IMPACT OF LEVERAGE AND FINANCIAL DISTRESS ON ACCOUNTING CONSERVATISM

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Abstract

This study's objective is to determine whether and how exposure to financial stress and leverage can prompt accountants to exercise greater caution when working with numerical data. The investigation covered 165 manufacturing companies that were scheduled to be listed on the Indonesia Stock Exchange in 2020. For the purpose of this study, a purposive sampling technique was utilized to select a total of 52 different companies at random. The records of the company's finances that have been audited are the source of the secondary data. The approach taken in this study is primarily based on the use of quantitative methods. SPSS version 26's descriptive statistics, multiple linear regression, analysis requirements, classical assumption, and hypothesis testing features were utilized in order to conduct the analysis on the collected data. According to the findings of the study, there is no statistically significant connection between financial hardship and conservative accounting practices. Leverage does not significantly alter the cautious nature of accounting. Moreover, the combined effects of financial distress and leverage have little to no visible influence on the conservative accounting process.

Keywords: Accounting Conservatism, Financial Distress, Financial Accounting Standards, Leverage

1. INTRODUCTION

Financial statements are essential for evaluating the performance of a company. The financial statements of a business are the result of its operational activities and provide a clear picture of its financial condition (Tazkiya & Sulastiningsih, 2020). Financial statements are compiled so that business decision-makers have accurate and complete information about a company's financial health and performance as well as its resources and liquidity. All companies are required to follow all of the established rules and principles for accounting when preparing their financial statements. In Indonesia, the accounting standard that is set and enforced is the Financial Accounting Standards (hereinafter referred to as SAK) which is prepared by the authorized agency, namely the Indonesian Accounting Association (IAI). Financial Accounting Standards (SAK) provide flexibility for each company to choose the accounting method to be used (Sugiyarti & Rina, 2020).

Future economic conditions that are fraught with unpredictability necessitate caution on the part of businesses in dealing with the various possible outcomes. Accounting conservatism, when applied to the creation of financial reports, can help companies weather economic problems. According to Harahap (2012) states that Accounting conservatism is a precautionary strategy for dealing with uncertain future economic conditions, in which organizations must immediately record expenditures and losses that may occur but do not wish to immediately report revenues and profits despite the possibility that they will occur. Profitability and revenue are realized.
There are pros and cons to accounting conservatism application in financial statements. From the pro side, one of them was stated by Yuniarsih & Permatasari (2021) which states that the application of accounting conservatism will result in typically pessimistic financial statements; this condition is required to reduce and neutralize managers’ opportunistic behavior, particularly in regards to contracts that utilize financial statements (Very, 2022). Meanwhile, from the contra side, one of them was stated by Efendi & Handayani (2021) which states that companies that apply accounting conservatism in their financial reporting will produce financial statements that are biased due to their understatement, preventing them from being used as a benchmark for assessing company risk.

Apart from the pros and cons regarding the accounting conservatism application in financial statements, this principle is still used today (Ramadhani & Sulistyowati, 2019; Syifa et al., 2017). One of these conditions is supported by the growing research on accounting conservatism which indicates that Financial statements that adhere to accounting conservatism continue to play a significant role in the industry (Ramadhani & Sulistyowati, 2019). The tendency of companies to overestimate the value of earnings in their financial statements can be mitigated by applying accounting conservatism, which tends to produce pessimistic financial statements, so as to counteract the excessive optimism of managers and company owners. In addition, overstatement of profit is riskier than understatement because the company faces a greater risk of receiving lawsuits if it presents financial statements with earnings that are too high (Noviantari & Ratnadi, 2015). However, the accounting conservatism application is not recommended to be used excessively because it can result in errors in the calculation of the company's periodic profit or loss where it does not reflect the actual condition of the company (Kodriyah & Framita, 2019). In order to obtain the maximum benefits from the accounting conservatism application, businesses must tailor their use of accounting conservatism to their unique circumstances (Efendi & Handayani, 2021).

Indirectly, the high rate of fraud in many Indonesian businesses suggests that not enough care is taken when compiling financial statements. One instance of this fraud occurred at PT Hanson International. The Financial Services Authority (hereinafter referred to as OJK) found that PT Hanson International Tbk manipulated the presentation of its 2016 annual financial statements (hereinafter referred to as LKT) by initially recognizing revenue using the full accrual method on the sale of ready-to-build lots (hereinafter referred to as KASIBA) with a gross value of Rp732 billion. Consequently, leading to a significant rise in the company’s bottom line. In its 2016 annual financial statements, PT Hanson International Tbk failed to include revenue from the sale and purchase of ready-to-build plots under the Sale and Purchase Binding Agreement (henceforth referred to as PPJB) (LKT). In 2016, it was overpriced by Rp613 billion (Idris, 2020).

Several factors influence the implementation of the principle of accounting conservatism in financial statements. One of the elements that can influence accounting conservatism is financial crisis. Financial distress is a reduction in a company’s capacity to pay its debts preceding bankruptcy or liquidation (Irnawati et al., 2021). Financial distress can occur in every company, both small and large scale companies and can threaten the survival of the company itself. In fact, if the company's management does not immediately take the right decisions and actions in dealing with these financial...
distress conditions, the worst possibility that will happen is that the company will go bankrupt (Efendi & Handayani, 2021).

In addition to financial difficulties, the application of the conservative accounting principle can be impacted by leverage in addition to monetary difficulties. Leverage is a ratio that indicates how much of a company's assets are backed by its debt (Fitriani & Ruchjana, 2020). When excessive debt is utilized, extreme leverage, a scenario in which a corporation is locked in a high amount of debt from which it is difficult to extricate itself, is unquestionably a threat to a company's survival. In addition, significant leverage might jeopardize the continuation of a company's operations. Companies with a high level of leverage will therefore construct their financial accounts with extra care (Kodriyah & Framita, 2019).

Numerous studies on accounting conservatism have been conducted in the past, but the results of these studies are still inconsistent, as demonstrated by the various research outcomes. Research conducted by Syifa et al. (2017), Tazkiya & Sulastiningsih (2020), and Murti & Yunia (2021) shows that The effect of financial difficulty on conservatism in accounting is favorable and considerable. It is different with the research results obtained Risdiyani & Kusumiriyanto (2015), Rivadi & Ariska (2019), and Rif'an & Agustina (2021) which shows that The impact of economic stress on accounting conservatism is negative and significant. This study results are also contrary to those obtained Abdurrahman & Ermawati (2018), (Haryadi et al. (2020), and Maulana et al. (2021) proving that a company's conservative accounting practices are unaffected by a company's financial troubles.

Research conducted by Pahriyani & Asiah (2020), Goddess & Heliawan (2021) and Leon (2021) shows that accounting conservatism is significantly and favorably influenced by leverage. It's different with the research results conducted by Noviantari & Ratnadi (2015), Putra & Sari, (2020), and Soekowati et al. (2021) which proves that using leverage tends to result in less conservative financial reporting. This study results are also contrary to those carried out by Susanto & Ramadhani (2016), (Maharani & Kristanti, 2019), and Putri et al. (2021) this demonstrates that leverage has no impact on accounting conservatism.

The goals of this study is to determine the following: (1) how the presence of financial distress influences accounting conservatism; (2) how the use of leverage influences accounting conservatism; and (3) how the presence of financial distress and the use of leverage together influence accounting conservatism. This study was inspired by the inconsistency of the aforementioned research results. It builds on the research background and research gap from previous studies.

2. RESEARCH METHODS

This research employs quantitative methods. Quantitative research focuses on numerical data, with statistical analysis serving as the method of analysis. According to (Sugiyono, 2013) The goal of quantitative research which is grounded in the positivist philosophy, is to test hypotheses about specific populations or samples through the use of numerical or statistical analysis of collected data with specially designed instruments.

Various secondary resources were consulted in order to compile the data presented here. The Indonesia Stock Exchange (IDX) financial statements and annual reports of manufacturing companies listed on the IDX between 2018 and 2020 were downloaded for this study as secondary data in website www.idx.co.id. The authors also
acknowledged the importance of secondary data, which they gleaned from a variety of print and digital sources, including but not limited to scholarly journals, newspapers, and magazines.

In this study, the population consists of all Indonesia Stock Exchange-listed manufacturing firms between 2018 and 2020. This study utilized Non-Probability Sampling with Purposeful Sampling as its sampling method. Purposeful Sampling is a sampling strategy based on predetermined criteria (Sugiyono, 2013). The table below outlines the specific criteria used to select the sample for this study.

Table 1. Sampling Criteria

<table>
<thead>
<tr>
<th>No.</th>
<th>Information</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Company Manufacture listed on the Indonesia Stock Exchange (IDX) during the 2018-2020 period</td>
<td>165</td>
</tr>
<tr>
<td>2</td>
<td>Company Manufacture who does not publish complete and consistent financial reports on the Indonesia Stock Exchange (IDX) during the 2018-2020 period</td>
<td>(8)</td>
</tr>
<tr>
<td>3</td>
<td>Company Manufacture which does not present financial statements in rupiah currency</td>
<td>(32)</td>
</tr>
<tr>
<td>4</td>
<td>Company Manufacture which does not present complete data related to the research variables used</td>
<td>(59)</td>
</tr>
<tr>
<td>5</td>
<td>Outlier detected data</td>
<td>(14)</td>
</tr>
</tbody>
</table>

| Number of Research Samples | 52 |

Source: (Data processed by researchers, 2022)

This study consists of three variables, consisting of 1 dependent variable, namely accounting conservatism and 2 independent variables which include financial distress and leverage. Thus, the measurements for the three variables are as follows:

1) Accounting conservatism is measured using a proxy accrual measures model adapted from Givoly & Hayn (2000) or what is called conservatism based on accrued items, with the following formula:

\[
CONNAC = \frac{(NIO + DEP - CFO)}{TA}
\]

Information:
- NIO: Operating profit (operating) for the year
- DEP: Burden decreasing asset
- CFO: Cash flow from operating activities
- TA: Scorebook of total assets

2) Financial Distress measured using the Altman Z-Score model for the category of manufacturing companies, with the following calculations:

\[
Z = 0.717(X_1) + 0.847(X_2) + 3.107(X_3) + 0.420(X_4) + 0,998(X_5)
\]
Information:

\[
X_1 = \frac{Working\ capital}{Total\ Assets}
\]

\[
X_2 = \frac{Retained\ earning}{Total\ Assets}
\]

\[
X_3 = \frac{Profit\ Before\ Interest\ and\ Tax}{Total\ Assets}
\]

\[
X_4 = \frac{Capital\ Market\ Value}{Total\ Debt\ Sale}
\]

\[
X_5 = \frac{Sale\ to\ Assets}{Total\ Assets}
\]

\[Z = \text{Bankruptcy Index}\]

3) Leverage proxied by the formula Debt to Asset Ratio (DAR), with the following calculation:

\[DAR = \frac{Total\ Debt}{Total\ Assets}\]

3. RESULTS AND DISCUSSION
3.1. Research Result
3.1.1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Range</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Sum</th>
<th>mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Distress</td>
<td>52</td>
<td>8.53</td>
<td>0.19</td>
<td>8.72</td>
<td>167.59</td>
<td>3.22</td>
<td>1.99</td>
<td>3.94</td>
</tr>
<tr>
<td>Leverage</td>
<td>52</td>
<td>0.79</td>
<td>0.10</td>
<td>0.89</td>
<td>21.44</td>
<td>0.41</td>
<td>0.18</td>
<td>0.03</td>
</tr>
<tr>
<td>Accounting Conservatism</td>
<td>52</td>
<td>0.54</td>
<td>-0.03</td>
<td>0.51</td>
<td>12.40</td>
<td>0.24</td>
<td>0.12</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Source: SPSS version 26 output (Data processed by researchers, 2022)

The accounting conservatism variable's descriptive statistics range from -0.03 at PT Alakasa Industrindo Tbk (ALKA) to 0.51 at PT Garuda Metalindo Tbk (BOLT). In addition, the standard deviation is 12% and the mean value is 0.24. As the standard deviation is smaller than the mean, we can infer that the data are spread out uniformly.

According to Table 2, the descriptive statistical results for the financial distress variable range from a minimum of 0.19 at PT Martina Berto Tbk (MBTO) to a maximum of 8.72 at PT Charoen Pokphand Indonesia Tbk (CPIN). Additionally, the standard deviation is 1.99 and the mean value is 3.22. If the standard deviation is less than the mean, then the data are distributed normally.

Leverage ranges from 0.10 for PT Indospring Tbk (INDS) to 0.89 for PT Saranacentral Bajatama Tbk (BAJA), as shown in Table 2 of the descriptive statistics. Additionally, the mean value is 0.41 and the standard deviation is 0.18. If the standard deviation is less than the mean, then the data are distributed similarly.
3.1.2. Multiple Linear Regression Analysis

The purpose of the multiple linear regression analysis is to make a prediction about the extent to which the independent variables will intensify their influence on the dependent variable in the event that the value of the independent variable either stays the same or changes.

Table 3. Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.224</td>
<td>.064</td>
<td></td>
<td>3,508</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>.002</td>
<td>.009</td>
<td>.034</td>
<td>.215</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.020</td>
<td>.103</td>
<td>.030</td>
<td>.194</td>
</tr>
</tbody>
</table>

Source: SPSS version 26 output (Data processed by researchers, 2022)

Using the data found in table 3, the following equation model for regression is derived:

\[ Y = 0.224 + 0.002 X_1 \text{ (Financial Distress)} + 0.020 X_2 \text{ (Leverage)} \]

The interpretation of the decrease model calculation can be expressed as follows, with reference to the model regression equation presented previously:

1) The value of the constant coefficient is 0.224. This demonstrates that the importance of accounting quality variable is 0.224 if the financial distress and leverage variables are both zero (0) or are deemed irrelevant to this study.

2) The financial distress variable's coefficient value is 0.002 and indicates a positive direction. This indicates that the significance of accounting conservatism variable will increase by 0.002 units for each 1 unit increase in financial hardship variable, assuming the value of the leverage variable remains constant (fixed).

3) The correlation value for the variable 'leverage' is 0.02 and is positive. This indicates that the amount of the accounting conservatism variable will enhance by 0.020 units for each 1 unit increase in the leverage variable, assuming the value of the financial difficulty variable remains unchanged (fixed).

3.1.3. Test Requirements Analysis

1) Normality Test

The objective of the Test Normality is to determine whether or not the residual value in a statistical model follows a normal distribution. This can be done by comparing the results of the Test Normality to a normal distribution. It is reasonable to anticipate that the residual value produced by a trustworthy regression model will adhere to a normal distribution. The Kolmogorov-Smirnov test was utilized by the researchers so that they could determine whether or not the data were normal. If the significance value is > 0.05, the Kolmogorov-Smirnov test makes the assumption that the data follow a normal distribution. However, if the significance value is < 0.05, the test makes the opposite assumption.
Table 4. Normality Test Results

<table>
<thead>
<tr>
<th>One-Sample Kolmogorov-Smirnov Test</th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>52</td>
</tr>
<tr>
<td>Normal Parameters&lt;sup&gt;a,b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>.0000000</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.11856027</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td></td>
</tr>
<tr>
<td>Absolute</td>
<td>.097</td>
</tr>
<tr>
<td>Positive</td>
<td>.097</td>
</tr>
<tr>
<td>Negative</td>
<td>-.049</td>
</tr>
<tr>
<td>Test Statistic</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.200&lt;sup&gt;c,d&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

a. Test distribution is Normal.
b. Computed using data.
c. Lilliefors Significance Correction.
d. This is the bare minimum of the actual significance.

source: Output SPSS versi 26 (Data processed by researchers, 2022)

The results of the above normality test demonstrate that the residual data in the applied regression model are normally distributed. The Asymp. Sig. (2-tailed) value is 0.200, and since this value is > 0.05, it can be concluded that the residual data are normally distributed.

3.1.4. Classic Assumption Test

1) Multicollinearity Test

The multicollinearity test is used in multiple linear regression to identify whether or not the independent variables are significantly correlated. Strong multicollinearity suggests a well-thought-out regression structure. In this research, we tested for heteroscedasticity by looking at the tolerance and VIF values. There is no multicollinearity in the regression model if the tolerance value is greater than 0.10 and the VIF value is less than 10.
Table 5. Multicollinearity Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: SPSS version 26 output (Data processed by researchers, 2022)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>1  (Constant)</td>
<td>.224</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>.002</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.020</td>
</tr>
</tbody>
</table>

It is possible to draw the conclusion that there is no multicollinearity problem between the two independent variables in this study as a result of the fact that the VIF value is less than 10 and the tolerance value for each independent variable is greater than 10. This is supported by the fact that the VIF value was calculated to be less than 10.

2) Heteroscedasticity Test

In a regression model, the Heteroscedasticity Test examines the residuals to determine whether or not the residuals of one observation and another have different variances. A regression model is considered to be of high quality if it does not display any signs of heteroscedasticity. The Glejser test was utilized in this study to investigate the phenomenon of heteroscedasticity. If the significance level of the Glejser test is greater than 0.05, then it is possible to infer that the regression model in question does not contain any instances of heteroscedasticity.

Table 6. Heteroscedasticity Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: SPSS version 26 output (Data processed by researchers, 2022)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>1  (Constant)</td>
<td>.048</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>.003</td>
</tr>
<tr>
<td>Leverage</td>
<td>.080</td>
</tr>
</tbody>
</table>

According to the findings of the test for heteroscedasticity, the significance level of each independent variable is > 0.05. This suggests that the regression model that was utilized in this investigation does not have issues with heteroscedasticity as a result of the presence of heteroscedasticity.
3) Autocorrelation Test

The autocorrelation test examines the relationship between the period t and period t-1 perplexing errors in a regression model (before). The autocorrelation properties of the regression model are revealed if a correlation is discovered. The presence of autocorrelation is evidence of a robust regression model. The Durbin-Watson (D-W) test was utilized to ascertain if a regression model displayed symptoms of autocorrelation. If the Durbin-Watson value of the regression model (d) is between the values of dU and 4-dU (dU < d < 4-dU), then the model has no autocorrelation problem.

Table 7. Autocorrelation Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.035&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.001</td>
<td>-.040</td>
<td>.12096</td>
<td>2.137</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Leverage, Financial Distress  
<sup>b</sup> Dependent Variable: Accounting Conservatism  
Source: SPSS version 26 output (Data processed by researchers, 2022)

According to the aforementioned autocorrelation test findings, the Durbin Watson (d) value is 2.137. Examining the Durbin Watson table with a 5% significance level reveals that the value of dU is 1.6334 and that of 4-dU is 2.3666. Due to the fact that the Durbin-Watson value (d) lies between dU and 4-dU (dU < d < 4-dU), which is 1,6334 < 2,137 < 2,3666, this study's regression model is error-free, so we can conclude that it is accurate. as well as positive and negative autocorrelation.

3.1.5. Hypothesis Testing

1) T test

The T test is utilized in the process of determining whether or not each independent variable has a marginal effect on the variable that is being investigated (the dependent variable). To be more specific, a significance level of 0.05 was chosen for the t-test to be applied here. It is possible to argue that there is a significant relationship between the independent factors and the dependent variable if |t<sub>statistic</sub>| > |t<sub>table</sub>| and the significance value is equal to or > 0.05.

Table 8. T-Test Results (Partial)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.224</td>
<td>.064</td>
<td>3,508</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>.002</td>
<td>.009</td>
<td>.034</td>
<td>.215</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.020</td>
<td>.103</td>
<td>0.030</td>
<td>.194</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Accounting Conservatism  
Source: SPSS version 26 output (Data processed by researchers, 2022)
According to the table 6, the results can be interpreted as follows:

a) Accounting Conservatism Financial Stress Test

According to table 6, the $t_{\text{statistic}}$ value for the financial distress variable is 0.215, which is less than $t_{\text{table}}$, which is 2.00958, with a significance of 0.83 > 0.05 based on the $t_{\text{statistic}} > t_{\text{table}}$ comparison. Thus, it can be concluded that there is no significant connection between the financial crisis and conservatism in accounting.

b) Leverage Testing on Accounting Conservatism

According to the table 6, it is known that $t_{\text{statistic}}$ for the leverage variable is 0.194, which is less than $t_{\text{table}}$, which is 2.00958 and has a significance of 0.847 > 0.05. Consequently, It is reasonable to conclude that leverage has no appreciable effect on accounting conservatism.

2) F Test (Simultaneous)

The purpose of the F test is to determine whether or not the independent variables have an effect that is statistically significant on the variable that is being tested. If $F_{\text{statistic}} > F_{\text{table}}$, where $F_{\text{table}}$ is the number of observations and 0.05 is the level of significance, one could make the case that there is a significant relationship between the independent variables and the dependent variable.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.001</td>
<td>2</td>
<td>.000</td>
<td>0.030</td>
<td>.971b</td>
</tr>
<tr>
<td>Residual</td>
<td>.717</td>
<td>49</td>
<td>0.015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.718</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 9. F Test Results (Simultaneous)

According to the preceding table 7, the $F_{\text{statistic}}$ value is 0.030, which is less than $F_{\text{table}}$, which is 3.19, with a significance of 0.971 > 0.05. There is no significant correlation between financial difficulty and leverage and accounting conservatism, it can be determined.

3.2. Discussion

3.2.1. Impact of Financial Distress on Accounting Conservatism

The value of $t_{\text{statistic}} < t_{\text{table}}$ is 0.215 < 2.00958 with a significance value of 0.830, indicating that the value is > 0.05, as shown by the partial table of t-test results. Therefore, it's reasonable to infer that accounting conservatism and the occurrence of financial crises are not in any way related. According to the results of this research, accounting conservatism is not affected by external financial pressures.

A company is in financial distress if it is having trouble making ends meet. Financial statements are typically prepared with less accounting conservatism when companies are experiencing financial difficulties. According to the positive accounting theory, when a business is in dire straits financially, its leaders will choose to apply the
least amount of accounting conservatism possible (Rif'an & Agustina, 2021; Sari & Srimindarti, 2022).

3.2.2. Impact of Leverage on Accounting Conservatism

The results of the partial t-test indicate that the significance level is > 0.05 when t_{statistic} < t_{table} equals 0.194 < 2.00958 with a value of 0.847. As a result, it can be concluded that there is little to no correlation between leverage and conservative accounting practices. According to the findings of this analysis, the degree of accounting conservatism is unaffected by the level of leverage.

A high leverage ratio shows that the company is in a poor financial position, as its entire debt exceeds its total assets, indicating that it lacks the resources to pay off and meet all of its obligations. In conditions of high leverage, managers as the party responsible for managing the firm tend to pursue profit-maximizing strategies in an effort to protect the company's image in the eyes of stakeholders such as creditors (Noviantari & Ratnadi, 2015). This is done as a form of maintaining creditor confidence related to the level of security of refunds so that creditors are willing to lend funds to the company. Thus, greater the leverage, the more likely the company's financial statements are not to adhere to conservative accounting principles (Haryadi et al., 2020; Fitriani & Ruchjana, 2020)

3.2.3. Impact of Financial Distress and Leverage on Accounting Conservatism

With a significance level of 0.971, the value of F_{statistic} < F_{table} is 0.030 < 3.19, which is significantly higher than the threshold of 0.05. For this reason, it seems reasonable to infer that there exists no causal relationship between financial difficulties, leverage, and accounting conservatism.

Similar results were found in previous research conducted by Setiyaning, Nuraina, & Murwani (2018) which suggests that accounting conservatism is not significantly affected by a combination of financial stress and leverage. In addition, research conducted by Soekowati et al. (2021) also obtained the results that accountancy's conservative stance is unaffected by both financial distress and leverage. In contrast to the findings of the research conducted by Fitriani & Ruchjana (2020) which demonstrates that both financial distress and leverage impact accounting conservatism simultaneously. According to research by Septriana et al. (2021) proving that financial crisis and leverage impact accounting conservatism simultaneously.

4. CONCLUSION

The following conclusions are reached based on the outcomes of the analysis and data processing:

1) There is no evidence that economic hardship has any appreciable impact on accounting conservatism, as shown by the partial test results. This demonstrates that monetary constraints do not play a role in accounting conservatism.
2) There is no evidence that using leverage affects how conservatively accountants report their financial data. Therefore, the company's conservative accounting policy is independent of its leverage level.
3) Accounting conservatism is not significantly affected by financial difficulty or leverage, according to concurrent testing. This means that the company's decision to use conservative accounting practices is immune to fluctuations in the company's
financial situation or its use of leverage. however, depending on the company's policy and the specifics of the business.

REFERENCES


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