percentage of profitability company who became sample study range between 0% up 116.3 %. With an average value of 9.64 % and a standard deviation of 14.43 %.

Conservatism Variable Accounting has the lowest value (*minimum*) of -0.599 and the highest value (*maximum*) of 1.159 with an average (*mean*) of 0.15598 and a standard deviation of 0.2 94052. This minimum value indicates the resulting percentage of conservatism on profit clean with operating cash flow of 59.90 % and the highest value of 11.5, 90 %. With an average value of 15.59 % and a standard deviation of 29.40 %.

Normality Test

The normality test is used to determine whether the data is normally distributed or not. In this study, the normality test used the CLT (Central Limit Theorem) test, namely if the number of observations is large enough (n>30), then the assumption of normality can be ignored (Gujarati, 2003). In this study, the number of n is 1 22 > 30. This shows that the data can be said to be normally distributed and can be called a large sample.

TABLE 3. Multi- collinearity test

Model	Collinearity Statistics		Information
	tolerance	VIF	
leverage	0.951	1.052	No There is Multicollinearity
Financial Distress	0.958	1,044	No There is Multicollinearity
Profitability	0.963	1.038	No There is Multicollinearity

Source: data processed by the author, 2023

Based on the table shows the *tolerance value the value* of each independent variable is greater than 0.1 and the *VIF value* is less than 10, so it can be concluded that all the independent variables in this study have no indication of multicollinearity.

TABLE 4 . Heteroscedasticity Test Results

Variables	Sig	Description
Leverage	0,145	No Heteroscedasticity
Financial Distress	0,146	No Heteroscedasticity
Profitability	0,595	No Heteroscedasticity

Source: data processed by the author, 2023

Based on the table it can be seen that all the independent variables in this study showed a sig value greater than 0.05, so it can be concluded that all the independent variables in this study were free from symptoms of heteroscedasticity .

TABLE 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	DW
1	,360a	,130	,107	,277803	1,882

Source: data processed by the author, 2023

From the test results above, a DW (durbin watson) value of 1.882 was obtained . In this study, there were 3 independent variables while the total sample size was 1 23. According to Santoso (2012), if the DW value lies between -2 to +2, it means that there is no autocorrelation. This means -2 < 1.882 < +2, so it can be concluded that this study is free from autocorrelation problems.

TABLE 6. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Std Coef	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0,110	0,051		2,148	0,034
Leverage	0,031	0,040	0,067	0,764	0,446
Financial Distress	-0,049	0,027	-0,158	- 1 , 801	0.0 74
Profitability	0.649 _	0.1 78	0.319 _	3,643	0.000 _

Source: data processed by the author, 2023

Based on the regression equation, it can be interpreted as follows:

A constant value of 0.110 means that if the variables *leverage* (L), Financial Distress (FD), Profitability (P) do not change or are considered constant (value 0), then accounting conservatism is 0.110 .

The regression coefficient on the Leverage variable (L) shows a value of 0.0 31 and is positive. This shows that if L rises by 1 unit, then the level of accounting conservatism will experience an increase of 0.0 31 and vice versa if L decreases by 1 unit, the level of accounting conservatism will increase by 0.0 31.

The regression coefficient on the Financial Distress (FD) variable shows a value of -0.049 and is negative. This shows that if the FD increases by 1 unit, then the level of accounting conservatism will decrease by 0.049 and vice versa if the FD decreases by 1 unit, the level of accounting conservatism will experience an increase of 0.049 .

The regression coefficient on the variable Profitability (P) shows a value of 0.649 and is positive. This shows that if P rises by 1 unit, then the level of accounting conservatism will experience an increase of 0.649 and vice versa if P decreases by 1 unit, the level of accounting conservatism will experience an increase of 0.649.

TABLE 7. F test results

ANOVA [a]						
Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	1,356	3	.452	5,856	.001 [b]
	residual	9.107	118	077		
	Total	10,462	121			

Source: data processed by the author, 2023

Based on the table, it shows that the significance value (0.001) is smaller than the significance level α (0.05), so it can be concluded that the variables Leverage (L), Financial Distress (FD), Profitability (P), simultaneously affect *conservatism accountancy.*

TABLE 8. Determinant Coefficient Test Results (R2)

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.360 [a]	.130	.107	.277803

Source: data processed by the author, 2023

Based on the table, the coefficient of determination *(Adjusted R²)* is 0.107. This means that 10.7 % of the variation in the dependent variable of accounting conservatism can be explained by the independent variables Leverage (L), Financial Distress (FD), Profitability (P), while the remaining 89.3 % is explained by other variables outside the model studied.

TABLE 9. Test Results t

Variable	Sig.	Information
L	0.446 _	No Significant
FD	0.074 _	Not significant
P	0.000 _	Significant

Source: data processed by the author, 2023

Based on the table it can be explained as follows:

a. leverage variable (L) has a significance value of 0.446 or 44.6 %, which means it is greater than 0.05 or 5%. Thus it can be concluded that H1 $_{is}$ rejected, meaning that managerial ownership has no effect on accounting conservatism.

b. Financial Distress (FD) variable has a significance value of 0.074 or 7.4 %, which means it is greater than 0.05 or 5%. Thus it can be concluded that H1 $_{is}$ rejected, meaning that managerial ownership has no effect on accounting conservatism.

c. Profitability variable (P) has a significance value of 0.00 or 0% which means it is smaller than 0.05 or 5%. Thus it can be concluded that H2 is accepted, meaning that the independent commissioners have an effect on accounting conservatism.

V. CONCLUSION

Based on results testing analysis that has been done so can concluded as following:

1. No leverage influential to conservatism accounting at the company manufacturers listed on the Indonesia Stock Exchange (IDX) 2019-2021.

2. No Financial Distress influence to conservatism accounting at the company manufacturers listed on the Indonesia Stock Exchange (IDX) 2019-2021.

3. Profitability influential to conservatism accounting at the company manufacturers listed on the Indonesia Stock Exchange (IDX) 2019-2021.

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