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Analysis Of The Influence Of Growth Opportunities, Company Size And Financial Difficulties Risk On Accounting Conservatism Of Potentially Bankrupt Manufacturing Companies In Indonesia

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Abstract:

The purpose of this study is to ascertain whether accounting conservatism is influenced by firm size, prospective financial issues, and corporate growth opportunities, and whether this influence is mitigated by leverage. The author of this study employed the quantitative causal method. Purposive sampling is the procedure used in the sampling approach. The author used secondary data for this study. The yearly financial reports of manufacturing companies registered on the Indonesian Stock Exchange (BEI) provided the author with the secondary data used in this study. The author accessed the websites of each organization that satisfied the sample requirements in addition to the IDX website, which can be found at www.idx.co.id, to gather the necessary data. Using moderate regression analysis, the hypothesis test in this study examines the impact of the independent variable on the dependent variable and its moderating variable. The following conclusions can be made from this research based on the experiments that were conducted: Accounting conservatism is unaffected by a company's size. Accounting conservatism remains unaffected by potential financial difficulties. Accounting conservatism is influenced by growth potential. The relationship between accounting conservatism and corporate scale cannot be mediated by leverage. The association between the possibility of financial issues and accounting conservatism cannot be mitigated by leverage. The link between development prospects and accounting conservatism can be tempered by leverage.

Keywords: company size, potential financial difficulties, company growth, Indonesian Stock Exchange.

Introduction

The capital market as a means of bringing together companies and investors has recently developed rapidly in Indonesia. This can be seen from the effectiveness of the capital market function, which has brought together two interests, namely the interests of companies as capital seekers and the interests of investors as parties who wish to invest their capital with hope. To get a return, investors need relevant and accurate information to make investment decisions. Information that is useful for assessing achievements and viewing the company's economic condition is reported in a financial report. In other words, a financial report is a medium that stakeholders need to access important company information. Profit information, which is the main focus of financial reporting and provides details about a company's financial performance over a specific time period, is one of the crucial pieces of information that companies present in financial reports and that stakeholders use. The financial reports not only show the state of the economy and accomplishments, but they also show the outcomes of the management performance of the company. This is because the management of the company determines all the outcomes it will achieve through effective resource management (Angga & Sabeni, 2023).

The quality of information in financial reports published by companies can also influence the quality of investment decisions; therefore, financial reports are the center of attention for investors when considering decisions to be taken. This is because financial reports are the main component in considering investment decisions to be taken by stakeholders. The goals, regulations, and accounting principles in compliance with generally recognized standards must all be met by the financial reports in order to generate financial reports that are accountable for and beneficial to all users (Titin, 2016). The notion of recognition and measurement which specifies what, when, and how financial items and events must be recognized, measured, and reported in the accounting system the organization has implemented must be taken into account while generating financial reports. One of the challenges businesses encounter when processing accounting data to provide meaningful and valuable information is conservatism. When conservatism is applied, income and asset figures will typically be low and cost figures will typically be high. As a result, profits in the financial statements will be recorded lower (understatement). Conservatism is an accounting principle that follows the principle of slowing down the recognition of income and speeding up the recognition of costs incurred. Being conservative is a wise response to uncertainty. Because the company's operations are unpredictable, conservatism is a cautious approach that can be taken into account in financial statement accounting. Accounting conservatism can be defined as an exercise of caution in estimating profit because it is a principle that also pertains to profit information (Shella & Susanto, 2019).

The Financial Accounting Standards (SAK) in Indonesia give individuals the flexibility to select the accounting techniques they want to utilize when creating financial reports. Generally accepted accounting principles provide flexibility for management in determining accounting methods and estimates that can be used in carrying out accounting records and reporting the company's financial transactions. Management's freedom in choosing accounting methods can also be utilized to produce different financial reports for each company according to the company's wishes and needs. The flexibility given to company management in choosing accounting methods is what makes conservatism apply within the company. If in a company it is found that there is a possibility of excessive optimism from managers and owners, and the company is faced with uncertainty in the environment, then the company needs to implement conservatism within the company. Furthermore, the principle of conservatism can also be interpreted as a principle of caution in uncertain situations to avoid excessive optimism from management and company owners (Anggraini et al., 2020). The claim that conservative businesses are invariably increasing is consistent with earlier research showing that possibilities for expansion positively impact conservatism. Furthermore, a number of other research also claim that growth prospects and conservatism are related. Nonetheless, a number of studies also claim that prospects for growth have no bearing whatsoever on a company's decision to implement accounting conservatism (Munthe, 2018). Research findings on the impact of firm size and possible financial issues on conservatism have been inconsistent, leading to the addition of leverage as a moderating variable to the research paradigm. The link between the independent and dependent variables might be strengthened or weakened by moderating variables. Leverage was selected as a moderator because, according to the findings of other studies, it can also affect how accounting conservatism is used in a business.

Literature Review

When one or more people, referred to as principals, employ another person or organization, referred to as an agent, to carry out various tasks and assign decision-making authority, this is known as an agency relationship. This kind of agency structure can be used at the macro level, like the government or regulator, or at the micro level, with the size of the business. The government acts as a regulator, enforcing laws that the general population is required to follow. Political expenses are one type of regulation that the government makes. A company's policies will also affect the public interest; the government is one of the parties impacted by the policies the company makes. The impact of these policies varies depending on the size of the company; the larger the company, the greater the impact the public will experience (Santoso, 2010). Political costs that may result from conflicts of interest between a business and the government conflicts that arise because the two entities have different objectives may affect how the accounting conservatism principle is applied within an organization. In its capacity as a regulator, the government enacts laws to ensure the welfare of its citizens, whereas businesses' primary objective is to maximize profits in order to maintain their operations. Therefore, businesses present their finances conservatively in order to lower the amount of political fees they must pay. Large corporations are expected to be more susceptible to political expenses, according to the political cost theory. This is because large companies are synonymous with high political costs that must be paid. Therefore, to avoid the large political costs that must be paid by the company, the company applies the principle of conservatism to its accounting system (Wayan & Ratnadi, 2015).

Numerous researches have been done on the subject of firm size, which is associated with political costs for accounting conservatism, and the results have indicated that accounting conservatism is impacted by company size. The idea of positive accounting bears a strong connection to the reasons behind a company's decision to choose a particular accounting technique. The political cost hypothesis, the debt covenant hypothesis, and the bonus plan theory make up this theory. It is anticipated that managers will be more inclined to lessen the application of conservatism in businesses given the higher level of insolvency under positive accounting theory. This is due to the fact that unfavorable financial circumstances may incentivize shareholders to replace the company's managers, which may lower the managers' market worth in the job market. This request to replace the manager arises because the manager is seen as the person most accountable if the company encounters financial difficulties. If such circumstances occur, the manager's quality is viewed as low, which will affect investors' desire to replace the manager. These investors' desire pushes managers to control accounting profit reporting, which serves as a performance standard for managers (Tjahjadi, 2011). And because they are the ones in charge of the business, managers will lessen the degree of accounting conservatism in their organization in response to this threat. Conversely, managers are more likely to exercise greater prudence when the company's prospective financial issues are low in order to reassure investors that the business is not inflating profits and to stay out of trouble politically. Therefore, as users of financial reports, stakeholders need to understand that changes in accounting profits that occur Apart from being influenced by management performance, it can also be influenced by the principle of conservatism applied within the company (Ketut & Tista, 2017).

Financial distress has a favorable influence on accounting conservatism and a negative effect on conservatism, according to the findings of several research that have been done in the past to look at the relationship between the two. Prior studies likewise revealed no relationship between financial distress and accounting conservatism, indicating that financial strain has no effect on accounting conservatism. Businesses that adhere to the conservative principle have hidden reserves, which they will use to fund investments. As a result, conservative businesses are often associated with growth since they consistently make investments. Opportunities for growth give a business the chance to make lucrative investments (Yadiati, 2017). Investors will respond favorably to this expansion, resulting in a conservative market value of the company that exceeds its book value, which will foster goodwill. Furthermore, the company's investments will be positively viewed by the market because it is anticipated that the company's cash flow will improve going forward, based on the current investments. The more room there is for a business to grow, the more capital it needs. Because of this, managers must adopt the concept of conservatism to ensure that investment finance can be secured. This is because a high level of profitability can trigger high demands on the company, such as demands for political costs or the emergence of suspicions of a company monopoly, which can be read by regulators and other parties, so that growing companies tend to apply the principle of conservatism in their companies (Wayan & Ratnadi, 2015).

Methodology

The quantitative causal method is what the author used in this study. The causal relationship between the independent variable (X) and the dependent variable is investigated in this kind of causal quantitative study. The author of this study used companies that are designated as manufacturing enterprises that are listed on the Indonesia Stock Exchange (BEI) as research population. Purposive sampling is the procedure used by the sampling methodology in the meantime. The author used secondary data for this study. Secondary data is information that has already been gathered and processed by another party and is available in a ready-made format; it is typically published. The yearly financial reports of manufacturing companies registered on the Indonesian Stock Exchange (BEI) provided the author with the secondary data used in this study. The author accessed the websites of each organization that satisfied the sample requirements in addition to the IDX website, which can be found at www.idx.co.id, to gather the necessary data. The purpose of hypothesis testing is to determine if a hypothesis may be accepted or rejected by using the results of a study. Using moderate regression analysis, the hypothesis test in this study examines the impact of the independent variable on the dependent variable and its moderating variable.

Case studies

Based on the research results, it can be seen that the significance of Ha1 is 0.7. This value is greater than 0.05. The findings demonstrate that a company's level of accounting conservatism is independent of its size because the significance level is greater than 0.05. This is possible because big businesses attract a lot of interest from both internal and external sources, which means that they have to work very hard to make sure that investors and management are successful. Under intense scrutiny from several sides, big businesses will typically refrain from releasing upbeat financial reports to minimize political fallout, and they also won't try to release pessimistic financial reports to avert potential agency issues. The findings of this study corroborate those of earlier studies, which found no relationship between a company's size and the degree of accounting conservatism used there. Nonetheless, a number of other studies have produced findings that diverge from this one, indicating that a company's degree of accounting conservatism is influenced by its size. The result for Ha2 significance was 0.1. There is more than 0.05 in this value. The fact that the results are more than 0.05 suggests that a company's degree of accounting conservatism is unaffected by possible financial troubles. This demonstrates that a corporation does not attempt to implement the accounting conservatism principle when it is facing possible financial difficulties because it wants to preserve shareholder confidence that the business will continue to operate even in such circumstances. This dedication to upholding stakeholders' trust is consistent with one of the tenets of good corporate governance, namely transparency, which mandates those businesses give stakeholders access to material, pertinent, understandable information at all times. The study's findings are consistent with earlier research, which found that a company's degree of accounting conservatism is unaffected by possible financial troubles. This contradicts other research, which claims that the degree of accounting conservatism in businesses is influenced by possible financial troubles.

It is evident from the study findings that Ha3 has a significance level of 0.002. This figure is below 0.05. The results show that expansion prospects can affect a company's level of accounting conservatism because the results are less than 0.05. This may arise because expanding businesses are more likely to be driven to reduce profits in order to reduce potential political consequences. This is because the business is becoming larger and making more money. The present study's findings are consistent with earlier research indicating that expansion opportunities impact accounting conservatism. Nonetheless, there exist alternative research findings that challenge the findings of this investigation, indicating that growth prospects do not impact accounting conservatism. This value is greater than

0.05 according to the Ha4 significance result of 0.6. Although the significant values obtained > 0.05 and the t-calculated value in this hypothesis test is 0.54, these data suggest that leverage cannot control firm size at the level of accounting conservatism in a corporation. The corporation may not make more thoughtful selections simply because it has a lot of debt. This condition can occur allegedly due to the supervision of the company's operations and accounting by creditors, which is not too strict, thereby providing flexibility and leniency for managers in their debt agreements, especially if the company is a large company, or it could be said that it does not have significant financial difficulties that create trust. Leverage does not influence the correlation between the size of the company and the degree of conservatism because creditors are becoming more and more eager to grant loans. The findings of this study go counter to earlier research, which claimed that leverage can positively reduce the effect of firm size on accounting conservatism.

According to the study, Ha5's significance was 0.09. There is more than 0.05 in this value. With a significance level of greater than 0.05 and a t-calculated value of -1.7 for this hypothesis test, the findings suggest that leverage is unable to mitigate the impact of possible financial issues on accounting conservatism inside an organization. Leverage does not mitigate the impact of possible financial troubles on conservatism, which is why this can occur when a company is facing probable financial difficulties and will reduce its amount of leverage. The findings of this study support earlier findings that leverage cannot mitigate possible financial risks associated with accounting conservatism. It is evident from the study findings that Ha6 has a significance of 0.01. This figure is below 0.05. The results of this hypothesis test show that leverage can moderate by lessening the impact of growth opportunities on accounting conservatism in a company. This implies that a company with growth potential will be less conservative when it comes to leverage ratios. The t-calculated value in this test is -2.6. The significance results obtained < 0.05. This is possible because the Pecking Order hypothesis states that organizations with a large market value must increase their leverage because of investment opportunities that exceed retained earnings in order to take advantage of growth prospects. However, the debt covenant hypothesis in positive accounting theory states that companies that have a high leverage ratio will tend to be optimistic by preferring to use accounting procedures that can replace reporting profits for the future period with the current period, and this is in contrast to the principle of accounting conservatism. Therefore, a high level of leverage will make growing companies less conservative.

Conclusion

The following findings may be made from this research based on tests that were conducted using the moderate regression test: The size of a corporation has no bearing on conservatism. Accounting conservatism is unaffected by taking prospective financial challenges into consideration. Accounting conservatism is influenced by growth potential. The relationship between accounting conservatism and corporate scale cannot be mediated by leverage. The association between the possibility of financial issues and accounting conservatism cannot be mitigated by leverage. Leverage can moderate the relationship between the influence of growth opportunities on accounting conservatism. With this research, researchers hope to provide additional information to investors who want to invest. The existence of company size and the potential for financial difficulties in a company apparently do not make the company more or less conservative in its financial reports. It is hoped that this research can contribute to the world of economics and research development, especially in the field of accounting conservatism. This research is also expected to provide additional information regarding what factors influence and can influence accounting conservatism. It is hoped that future research will be able to provide better and more comprehensive results with the following suggestions, namely: using other proxies in calculating accounting conservatism, such as the asymmetric cash flow to accruals measure ratio or net asset measure. Future researchers can use a broader research sample and not just limit it to manufacturing companies. Future researchers can add independent variables such as political costs, litigation risk, managerial ownership, and other variables that are relevant to their research. Future researchers can increase the research period to five years or more.

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