THE EFFECT OF FINANCIAL DISTRESS, LITIGATION RISK, AND GROWTH OPPORTUNITIES ON ACCOUNTING CONSERVATISM WITH LEVERAGE AS MODERATING IN MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

Yusnaini¹, Azhar Maksum², HB. Tarmizi³
¹,²,³Universitas Sumatera Utara
nany180793@gmail.com

Abstract: This study aims to examine and analyze the effect of financial distress, litigation risk, and growth opportunities on accounting conservatism with leverage as a moderating variable. The population in this study were 147 manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2017 period, with a purposive sampling technique so that 102 samples were obtained. The data analysis method uses multiple linear regression analysis and interaction testing with the help of the Eviews application program. The results showed that financial distress and litigation risk partially had a positive and significant effect on accounting conservatism, while growth opportunities partially had no effect on accounting conservatism. Simultaneously financial distress, litigation risk, and growth opportunities affect accounting conservatism. Leverage as a moderating variable weakens the relationship of variables, but is not significant in partially moderating the effect of financial distress, litigation risk, and growth opportunities on accounting conservatism in Manufacturing companies listed on the Indonesia Stock Exchange in the period 2015-2017.

Keywords: Financial distress, litigation risk, growth opportunities, leverage, and accounting conservatism.

1. Introduction

The financial statements are the responsibility of the company’s management to the parties concerned which is one of the information that describes the activities or performance of management that has been trusted to manage the company’s resources that will be used by internal and external parties. The financial statements must meet the objectives, rules and accounting principles in accordance with generally accepted standards in order to produce financial statements that can be accounted for and benefit each user. The problematic financial condition of a company can encourage shareholders to replace company managers, which in turn can reduce the market value of the managers concerned in the labor market. In addition, the problematic financial conditions can also encourage managers to set the level of accounting conservatism.

Earnings information is the main focus in a company’s financial reporting, as stated by Rahmawati (2012), the main focus in financial statements is earnings information, because it provides information about a company’s financial performance during one period. For creditors and investors, earnings information helps them evaluate the performance of the company, predict future profits, and also to calculate the risk of investment or loans to the company. One of the
principles relating to earnings information and financial statements is accounting conservatism, which is a careful action in determining the amount of profit.

The application of conservatism basically becomes an important thing to implement. Table 1. below shows the phenomena that occur and is related to the low level of application of the conservatism principle.

<table>
<thead>
<tr>
<th>Company</th>
<th>Phenomenon Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT. Timah</td>
<td>PT. Timah is suspected of providing fictitious financial statements to cover the financial performance that continues to decline. In fact, the financial statements for the first half of 2015 PT. Tin lost 59 billion. Resulting in overstatement of earnings reporting. (Quoted from economy.okezone.com).</td>
</tr>
<tr>
<td>PT. Bumi Resource</td>
<td>PT. BUMI recorded the amount of expenses to be paid higher than its own operating profit, so that the margin performance of PT. BUMI declined significantly due to the surge in production costs / tons by 9.2% and did not offset the increase in selling prices in the first half of 2012. (Quoted from kompas.com)</td>
</tr>
<tr>
<td>PT. Berau Coral Energy</td>
<td>PT Berau Coal Energy Tbk (BRAU) made a write off of investment assets at the Chateau investment company, this was caused by the decline in the value of Chateau investment books in BRAU’s financial statements in September and December 2011 which were carried out based on quarterly valuation reports submitted by Chateau Capital Limited. (Quoted from Okezone Economy.htm)</td>
</tr>
</tbody>
</table>

Explanation of the above phenomenon, it can be concluded that the company's policy in applying the conservatism principle is very important. According to LaFond and Watts (2006) conservative financial statements can prevent the existence of information asymmetry by restricting management in manipulating financial statements. They also managed to prove that conservatism has a negative effect on information asymmetry, which can reduce information asymmetry.

Statement of Financial Accounting Standards (SFAS) as a recording standard in Indonesia triggers the emergence of the application of the conservatism principle. The recognition of the principle of conservatism in SFAS is reflected in the various choices of recording methods under the same conditions. The choice of the recording method tends to result in a conservative corporate income statement, because accountants will tend to choose the recording method that produces the smallest net asset value and company profit. However, there are still cons regarding the application of the principle of conservatism. On the counter party to conservatism and criticizing the application of this principle, stating that conservatism can cause financial statements to be biased thereby it cannot be used as a tool to evaluate the risk of a company. This opinion received support from (Kiryanto and Supriyanto, 2006) who stated that the higher the conservatism, the reported book value would be more biased.
The application of accounting conservatism is influenced by several factors, one of which is financial distress. Financial distress (level of financial difficulties) can be interpreted as an early symptom of bankruptcy due to the deterioration of financial conditions experienced by a company. The problematic financial condition of companies can encourage shareholders to replace company managers, which in turn can reduce the market value of the managers concerned in the job market. This threat can encourage managers to regulate the pattern of accounting earnings which is one measure of manager performance, thus the financial condition of companies that are problematic can encourage managers to set the level of accounting conservatism (Setyaningsih, 2008).

Another factor affecting accounting conservatism is litigation risk. Litigation risk becomes an external factor because investors and creditors are legally protected parties and in fighting for their rights or interests that party can make lawsuits against the company. From the creditor side, litigation risk arises because the company is unable to carry out its operations in accordance with the agreed contract. From the investor side, litigation risk arises because the company runs its operations resulting in losses for the investor which can be seen in the financial statements (Juanda, 2007).

In addition, growth opportunities also become one of the factors that can influence conservatism. Growth opportunities are the company’s opportunity to increase the amount of investment. Companies that are growing tend to choose to apply accounting conservatism because the calculation of earnings is lower than using optimistic accounting with higher profit calculations. This can happen because the company uses its hidden reserves to increase investment, which indirectly the hidden reserves can be used to increase investment and reduce profits in the period (Saputra, et al., 2016).

This study also uses leverage as a moderating variable. Leverage (debt level) is one of the factors that can affect accounting conservatism. Dewi and Suryanawa (2014) stated that if a company has high debt, creditors also have the right to know and supervise the operations of the company, which results in the company applying the principle of prudence (conservatism) in obtaining profits.

The application of the principle of accounting conservatism is important to be considered by companies to avoid overstatement of accounting profits which often has a negative effect on the company, and the need for further study of the factors that affect accounting conservatism so that later it will benefit both the company and for external parties to decision-making. Based on this, a study will be conducted with the title “The Effect of Financial Distress, Litigation Risk, and Growth Opportunities on Accounting Conservatism with Leverage as Moderating Variables in Manufacturing Companies Listed on the Indonesia Stock Exchange”.

2. Literature Review
2.1 Positive Accounting Theory
Positive accounting theory is related to prediction, which is an act of choosing accounting policies by the company and how the company will respond to propose new accounting standards (Rahmawati, 2012). Predictions and explanations in this positive accounting theory are based on agency relationships that occur between
managers and other parties such as investors, creditors, auditors, capital market managers and government institutions. The freedom that managers have in choosing accounting methods and determining policies will lead to opportunistic behaviour. Managers can choose accounting policies that fit their goals.

Positive accounting theory assumes that managers will rationally choose a good accounting method in their opinion. There are three hypotheses in positive accounting theory according to Ghozali and Chairi (2007), namely: (1) Bonus Plan Hypothesis where company managers with certain bonus plans tend to prefer methods that increase current period earnings, (2) Debt / equity Hypothesis, which is increasingly the higher the debt / equity ratio of the company, the more likely it is for managers to choose accounting methods that can increase profits and can relax credit limits and reduce the costs of technical errors, and (3) Political Cost Hypothesis, where large companies tend to use accounting methods that can reduce periodic profits compared to small companies with the assumption that the very high value of information for companies and the high cost of contracts entered into by companies in a political process in order to enforce the rule of law and regulation, which can improve their welfare.

2.2 Agency Theory

The concept of agency theory according to Jensen and Meckling (1976) defines agency theory as an agency relationship as a contract in which one or more principals (owners) use other people or agents (managers) to carry out company activities. Principals provide facilities and funds for the company’s operational needs, while the agent as a manager is obliged to manage the company as entrusted by the shareholders (principals), to increase firm value.

This study uses agency theory because it uses accounting conservatism as the dependent variable reflected in the financial statements so that it can lead to information asymmetry between the manager (agent) and the owner of the company (principal) for his own interests. Financial statements that apply the principle of conservatism can reduce the possibility of managers manipulating financial statements and agency costs that arise as a result of information asymmetry (Lafond and Watts, 2006).

2.3 Signalling Theory

Scott (2012) states that the signal is an act of company management that provides instructions to investors about how management views the company’s prospects. Signalling theory can reduce information asymmetry by giving signals by company managers. Managers provide information through financial statements that they use conservatism accounting policies that produce higher quality earnings because this principle prevents companies from exaggerating profits and helps users of financial statements by presenting earnings and assets that are not overstatement.

This research uses signalling theory because it uses accounting conservatism as a dependent variable that can motivate managers to provide information through financial statements and be able to improve the company's financial performance by applying accounting conservatism. The principle of accounting conservatism can prevent companies from taking actions that increase profits so that management will present earnings and assets that are not overstatement. This theory is also able to reduce information asymmetry between managers and company owners. The
management uses the reports that are presented accompanied by the presentation of comprehensive income accounts indicating the completeness of information which will thus give a positive signal for the issuance of financial statements.

2.4 Accounting conservatism

According to the Statement of Financial Accounting Concepts (SFAC) No. 2, conservatism is interpreted as a cautious reaction to the uncertainties that occur in economic and business activities. Conservatism also means being cautious when dealing with risk by being willing to sacrifice something to reduce or eliminate risk.

The implication of the concept of conservatism in financial reporting will immediately recognize the costs or losses that are likely to occur but do not acknowledge in advance about future profits or revenues even though they are likely to occur (Suwardjono, 2013). The concept of conservatism records expenses, losses and obligations as quickly as possible, even though the evidence held may be weak. However, to record income, profits and assets must be supported with more substantial evidence before recording can be done (Godfrey et al., 2010).

2.5 Financial Distress

Beaver, et al. (2011) defines Financial distress as the inability of companies to pay financial obligations that are past due. Financial difficulties begin when the company cannot meet the payment schedule or when cash flow projections indicate that the company will soon be unable to meet its obligations (Gilrita et al. 2013).

Financial distress (the level of financial difficulties) can also be interpreted as the emergence of early signals or symptoms of bankruptcy towards a decline in financial conditions experienced by a company, or also conditions that occurred before bankruptcy or liquidation (Pramudita, 2012). Risdiyani and Kusmuriyanto (2015), stated that companies that experience financial distress will apply the principle of conservatism, because companies will be more careful in predicting future economic conditions.

2.6 Litigation Risk

Litigation risk is company risk related to the possibility that the company will experience litigation by investors and creditors. According to Utami (2011) litigation risk is defined as the risk inherent in the company that allows the threat of litigation by parties concerned with companies that feel disadvantaged. The parties interested in the company include creditors, investors, and regulators.

Suryandari and Priyanto (2012) stated that litigation risk is a risk that has the potential to incur significant costs due to dealing with legal issues. Rationally managers will avoid losses due to litigation by conservatively reporting finances, because profits that are too high have the potential for higher litigation risk. So, the greater the risk of litigation, it can reduce the principle of accounting conservatism in a company.

2.7 Growth Opportunities

Growth opportunities are company opportunities to invest in things that are profitable (Saputra, et al., 2016). Growth Opportunities also indicate the company’s ability to develop in the future by utilizing investment opportunities so as to increase firm value (Syafi’i, 2011). Companies that have fast growth often have to increase their fixed assets.
Companies with high growth opportunities will tend to require large amounts of funds to finance such growth in the future (Astarini, 2011). Therefore, the company will maintain profits to be reinvested in the company and at the same time the company is expected to continue to rely on funding through greater debt. Saputra, et al. (2003) show that growing companies have a tendency to reduce profits with the aim of minimizing political costs, such as regulatory demands, labor demands and others by applying accounting conservatism.

2.8 Leverage

Leverage is a ratio that shows how much debt or capital finances a company’s assets (Noviantari and Ratnadi, 2015). According to Harahap (2008), the leverage ratio describes the relationship between a company’s debt to capital and assets. This ratio can see the extent to which the company is financed by debt or outsiders with the ability of the company described by capital.

Lo (2005) also states that if a company has a high debt, the creditor also has the right to know and supervise the operations of the company. Thus, the information asymmetry between the creditor and the company decreases because managers cannot hide financial information that might be manipulated or overestimate their assets. Therefore, creditors will ask managers to carry out conservative accounting reporting so that companies do not over-report their business results.

2.9 Hypothesis

Based on the background of the problem and theoretical review, the hypothesis of this study is as follows:
H1: Financial distress negatively affects accounting conservatism.
H2: Litigation risk positively affects accounting conservatism.
H3: Growth opportunities have a positive effect on accounting conservatism.
H4: Financial distress, litigation risk, and growth opportunities simultaneously affect accounting conservatism.
H5: Leverage as a moderating variable is able to strengthen the relationship between financial distress and accounting conservatism.
H6: Leverage as a moderating variable is able to strengthen the relationship between litigation risk and accounting conservatism.
H7: Leverage as a moderating variable is able to strengthen the relationship between growth opportunities and accounting conservatism.

3. Method

This type of research is an associative research with a quantitative approach. The population in this study were 147 manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The sampling technique used in this study was purposive sampling and 102 samples were obtained, so that the number of observations obtained in this study was 102 x 3 years = 306 data. The data analysis method used in this study uses multiple linear regression analysis and panel data regression selection by performing a hausman, chow test, and a lagrange multiplier test using the Eviews application.

Descriptive statistics are statistics used to analyse data by describing or describing data that has been collected as it is without intending to make
conclusions that apply to the public or generalization (Sugiyono, 2012). The research hypothesis testing is carried out through the coefficient of determination ($R^2$) test, the F statistical test (Fishier), the t statistical test, and the interaction test to test the moderating variable.

4. Results and Discussion

Based on the results of a documentation study of manufacturing companies listed on the Indonesia Stock Exchange in 2015-2017, descriptive statistical calculations for each variable used are accounting conservatism (Y), financial distress (X1), litigation risk (X2), and growth opportunities (X3), and leverage (Z) as a moderating variable. The results of the descriptive analysis obtained are summarized in Table 2 below.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservatism (Y)</td>
<td>-1.871</td>
<td>0.605</td>
<td>-0.298</td>
<td>0.297</td>
</tr>
<tr>
<td>Financial Distress (X1)</td>
<td>-22.118</td>
<td>11.243</td>
<td>2.768</td>
<td>2.576</td>
</tr>
<tr>
<td>Litigation Risk (X2)</td>
<td>-225.045</td>
<td>13.977</td>
<td>0.282</td>
<td>13.089</td>
</tr>
<tr>
<td>Growth Opportunities (X3)</td>
<td>-1951.38</td>
<td>82.265</td>
<td>-4.669</td>
<td>112.245</td>
</tr>
<tr>
<td>Leverage (Z)</td>
<td>0.00</td>
<td>2.591</td>
<td>0.187</td>
<td>0.31</td>
</tr>
</tbody>
</table>

Determination of the estimation model between the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), the estimation model chosen for use in this study is the common effect model (CEM).

The classic assumption test in this study is the probability value of the J-B statistic is 0.090639 with a significance level of $\alpha = 0.05$, so the probability value is $p > 0.05$. This means that the assumption of normality is fulfilled. Symptoms of multicollinearity can be seen from the correlation values between variables contained in the correlation matrix, with correlations between variables < -0.9. The results of the multicollinearity test are presented in Table 3 below.

<table>
<thead>
<tr>
<th>X1</th>
<th>X2</th>
<th>X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>1.000000</td>
<td>0.184296</td>
</tr>
<tr>
<td>X2</td>
<td>0.184296</td>
<td>1.000000</td>
</tr>
<tr>
<td>X3</td>
<td>0.530444</td>
<td>0.500527</td>
</tr>
</tbody>
</table>

Based on Table 3, the correlation value of X1 to X2 and X3, X2 to X1 and X3, and X3 to X1 and X2 are not more than 0.9. It can be concluded that there are no symptoms of multicollinearity between independent variables.

The autocorrelation test results showed the value of the Durbin-Watson statistics was 1.941546. Because the Durbin-Watson statistical value lies between 1 and 3, which is 1 < 1.491546 < 3, the non-autocorrelation assumption is fulfilled. In other words, no autocorrelation symptoms occur. Based on the results of the Glejser test, it can be seen that the value of Prob. The level of financial distress (X1) is 0.0539, Prob value. The level of risk of litigation (X2) is 0.0622 and the value of Prob. Glejser of growth opportunities (X3) is 0.3506. All Prob values are known Glejser > 0.05 which means there is no heteroscedasticity.
Hypothesis testing of the coefficient of determination ($R^2$) in this study, it is known that the coefficient of determination (Adjusted R-squared) of $R^2 = 0.177$. This value can be interpreted that financial distress, litigation risk, and growth opportunities simultaneously or jointly able to influence conservatism by 17.7%, the remaining 82.3% is affected by other factors beyond the examined variables.

F statistical tests are performed to determine whether financial distress, litigation risk, and growth opportunities simultaneously (together) affect the accounting conservatism with a Prob value. (F-statistics), that is 0.000000 <0.05, it can be concluded that all independent variables, namely financial distress, litigation risk, growth opportunities simultaneously have a significant effect on accounting conservatism.

The statistical t test basically shows how far an independent variable individually or partially can explain the variation of the dependent variable. The results of the statistical t test are presented in table 4 below.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X_1$?</td>
<td>0.268288</td>
<td>0.064869</td>
<td>4.135854</td>
<td>0.0000</td>
</tr>
<tr>
<td>$X_2$?</td>
<td>0.133484</td>
<td>0.038754</td>
<td>3.444385</td>
<td>0.0007</td>
</tr>
<tr>
<td>$X_3$?</td>
<td>0.047409</td>
<td>0.033439</td>
<td>1.417781</td>
<td>0.1573</td>
</tr>
<tr>
<td>C</td>
<td>-1.633363</td>
<td>0.078361</td>
<td>-20.84398</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

$Y = -1.63 + 0.26X_1 + 0.13X_2 + 0.04X_3 + e$

Based on table 4 it can be explained that:

1. The regression coefficient value of the financial distress variable is 0.268, which is positive. This means that financial distress has a positive effect on conservatism, with a Prob value of 0.0000 <0.05, then financial distress has a significant effect on conservatism,

2. The regression coefficient value of the litigation risk variable is 0.133, which is positive. This means that the risk of litigation has a positive effect on conservatism, with a Prob value of 0.0007 <0.05, then the risk of litigation has a significant effect on conservatism.

3. The regression coefficient value of the growth opportunities variable is 0.047, which is positive. This means that growth opportunities have a positive effect on conservatism, with a Prob value of 0.1573 > 0.05, then growth opportunities do not have a significant effect on conservatism.

From the results of the interaction test to test moderating variables, the following results are obtained:

a. Prob value at $X1Z$ is 0.0891, which is> 0.05, it is concluded that leverage is not significant in moderating the effect of financial distress on conservatism. The coefficient value of $X1Z$ is -0.066770, so in this case leverage as a moderating variable weakens the effect of financial distress on accounting conservatism.

b. Prob value at $X2Z$ is 0.4896, which is> 0.05, it is concluded that leverage is not significant in moderating the effect of litigation risk on conservatism. The
coefficient value of X2Z is -0.018783, so in this case leverage as a moderating variable weakens the effect of litigation risk on accounting conservatism.

c. Prob value at X3Z is 0.2069, which is > 0.05, it is concluded that leverage is not significant in moderating the effect of growth opportunities on conservatism. The coefficient value of X3Z is -0.023799, so in this case leverage as a moderating variable weakens the effect of growth opportunities on accounting conservatism.

Based on the statistical t test, the results showed that financial distress had a positive and significant effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2016 period, which meant that hypothesis 1 was rejected. The results of this study, in line with the signal theory that states managers will increase the level of accounting conservatism if the company’s financial problems or companies in financial difficulties and have bad prospects, so managers give signals by holding conservative accounting. This result is also supported by research from Pramudita (2012), Risdiyani & Kusmuryantoro (2015), Kao & Sie (2016), Rizkyka (2017), Sugiarto & Fachrurozie (2018), and Sulastri & Anna (2018), who found the existence positive effect between financial distress on accounting conservatism.

Based on statistical t-tests, the results of the study indicate that litigation risk has a positive and significant effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange for the period of 2015-2016, which means that hypothesis 2 is accepted. The results of this study are supported by research conducted by Ningsih (2013) who found a positive effect between litigation risk on accounting conservatism, because countries with a high level of litigation have a higher level of conservatism compared to countries with a higher level of litigation low. The results of this study are also supported by research conducted by Ramadhoni, et al. (2014), Rizkyka (2017), and Rahayu, et al. (2018), who found a positive relationship of litigation risk to accounting conservatism.

Based on the statistical t test, the results showed that growth opportunities had no effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2016 period, which meant that hypothesis 3 was rejected. The results of this study are supported by Fathurahmi, et al., (2015), and Susanto & Ramadhan (2016) who found no significant effect between growth opportunities and accounting conservatism. This is because not all managers apply the principle of conservatism by minimizing profits to meet investment needs. The opportunity to grow the company need funds that mostly come from external parties so that the company does not reduce profits. Growing companies also have good corporate governance, thereby there is a small possibility to apply the principle of conservatism by minimizing profits to meet the investment funds needed by the company in its growth (Wulansari and Riduwan, 2014).

Based on the statistical F test, the results of the study show that financial distress, litigation risk, growth opportunities simultaneously have a significant effect on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2016 period, which means that hypothesis 4 is accepted. Based on the results obtained, companies that experience financial
distress will apply the conservatism principle, because companies will be more careful in predicting future economic conditions. Empirical results also show that managers will rationally avoid losses resulting from the threat of corporate litigation by conservatively reporting finances, because profits that are too high have the potential for higher litigation risk. Growth opportunities or opportunities for companies to grow indicate a large investment opportunity in the future so it tends to require more funds to finance these investments, so the company will apply conservative accounting principles.

Based on the interaction test, the results showed that leverage as a moderating variable weakened the relationship between financial distress and accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2016 period, but was not significant in moderating, which means that hypothesis 5 was rejected. The higher the company’s leverage, the weaker the relationship between the level of financial distress and accounting conservatism. Because companies that have more funds or reserves of funds that come from debt, the level of financial distress will decrease, so the company will reduce the level of conservatism. This is in line with statements made by Suryandari & Priyanto (2012), where companies that have a high level of financial distress will encourage managers to raise the level of accounting conservatism, and vice versa if financial distress is low eating managers will reduce the level of accounting conservatism.

Based on the interaction test, the results of the study show that leverage as a moderating variable weakened the relationship between litigation risk and accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2016 period, but is not significant in moderating, which means that hypothesis 6 is rejected. The higher the company’s leverage, the weaker the relationship between litigation risk and accounting conservatism. Companies with high levels of debt will tend to reduce the level of conservatism and increase profitability so that performance can be assessed as good, because conservatism itself is a principle that will reduce the amount of profit that can reduce the risk of corporate litigation because it accelerates the recognition of costs and debt. This is supported by the statement of Ramadhorni (2014), where the risk of high litigation stems from high corporate profits so that the dividends distributed will be high and payments on debt will be low, then creditors will sue the company for debt payments. Managers will be more motivated to apply the conservatism principle in order to accelerate the recognition of company debt and the profits presented are not high, so companies can avoid high litigation risk, and vice versa low litigation risk will have an impact on the low level of application of conservative accounting.

Based on the interaction test, the results of the study show that leverage as a moderating variable weakened the relationship between growth opportunities and accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2016 period, but is not significant in moderating, which means that hypothesis 7 is rejected. The higher the leverage, the weaker the relationship between growth opportunities and accounting conservatism. A high level of debt will reduce the level of opportunity to grow a company because the company will prioritize the majority of funds to pay debts rather than investing, and this has an impact on decreasing the level of accounting conservatism. Because
companies that apply the principle of conservatism will be synonymous with growing companies. This is supported by the statement of Mayangsari and Wilopo (2002), companies that use accounting conservatism in their financial statements, are identical with growing companies. This is because there are hidden reserves in the company that are used for investment or to enlarge the company.

5. Conclusions And Suggestions
5.1 Conclusions
Based on the results above, it can be concluded that financial distress and litigation risk partially have a positive and significant effect on accounting conservatism. While growth opportunities partially do not significantly influence accounting conservatism. Financial distress, litigation risk, and growth opportunities simultaneously have a significant effect on accounting conservatism. Leverage as a moderating variable weakens the relationship between financial distress, litigation risk and growth opportunities to accounting conservatism, but is not significant in moderating.

5.2 Suggestion
Suggestions for further researchers, can use other indicators to measure accounting conservatism apart from the calculation of earnings and accruals measures, such as the calculation of net asset measures, or earnings / stock returns relation measures so that they can be used as a comparison material regarding the consistency of proxy use. And further researchers are also expected to be able to add to other factors such as conflicts of interest, political costs, taxes, and other factors that might influence accounting conservatism. For companies, as a material consideration in carrying out accounting records using the principle of conservatism or optimism, as well as more careful and wise in dealing with all problems that occur. Especially those relating to accounting practices, one of which is accounting conservatism by not making deviations regarding the threat of applicable legal provisions. As for investors, it is hoped that the results of this study can be used as a reference in considering factors that affect accounting conservatism in making decisions for investing and lending.

References


