
The Role of Company Size, Litigation Risk on Accounting Conservatism with Financial Distress as a Moderating Variable

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Abstract

This study aims to examine the effect of Company Size, Litigation Risk on Accounting Conservatism using a moderating variable, namely Financial Distress in Manufacturing Companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX) in 2019-2023. This study uses a quantitative descriptive approach. The sampling technique in this study uses purposive sampling. The data collection technique in this study uses a secondary data method, namely the annual report of manufacturing companies in the food and beverage sub-sector. And for the data processing technique, SEM-PLS 4 is used. With a P-Value <0.05 , the Moderation variable has an effect on X1 and Y. Finally, in this study it can be concluded that Financial Distress has an effect on Litigation Risk and Accounting Conservatism because the P-Value is $0.029 <0.05$ so that this variable is predicted to be accepted.

Keywords: *Company Size, Litigation Risk, Accounting Conservatism, Financial Distress*

INTRODUCTION

A growing business can cause competition. Companies use various methods to maintain their operations. Financial reports are often used by external and internal parties. To find out the condition of the company, these parties usually concentrate on the profits generated during the period. In addition, financial reports can be used as a basis for assessing company performance, estimating long-term income, estimating future income, and assessing risks when investing. (Ashari & Kusumawati, 2023).

The concept of conservatism refers to a cautious attitude in presenting financial statements. This attitude allows companies not to be too hasty in identifying assets and profits and to immediately identify debts and expenses that may arise (Lusiani & Khafid, 2022). However, until now, the principle of accounting conservatism is still a concern because there is a lot of criticism that using it in preparing financial statements will produce financial reports that tend not to reflect the company's actual financial condition.

Therefore, it is important to understand the elements that can affect business financial performance (Selfya Rusdyanti Dewi & Cholis Hidayati,

2022). Financial performance can be used to ensure that all operations are running according to the company's goals. In addition, financial performance can be used as a basis for considering what strategies and planning the company should do to make more money. Investors can consider investments based on financial performance. (Ashari & Kusumawati, 2023).

Litigation risk is a danger that can cause large costs because it is related to legal issues. Investors face litigation risk because the company makes transactions that result in losses for investors, which can be seen in the movement of stock prices and volumes. Creditors also face litigation risk because of the dissimilarity shown by research and (Afriani et al., 2021), litigation risk affects accounting conservatism, but this finding has only a small impact on the study. (Maharani & Dura, 2022) and (Wiecandy & Khairunnisa, 2020).

Company Size is an indication of how big or small a company is. To find out how big or small a company is, we can see how many employees work, how many assets are owned, how much sales are achieved in a period, and how many shares are sold. This is because, according to positive accounting theory, companies with high political costs will try to save their profits from the current period to the future period. In his study, he stated that company size affects accounting conservatism.

Financial distress as a moderating variable, because the results of previous studies related to leverage variables, company size and litigation risk are still inconsistent., Financial distress is presented as a moderating variable that is theoretically estimated to be able to strengthen or weaken the influence of company size variables, and litigation risk on accounting conservatism, Financial distress is a condition when a company experiences financial difficulties before the company finally goes bankrupt. Conservatism is a principle of caution applied by companies when facing conditions of uncertainty, so that when facing financial difficulties the company should be more careful in dealing with these circumstances. Research shows that when a company faces financial distress, the company will be more conservative. Meanwhile, no influence was found.

Accounting conservatism is a very important measure of financial reporting quality for developing countries. This is due to the fact that research results are inconsistent in answering the problem of old and new accounting conservatism. This study can help determine the level of accounting conservatism in Indonesian companies and the internal factors that drive the implementation of conservatism. In addition, this study is expected to help companies make decisions about the use of accounting conservatism. The results of previous studies related to the factors that influence the implementation of accounting conservatism still show inconsistent results. Inconsistent results on the leverage variable were found in the study, and (Ramadhani, 2019) which stated that leverage had a positive and significant effect on accounting conservatism, in contrast to the study (Abdurrahman & Ermawati, 2019) which stated that there was a negative effect between leverage and accounting conservatism. The company size variable in the study showed that company size had a significant effect on accounting conservatism.

METHOD

To obtain accurate data in conducting research, the author uses the documentation method. This method is carried out by viewing and studying documents and recording written data that is related to the object of research in the form of secondary data. The documentation method in this study is the collection of financial report data on accounting conservatism in manufacturing companies in the goods sector listed on the Indonesia Stock Exchange in 2019-2023 from the internet and using the library study method by understanding the literature, journals, articles, and relevant reading sources that make the discussion related to the research. The data used for research using the secondary method from the website www.idx.co.id and the company's official website. This study uses an observation period from 2019-2023 which requires the financial reports of each manufacturing company in the industrial goods sub-sector listed on the IDX. (Sugiyono (2018, 2018) explains that a sample is part of the number and characteristics of a population. This study uses samples of documents or annual financial reports and sustainability reports of companies obtained from the Indonesia Stock Exchange website. The sampling method used is purposive sampling, where the determination of the sample is selected based on certain criteria and considerations that are adjusted to the objectives of the study..

Quantitative research is used in this study. The population and sample as well as secondary data use audited financial reports of all manufacturing companies in the Industrial Goods Subsector listed on the IDX for the period 2019 - 2023. After being selected according to the sample criteria, 12 companies were obtained for 5 years. So the data processed was 60 samples.

RESULTS AND DISCUSSION

1. Descriptive Statistical Analysis

Descriptive statistical analysis is a test that aims to present a description of certain data so that the data is clearer and easier to understand (Ningsih et al, 2021).

Tabel 4.1
Descriptive statistical analysis

	<i>Litigati on Risk</i>	<i>Company Size</i>	<i>Accounting Conservatism</i>	Financial DistresS
Max	1.6761	32.8599	0.0672	13.040
Min	-0.7846	24.6550	-2.0404	0.207
Mean	0.1201	28.7758	-0.0375	5.071
Std Devisi	0.3116	13.6557	12.5265	11.012

2. Outer Model Analysis

To assess whether the outer model has met the requirements of Convergent Validity, there are several criteria, namely for reflective constructs, it can be called an indicator that is considered reliable if there is a correlation value above 0.7, if in the research stage of scale development, for the loading factor value of 0.5 - 0.6 it is still accepted (Ghozali & Latan 2015:17)

Validity Test based Loading Factor Table

	<i>Litigation Risk</i>	<i>Company Size</i>	<i>Accounting Conservatism</i>	<i>Financial Distress</i>
<i>Litigation Risk</i>	1.000			
<i>Company Size</i>		1.000		
<i>Accounting Conservatism</i>			1.000	
<i>Financial Distress</i>				1.000

a) Validity Test

a) The Konvergen Validity Test

The convergent validity test can be seen based on the loading factor value >0.7 and the AVE value >0.5 , so that the reflective measure is considered high..

The Konvergen Validity Test Table

Variable	indicator	criteria	Loading Factor	AVE	Evaluasi
<i>Litigation Risk</i>	Total Aktiva	$>0,5$	1,000	1,000	Valid
<i>Company Size</i>	$Size=Ln$		1,000	1,000	Valid
<i>Accounting Conservatism</i>	CONNAC		1,000	1,000	Valid
<i>Financial Distress</i>	Z-Score		1,000	1,000	Valid

b) Discriminant Validity Test

In latent variables, compared with the correlation value between the variable and other latent variables. To find out the square root value of AVE for each latent variable is greater than the correlation value between the latent variable and other latent variables.

Table For Discriminant Validity Test

In testing the validity of the discriminant value of the root of the AVE squared

	<i>Litigation Risk</i>	<i>Company Size</i>	<i>Accounting Conservatism</i>	<i>Financial Distress</i>
<i>Litigation Risk</i>	1.000	0.359	0.334	-0.098
<i>Company Size</i>		1.000	0.195	-0.232
<i>Accounting Conservatism</i>			1.000	-0.008
<i>Financial Distress</i>				1.000

3. Analisis Inner Model (*R-Square*)

The determination coefficient is measured through the Adjusted R-Square value. If the Adjusted R-Square is 0.75, 0.50, and 0.25, then the model can be categorized as strong, moderate, and weak respectively.

Tabel Koefisien Determinasi (*R-Square*)

	<i>R-Square</i>	<i>R-Square Adjusted</i>
<i>Accounting Conservatism</i>	0.565	0.524

Based on the table above, the results of the determination coefficient test are known to be R-Square Adjusted in the model of 0.524. This means that Litigation Risk, Company Size is able to explain 52.4% of the Accounting Conservatism Variable, and the remaining 47.6% is influenced by other variables not examined in this study. Thus, the model is classified as moderate

4. Uji Hipotesis

Tabel Uji Signifikansi Pengaruh

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistic (O/STDEV)</i>	<i>P Values</i>
<i>Litigation Risk</i> ↔ <i>Accounting Conservatism</i>	0.318	0.102	0.328	0.969	0.333
<i>Company Size</i> ↔ <i>Accounting Conservatism</i>	0.869	0.577	0.488	1.783	0.075

<i>Financial Distress x Litigation Risk <input checked="" type="checkbox"/></i>	1.458	1.046	0.667	2.186	0.029
<i>Financial Distress x Company Size \Leftrightarrow Accounting</i>	0.641	0.310	0.549	1.167	0.243

DISCUSSION

1. The Influence of Litigation Risk on Accounting Conservatism

The results of this study illustrate a conservative attitude in providing more transparent information to stakeholders. The results of this study are supported by agency theory, namely that managers will avoid losses due to litigation by reporting finances conservatively, because profits that are too high have a higher potential for litigation risk. This is in line with study 27. In contrast to research conducted by (Fadhiilah & Rahayuningsih, 2020) the results of the hypothesis test show that financial distress weakens the relationship between litigation risk and accounting conservatism. This study states that companies that have a high level of litigation risk from investors and creditors and experience financial difficulties, management will tend not to be conservative in preparing financial reports. and (Maharani & Dura, 2022) which states that litigation risk has no effect on accounting conservatism.

2. The Influence of Company Size on Accounting Conservatism

The results of this study illustrate that companies with large turnover will also receive more attention from the central tax authorities to maintain a good image in order to attract investors. This is in line with agency theory, where large companies receive more attention from external and internal parties. Therefore, the company's efforts to provide benefits to investors and management as agents have a high level of relevance. The conclusion of this study is in accordance with the findings of previous research conducted by (Fadhiilah & Rahayuningsih, 2020), which states that company size does not affect accounting conservatism

3. *Financial Distress Moderates the Effect of Litigation Risk on Accounting Conservatism*

Consistent with the finding that companies tend to be more conservative in their financial statements when facing financial difficulties. However, management decisions in implementing accounting conservatism can be influenced by internal factors such as optimism about future performance, as well as investor and creditor expectations. Therefore, in situations where financial conditions are strong, companies tend not to implement accounting conservatism. This shows the importance of understanding how the relationship between

financial conditions, litigation risk, and accounting policies can affect corporate strategy. (Nurfitriani Harnaen et al., 2019) and (Dayyanah & Suryandari, 2019)

4. *Financial Distress Moderates the Effect of Company Size on Accounting Conservatism*

Financial distress and company size are two different factors and each can have its own influence on a company's accounting policy. Company size can affect accounting policy because larger companies generally have more resources, access to market capital, and operational complexity that can affect accounting policy. On the other hand, financial distress is a result of poor financial conditions, which can affect accounting policy in an effort to overcome the situation. (Arsita & Kristanti, 2019), and (Ursula & Adhivinna, 2018).

CONCLUSION

- 1) Based on the results of the first hypothesis test, Litigation Risk does not affect Accounting Conservatism
- 2) Based on the results of the second hypothesis test, Company Size does not affect Accounting Conservatism.
- 3) Based on the results of the third hypothesis test, Financial Distress on Litigation Risk affects Accounting Conservatism.
- 4) Based on the results of the fourth hypothesis test, Financial Distress on Company Size does not affect Accounting Conservatism.

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