The International Journal of Business Management and Technology, Volume 7 Issue 1 January-February– 2023
ISSN: 2581-3889

Research Article Open Access

Effect of Financial Distress, Leverage, Capital Intensity and Operational Complexity on Accounting Conservatism

(Empirical Study of Property and Real Estate Companies Registered on the Indonesia Stock Exchange (IDX) for 2019-2021)

Aulia Kirana Indrasari, Muhammad Abdul Aris
Faculty of Economics and Business, Muhammadiyah University of Surakarta, Indonesia
Faculty of Economics and Business, Muhammadiyah University of Surakarta, Indonesia

Abstract: This study aims to examine the effect of financial distress, leverage, capital intensity and operating complexity on accounting conservatism. The population for this research is property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021. Sampling was carried out using the purposive sampling method, based on the established criteria, a sample of 81 companies was obtained. The data analysis technique uses the classical assumption test and multiple regression analysis with the help of SPSS 25. The results of this study indicate that Financial Distress has a positive effect on Accounting Conservatism, Leverage has no effect on Accounting Conservatism, Capital Intensity has a positive effect on Accounting Conservatism, and Operational Complexity has no effect against Accounting Conservatism.

Keywords: financial distress, leverage, capital intensity, operating complexity, accounting conservatism

I. INTRODUCTION

Globalization has an impact on competition between business actors with an increasingly rapid level of business development from time to time. Companies use various methods to defend themselves. One of the goodness of a company's management in managing and maximizing company resources can be described in the form of financial reports.

Financial statements are a form of accountability for management performance results which contain information about company profits and management of company resources. The financial reports prepared and presented by the company are the final results report for each period, which serves as information to show how the company's condition is to internal and external parties. Financial reports are usually used as material for consideration and evaluation in making decisions, therefore financial reports must be prepared in accordance with the objectives, rules and accounting principles so that they are useful for the user. However, in achieving these objectives management is often faced with uncertainty from a company's business activities.

To realize quality profit information, accounting principles are needed that can produce relevant figures. One of the principles related to financial statements and earnings information is accounting conservatism. According to Soewardjono (2010), conservatism is an attitude in the face of uncertainty in taking action or decisions regarding the worst possible outcome of this uncertainty. The implication of this concept for accounting principles is to recognize costs or losses that are likely to occur, and not immediately recognize future income or profits even though they are likely to occur.

While the official definition of conservatism is contained in the Glossary Statement No. 2 FASB (Financial Accounting Statement Board) which defines conservatism as a prudent reaction in dealing with uncertainty and risk in the business environment which has been sufficiently considered. One of the factors that influence conservatism, namely financial distress. The level of financial difficulty or financial distress can be interpreted as the emergence of signals or early symptoms of bankruptcy against a decline in the financial condition experienced by a company (Fitri, 2017).

Apart from financial distress, according to several previous studies, leverage ratios can also influence management to practice conservatism. Leverage is a ratio that shows how big the portion of debt or capital finances the company's assets. The leverage ratio can also act as an indication for the lender of the security level of the refund that has been given to the company. Based on agency theory, there is an agency relationship between managers and creditors, where managers wishing to obtain funds or credit will tend to pay more attention to the leverage ratio.

In addition, capital intensity is also indicated to affect accounting conservatism. Capital intensity is an illustration of the amount of capital in the form of fixed assets. Capital intensity reflects how much capital is needed to generate income for the company. The higher the level of capital intensity ratio indicates a capital-intensive company (Parrino and Kidwell, 2009: 619). According to Sinarti and Mutihatunnisa (2016), capital-intensive companies tend to be careless in their financial reporting. The final factor affecting accounting conservatism is the complexity of operations. Organizational or operational complexity is the result of the formation of departments and the division of work that has a focus on a different number of units.

Based on the results of previous studies, there were inconsistencies in the results, so it prompted the researcher to conduct another study with the title "The Effects of Financial Distress, Leverage, Capital Intensity and Operational Complexity on Accounting Conservatism" Empirical Studies on Property and Real Estate Companies in 2019-2021.

The formulation of the problem in this study is whether financial distress, leverage, capital intensity and operating complexity affect accounting conservatism. So the purpose of this study, namely to examine the effect of financial distress, leverage, capital intensity and operating complexity on accounting conservatism.

II. HEADINGS

Agency Theory

Agency theory is the theory that underlies this research. This theory was put forward by Michael C. Jensen and Wiliam H. Meckling (1976) agency relations arise when one or more people (principal) hire another person (agent) to provide a service and then delegate decision-making authority to the agent concerned. In practice, the manager as the manager of the company certainly knows more information about internal conditions and the sustainability of the company's future prospects compared to investors. Thus, as a manager, managers have an obligation to provide information to investors regarding conditions within the company.

According to Anthony and Govindarajan (2005) the concept of agency theory is that agency relationships exist when one party (principal) hires another party (agent) to carry out a service, and in carrying out this the principal delegates decision-making authority to the agent. In companies whose capital consists of shares, shareholders act as principals and employ the CEO (Chief Executive Officer) as an agent to act and run the company according to the interests of the principal. If the principal and agent have the same goal, the agent will support and carry out everything ordered by the principal.

Accounting Conservatism

According to Statement of Financial Accounting Concept (SFAC) No. 2, conservatism is defined as "a prudent reaction to uncertainly but try to ensure that uncertainly and risks inherent in business situations are adequately considered". Conservatism is defined as a cautious reaction to the uncertainties inherent in economic and business activities. Suwardjono (2014) states that conservatism is an attitude or school of thought that, in the face of uncertainty, takes action or decisions on the worst possible outcome arising from this uncertainty. The implication of implementing conservatism is prudence in recognition, measurement of income and assets. This can generally be seen from the application of accounting policies, namely the understatement of income and assets or the overstatement of liabilities. Conservatism is used as an early recognition of expenses and losses, delays the recognition of revenues and gains, and can lead to lower earnings in the current period which can lead to an overstatement of earnings in subsequent periods.

Financial Distress

The definition of financial distress according to Darsono and Ashari (2005) can be interpreted as the company's inability to pay its financial obligations when they are due which causes the risk of bankruptcy or the presence of severe liquidity problems that cannot be solved by the company. Meanwhile, according to Bringham and Daves (2003) financial distress is a condition of financial difficulties that starts from the company's inability to fulfill its obligations when they are due.

Leverage

Leverage is a ratio that shows the percentage of debt used to finance a company's investment. According to Harjito (2011) Leverage in a business sense refers to the use of assets and resources (sources of found) by companies where in using these assets or funds the company has to incur fixed costs or fixed expenses.

Capital Intensity

(Alfian and Sabeni, 2013) stated that capital intensity is the amount of capital owned by a company in the form of assets. Capital intensity is an indicator of the political cost hypothesis, because the more assets used in a company's operations to generate sales of the company's products, the greater the company can be sure. The higher the capital intensity ratio, the manager will tend to make efforts to reduce profits and financial reports will be more conservative as indicated by the greater value of accrual conservatism (Hertina and Zulaikha, 2017).

Operation Complexity

The measurements taken in this study adapted from research conducted by Apriliane (2015), namely the complexity of the company's operations in this study is determined by the presence or absence of subsidiaries. This variable is measured using a dummy, companies that have subsidiaries will be coded 1, while companies that do not have subsidiaries will be coded 0.

III. INDENTATIONS AND EQUATIONS

Data analysis method

Methods of data analysis in this study using multiple linear regression analysis method. Multiple regression analysis consists of Simultaneous Test (F Test), Partial Test (t test) and the Coefficient of Determination (R2). Before testing the hypothesis on multiple linear regression, first do a classic assumption test. The classic assumption test in this study consisted of a normality test, multicollinearity test, heteroscedasticity test and autocorrelation test with the help of the SPSS version 25 program.The following is the equation used in the research of multiple linear regression analysis:

$$KA = \alpha + \beta 1FD + \beta 2LEV + \beta 3IM + \beta 4KO + e$$

Information :

KA = Accounting Conservatism

α = Constant

β1 - β4 =Regression Coefficient

FD = Financial Distress

LEV = Leverage

IM = Capital Intensity

KO = Operation Complexity

e = Errors

IV. FIGURES AND TABLES

4.1 Descriptive Statistical Analysis

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Means	Std. Deviation
Financial Distress	183	-321,26	19,24	-2,7759	26,21423
Leverage	183	-10,26	3,74	0,4353	1,07831
Capital Intensity	183	1,68	663,38	28,6156	67,44916
Operation Complexity	183	0	1	0,86	0,350
Accounting Conservatism	183	-0,16	0,17	0,0239	0,05139
Valid N (listwise)	183				

Source: data processed by the author, 2023

The table above presents a summary of the results of the descriptive statistical analysis for each variable used in the study. Based on Table 1 it can be seen that the number of samples (N) is 183. The dependent variable in this study is accounting conservatism as measured by accruals. The accounting conservatism value of one of the sampled companies has a minimum value of -0.16 and a maximum value of 0.17. Overall, the companies that were sampled had an average conservatism value of 0.0239 with a standard deviation of 0.05139.

The financial distress variable from the results of the descriptive statistical analysis carried out shows that the minimum value owned by one company is -321.26 and the maximum value is 19.24. While the average value of all samples is -2.7759 with a standard deviation of 26.21423.

The minimum value of the leverage variable owned by one of the sampled companies is -10.26 while the maximum value is 3.74. Overall, the average value of the companies sampled was 0.4353 with a standard deviation of 1.07831.

The capital intensity variable from the results of the descriptive statistical analysis carried out shows that the minimum value owned by one company is 1.68 and the maximum value is 663.38. While the average value of all samples is 28.6156 with a standard deviation of 67.44916. The operational complexity variable from the analysis results has an average of 0.86 with a standard deviation of 0.350.

4.2 Classical Assumption Test

4.2.1 Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		183
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	0,04913202
Most Extreme Differences	Absolute	0,064
	Positive	0,064
	Negative	-0,054

Test Statistic	0,064
Asymp. Sig. (2-tailed)	0,062°

Source: data processed by the author, 2023

Based on Table 2 above, it can be seen that the Sig value, in the One-Sample Kolmogorov-Smirnov Test, of all the residual data values used in this study was 0.062, which means greater than 5% or 0.05. This shows that all research data used as samples are normally distributed.

4.2.2 Multicollinearity Test

Table 3. Multicollinearity Test Results

Variable	Tolerance	VIF	Conclusion
Financial Distress	0,935	1,069	There is no multicollinearity
Leverage	0,933	1,072	There is no multicollinearity
Capital Intensity	0,993	1,007	There is no multicollinearity
Operation Complexity	0,996	1,004	There is no multicollinearity

Source: data processed by the author, 2023

Based on Table 3, it can be seen that the VIF values for all variables have a value of less than 10. This indicates that there is no multicollinearity or that there is a relationship between the independent variables. The financial distress variable has a VIF value of 1.069, the leverage variable has a VIF value of 1.072, the capital intensity variable has a VIF value of 1.007, and finally the operational complexity variable has a VIF value of 1.004. While the tolerance value for each variable is financial distress of 0.935, leverage of 0.933, capital intensity of 0.993 and operating complexity of 0.996. Based on the above results it was concluded that all the independent variables used did not experience symptoms of multicollinearity because the VIF value < 10 and the tolerance value > 0.10.

4.2.3 Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0,031	0,006		4,882	0,000
Financial Distress	-8,865	0,000	-0,073	-0,950	0,343
Leverage	0,002	0,002	0,052	0,674	0,501
Capital Intensity	8,957	0,000	0,019	0,254	0,799
Operation Complexity	0,006	0,007	0,065	0,874	0,383

Dependent Variable: ABRESID

Source: data processed by the author, 2023

In this study the heteroscedasticity test used was the Glejser test. The Glejser test is carried out by regressing the absolute value of the residuals on the independent variables. Table 4 shows that each variable in the research regression model has a Sig value above 5% or 0.05. The financial distress variable has a significance value of 0.343. The leverage variable has a significance value of 0.501. The capital intensity variable has a significance value of 0.799 and finally the operational complexity variable has a significance value of 0.383. It can be concluded that the variables used in the regression model of this study do not indicate symptoms of heteroscedasticity.

4.2.4Autocorrelation Test

Table 5. Autocorrelation Test Results

Runs Test	
	Unstandardized Residual
Test Value[a]	-0,00913
Cases < Test Value	91
Cases >= Test Value	92
Total Cases	183
Number of Runs	97
Z	0,668
Asymp. Sig. (2-tailed)	0,504

Source: data processed by the author, 2023

In this study the autocorrelation test used was the Run Test. The Run-test is part of the non-parametric statistics that can be used to test whether there is a high correlation between the residuals or not. Table 5 above shows that the value of Asymp.Sig. (2-tailed) of 0.504 which is greater than 0.05. Thus, the data used is quite random so there is no autocorrelation problem in the data being tested.

4.3 Multiple Regression Analysis

Table 6. Results of Multiple Regression Analysis

Coefficients[a]					
	Unstandardized Coefficients		**Standardized Coefficients**		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	0,016	0,010		1,581	0,116
Financial Distress	0,000	0,000	0,206	2,785	0,006
Leverage	0,003	0,004	0,070	0,947	0,345
Capital Intensity	0,000	0,000	0,175	2,440	0,016

Operation Complexity	0,005	0,011	0,032	0,447	0,656

Dependent Variable: Accounting Conservatism

Source: data processed by the author, 2023

Based on the results of the multiple linear regression analysis above, the regression equation model is as follows:

KA = 0,016 + 0,000FD + 0,003LEV + 0,000IM + 0,005KO

The constant value is 0.016. This result means that if the value of all independent variables is 0, then the value of accounting conservatism will be 0.016.

4.3.1Determination Coefficient Test (R^2)

Table 7. Test Results for the Coefficient of Determination(R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,293[a]	0,086	0,066	0,04968

Source: data processed by the author, 2023

The results of the analysis of the coefficient of determination show that the adjusted R square value for the regression model used in this study is 0.066 which indicates that accounting conservatism can be explained by independent variables, namely financial distress, leverage, capital intensity and operating complexity of 6.6%, the remaining namely 93.4% is explained by other variables outside this research model.

4.3.2 Simultaneous Test (Test F)

Table 8. Simultaneous Test Result (Test F)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,041	4	0,010	4,190	0,003[b]
	Residual	0,439	178	0,002		
	Total	0,481	182			

Dependent Variable: Accounting Conservatism

Source: data processed by the author, 2023

Based on Table 8 above, the simultaneous significance test for the F-value is 4.190 with a Sig. 0.003 which is smaller than 0.05. This shows that the independent variables simultaneously influence the dependent variable. That is, any changes that occur in financial distress, leverage, capital intensity and operating complexity simultaneously affect accounting conservatism.

4.3.3 Partial Test (T Test)

Table 9. T Test Result

Variable	t_{count}	Sig.	Information
Financial Distress	2,785	0,006	Accepted
Leverage	0,947	0,345	Rejected
Capital Intensity	2,440	0,016	Accepted
Operation Complexity	0,447	0,656	Rejected

Source: data processed by the author, 2023

Based on Table 9 above, it is known that financial distress and capital intensity variables affect accounting conservatism. This is evidenced by the value of Sig. financial distress 0.006 <0.05 and Sig. capital intensity 0.016 <0.05. While the variable leverage and operating complexity have no effect on accounting conservatism. It is proven that the significance value is greater than 0.05.

4.4 Discussion of Analysis Results

The Effect of Financial Distress on Accounting Conservatism

Testing the hypothesis regarding the effect of financial distress on accounting conservatism shows a regression coefficient value of financial distress of 0.000 with a significance of 0.006 <α 0.05. This means that the financial distress variable is proven to have an effect on the accounting conservatism variable. So that hypothesis 1 is accepted.

Financial distress is a condition where a company experiences a decline in its financial condition and begins to be unable to fulfill its obligations. Managers are required to have good managerial skills in facing competition and also challenges from the uncertainty of the wheels of the economy so that they do not experience financial difficulties that lead to bankruptcy.

The Effect of Leverage on Accounting Conservatism

Testing the hypothesis regarding the effect of leverage on accounting conservatism shows a leverage regression coefficient value of 0.003 with a significance of 0.345 > α 0.05. This means that the leverage variable is proven to have no effect on the accounting conservatism variable. So that hypothesis 2 is rejected.

This is because the higher the level of debt owned by the company, the creditor has a greater right to know and supervise the implementation of the company's operations and accounting. Creditors will tend to demand managers to apply conservatism in preparing financial reports. Due to the application of the principle of conservatism, the profits presented will tend to be low, thereby reducing the distribution of net assets and profits to investors and managers in the form of dividends and bonuses.

Effect of Capital Intensity on Accounting Conservatism

Testing the hypothesis regarding the effect of capital intensity on accounting conservatism shows a regression coefficient value of capital intensity of 0.000 with a significance of 0.016 <α 0.05. This means that the capital intensity variable is proven to influence the accounting conservatism variable. So that 3 hypotheses are accepted.

This shows that the higher the capital intensity, the higher the level of corporate conservatism. Capital intensity is a reflection of how much capital is needed to generate income. In this variable the formula used is total assets divided by total sales. These results are reinforced by the results of the t-test value obtained at 2.440 with a significance of 0.016 <α 0.05.

Effect of Operational Complexity on Accounting Conservatism

Testing the hypothesis regarding the effect of operating complexity on accounting conservatism shows a regression coefficient value of operating complexity of 0.005 with a significance of 0.656 > α 0.05. This means that the operational complexity variable is proven to have no effect on the accounting conservatism variable. So that hypothesis 4 is rejected.

V. Conclusion

Based on the results of the analysis and discussion that has been described, the following conclusions can be drawn: Financial distress affects accounting conservatism in property and real estate companies, the higher the financial distress number, the less conservative the company's financial statements are. Leverage has no effect on accounting conservatism. This is presumably because with the principle of conservatism which is a precautionary attitude in dealing with an uncertain environment, companies will always use this principle regardless of whether their liabilities are high or low. Capital intensity affects accounting conservatism. This is because the greater the company's capital intensity ratio, the less conservative the company's financial statements. The complexity of operations has no effect on accounting conservatism.

Limitations

Some of the limitations of this research include:

1. The observation period carried out in this study is only three years, namely 2019-2021, so it does not yet reflect the overall condition of the companies.
2. The sample in this study is limited to property and real estate companies listed on the Indonesia Stock Exchange (IDX), so the research results cannot be generalized to other types of companies.
3. The results of the analysis of the coefficient of determination show that the large variation in the independent variables influencing accounting conservatism is 6.6%, while the remaining 93.4% is explained by other variables not used in this study.

Suggestion

With the limitations in this study, the authors provide suggestions to further researchers as follows:

1. For future researchers, it is expected to increase the observation period so that it is expected to produce better research results.
2. For future researchers, it is expected to increase the number of samples with other types of companies. So that it is expected to produce better research results.
3. For future researchers, it is better to add other independent variables such as managerial ownership, institutional ownership, public ownership, company size which may have a greater influence on accounting conservatism.

REFERENCES

[1] Lestari, L. (2022). Pengaruh Financial Distress, Intensitas Modal, dan Leverage terhadapKonservatisme Akuntansi PadaPerusahaanSektorIndustriBarangKonsumsi di Bursa Efek Indonesia. *FIN-ACC (Finance Accounting)*, *5*(9).

[2] Rahmalya, N., Dewi, C. F., Herlambang, H., &Handayani, A. (2022). PengaruhInsentifPajak, Earning Pressure, Dan Leverage TerhadapKonservatisme Akuntansi (StudiKasusPadaPerusahaanSektorBarangKonsumen Primer Non CYC Yang Terdaftar Di Bursa Efek Indonesia Tahun 2020). *ProsidingPekanIlmiahMahasiswa (PIM)*, *2*(2), 43-57.

[3] Islami, R., Solihat, P. A., Jamil, A., &Suryadi, N. (2022). PengaruhProfitabilitas, Likuiditas, Leverage Dan UkuranPerusahaanTerhadapKonservatisme Akuntansi (StudiPadaPerusahaanSubsektorTransportasi Di Bursa Efek Indonesia Periode 2017-2019). *Management Studies and Entrepreneurship Journal (MSEJ)*, *3*(3), 1285-1295.

[4] Setya, D. (2022). AnalisisPengaruhProfitabilitas, UkuranPerusahaan dan Leverage terhadapKonservatisme Akuntansi PadaPerusahaanSektorIndustriBarangKonsumsi di Bursa Efek Indonesia. *FIN-ACC (Finance Accounting)*, *4*(7).

[5] Halim, K. I. (2021). PengaruhArusKasOperasi, PertumbuhanPerusahaan, Leverage Dan ProfitabilitasTerhadapKonservatisme Akuntansi. *JAZ: Jurnal Akuntansi Unihaz*, *4*(1).

[6] Suharni, S., Wildaniyati, A., & Andreana, D. (2019). Pengaruhjumlahdewankomisaris, leverage, profitabilitas, intensitas modal, cash flow, dan ukuranperusahaanterhadapkonservatisme (Studiempirispadaperusahaanmanufaktur yang terdaftar di Bursa Efek Indonesia tahun 2012-2017). *JurnalEkomaks(JurnalIlmuEkonomiManajemen dan Akuntansi)*, *8*(1), 17-24.

[7] Leon, H. (2022, September). PengaruhLikuiditas, KebijakanDividen, Dan Investment Opportunity Set TerhadapKonservatisme Akuntansi. In *Prosiding National Seminar on Accounting UKMC* (Vol. 1, No. 1).

[8] Rivandi, M., &Ariska, S. (2019). PengaruhIntensitas Modal, Dividend Payout Ratio Dan Financial Distress TerhadapKonservatisme Akuntansi. *JurnalBenefita*, *4*(1), 104-114.

[9] Aurillya, S., Ulupui, I. G. K. A., & Khairunnisa, H. (2021). Pengaruh Growth Opportunities, Intensitas Modal, dan Debt Covenant terhadapKonservatisme Akuntansi. *Jurnal Akuntansi, Perpajakan, dan Auditing-JAPA*, *2*(3), 600-621.

[10] Putra, I. W. D., & Sari, V. F. (2020). Pengaruh Financial Distress, Leverage, Dan ProfitabilitasTerhadapKonservatisme Akuntansi. *JurnalEksplorasi Akuntansi*, *2*(4), 3500-3516.

[11] Pahriyani, R. A., & Asiah, A. N. (2021). PengaruhUkuranPerusahaan, Leverage, Dan Financial Distress TerhadapKonservatisme Akuntansi PadaPerusahaanManufakturIndustriBarang Dan Konsumsi Yang Terdaftar Di Bursa Efek Indonesia. *JurnalManajemen Dan Akuntansi*, *21*(2).

[12] Akhsani, M. Y. (2018). The Effect Of Growth Opportunity, Leverage, Financial Distress, And Company Size On Accounting Conservatism. In *Prosiding Business and Economics Conference In Utilizing of Modern Technology* (Vol. 1, No. 1, pp. 38-47).

[13] Haryadi, E., Sumiati, T., &Umdiana, N. (2020). Financial Distress, Leverage, PersistensiLaba Dan UkuranPerusahaanTerhadapKonservatisme Akuntansi. *Competitive Jurnal Akuntansi Dan Keuangan*, *4*(2), 66-77.

[14] Sumantri, I. I. (2018). PengaruhInsentifPajak, Growth Opportunity, dan Leverage TerhadapKonservatisme Akuntansi. *JurnalIlmiah Akuntansi UniversitasPamulang*, *6*(1), 122-145.

[15] Choiriyah, N. (2016). *PengaruhProfitabilitas, Likuiditas, Dan TingkatKesulitanKeuangan (Financial Distress) PerusahaanTerhadapKonservatisme Akuntansi* (Doctoral dissertation, STIE Perbanas Surabaya).

[16] Jessica Salim, P. A. (2018). AnalisisPengaruhIntensitas Modal, Likuiditas, Dan Leverage TerhadapKonservatisme Akuntansi. *Jurnal Akuntansi*, *7*(2).