THE INFLUENT OF THE FINANCIAL DISTRESS, COMPANY SIZE AND LEVERAGE ON ACCOUNTING CONSERVATISM
(Case study on the manufacturing company sub sector food and beverage registrated in Indonesian Stock Exchange 2014-2018 period)

Nurul Safika[1], Muhammad Anhar[2]
Department of Accounting
Indonesian College of Economics
Jakarta, Indonesia
safikanurul0@gmail.com
m.anhar@stei.ac.id

Abstract *- This research has purpose to know about the influence of financial distress, company size, and leverage towards the accounting conservatism. In this research, the writer uses the quantitative data, that is the company annual report which is obtained from BEI official website and all company official website related in this research.*

The population in this research is manufacturing company sub sector food and beverage registrated in Indonesian Stock Exchange period 2014-2018. The sampling technique in this research use purposive sampling and obtained there are 13 companies suited with the criteria. This research use multipler linear regression analysis with the program Eviews version 9.0 device and assumption classic test for data analysis.

This result of this research show that financial distress variable has significant negative effect towards the accounting conservatism. Meanwhile, company size variable and leverage do not have significant effect the accounting conservatism.

Keywords: *Accounting Conservatism, Financial Distress, Company Size, and Leverage*

I. INTRODUCTION

Each company is given the freedom by the Financial Accounting Standards (SAK) to choose the accounting methods and estimates used in preparing the financial statements. In preparing the company's financial statements, the company chooses an accounting method that is in accordance with the company's conditions so that it is easy to apply and flexible in adjusting to the economic conditions experienced by the company. Economic conditions in the future are filled with uncertainty so that the choice of accounting method needs to be considered by companies. Therefore, financial reports must meet the objectives, rules and accounting principles in accordance with generally accepted standards in order to produce financial reports that are accountable and beneficial to each user (Risdiyani and Kusmuriyanto, 2015).

The financial report is a form of management accountability in managing company resources. With various kinds of accounting methods that can be applied, company management is given the freedom to choose the accounting method used in recording and reporting a transaction. Therefore, the users of financial statements require the company to present a more transparent financial report so that the presentation of each number is clear where the source is, this is why managers must apply conservative accounting principles. Hery (2017) Accounting conservatism is a condition when losses occur, all of these losses will be recognized immediately even though they have not been realized, but when gains occur, the unrealized gains are not recognized.Financial reports select and value assets and income with the least value.The conservative principle that is applied in the recognition of earnings will cause fluctuations in earnings because the reported earnings now become an understatement while in the future it becomes overstatement.The principle of conservatism is still considered a controversial principle. Some conflicting opinions are supporting the principle of conservatism because by applying this principle it will be useful to avoid profit manipulation. Meanwhile, there are opposing opinions because the application of this principle will result in biased financial statements because they do not show the real financial condition and produce unqualified profits. Regardless of the pros and cons of conservatism, conservative accounting principles are still used. The reason this principle is still used is because of the tendency to exaggerate earnings in financial reporting by adopting an attitude of pessimism to offset the excessive optimism of managers.

There are several phenomena of accounting conservatism in Indonesia that are quite widely practiced by companies, especially those engaged in manufacturing. As was the case on PT. Kimia Farma has manipulated overstate financial statements with an inflated annual net profit of Rp. 32,668 billion. In addition, in 2015, the electronics company Toshiba was proven to have overstated a profit of 151.8 billion yen or USD 1.22 billion. Not only PT. Kimia Farma and Toshiba Electronics Company, another case occurred at PT. Timah. PT. Timah is suspected of providing fictitious financial reports to cover the declining financial performance. In fact in the financial statements of the first semester of 2015 operating profit of PT. Timah suffered a loss of 59 billion (quoted from *economy.okezone.com*). The case above refers to the low application of the conservatism principle by companies in preparing their financial statements. An optimistic attitude that makes managers present financial reports with a higher profit value than they should. Therefore, it is necessary to have quality financial information and to apply accounting conservatism within the company to prevent overstated financial reporting.

One of the factors that influence management in taking conservatism is financial distress. Companies that experience financial distress tend to have low profits. The financial distress experienced by the company will put pressure on management to adjust the level of conservatism in the financial statements. A low level of financial distress will encourage management to raise accounting conservatism by being more careful in presenting financial statements. In addition, in this study, company size is also one of the factors that influence management in carrying out the level of accounting conservatism. Company size is an indicator

to observe the costs that must be borne. Company size can be measured by looking at the total assets owned by a company. Another factor that can affect accounting conservatism is the level of debt (Leverage). Lo (2005) in Dewi and Suryanawa (2014) state that if the company has high debt, creditors also have the right to know and supervise the company's operational activities, which results in the company applying the principle of prudence in earning profits and can reduce conflicts between managers and shareholders because of earnings information. expressed honestly and truthfully.

Based on the research mentioned above, there are differences in the results obtained from different researchers. So that the selection of variables was chosen due to inconsistencies in previous studies so that it needs to be investigated further. This study uses independent variables, namely the effect of financial distress, leverage, and company size. While the dependent variable is accounting conservatism. This research was conducted in the food and beverage sub-sector manufacturing industry which is listed on the Indonesia Stock Exchange in 2014-2018. Based on the description above, the authors feel interested in conducting research with the title **"THE INFLUENT OF THE FINANCIAL DISTRESS, COMPANY SIZE AND LEVERAGE ON ACCOUNTING CONSERVATISM ON THE MANUFACTURING COMPANY SUB SECTOR FOOD AND BEVERAGE REGISTRATED IN INDONESIAN STOCK EXCHANGE 2014-2018 PERIOD".**

Formulation of the problem

Based on the background described above, the formulation of this research problem is:

1) Does financial distress affect accounting conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange 2014-2018?
2) Does company size affect accounting conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange 2014-2018?
3) Does leverage affect accounting conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange 2014-2018?

II. LITERATURE REVIEW

1. Agency Theory

Agency Theory (Jensen dan Meckling, 1976) in (Susanto and Ramadhani, 2016) describes the relationship between shareholders and company management which is described as an agency relationship between the principal and agent. Agency relationship can arise when the principal entrusts the agent to perform some actions and also delegates decision-making authority to the agent. In this case, the management who is given full responsibility by the shareholders should do their best to manage the company, especially for the sake of shareholders because management is responsible for it. As a shareholder who has given authority to management, of course, he wants the results of the company's operational activities (profits received by the company) to increase in each period so as to get large dividends. But it does not rule out if management is concerned with its own interests to maximize utility because as a manager who manages the company on a day-to-day basis, he knows more about the actual conditions and internal information than the shareholders. The difference between these goals causes a conflict of interest.

Susanto and Ramadhani (2016) The relationship between agency theory and conservatism, namely the more capital intensive a company is, shows the greater the protection carried out by investors. For example, by conducting more intensive supervision of manager performance. So that it will suppress earnings engineering actions because managers will tend to be careful (conservative) in reporting earnings.

2. Positive Accounting Theory

Hery (2017:107) positive accounting theory seeks to explain a process, which uses accounting skills, understanding and knowledge as well as the use of accounting policies that are most appropriate to deal with certain conditions in the future. Positive accounting theory is a further study of normative accounting theory due to normative failure to explain practical phenomena that occur in real terms. Positive accounting theory develops along with the need to explain and predict the reality of accounting practices that exist in society, whereas normative accounting further explains accounting practices that should apply.

Watts dan Zimmerman (1986) positive accounting theory xplained that there are 3 hypotheses that can encourage managers to choose an accounting principle, among others:

a. The bonus plan hypothesis explains that company managers tend to use accounting methods to increase reported earnings in the current period in order to increase the bonus value that can be obtained.
b. The Debt / Equity hypothesis predicts that the higher the debt to equity ratio (DER) of a company, the more likely the manager will use accounting methods to increase income.
c. The Political Cost Hypothesis predicts that large companies compared to small companies will choose the accounting method to reduce reported earnings in order to avoid more demands from the company's external parties.

The relationship between accounting theory is positive with this research because the hypotheses contained in this theory can be used in management decisions to use the principle of accounting conservatism.

Accounting Conservatism

Financial Accounting StandartBoard (FASB) on SFAC No.2 1996 states that accounting conservatism is a prudent reaction in responding to uncertainty by ensuring that uncertainties and business risks are adequately considered. This indicates that the company is trying to ensure uncertainty and future risks by carrying out a cautious reaction, by doing this the company is ready to face the worst risks. Hery (2017) accounting conservatism is a condition when a loss occurs, all of these losses will be recognized immediately even though they have not been realized, but when the gain occurs, the unrealized gain is not recognized.. Menurut Siegel and Shim (2010) in Abdurrahman and Ernawati (2018) conservatism assumes that financial reporting should be more pessimistic (played down) than optimistic (raised).

Financial Distress

Financial Distress is a company's financial condition prior to bankruptcy. Menurut Brigham and Daves (2003) Financial distress occurs when the company is unable to meet the payment schedule and one of the problems the company faces is bankruptcy or bankruptcy. Usefulness of information if the company experiences financial distress so that management immediately takes action for the company. Bhunia et al (2011) in Cinantya and Merkusiwati (2015) states that the existence of financial distress in the company can cause problems that can reduce management efficiency.

Company Size

The size of the company is a large-scale company, where large-scale companies certainly have problems and risks that are more complex than small-scale companies. According to Hery (2017) the size of the company will affect the ability to bear the risks that may arise from various situations faced by the company. Large companies have a lower risk than small companies. This is because large companies have greater control over market conditions so that they are able to face economic competition.

Leverage

Harjito and Martono (2011:315) leverage in the business sense refers to the use of assets and sources of funds by companies where in the use of these assets or funds the company must pay fixed costs or fixed expenses. Leverage is the amount of debt owned by the company, leverage is used to finance the company in order to increase profits.

The effect of*Financial Distress* on Accounting Conservatism

Company financial statements that show negative profit or loss during the ongoing period, indicating that the company is in a bad condition or can be said to be experiencing *financial distress*. Agency theory believes that the separation between the principal and the agent will lead to conflict between the two parties. When the company's financial condition is not in good condition, the agent as company management will use conservative accounting with the aim of presenting financial information carefully and the information submitted must be in accordance with the reality. By using conservative accounting, it is hoped that it will reduce conflicts between the principal and the agent. If a company is in financial distress, of course, it requires more funds to finance operational activities or to pay corporate debt, this will cause the company's debt level to increase. When the company continues to use conservative accounting with financial distress conditions, the company's financial statements will become an understatement so that this creates a concern for creditors and other external parties. Conservatism is a principle of prudence, with financial distress, companies will be more careful in dealing with an uncertain business. Thus, the higher the level of financial difficulty of the company will encourage managers to raise the level of accounting conservatism, and vice versa if the level of financial difficulty is low, the manager will reduce the level of accounting conservatism (Abdurrahman and Ernawati, 2018).

Based on this explanation, the hypothesis that can be developed is:

H1: Financial distress effect on accounting conservatism

The effect of Company Size on Accounting Conservatism

The company classification consists of three types, including large, medium, and small companies.

This can be seen from the assets owned by the company, the higher the net sales or the bigger the company's assets, the bigger the company is. The larger the size of the company, the greater the political costs incurred by the company, so that managers reduce profits to be more conservative. Companies with large sizes tend to apply the principle of accounting conservatism so that the resulting profit is not too high in order to avoid high tax burdens due to high profits (Lo, 2005 in Noviantari and Ratnadi 2015).

Based on this explanation, the hypothesis that can be developed is:

H2: Company Size effect on Accounting conservatism

The Effect of Leverage on Accounting Conservatism

Leverage is the amount of debt owned by a company that is used to finance the company in order to increase profits. Creditors who have provided loans to companies automatically have an interest in the security of the funds they have lent by expecting a profit from the loan.

The company will of course optimize its performance to get high profits, so that creditors continue to provide loans and trust in the company. Therefore, the company performs financial reporting optimistically or less conservatively by increasing the value of assets and profits as high as possible and reducing liabilities and expenses. This is done so that lenders can feel confident and provide funds to the company (Karantika and Sulistyawati, 2018). Thus, information asymmetry between creditors and firms is reduced because managers cannot present financial reports that exaggerate earnings. Therefore, the company is asked by creditors to present financial statements using a conservative accounting method so that the company

does not over-report its business results.

Based on this explanation, the hypothesis that can be developed is:

H3: *Leverage* effect on accounting conservatism

III. RESEARCH METHOD

This type of research uses quantitative methods, the purpose of using this method is to determine the relationship between variables in the population by using statistical calculation techniques as calculations. The subjects in this study were food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange 2014-2018 period. The population in this study were 30 manufacturing companies in the food and beverage sub-sector. This study uses a sampling method, namely technique *purposive sampling* and the samples used in this study were 13 companies.

The criteria for sampling in this study are as follows:

a. A food and beverage sub-sector manufacturing company listed on the Indonesia Stock Exchange or the company's official website for the period 2014-2018.
b. Food and beverage sub-sector manufacturing companies that publish annual financial reports after being audited.
c. Manufacturing companies in the food and beverage sub-sector that have complete data in accordance with the needs of researchers.

The data in this study are secondary data taken by researchers indirectly through the official website of the Indonesia Stock Exchange (*www.idx.co.id*) or the company's official website. The data collection method used in this research is the documentation method. According to Salim and Haidir (2019) documentation method is to find data about things or variables in the form of notes, transcripts, books, newspapers, magazines, meeting minutes, notes, agendas, and so on. The documentation method is obtained by collecting data and the materials used. This method is carried out by recording data related to the problem to be examined from documents held by relevant agencies, generally concerning the financial statements of the food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period or the company's official website. The data analysis method used in this research is panel data regression technique. Regression analysis aims to obtain a form regarding the relationship between the independent variable and the dependent variable which is assessed to determine the performance of each company. In this study, the data were processed using the computer program E-Views (Econometric Views).

In this study, the data analysis technique used is descriptive statistical analysis, as a tool used to describe each variable. In this study, descriptive statistical analysis was carried out to determine the minimum, maximum, mean, and standard deviation values of the variables. Researchers filtered the data using the classical assumption test consisting of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. In making panel data estimates, the researcher uses the Chow test, the Hausman test and the Lagrange multiplier test. Furthermore, to test the hypothesis using the coefficient of determination, F statistical test (Simultaneous), and statistical t test (partial).

Operationalization of Variables

1. Accounting Conservatism (Y)

   This accounting conservatism measurement variable is termed the level of accounting conservatism and will be negative if the company applies accounting conservatism. In order for the level of corporate accounting conservatism to reflect the higher the more conservative value, the calculation result of the level of conservatism is multiplied by minus one (-1). The formula used in this research is an adaptation to the research of Givoly and Hayn (2000) in Kusumadewi (2018), as follows:

$$\text{ConAcc} = \frac{\text{TACit} - \text{AKOit}}{\text{Ait}} \text{X } (-1)$$

2. *Financial Distress* (X1)
   Referring to research conducted by Sulastri and Anna (2018), the measurement of financial distress is measured using the Altman Z-Score bankruptcy analysis method, the formula is as follows:

3. Company Size (X2)
   Measurement through natural logarithms of company assets is used because it is considered that assets are considered more stable than sales and net income. The measurements are formulated as follows:

4. *Leverage* (X3)
   In this study, leverage is measured by the Debt to Asset Ratio (DAR), while the formula is as follows:

$$\text{LVRG} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

IV. RESULTS AND DISCUSSION

The results of descriptive statistical analysis

Muchson (2017:6) Descriptive statistics discusses methods, collection, summarization, and presentation of data so that information is easier to understand. Information that can be obtained with descriptive statistics includes data centering (mean, median mode), data distribution (range, deviation, average, variance and standard deviation), trend of a data set, size of location (quartiles, deciles and percentiles). In this study, a descriptive statistical test was conducted to determine the minimum, maximum, mean, and standard deviation values of the variables.

Table 4.5 The results of descriptive statistical analysis

Y	X1	X2	LnTA	X3	
Mean	0.071863	2.973122	13.000.000	28.93947	0.489455
Median	0.019664	2.877614	2.820.000	28.66785	0.468482
Maximum	3.036540	7.585429	96.537.800	32.20096	2.899874
Minimum	-0,235791	-8.100380	483.037	26.90336	0.069175
Std. Dev.	0.388081	2.151325	23.700.000	1.581249	0.454747
Skewness	6.992508	-1.919325	2.586833	0.498508	4.021313
Kurtosis	54.06935	12.99941	8.666253	2.137598	21.31383

Jarque-Bera	7593.242	310.7093	159.4484	4.706475	1083.550
Probability	0.000000	0.000000	0.000000	0.095061	0.000000
Sum	4.671063	193.2529	843.000.000	1881.066	31.81455
Sum Sq. Dev.	9.638816	296.2046	360.000.000.000	160.0223	13.23488
Observations	65	65	65	65	65

Source: data processed using eviews9, 2020

In the results of the descriptive statistical analysis above, it shows that the amount of data in this study is 65 consisting of 13 food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The accounting conservatism variable (Y) has a maximum value of 3.036540 and a minimum value of -0.235791. In this study the company that has the maximum value is PT Tiga Pilar Sejahtera Food Tbk in 2017 and the company with the minimum value is PT Mayora Indah tbk in 2014. From the results of this analysis, it is known that the average (mean) value of accounting conservatism owned by all sample companies is 0.071863 or 7.186%, this indicates that the majority of sample companies in this study do not apply accounting conservatism because the average value (mean) had a positive result. The standard deviation is 0.388081, this indicates that the accounting conservatism carried out by the sample companies in this study varies because the standard deviation value is greater than the mean value.

The financial distress variable(X1)has a maximum value of 7.585429 and a minimum value of -8,100380. In this study the company that has the maximum value is PT Industri Jamu & Pharmaceutical Sido Tbk in 2014 and the company with the minimum value is PT Tiga Pilar Sejahtera Food Tbk in 2017. From the results of this analysis, it is known that the average (mean) level of financial difficulty is 2.973122, which means that the majority of the sample companies in this study are in the safe zone category because they have an average value (mean)> 2.9. The standard deviation is 2.151325, this indicates that the data indicate good results because the standard deviation value is smaller than the average (mean) and the results of this analysis also show that the financial distress variable is getting more evenly distributed, which means that the standard deviation is not far deviated from their mean (mean).

The company size variable (X2) has a maximum value of Rp. 96.5378 trillion and a minimum value of Rp. 483.037 trillion. In this study the company that has the maximum value is PT Indofood Sukses Makmur Tbk in 2018 and the company with the minimum value is PT Mustika Ratu Tbk in 2016. From the results of this analysis, it is known that the average value (mean) of Rp. 13 trillion means that this value shows the average size of the food and beverage sub-sector manufacturing company for the period 2014-2018 on a large-sized company scale. The standard deviation is Rp. 23.7 trillion, this indicates that the standard deviation value is greater than the average (mean), which means that the average company size has a high degree of deviation..

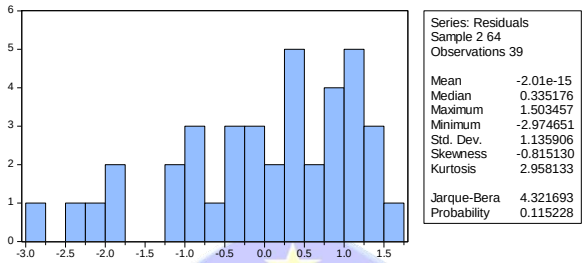
The *leverage*variable(X3) has a maximum value of 2.899874 and a minimum value of 0.069175. In this study the company that has the maximum value is PT Tiga Pilar Sejahtera Food Tbk in 2018 and the company with the minimum value is PT Industri Jamu & Pharmacy Sido Tbk in 2014. From the results of the analysis, it is known that the average (mean) level of debt is 0.489455 or 48.9455%, meaning that the sample companies have an average debt of 48.9455% of their total assets.The standard deviation is 0.454747, this indicates that the data indicate good results because the standard deviation value is smaller than the mean and from the results of this analysis also shows that the leverage variable is getting more even, which means that the standard deviation is not far deviated from the mean.

Classic Assumption Test

a) Normality Test

Simanjuntak (2020:49) stated that the purpose of the normality test is to find out whether the distribution of the sample data follows the normal distribution. Normality test is required by assuming that the residual value follows the normal distribution.The Jarque-Bera test on the e-views program has a chi square value with two degrees of freedom. If the jarque-fall test results are greater than the chi square value at α = 5%, then the null hypothesis is accepted, which means the data is normally distributed. Meanwhile, if the jarque-fall test results are smaller than the chi square value at α = 5%, the null hypothesis is rejected, which means that it is not normally distributed..

Table 4.6



Source: data processed using eviews9, 2020

Based on the normality test above using the histogram normality test, it shows that the Jarque-Bera (JB) value is 4.321693 and a probability of 0.115228. The data presented in the table can be concluded that they are normally distributed because the probability exceeds 0.05.

b) Multicollinearity Test

Multicollinearity test was conducted to test whether the regression model found a correlation between the independent variables. A good regression model is that there is no correlation between independent variables. Multicollinearity can also be seen from the Tolerance value and its opposite Variance Inflation Factor (VIF). To see the Variance Inflation Factor (VIF) value as follows:

i. If the *VIF* value<it means that there is no multicollinearity
ii. If the *VIF* value >10 it means that there is multicollinearity

Table 4.7

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.453059	346.7262	NA
X1	0.000768	7.875057	2.678814
X2	0.000534	343.4248	1.006567
X3	0.017196	5.832305	2.679584

Source: data processed using eviews9, 2020

From all the results of the centered VIF value on each variable in the table, it shows that nothing exceeds the value of 10, it can be concluded that there is no multicollinearity in the independent variables in this test.

c) Heteroscedasticity Test

Riyanto dan Hatmawan (2020:209) The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. If the residual variance from one observation to another is constant, it is called homoscedasticity and if it is different it is called heteroscedasticity. In this test, the observed results are the F and Obs * R-Squared values. If the value of Obs * R-Squared < α is 0.05, it can be concluded that heteroscedasticity occurs. Meanwhile, if the value of Obs * R-Squared > 0.05, it can be concluded that heteroscedasticity does not occur.

Table 4.8

Heteroskedasticity Test: White

F-statistic	0.593846	Prob. F(3,35)	0.6232
Obs*R-squared	1.888991	Prob. Chi-Square(3)	0.5958
Scaled explained SS	1.489529	Prob. Chi-Square(3)	0.6847

Source: data processed using eviews9, 2020

Based on the results of the heteroscedasticity test with the white heterocedasticity test above, it can be seen from the Obs * R-Squared value in the table that is 1.888991, it can be concluded that in this test heteroscedasticity does not occur because the Obs * R-Squared value is greater than 0.05.

d) Autocorrelation Test

The autocorrelation test aims to show a correlation between members of a series of observations that have been sorted according to time and space. If there is a correlation, it is called an autocorrelation problem. Autocorrelation occurs because successive observations over time are related to one another (Rukajat, 2018). This method is based on the value of F and Obs * R-Squared where if the value of Obs * R-Squared exceeds 0.05 then there is no autocorrelation problem.

Table 4.9

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.630618	Prob. F(2,59)	0.5358
Obs*R-squared	1.360417	Prob. Chi-Square(2)	0.5065

Source: data processed using eviews9, 2020

Based on the results of the autocorrelation test using the Breusch-Godfrey Serial Correlation LM Test method. From the table shows Prob. Chi-Square from Obs * R-Squared of 1.360417 exceeds 0.05, it can be concluded that there is no autocorrelation.

Panel Data Regression Technique

1) Chow Test

Chow test is a method approach for testing that is used to select the best approach model between common effect and fixed effect (Sulastri *et al*., 2018). Chow Test Assessment as follows:

i. If the value F-count < F table, the most appropriate model is the *common effect*
ii. If the value F-count > F table, the most appropriate model is the *fixed effect*

Table 4.10

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.913553	(12,49)	0.0000
Cross-section Chi-square	64.395406	12	0.0000

Source: data processed using eviews9, 2020

Based on the results of the chow test above, it shows that the calculated F value is 6.913553. While the F table is obtained from the multiplication result of the cross-section statistical F multiplied by d.f. cross-section F (12.49 x 0.05) is 0.62. Based on the results of the multiplication it indicates that F count (6.913553)> F table (0.62), it can be concluded that the most appropriate model is the fixed effect.

2) Hausman Test

The Hausman test is a method approach for testing that is used to select the best approach model between the fixed effect and random effect models. The assessments are as follows:

i. If the *chi-square* value> the value of significance level, the random effect model is appropriate
ii. If the *chi-square* value<the value of significance level, the fixed effect model is appropriate

Table 4.11

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	60.338780	3	0.0000

Source: data processed using eviews9, 2020

Based on the results of the Hausman test, it can be seen that the chi-square table value obtained is 7,815 (0,05,3) by looking at the chi-square table. This shows thatchi-square table (7,815)> significance level value (0.05), then the best model used in this test is the random effect.

3) Lagrange Multiplier Test

The Lagrange Multiplier test is used to determine the best approach model between the common effect and the random effect. With the following assessments:

i. If the *Breusch-Pagan* prob value is> the significance value, the common effect model is appropriate
ii. If the *Breusch-Pagan* prob value is< the significance value, the random effectmodel is appropriate

Table 4.12

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects

Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	11.52726	0.301602	11.54329
	(0.0359)	(0.9681)	(0.0644)

Source: data processed using eviews9, 2020

Based on the results of the lagrange multiplier test using the omitted random effect, the Breusch-Pagan Prob value is 0.0359 with a significant level of α = 0.05, it can be concluded that the Prob Breusch Pagan value <α = 0.05. Therefore, the chosen model is a random effect.

Panel Data Regression Equations

This regression analysis is used to obtain a form regarding the relationship between financial distress variables (X1), company size (X2), and leverage (X3) on accounting conservatism. The panel data regression equation model in this study is:

Accounting Conservatism (Y) = 0,862918 – 0,107003X1 – 0,019262X2 + 0,172674X3

From the data regression equation model above, it can be interpreted as follows:

1. The constant value of 0.862918 shows the amount of accounting conservatism in the food and beverage sub-sector manufacturing companies listed on the IDX for the 2014-2018 period in the non-conservative category, if the financial distress variables, company size, and leverage are equal to 0 (zero).
2. The financial distress coefficient value is -0.107003, meaning that the results show that if the level of financial distress has increased by 1 unit (the better), then accounting conservatism will decrease by 0.11 units (more conservative) assuming other variables are constant.
3. The coefficient value of the company size is -0.019262, meaning that the results show that if the company's total assets have increased by 1 unit (the greater), then accounting conservatism will decrease by 0.019262 units (more conservative) with the assumption that other variables are constant.
4. The value of the leverage coefficient is 0.172674, meaning that the results show that if the leverage increases by 1 unit (greater), then conservatism will also increase by 0.17 units (the less conservative) assuming other variables are constant..

Determinant Coefficient (R^2)

Based on table 4.13, it shows that the adjusted R-Square is 0.454108 or 45.4108%, this shows that the independent variable can explain the dependent variable by 45.4108% and the rest is influenced by other variables not used in this test.

Statistical Test F

Based on table 4.13, it can be seen from the probability (F-Statistic) value of 0.000000, which means that 0.000000 <0.05. So it can be concluded that Ho is rejected and Ha is accepted. This means that financial distress, firm size, and leverage together have a significant effect on accounting conservatism.

Statistical Test t

The results of the test table 4.13 show that the probability t-count value of the financial distress variable is 0.0000. When compared with the significance value, the probability t-count value is 0.0000 <0.05. It can be concluded that Ho is rejected and Ha is accepted. This means that the financial distress variable has a significant effect on accounting conservatism.

The results of the test table 4:13 show that the probability t-count value is 0.3315. When compared with the significance value, the probability t-count value is 0.3315> 0.05. From the results above, it can be concluded that Ho is accepted and Ha is rejected. This means that company size has no significant effect on accounting conservatism.

The results of the test table 4:13 show that the probability t-count value is 0.0876. When compared with the significance value, the probability t-count value is 0.0876> 0.05. From the results above, it can be concluded that Ho is accepted and Ha is rejected. This means that the leverage variable does not have a significant effect on accounting conservatism.

Analysis and Discussion of Research Results

1. The Effect of Financial Distress on Accounting Conservatism

From the test results, it can be concluded that financial distress has a significant negative effect on accounting conservatism. That is, if the lower the level of financial distress or the greater the Z score, the company is in good financial condition, then accounting conservatism will show that the ConAcc value is decreasing (getting smaller). Decreasing ConAcc value means more conservative. So the better the company's financial condition, the more conservative the company will be.

When the company is in good financial condition, managers do not face the pressure of breach of contract so managers will apply conservative accounting to avoid possible conflicts with shareholders and creditors. On the other hand, if the higher the level of financial distress or the smaller the Z score, it indicates that the company is in a bad financial condition, then accounting conservatism will show that the ConAcc value is increasing (greater). A rising ConAcc value means less conservative. When the company is in a bad financial condition, it can encourage shareholders and creditors to change company managers because managers are considered unable to manage the company properly.

2. The Effect of Company Size on Accounting Conservatism

It can be concluded in this study that the firm size variable has no significant effect on accounting conservatism. In this study, the results obtained are not in accordance with the size hypothesis which states that large companies are more politically sensitive or have greater political costs than small companies. Based on the test results in this study, it shows that large companies do not receive a large enough impact due to political costs. Therefore, small companies can be said to be more conservative than large companies. Thus it can be said that the size of the company does not affect the company's tendency to implement conservatism. Large or small companies may or may not be conservative. This means that the company does not really consider the size of the company in making more conservative decisions, so that financial problems are more influential in determining the level of conservatism of a company.

3. The Effect of Leverage on Accounting Conservatism

From these results, it means that the size of the debt owned by the company does not affect its tendency to apply conservatism. Companies with large or small debt can be conservative or not. In this study, management is not affected by the size of the company's debt level to apply the principle of accounting conservatism. This can be due

to the fact that the object in this study is a large company, so that the creditors do not really oversee the condition of the company because they entrust the company to present conservative financial reports. From these conditions, company managers see opportunities to present financial reports that tend not to be conservative and will choose accounting methods to increase company profits.

IV. CONCLUSIONS AND SUGGESTIONS

This study examines the effect of financial distress, company size, and leverage on accounting conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2014-2018. Based on the results of the analysis, testing and discussion that have been carried out in the previous chapter, it can be concluded as follows:

1) The financial distress variable has a significant negative effect on accounting conservatism. From these results it can be explained that the lower the level of corporate financial distress or the better the company's financial condition, the more the company presents conservative financial reports. When the company is in good financial condition, managers do not face the pressure of breaching contracts so that managers will apply conservative accounting to avoid possible conflicts with shareholders and creditors.
2) The company size variable has no significant effect on accounting conservatism. From these results it can be explained that the size of the company does not affect the tendency of the company to apply accounting conservatism. Large or small companies may or may not be conservative. This means that the company does not really consider the size of the company in making more conservative decisions, so that financial problems are more influential in determining the level of conservatism of a company..
3) The leverage variable has no significant effect on accounting conservatism. From these results it can be explained that the size of the debt owned by the company does not affect its tendency to apply accounting conservatism. Companies with large or small debt can be conservative or not. In this study, management is not affected by the size of the company's debt to apply accounting conservatism. This can be due to the fact that the object of this research is a large company so that the creditors do not really oversee the condition of the company because they entrust the company to present conservative financial reports.

SUGGESTIONS

Based on the conclusions from the research results above, the researchers provide suggestions for the topic of accounting conservatism as follows:

a. This study only focuses on manufacturing companies in the food and beverage sub-sector. Therefore, for further research it is recommended to use samples from other sectors in order to compare the application of accounting conservatism in different sectors.
b. Future studies should use the most recent period year with a longer time span so that the results of accounting conservatism are more accurately described.
c. The results of the determinant coefficient test show that the ability of the independent variables in the study to explain accounting conservatism is not so great. It is suggested for further research to use other independent variables that are thought to have an effect on accounting conservatism.

Limitations and Further Research Development

This research was conducted with several limitations that may affect the results of the study.

The research limitations are as follows:

1) The research period used is only 5 years of observation, namely 2014-2018.
2) Researchers only use 3 variables, namely financial distress, company size and leverage. From the results of this study, other variables are needed to better explain accounting conservatism.
3) The object in this study only uses 13 samples of food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period.
4) This study only uses 1 (one) of 3 (three) accounting conservatism measurement techniques, namely using Earning / accrual measures.
5) Researchers experience difficulties in taking financial reports on the IDX and the company's official website because the issuance of financial reports is not consistent.

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