

Conference Paper

The Influence of the Financial Distress, Conflict of Interest, and Litigation Risk on Accounting Conservatism

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Abstract

This study aims to determine the effect of financial distress, conflict of interest, and litigation risk on the implementation of accounting conservatism. Data were collected from 20 annual reports of a manufacturing company in Indonesia, which is being experienced financial distress from the period 2014 to 2017. Model data analysis in this research is panel data regression. The results of this study indicate that financial distress can reduce the application of accounting conservatism. Relatively low conflicts of interest between investors and creditors have not been able to influence accounting conservatism. However, conservative reporting can avoid the litigation risk in the future. This research can be an input for companies to recognize early financial conditions, so they can overcome problems that might occur. For investors, creditors, and the government must monitor the behavior and actions of managers in presenting financial statements so as not to harm other parties. For further research can use financial that are prone to detect financial distress and add samples from other company sectors.

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1. Introduction

The financial report is one of the sources of the information presented by the company to external parties as users of financial statements in assessing the company's performance. Therefore, the company is obliged to publish financial reports to provide information to the users of the financial statements in taking decisions both internal and external (Henry 2017:164). The financial statements drawn up on the basis of Standar Akuntansi Keuangan (SAK) which had been made by Ikatan Akuntansi Indonesia (IAI) Accounting. Company will present the financial report with *tobewarean* (prudence) to face an uncertain economy in the future or called accounting conservatism (Odia dan Osazevbaru 2018). Conservatism made at the time of the company's hesitation facing

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the future by doing the accounting reporting alternative which serves the profit be low (Henry 2017:91).

The change of SAK that some still refer to the United State Generally Accepted Accounting Principles (US GAAP) to International Financial Reporting Standard (IFRS), resulting in changes regarding rules or guidelines in the presentation of financial statements. Since 1994 most of SAK already referred to the International Accounting Standard (IAS) or now known as IFRS, but some are still referring to US GAAP. In 2006, Indonesia as one of the countries that are members of the Group of Twenty (G20) summit in Washington, DC 15 November 2008 started his discourse in the convergence of IFRS into the already-existing IFRSs 2008-2012 (Ikatan Akuntansi Indonesia, 2018). The convergence of IFRS, assessment and measurement, both assets and debt will provide assessment options with a fair value or fair value (Aristiya & Budiharta, 2013). Conservatism which had previously been accepted principles in the US GAAP is estimated to decrease the level of implementation or say conservatism principle be eliminated and replaced by the reaction of prudence.

The phenomenon of the accounting conservatism have been carried out by the company in Indonesia, as in the case of financial statement manipulation that occurred in the company PT.Timah (Persero) Tbk for three years since 2013. The Board of Directors PT.Timah presenting fictitious financial statements to cover the financial performance continues to decline, by presenting operating earnings net loss of Rp 59 billion. As well as an increase in debt is almost 100%, from Rp 263 billion in 2013 increased to Rp 2.3 trillion in 2015 (Tambang, on January 27th 2016). Another case that is scandalous financial statements PT.Indofarma Farma Tbk and PT.Kimia inflate net income that is higher than the previous year.

Factors influencing accounting conservatism is a financial distress. Financial distress caused due to delays in payment of the debt, the failure to pay a debt when the contract extension expires, suspension, demands or litigation (Kao & Sie 2016; Chung, et al., 2003). *Positive Accounting Theory* (PAT) shows that the existence of financial distress lowering of accounting conservatism (Demonier, et al., 2015; Bertomeu, et al., 2015). Managers fear investors will replace other managers with better quality due to the bad performance of managers when the company's declining financial condition (Vishnani & Misra 2016). Therefore, the manager will create a spider as a benchmark its performance. One of them is to increase profits or decrease accounting conservatism. Based on the description then it can be formulated as the following hypothesis:

H_1 : the financial distress had negative effect on accounting conservatism.

Another factor that may affect the accounting conservatism is a conflict of interest because of the disagreement the interests between investors and creditors. Watts & Zimmerman (1990) in the PAT explains back two types of agency problem, namely, between (1) managers and investors, (2) investors and creditors. This research focus on conflicts of interest between investors and creditors. Conflicts occur because it is considered the existence of a transfer of wealth from creditors to investors through payment excessive dividends to investors so that it is not available a net asset to pay the debt burden to the creditors (Lara, et al., 2017). Therefore, according to PAT through a contract debt pushed the creditors are demanding managers to apply accounting conservatism (Ahmed & Duellman, 2007; Tan, 2013). Based on the description then it can be formulated as the following hypothesis:

H₂: the conflict of interest between bondholder-shareholder had positive effect on accounting conservatism.

The litigation risk or lawsuits arising from external interested parties can also affect accounting conservatism. External parties interested in the company include investors, creditors, and regulators. In terms of investor demand for the company deliberately conceal some negative information (badnews) should be reported and record profits are too high (Christensen, et al., 2015). From the side of the creditors, litigation arises because the company does not meet its debt obligations and pay excessive dividends to investors who do not fit the requirements of the agreed contract (Ramadhoni, 2014). Therefore, to avoid litigation risk that may occur, company will apply the appropriate conservatism contracts with external parties. Increasingly stringent legislation in potential litigation if companies breach that encourages managers to be cautious in presenting the financial statements (Lasdi, 2009). Based on these descriptions can be formulated hypotheses as follows:

H₃: The litigation risk had positive effect on accounting conservatism.

2. Methods

2.1. Sample Research

This study observed 2014 to 2017 during the period of Joko Widodo-Jusuf Kalla (JW-JK) to determine the extent of the application of the latest conservatism accounting current high inflation rate. Companies will be more cautious or conservatism present financial statements when the economy is unstable. The reason researchers use a manufacturing

company, for manufacturing activities complex, capital intensive and vulnerable to economic conditions that will affect the presentation of its financial statements (Watts, 2003; Bertomeu, et al., 2017). Another reason that strengthens the selection of a manufacturing company as the research object which is the number of cases, especially earnings management, which involves many manufacturing companies. Therefore, observations were made at a manufacturing company in the Indonesia Stock Exchange (BEI) by using purposive sampling method according to the criteria in Table 1.

TABLE 1: Sample Determination.

No.	Description	Total
1.	The listed manufacturing companies in BEI during the period from 2014	136
2.	Manufacturing companies that publish financial statements as of December 31 th	135
3.	Companies are having trouble with a Z-score <1.23 *	20
	Years of research	4
	Total number of samples in research	80

2.2. Measurement of Variable

2.2.1. Accounting conservatism

Conservatism measured by the accrual method, since the amount of the accrual that appear in the financial statements is a result of operational activities of the company (Ball & Shivakumar, 2005). Measurement latest conservatism measured by Zhang (2008), namely the development of the previous accrual method of dividing the non-operating accrual by total assets. Here's the formula:

$$\text{Accounting Conservatism (AccCon)} = \frac{\text{non operating accrual}}{\text{total asset}}$$

$$\text{AccCon} = \frac{\text{total accrual (TA)} - \text{operating accrual (OA)}}{\text{total assets}}$$

Where:

$$\text{TA} = (\text{net profit} + \text{depreciation}) - \text{operating cash flow}$$

$$\text{OA} = \Delta \text{ accounts receivable} + \Delta \text{ inventories} + \Delta \text{ prepaid expenses} - \Delta \text{ accounts payable} - \Delta \text{ expenses paid} - \Delta \text{ tax payable}$$

2.2.2. Financial Distress

Financial distress is measured by the criteria of bankruptcy using Altman Model (1968) by measuring the form of the Z-score (Altman, 1968; Kao & Sie 2016; Chung, et al., 2003). This study using the Z-score, because it deals directly with the financial ratio that shows the company's performance in the financial statements (Kao & Sie, 2016). Z-score formula for manufacturing companies expressed in the equation:

$$Zscore = 1,2Z_1 + 1,4Z_2 + 3,3Z_3 + 0,6Z_4 + 1Z_5$$

Notes:

Z1 = Working capital / total assets

Z2 = retained earnings / total assets

Z3 = Earnings before interest and taxes / total assets

Z4 = Total capitals / total debts

Z5 = sales / total assets

Criteria for possible bankruptcy by looking at the value area Z, include: (1) $Z > 2.90$ in the safe position, (2) 1.23 to 2.90 in the prone position, and (3) $Z \leq 1.23$ in a difficult position.

2.2.3. Conflicts of Interest

Conflicts of interest between investors and creditors be seen from the presence or absence of a dividend payment policy of the company (Ahmed et al. 2002). The dividend distribution is currently floundering company would benefit investors but detrimental to creditors (Chen, et al., 2017). Conflicts of interest can be seen from the dividend policy by using a dummy variable, 1 = dividends and 0 = no dividend (Ranajee, et al., 2018).

2.2.4. Litigation Risk

The litigation risk is a legal requirement of external companies who feel aggrieved because of the decision taken by the manager (Ramadhoni, 2014; Watts 2003). If the value of debt is higher than the capital value proves that managers implement appropriate conservatism debt contracts to address the risk of litigation. Presentation of high debt resulted into low income can also avoid excessive tax payments to the government. The formula is as follows.

$$DER = \frac{\text{total debts}}{\text{total capitals}}$$

2.2.5. Control Variables

In testing the hypothesis envisaged the existence of control variables to test the financial difficulties, conflict of interest, and the risk of litigation i.e. company size and institutional ownership (Ahmed & Duellman, 2007; Ahmed & Hussainey, 2017; Rahmawati 2010; Givoly dan Hayn 2002).

The size of the company are measured using the formula:

$$\text{Firm Size} = \text{Ln} (\text{Total Assets})$$

Institutional ownership is measured using the formula:

$$\text{Institutional Ownership} = \frac{\text{Number institutional investor shares}}{\text{Total number of shares purchased}}$$

2.3. Data Analysis

This research use techniques analysis regression in panel. The following regression model without control and variable panels use the control as follows:

$$\begin{aligned} \text{AccountingConsevatism}_{it} = & \alpha + \beta_1 \text{Financial Distress}_{it} + \beta_2 \text{Conflict of Interest}_{it} \\ & + \beta_3 \text{Litigation Risk}_{it} + e_{it} \end{aligned} \quad (1)$$

$$\begin{aligned} \text{AccountingConsevatism}_{it} = & \alpha + \beta_1 \text{Financial Distress}_{it} + \beta_2 \text{Conflict of Interest}_{it} \\ & + \beta_3 \text{Litigation Risk}_{it} + \beta_4 \text{Firm Size}_{it} \\ & + \beta_5 \text{Institutional Ownership}_{it} + e_{it} \end{aligned} \quad (2)$$

Notes:

α = constant

β = Coefficient of regression

e = Error term

i = Companies to-i

t =Period to t

Before conducting a panel regression analysis, a classic assumption test is needed. This study has fulfilled the classical assumption test requirements to get good analysis results, namely: (1) normality test on all variables has a value of z skewness and z kurtosis between -3 and +3, so the data is normally distributed. (The normality test also aims to prove that the sample truly represents the population, so that research results can be

generalized to the population (Ghozali, 2012)) (2) multicollinearity test all variables have tolerance values more than 0,25 and VIF less than 4, so no multicollinearity problems are found. (Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. If the p-value > 0.05 in the Glejser test, the regression model does not occur heteroscedasticity (Hair, et al., 2010)) (3) heteroscedasticity test has a Prob Chi square value (Obs * R-squared) of 0,16 more than 0,05, so that there is no problem of heteroscedasticity. Therefore, this research is worthy of further analysis. (Multicollinearity test needs to be done when linear regression uses more than one independent variable that there should be no correlation between independent variables (Ghozali, 2012). If the tolerance value > 25% and VIF value < 4 then there is no correlation between independent variables or multicollinearity problems occur (Hair, et al., 2010))

3. Result

3.1. Descriptive Statistics

Table 2 shows the descriptive statistics of dependent variables, independent variables and control variables.

TABLE 2: Descriptive Statistics.

Variable	Minimum	Maximum	Mean	Std. Deviation
Y Accounting Conservatism	-1.82	1.64	0.41	0.63
X ₁ Financial Distress	-6.45	1.22	-1.10	1.93
X ₃ Litigation Risk	-6.93	11.10	0.60	3.12
Z ₁ Firm Size	20.62	29.22	25.92	2.18
Z ₂ Institutional Ownership	0.41	0.98	0.71	0.16

Financial distress, litigation risk and accounting conservatism have a standard deviation greater than mean. It shows the amount of deviation of the data or the distribution of data from each of the variables that are relatively heterogeneous data or variable (Christensen, et al., 2015). Accounting conservatism as measured by the accrual models have the lowest value of -1,82 or < 0 then sampled companies implement high conservatism (Givoly & Hayn, 2002). Therefore, the company presents financial statements with caution in the current uncertain conditions resulting profits into low (understatement).

Financial distress is measured by the criteria of Altman Z-score model to determine the company's financial experience difficulties or not (Chung, et al., 2003). Average manufacturing companies are experiencing financial distress or go bankrupt with a

value of -1,10 or criteria <1,23 (Kao & Sie 2016). This happens because the criteria for sample observation was performed at manufacturing companies are experiencing financial difficulties in a row.

Litigation risk is measured by the DER has a minimum value of -6,93 indicates that the sample of firms making losses or accumulation of losses in a row. This happens because the researchers took a sample of companies that are experiencing financial distress in a row. Litigation arises because managers violated debt contracts and presents earnings are too high (Chen, et al., 2018). Based on the results show that the value of the debt is higher than equities with maximum values of 11,10 or 1.110%, causing profit to be low.

The firm size measured using by Ln of total assets had a mean value of 25,92. the value indicates that the sample size manufacturing firms classified as moderate as it has total assets of less than 100 billion (Japlani 2015). Institutional ownership has a mean of 0,71 which indicates that the shares are owned by institutional investors is relatively large. Companies with a large institutionally ownership will encourage increased surveillance of external parties on performance management (Ahmed & Duellman, 2007).

Conflict of interest is measured by a dummy variable that descriptive statistics carried out separately in Table 3. Conflicts of interest in the information that the sample companies where one dividends and 0 not. Data show that the company making the distribution is relatively low at 13,9% and the rest chose not to distribute dividends.

TABLE 3: Conflicts of Interest.

Information	Frequency	Percent
Not Distribute dividends	62	86.1
Dividends	10	13.9
Total	72	100.0

3.2. Correlation Analysis

Correlation analysis aims to determine the relationship between the independent variable, the dependent variable and the control variables. Table 4 shows that the correlation results were negatively correlated to financial distress and litigation risk is positively correlated with accounting conservatism. Meanwhile, conflicts of interest, has no correlation with conservatism. Variable financial distress were positively correlated with the firm size and negatively correlated with institutional ownership.

TABLE 4: Correlation Analysis Results.

Variables	Y	X ₁	X ₂	X ₃	Z ₁	Z ₂
Y Accounting Conservatism	1.00					
X ₁ Financial Distress	-0.32 **	1.00				
X ₂ Conflicts of Interest	-0.04	-0.09	1.00			
X ₃ Litigation Risk	0.44 ***	0.09	0.05	1.00		
Z ₁ Firm Size	-0.02	0.23 *	-0.20	0.18	1.00	
Z ₂ Institutional Ownership	-0.04	-0.38 *	0.03	0.21	0.51	1.00

***. Correlation is significant at a p-value <0.001, ** p-value <0.01, * p-value of <0.05

3.3. The Election of Panel Model

Table 5 shows the results of the selection of the panel regression model to find the most appropriate model used in the study.

TABLE 5: Results of Estimation Model Selection Panel.

Test Regression Model	Model 1 (without control variables)	Model 2 (with control variables)	The model chosen
<i>Chow Test</i>	0.00	0.00	<i>fixed effect</i>
<i>Hausman Test</i>	0.01	0.04	<i>fixed effect</i>
<i>LM test</i>	0.00	0.00	<i>Random effects</i>

Testing is seen from H₀ and H₁, H₀ is rejected if the p-value less than the value of α. Instead, H₀ can't be rejected if the p-value is greater than the value of α. A value used by 5% or 0,05 (Sriyana, 2014:179). Table 5 shows that the fixed effect model was elected twice to make this research the most appropriate use of the fixed effect model.

3.4. Panel Regression Analysis

Appropriate regression model in this study is a random effect. In Table 6, it can be interpreted that when X₁ (financial distress), X₂ (conflict of interest), and X₃ (litigation risk) each is 0, then the value of the accounting conservatism is 0,60. When the level of the financial distress increased 1% then the accounting conservatism will decrease by 0,16%. When companies have a conflict of interest between investors and creditors at the time dividends, then there is a decrease in the application of accounting conservatism of 0,42%. Litigation risk increased by 1% then there is a chance the implementation of accounting conservatism of 0,08%.

Table 6 shows the value equation constants (α) regression model I and model II, which is equally positive value (0,60) and (1,98). Positive constants on the model I and II model states that the absence of variable financial distress, conflicts of interest, and litigation risk, the conservatism tends to increase. The addition of control variables firm size and institutional ownership does not affect the constant changes and significance. Constant value positive or negative is essentially not affect the results of the regression equation and can be ignored for the regression model we tested had met the assumptions and for the value of the slope is not equal to zero (Dougherty 2011:13).

TABLE 6: Fixed effect model.

	Model I	Model II
(Constant)	0.60	1.98
X ₁ Financial Distress	-0.16**	-0.18***
X ₂ Conflicts of Interest	-0.42	-0.28
X ₃ Litigation Risk	0.08**	0.08***
Z ₁ Firm Size		-0.01
Z ₂ Institutional Ownership		-1.66
R ²	0.79	0.81
Sig. F test	0.00	0.00

* Significant at $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

3.5. Hypothesis Testing

3.5.1. F-test

Tabel 6 shows that the p value $< 0,05$, which means that financial distress, conflicts of interest, and litigation risk jointly significant effect on accounting conservatism. Then, *R-Square* has a value of 0,79 which means financial distress, conflicts of interest, and litigation risk is able to explain 79% of the variation of accounting conservatism.

3.5.2. t-test

Table 7 shows that X₁ has a p-value $< 0,05$ and a coefficient marked negative (-) which means financial distress had negatively affect accounting conservatism. This means that H₁ which states that financial difficulties negatively affect accounting conservatism cannot be denied. Variable X₂ has a p-value $> 0,05$ and the coefficient is negative (-) which means that a conflict of interest has no effect on accounting conservatism.

Thus, H₂ which states that a conflict of interest has a positive effect on conservatism is rejected. Variable X₃ has a p-value <0,05 and the coefficient is positive (+), which means the risk of litigation has a positive effect on accounting conservatism. Thus, H₃ which states that litigation risk positively influences accounting conservatism cannot be rejected.

TABLE 7: Result of t-test.

Variables	Coefficient	Std.Error	t-statistic	P-value
MODEL 1 (Constant)	0.60	0.08	7.15	0.65
X ₁ Financial Distress	-0.16	0.05	-3.36	0.00
X ₂ Conflicts of Interest	-0.42	0.43	-0.97	0.33
X ₃ Litigation Risk	0:08	0.02	3.39	0.00
MODEL 2				
(Constant)	1.98	7.54	0:26	0.79
X ₁ Financial Distress	-0.18	0.05	-3.52	0.00
X ₂ Conflicts of Interest	-0.28	0.43	-0.66	0.51
X ₃ Litigation Risk	0.08	0.02	3.53	0.00
Z ₁ Firm Size	-0.01	0.29	-0.03	0.98
Z ₂ Institutional Ownership	-1.66	0.72	-2.31	0.25

4. Discussion

4.1. The Effect of Financial Distress on Accounting Conservatism

The research found that financial distress negatively affect accounting conservatism, The minus sign (-) in the X1 regression coefficient indicates that the financial distress associated with conservatism negative. The results of this study do not support previous research conducted by Hsu, et al (2011), Fitri (2015) and Alhayati (2013). However, support research conducted by Kao & Sie (2016), Lo (2006), Demonier, et al (2015), Penman & Zhang (2002), Ahmed, et al (2002), Pramudita (2012), Larmande, et a (2017) and Bertomeu, et al (2017).

Troubled financial conditions caused by the poor quality of the manager. It is encouraging investors to turn the manager who then lowers the market value of the relevant managers in the labor market (Ramadhoni, 2014). Therefore, managers will manage profits by reducing conservatism in improving the quality of its performance. One of the ways earnings management to improving earnings is choosing accounting procedures by shifting the upcoming earnings reporting period to the current period. The results are

consistent with the PAT, which shows that the financial distress reduce on accounting conservatism.

The lower the value the more difficult financial hardship finance company, resulting in an increasingly conservative report. Based on the average value of -1,10 financial distress show that majority of the samples the company is having trouble for four consecutive years. Conservative recording will cause profits to low added in times of loss. If the company presents a low income then it is likely the company will go bankrupt because of unstable financial (Balakrishnan, et al., 2016). Presentation of low profits consecutively disappointing investors, so the manager decided to lower the current conservatism trouble to hide bad performance with earnings management.

4.2. The Effect of Mitigating Creditors-Shareholder Conflicts on Accounting Conservatism

This study found that a conflict of interest between investors and creditors do not affect the application of accounting conservatism. This is in accordance with the correlation analysis that there is no conflict of interest with the correlation between conservatism and vice versa. The results of this study supports research conducted by Wisuandari & Putra (2018) and Fitri (2015). However, supports previous studies conducted by Tan (2013), Ahmed, et al (2002) and Zhang (2008).

Not significant is due to the different sampling and the research period of the previous research, so influenced by different economic conditions. In addition, the alleged results is not significant because only 13,9% of the company paying the dividends when experiencing difficulties that the conflict between investors and creditors is still low. Conflicts of interest seen from the presence or absence of dividend policy at the time of loss (Fitri, 2015). If the company paying the dividends is relatively small then the conflict is also low, so the impact on the conservative accounting is also small. The results of this study do not correspond with the PAT that a conflict of interest under the contract of debt (debt covenants) may affect the application of accounting conservatism.

Creditors through debt contracts would ask for their rights on the manager to report a conservative accounting to protect the interests of creditors when companies distributed dividends redundant, because it can reduce the availability of assets to meet the obligations of the company to creditors (Vishnani & Misra, 2016). However, an efficient debt contract has not been reached on a sample of companies because there is no anticipation of possible conflicts of interest surrounding the dividend policy that occurred between investors and creditors in the future. The contract will be achieved if

the conflict can be resolved by applying the conservatism that no excessive dividend payments to investors and the availability of assets for debt repayment to creditors guaranteed.

4.3. The Effect of Litigation Risk on Accounting Conservatism

This study found that the risk of litigation significant positive effect on accounting conservatism, which means the higher the risk of litigation, the increasing application of accounting conservatism. This has been described on the correlation analysis that the risk of litigation has a positive correlation to the conservatism and vice versa. The results of this study do not support previous research by Juanda (2007) and Fitri (2015). However, supporting previous studies conducted by Christensen, et al (2015), Chung, et al (2003), Cheng, et al (2015) and Lasdi (2009).

Litigation risk indicators obtained from the company's inability to pay the debt in the short term and long term use DER (Liu & Elayan, 2015). The risk of litigation has a maximum value of 11,10 or 1.110% where the value above the maximum limit common ideal value is 4: 1 or 400%, which means that the value of the debt is greater than equity (Liputan 6, on November 4th 2015). It is proved that the manager presents a high debt to make a profit to be low to avoid lawsuits or litigation costs. Presentation of earnings are low and debt is too high this is a sign of the application of conservatism. Thus, result of this study in accordance with the PAT that the application of accounting conservatism can avoid litigation risk.

Costs borne by the company because the litigation is not a bit, because the company had to deal with the law in force in time of the offense in the business world (Christensen, et al., 2015; Liu & Elayan, 2015). This happens because fault management in presenting financial statements to increase their own profits by providing high profit in bonuses (Juanda, 2007). Therefore, the external supervision of the effective and strict law enforcement as well as the optimum can encourage managers to be careful in the act and make decisions in order to avoid the threat of legal provisions in force. Prudential nature present financial statements in the current uncertain conditions is called conservatism accounting.

5. Conclusion

5.1. Conclusion

Based on testing that has been done, three conclusions are made. First, negative financial distress towards the application of accounting conservatism. Managers do not want to increase profits to be lower that renew the company's image and reduce the quality of manager's performance. However, financial distress also provide managers opportunities to manipulate high profits. Therefore, investors and creditors must be careful to invest their funds in the company while adding to losses.

Second, conflicts of interest between investors and creditors do not conflict with the adoption of conservative accounting. The conflict arose the company collected excessive dividends or transferred wealth from creditors to investors. Managers do not need to report conservative accounting according to expenditure contracts, because conflicts of interest that occur are relatively small. Furthermore, creditors must be safe and secure because companies that distribute dividends are relatively low.

Third, the risk of litigation against conservative accounting presentations. The risk of litigation from external parties can be disadvantaged because of the prior coverage manager. Purchasing Manager because there is an opportunity to obtain the benefits themselves, so there needs to be supervision over the actions of managers in providing financial statements. In addition, the government must be more than companies that do not produce conservative profits specifically in the determination of political costs, such as taxes.

5.2. Limitations & Suggestions

Limitations of this study is the elimination of outliers for the data to be normal so that the results of this study less than the maximum. Another limitation is the addition of control variables to support the research does not affect the analysis at all.

Suggestions for further research are not only using the company experienced difficult financial criteria. But also using the company financially vulnerable to examine the application of conservatism. Moreover, adds the research sample of other financial sector companies such as banks, mining, property, real estate, investment, transportation, and many others to know the condition of the recording conservatism in Indonesia as a whole.

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