International Journal of Economics, Business and Accounting Research (IJEBAR)
Peer Reviewed – International Journal
Vol-5, Issue-2, June 2021 (IJEBAR)
E-ISSN: 2614-1280 P-ISSN 2622-4771
https://jurnal.stie-aas.ac.id/index.php/IJEBAR

THE ROLE OF ACCOUNTING CONSERVATISM AS A MODERATE OF DEBT RATIO EFFECT ON FINANCIAL DISTRESS

Yuni Sukandani [1], Siti Istikhoroh[2], Ulfa Puspa Wanti Widodo[3], Nurba'itty Ning Syahdu[4]
University of PGRI Adi Buana, Indonesia
E-mail: yunis@unipasby.ac.id[1], istikhoroh_siti@unipasby.ac.id[2], ulfa.pw@unipasby.ac.id[3], nurbaittyns18@gmail.com[4]

Abstract: *The purpose of this study is to determine the role of accounting conservatism as a moderating between debt ratio and financial distress. Measurement of debt ratio variables using the debt to asset ratio, financial distress using Z-Score analysis, and accounting conservatism using the accrual model. Financial statements of 8 plastic and packaging companies listed on the Stock Exchange are used as population and samples with a purposive sampling technique. Data analysis using Moderated Regression Analysis (MRA) with hypothesis testing t test. The first test results obtained a significant level of 0,000 is smaller than 0,05 (0,000 < 0,05) meaning that the debt ratio affects financial distress. While the second test obtained a significant level of 0,108 is greater than 0,05 (0,108 > 0,05) which means that accounting conservatism is not able to moderate the ratio of debt and financial distress. Iis expected to be useful as a reference source, especially related to the application of accounting conservatism, so that it can be used as a material consideration for companies in applying for loans and anticipating financial distress.*

Keywords: *Debt Ratio, Financial Distress, Accounting Conservatism.*

1. Introduction [Times New Roman 12 bold]

Business developments in the current era of globalization can trigger tough competition. Every company has its way of protecting itself in the face of business competition. The difficult competition requires each business actor to plan the right strategy to obtain good market segmentation and will not be liquidated. Companies that do not seek to strengthen company fundamentals such as industry analysis and do not improve their financial performance in the face of global developments will, of course, experience financial distress.

The problem of declining financial issue requires management to manage the reporting of profits earned during the operating year concerned as best as possible because this can lead to worse financial difficulties, especially bankruptcy, if it is unsolved. The emergence of early symptoms of bankruptcy due to financial problems that occur in companies can be said to be financial difficulties (Saputra, 2016: 3). The important thing companies need to know when they have financial problems is the company's inability to finance its long-term debt.

The source of capital that causes interest costs when the company spends its operational and investment activities is commonly known as debt (Sudana, 2015: 184). The high and low

debt of the company will determine whether there is a great risk that will be borne by the company. The more debt used, the greater the chance the company will not be able to pay its debts at maturity. Of course, the company will have the potential to experience financial distress. The financial statements are prepared by the company as a means of information regarding the company's financial position during the operating year concerned. Financial Accounting Standards provide flexibility in determining the accounting methods applied in preparing financial reports. Among the principles that can be applied in preparing financial statements is the principle of accounting conservatism, which is the principle of prudence in reporting earnings information.

Conservatism is an action to face uncertainty in accepting decisions based on the worst outcome of the uncertainty (Soewardjono, 2014: 245). Accounting conservatism adheres to the principle of slowing down the recognition of income even though it is likely to occur and accelerating the recognition of costs or losses (recognizing earlier).

Researchers chose companies engaged in plastic and packaging on the Indonesia Stock Exchange. The Ministry of Industry explained that the demand for plastic production reached 4.6 million and increased in the last five years from 2015 to 2019 as a top development priority, having high growth opportunity and great potential to play an important role as a supply chain for packaging containers for other industries such as the food and beverage sector, metal and electronic goods, transportation equipment, chemicals, pharmaceuticals, and cosmetics (www.kemenperin.go.id).

Based on the background stated above, the problem formulation is as follows:

1. Does the debt ratio affect financial distress?
2. Does accounting conservatism moderate the effect of the debt ratio on financial distress?

Furthermore, the objectives to be achieved are:

1. To determine the effect of the debt ratio on financial distress.
2. To find out whether accounting conservatism moderates the effect of the debt ratio on financial distress.

2. Research Method

Positive Accounting Theory

This theory describes and predicts certain events and is related to the prediction of actions such as determining accounting policies and how companies respond to new standards that are being proposed (Scott, 2015: 284). The theory aims to provide answers to accounting practices and predict various accounting phenomena. This explanation emphasizes whether the theory described in the accounting literature can describe the accounting practices applied and predict the current phenomenon and its consequences in the future.

Signal Theory

The existence of information regarding policy changes in a company to show responses from outside parties has been found by several researchers related to signaling theory. This theory explains that the company has desire to provide signals in the form of information on the company's financial records to external parties. In this theory, it is possible that asymmetry information occur between company managers and interested parties because there are differences between their respective interests. For example, on the other hand,

managers apply conservative accounting policies by generating good and quality profits from the information conveyed through financial reports for overcome financial problems in the future.

Debt Ratio

Debt is a source of funding obtained from outside parties by entering into a contract with creditors. Debt is proxied by the scale of the debt to asset ratio because it is considered to provide information about how much debt is to spend on company assets. It can be stated by the formula:

$$Debt\ to\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

(Source : Sudana, 2015:208)

Financial distress

Poor financial conditions that gradually decline will lead to bankruptcy or liquidity in a company. Financial difficulty is measured based on the bankruptcy analysis developed by Altman using the (Z-Score) method. It can be stated by the formula:

$$Z = 1{,}2Z_1 + 1{,}4Z_2 + 3{,}3Z_3 + 0{,}6Z_4 + 1{,}0Z_5$$

(Source: Suartini dan Sulistiyo, 2017:163)

Accounting Conservatism

Accounting conservatism is a cautious response to the uncertainty and dangers associated with economic activity. The implication is on choosing an accounting method that leads to a way of generating little profit or greater cost. Conservatism is proxied using the accrual model. It can be stated by the formula:

$$\text{CONACC} = \frac{(\text{NI}_{it} + \text{DEP}_{it}) - \text{CFO}_{it}}{\text{TA}_{it}}\ x(-1)$$

(Source : Savitri, 2016:52)

Conceptual Framework

Based on Figure 1, it can be explained that high debt in a company can cause financial distress and become a threat to the survival of the company in the future and vice versa. However, the existence of accounting conservatism principles applied by the company will help to minimize the occurrence of financial distress by indirectly increasing the cash flow.

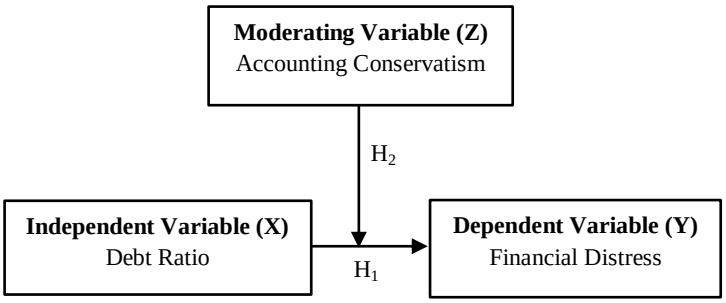

Figure 1.
Conceptual Framework

The previous study and references used are: (1) Suhartono (2015) stated that the results show accounting conservatism weakens the negative correlation between capital structure and

earnings response coefficient. (2) Ayu, et al (2017) stated that the debt ratio partially does not affect financial distress. (3) Moleong (2017) stated that leverage affects financial distress. (4) Harmudji (2018) shows that financial leverage partially does not affect financial distress. (5) Nurmalina, et al (2018) found that the results of accounting conservatism were not able to moderate the effect of leverage on the earnings response coefficient.

Hypothesis

H1 = Debt Ratio affects Financial Distress

H2 = Accounting conservatism moderates the effect of the Debt Ratio on Financial Distress

3. Results and Discussion

3.1. Results

This research is quantitative. The population is the financial statements of plastic and packaging companies and the sample is financial reports from 8 (eight) plastic and packaging companies with purposive sampling technique from 2014 - 2018. The type of data used is quantitative data. Meanwhile, the data source is secondary data obtained from the Indonesia Stock Exchange website. The data collection used documentation while the data analysis used are :

- Classical assumption tests include normality test, autocorrelation test, and heteroscedasticity test.
- *Moderated Regression Analysis (MRA)*.
- Hypothesis test of t-test.

The data normality test used the *One-Sample Kolmogorov-Smirnov Test*. The amount of the Sig. (0.200> 0.05) and the data is spread, then it can be stated that the data is normally distributed. It is presented in the table below :

Table 1. Normality Test Result

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual	N	= 40
	Test Statistic	= 0,102
	Asymp. Sig. (2-tailed)	= 0,200

The autocorrelation test of this study obtained the *Durbin Watson* value of 2.076. Following the criteria in making decisions on the autocorrelation test, it is between 1.55 to 2.46 which means that there is no autocorrelation problem. It can be presented in the table as follows:

Table 2. Autocorrelation test result

R	R *Square*	Adjusted R *Square*	Std. Error of the Estimate	Durbin-Watson
0,728	0,530	0,491	7,13602	2,076

From the graph plot between the values (ZPRED) and (ZRESID), it can be seen that the heteroscedasticity test contained in the scatterplots graph has no specific pattern and the data is spread. This means that there is no heteroscedasticity problem.

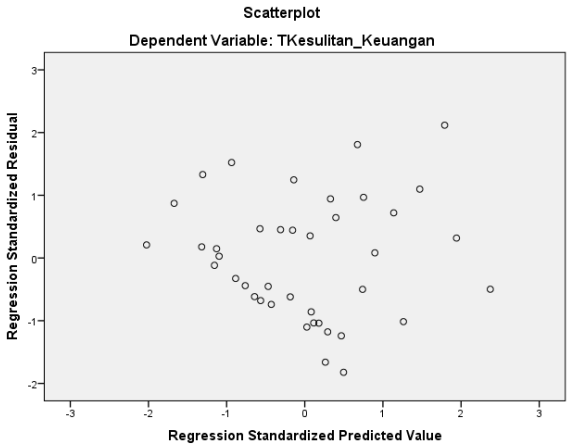

Figure 2.
Scatterplots Graph

The MRA analysis is carried out because there is only one predictor variable (X) and it explains the extent of the correlation between the debt ratio and financial distress through factors that strengthen or weaken, namely accounting conservatism. It is presented in the table as follows:

Table 3. MRA test result of equation 1

Model		Unstandardized Coefficients	
		B	Std. Error
1	*Constant*	81,919	6,364
	TRasio_Hutang	-0,638	0,125

From the results of table 3 above, the equation 1 regression line is stated as follows:

$$Y = \alpha + \beta_1 X + \varepsilon$$

$$Y = 81{,}919 - 0{,}638\ X + \varepsilon$$

Table 4. MRA test result of equation 2

Model		Unstandardized Coefficients	
		B	Std. Error
1	*Constant*	92,905	11,244
	TRasio_Hutang	-0,620	0,138
	TKonservatisme_Akuntansi	-0,901	0,378
	TRasio_Hutang* Konservatisme_ Akuntansi	0,663	0,402

From table 4 above, the regression line for equation 2 is stated as follows:

$$Y = \alpha + \beta_1 X + \beta_2 XZ + \varepsilon$$
$$Y = 92{,}905 - 0{,}620 + 0{,}663\ XZ + \varepsilon$$

Based on the moderation regression line equation above, it can be analyzed as the following:

1. The value of the constant-coefficient = 92.905. This means that the debt ratio variable (X) and the moderating multiplication variable (XZ) are 0 (zero), then the value of financial distress is as much as the coefficient value of 92.905.
2. The value of the debt ratio regression coefficient (X) = -0.620 (negative), then every 1% decrease in the debt ratio will be followed by a decrease in financial distress of -0.620.
3. The moderation regression coefficient (XZ) = 0.663 (positive), indicating that every 1% decrease in the moderating variable, will be followed by an increase in financial difficulties of 0.663.

The results of the correlation coefficient are presented as follows:

Table 5. R square result of equation 1

Model	R	R *Square*	Adjusted R *Square*
1	0,638	0,408	0,392

Table 6. R square result of equation 2

Model	R	R *Square*	Adjusted R *Square*
1	0,728	0,530	0,491

The results above show that the value of R Square is 0.408 without the addition of the moderating variable. Then, after the addition of the moderating variable, the result of R Square is 0.530. There was an increase after moderation of 12.2%. This means that 53.0% of the variation in financial difficulties can be influenced by variations in debt ratios, accounting conservatism, and moderation, the remaining 47.0% is influenced by other variations.

3.2. Discussion

The discussion section describes the results of data processing, interpreting the findings logically, linking with relevant reference sources.

It contains specific or unique findings from research results. Possible follow-up activities can also be conveyed in this section. [Times New Roman, 12, normal].

The results of the t-test are presented in the table below:

Table 7. t test of equation 1

		t Hitung	Sig
MRA	*Constant*	12,873	0,000
	TRasio_Hutang	-5,113	0,000

Table 8. t test of equation 2

		t Hitung	Sig
MRA	*Constant*	8,263	0,000
	TRasio_Hutang	-4,483	0,000
	TKonservatisme _Akuntansi	-2,382	0,023
	TRasio_Hutang *Konservatisme _Akuntansi	1,649	0,108

Based on the table above, the significance level of each variable is obtained and explained as follows:

- The first hypothesis (H1) obtained a t-score of -5,113 with a significance value of (0,000 <0.05) meaning that H1 is accepted. This means that the debt ratio (X) affects financial difficulties (Y).
- The second hypothesis (H2) obtained a t-score value of 1.649 then after the addition of the moderating variable, the significance value is (0.108> 0.05) which means that H2 is rejected. This shows that accounting conservatism (Z) is not able to moderate the relationship between debt ratio (X) to financial distress (Y).

4. Conclusion

Based on the results of the analysis above, the R Square value was 0.408 without the addition of the moderating variable. After the addition of the moderating variable, the value of R Square is 0.530. There was an increase after moderation of 12.2%. This means that 53.0% of the variation in financial difficulties can be influenced by variations in debt ratios, accounting conservatism, and moderation, the remaining 47.0% is influenced by other variations. The results of hypothesis testing can be concluded as follows:

1. From the results of testing the first hypothesis (H1), the t-score value is –5,113 with a significance level (0,000 <0.05). This means that the debt ratio affects financial difficulties so that the first hypothesis proposed is accepted and its validity is proven.
2. From the results of testing the second hypothesis (H2), the t-score value was 1.649, then after the addition of the moderating variable the significance level (0.108> 0.05). This means that accounting conservatism is not able to moderate the relationship between the debt ratio and financial distress so that the second hypothesis proposed is rejected.

The implication of this research focuses on policies regarding the role of accounting conservatism so that companies need to consider before applying for a loan whether it is

under the planning needs of the future or not. Because companies with a lot of debt will have an impact on company performance and cause financial problems for the company.

Furthermore, the principle of conservatism is also needed as a determining factor for investors before investing because it can be seen from the financial report reporting whether it is by the actual situation or not, and investors need to analyze whether or not the profit information generated by the company is fair or not. Companies are expected to have a better understanding of the application of the principles of accounting conservatism to be able to overcome financial problems that occur, avoid uncertainty in economic activities, and help prevent information asymmetry on the opportunistic behavior of managers. However, in this research, it is not proven that accounting conservatism can moderate (strengthen) the correlation between debt ratios and financial difficulties.

The limitation is only using one independent variable, namely the debt ratio and one moderating variable. Then the number of samples used is only limited to companies in the plastic and packaging sector with a fairly short observation period span from 2014 - 2018. So that for further research it is suggested to use various other company sectors, take a longer observation period, and develop the number of other variables. such as debt covenants, taxes, litigation risk, etc. This research also has limited time and energy so that there are still many shortcomings in completing this research.

Reference

Ayu, A.S , *et al* (2017). Pengaruh Likuditas, Leverage, Profitabilitas, Dan Ukuran Perusahaan Terhadap Financial Distress (Studi pada Perusahaan Manufaktur Sektor Industri Dasar dan Kimia yang Terdaftar di Bursa Efek Indonesia tahun 2012-2015). *Jurnal Administrasi Bisnis (JAB)*, *43*(1), 138–147. Universitas Brawijaya.

Harmudji, R. A. (2018). Rasio Keuangan Untuk Memprediksi Financial Distress Pada Perusahaan Manufaktur Sektor Industri Tekstil dan Garmen Yang Terdaftar di BEI. *Artikel Ilmiah STIE Perbanas Surabaya.*

Kementerian Perindutrian Republik Indonesia. (2017). "Kemenperin : Industri Kemasan Plastik Jadi Rantai Pasok Penting Sektor Lain". (online), https://www.kemenperin.go.id/, diakses tanggal 22 Januari 2020, pukul 12.00 WIB.

Moleong, L. C. (2017). Pengaruh Real Interest Rate dan Leverage Terhadap Financial Distress. *MODUS*, *30*(1), 71–86. Universitas Atma Jaya Yogyakarta.

Nurmalina, R., et al. (2018). Determinan Earnings Response Coefficient dan Peran Konservatisme Akuntansi sebagai Pemoderasi pada Perusahaan Property dan Real Estate . *Jurnal Riset Akuntansi & Perpajakan (JRAP)*, *5*(02), 245-258.

Saputra, R. E. (2016). Pengaruh Struktur Kepemilikan Manajerial, Kontrak Utang, Tingkat Kesulitan Keuangan Perusahaan, Peluang Pertumbuhan, Risiko Litigasi, dan Leverage Terhadap Konservatisme Akuntansi (Survey Pada Perusahaan Manufaktur Yang Terdaftar Di BEI). *JOM Fekon*, *3*(1), 2207–2221. Universitas Pekanbaru.

Savitri, E. (2016). *Konservatisme Akuntansi (Cara Pengukuran, Tinjauan Empiris, dan Faktor-faktor Yang Menpengaruhinya)*. Yogyakarta : Pustaka Sahila.

Scott, W. R. (2015). *Financial Accounting Theory* (7th Edition). Canada : Pearson Education.

Soewardjono. (2014). *Teori Akuntansi Perekayasaan Laporan Keuangan* (Edisi Ketiga). Jakarta : BPFE.

Suartini dan Sulistiyo. (2017). *Analisis Laporan Keuangan Bagi Mahasiswa dan Praktikan*. Jakarta : Mitra Wacana Media.

Sudana, I. M. (2015). *Teori dan Praktek Manajemen Keuangan Perusahaan* (Edisi 2). Jakarta : Erlangga.

Suhartono, S. (2015). Pengaruh Ukuran Perusahaan, Struktur Modal, dan Ketepatan Waktu Penyampaian Laporan Keuangan Tehadap Koefisien Respon Laba Yang Dimoderasi Konservatisme Akuntansi. *Jurnal Akuntansi Keuangan*, *22*(2), 189–217.