

THE ROLE OF *ACCOUNTING CONSERVATISM* INFLUENCE *FINANCIAL DISTRESS* AND *LITIGATION RISK* ON SUSTAINABILITY REPORT OF INFRASTRUCTURE COMPANIES LISTED ON *INDONESIAN STOCK EXCHANGE* FOR THE PERIOD 2019 – 2021

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Abstract

This study aims to determine the role of Accounting Conservatism in the influence of Financial Distress and Litigation Risk on the Sustainability Reports of Infrastructure companies listed on the IDX for the period Q12019-Q32021. The population in this study used Infrastructure, Utilities, and Transportation companies listed on the Indonesia Stock Exchange (IDX) in Q12019-Q32021 as many as 79 companies from Infrastructure, Utilities, and Transportation. The sample in this study was 21 companies from a total of 79 Infrastructure, Utilities, and Transportation companies listed on the Indonesia Stock Exchange (IDX). This research method uses quantitative methods and uses purposive sampling technique. In this study there is a data analysis technique that uses classical assumption tests and path analysis. Based on the results of data processing shows, Financial Distress affects Accounting Conservatism, Litigation Risk has no effect on Accounting Conservatism, Accounting Conservatism affects Sustainability Report, Financial Distress affects Sustainability Report, Litigation Risk has no effect on Sustainability Report, Accounting Conservatism can mediate Financial Distress's influence on Sustainability Report, Conservatism Accounting can mediate the effect of Litigation Risk on sustainability reports..

Keywords

Financial Distress, Litigation Risk, Accounting Conservatism, and Sustainability Report.

1. Introduction

Pandemic *Covid-19* has become a challenge for the business world, including the service industry in the infrastructure sector, the crisis due to the Covid-19 pandemic has developed in such a way that it causes changes or decreases in global economic activity. In general, the main purpose of the establishment of a company is to obtain optimal profit or profit from utilizing the potential possessed by the company properly. However, the profit he is looking for means that he has to close all operations and others until he reaches the end of financial difficulties

that can cause the company to default, this is one of the impacts of the Covid-19 pandemic (Khan & Ullah, 2021). This impact occurs having risks that cannot be controlled or cannot be handled properly, namely the influence of Financial Distress and experiencing Litigation Risk. this is one of the conditions in which the most frequent cause of bankruptcy. the existence of financial conditions is not sufficient to predict or minimize the occurrence of financial distress.

In this study, using the role of accounting conservatism to see if there is an effect on Financial Distress and Litigation Risk. Accounting conservatism is a very cautious reaction when faced with the inherent uncertainty of the company to try to ensure that the uncertainties and risks in the business environment are adequately considered. With the role of Accounting Conservatism, we will see whether these companies have Financial Distress or Litigation Risk or not, in a sustainable report because through Accounting Conservatism we can see whether there is an influence of Financial Distress and Litigation Risk. Sustainability reports are one of the most popular things published by companies that are useful as a communication tool for companies in revealing how the company can carry out sustainable development. Sustainability reports are the most important factor of a company that is useful for accountability between consumers, shares, communities and communities in operational aspects, in a sustainability report it is very important to be used in an organization or company as a strength in discussions with the community and stakeholders. The existence of a growing industry can have a negative impact resulting in high public expectations and the interests of the company in getting benefits for business people by developing the business. Sustainability reports currently have a very important position in the company as disclosure of information such as what has been disclosed by financial statements for companies as a form of accountability for management with stakeholders in the company to expand sustainability reports by lowering profits and incurring social responsibility costs resulting in company profits being reduced. overstatement, the company must carry out accounting conservatism in the company.

1.1 Objectives

This research aims to analyze the Role of Accounting Conservatism in the Influence of Financial Distress and Litigation Risk on sustainability reports.

2. Literature Review

2.1 Financial Distress

Financial Distress can result in early symptoms for the company will experience bankruptcy or bankruptcy against a decline in the company's financial condition (Octiana et al., 2020). If there are problems in the company's finances that can encourage shareholders to change company managers, and the market value of the manager concerned in the labor market has decreased, this is a threat to company managers in regulating the pattern of accounting profits which is one of the benchmarks for managers' performance. When the company experiences Financial Distress, that's when company managers must carry out earnings management that is useful for the company in providing useful signals by showing short-term earnings performance that continues to increase even though the company's actual condition is in trouble.

For companies to avoid the occurrence of corporate bankruptcy, various strategies, policies, and assistance from internal and external parties are needed. The occurrence of financial distress for the company is caused by the company because the company is late in debt payments, the company experiences failure in debt payments when the contract has expired, delays and demands or litigation made by the company. (Mar'atus Sholikhah & Wilujeng Suryani, 2020). The occurrence of Financial Distress in the company has 3 internal and external factors, according to (Supriati et al., 2019) which states that the main factor in causing Financial Distress from the main factors of the company's internal, namely company losses, the amount of debt and cash flow difficulties while the cause of Financial Distress from factors The main external factors of a company are in the form of government policies that have increased tax rates, an increase in loan interest rates, and fluctuations in currency exchange rates against other countries' currencies, from these external factors resulted in an increase in operating expenses that must be borne by the company.

2.2 Litigation Risk

A common cause of litigation risk is investor losses due to the presentation of high profits to the company and cannot be accounted for (Agata et al., 2021). Litigation risk is one of the costs that can cause a lot of burdens due to dealing with the law as a symptom of risk for companies that raises the threat of litigation related to parties who feel aggrieved, litigation risk can be seen from various financial indicators that reflect the threat of litigation. The occurrence of litigation risk arises from the side of investors and creditors, where on the investor side the

occurrence of litigation that has arisen due to the company is running operations that will cause losses to the investor there is a movement in price and volume of shares while on the creditor side there is litigation that arises because the company has not carried out its operations in accordance with the applicable contract while the company has agreed at the beginning with the inability for the company to pay the debt that has been agreed upon by the two parties. An example of a litigation case from a creditor's perspective is when a corporation fails to fulfill its obligations under the contract to pay the agreed debt, so the creditor will sue him to the legal table (Rahmi & Baroroh, 2022)

2.3 Conservatism Accounting

The definition of conservatism is contained in the Financial Accounting Standards Board (FASB) in Concept Statement no. 2 (Handajani et al., 2020), defines conservatism as a reaction of caution in the face of uncertainty that may occur during economic activity. The conservatism is a principled action with full consideration and calculation to be useful in dealing with business uncertainties through calculated risk management. Conservatism is a controversial accounting concept, which has many conflicts about the use of conservatism in the preparation of financial statements for companies.

Accounting conservatism means to reduce risks to the company and excessive use of confidence caused by managers and company owners then in the use of conservatism cannot be used excessively, but conservatism is considered not to reflect the financial conditions for the actual company so as to affect the quality of the company's financial statements. Information in the company that does not reflect the truth will result in the company being at a loss in reporting quality and profit quality, this will lead to misdirection of the users of financial statements in making decisions (Sulastri & Anna, 2018). Accounting conservatism as a principle of financial statements that have been regarded as controversial which is shown to be useful to recognize by measuring assets and profits by doing them carefully, so that economic and business activities with uncertainty must quickly recognize expenses and obligations despite the uncertainty in them and recognize the income and assets that have been received.

2.4 Sustainability Report

Sustainability report is a report that informs the public there is financial, social, economic and environmental performance when the company is carrying out business continuing, besides that this sustainability report is a medium for companies that is useful for measuring, refining reports, managing and communicating economic, social, environmental and governance performance to stakeholders. Sustainability report is a measurement practice for companies, disclosure of information in finance and accounting for the organization's performance efforts in achieving sustainable development goals to both internal and external stakeholders. (Suwasono & Anggraini, 2021).

Sustainability Report can have an impact on the sustainability of the company in improving the expected implementation of the company in order to attract the attention of investors in investing funds for the company, if the company increases, the company will get a lot of funds provided by investors for the company's operational costs and the company avoids financial distress. Sustainability is a form of responsibility for the company towards the environment. Carrying out this responsibility the company must pay attention to and respect the cultural traditions of the environmental community residing in the company's location (Oktarina, 2018). Sustainability reports for companies have the aim of implementing social responsibility disclosures in providing benefits to stakeholders by fulfilling economic responsibilities. Law, ethics and policy, According to (Ika Berty Apriliyani et al., 2021), there are two kinds of disclosures, namely mandatory and voluntary disclosures, the mandatory disclosure explains that what is required by accounting standards through financial statement information, while voluntary disclosure explains that the disclosures made to companies outside of what is required by accounting standards or regulatory agency regulatory bodies, so that disclosures that meet the standards are listed in the GRI-G4 Guidelines which explain balance, comparability, accuracy, conformity and accountability.

2.5 Hypothesis

H1: Financial Distress has a POSITIVE effect on the Role of Accounting Conservatism

H2: Litigation Risk has a NEGATIVE effect on the Role of Accounting Conservatism

H3: Accounting Conservatism has a POSITIVE effect on the Sustainability Report

H4: Financial Distress has a POSITIVE effect on the Sustainability Report

H5: Litigation Risk has a NEGATIVE effect on the Sustainability Report

H6: Financial Distress has a POSITIVE effect on Sustainability Reports through the Role of Accounting Conservatism

H7: Litigation Risk has a POSITIVE effect on sustainability reports through the role of accounting conservatism

3. Methods

This study was made to determine the role of Accounting Conservatism in the influence of Financial Distress and Litigation Risk on the Sustainability Report. The object of study in this researcher is to analyze the data of the Dependent Variable, namely the Sustainability Report on the Independent Variable, namely Financial Distress and Litigation Risk and the Mediating Variable, namely Accounting Conservatism. The population used is Infrastructure, Utilities, and Transportation companies listed on the IDX for the period Q12019-Q32021 as many as 79 Infrastructure, Utilities and Transportation companies. The criteria for data collection are as follows:

1. Using Infrastructure, Utilities and Transportation companies listed on the Indonesia Stock Exchange (IDX),
2. By taking consolidated report data per quarter from 2019-2021,
3. Consolidated reports taken using Rupiah currency.

This study uses a sample of 21 Infrastructure, Utilities and Transportation companies listed on the Indonesia Stock Exchange (IDX) from a total of 79 Infrastructure, Utilities and Transportation companies. This research method uses quantitative methods and uses purposive sampling technique.

3.1 Operational Variable

This study uses one Dependent Variable, namely the Sustainability Report on the Independent Variable, namely Financial Distress and Litigation Risk and the Mediating Variable, namely Accounting Conservatism. The following is a breakdown of each variable in detail:

A. Dependent Variable

Dependent variable of this research is the Sustainability Report, in this study it is measured by the Tobin's Q formula because the sustainability report in the company is measured to see whether the financial statements (financial distress) and risk have a good impact from what is seen by the company value, the main proxy for company value is Tobin's Q originally proposed by (Tobin, 2012) so it is widely used in the literature to account for assessments (Li et al., 2018) with the following formula: $MVS + Debt$ divided by Total Assets.

B. Independent Variable

In this study there are two independent variables, including:

1. Financial Distress

Financial distress measurements in this study using the Altman Z Score model. According to (Noviantari & Ratnadi, 2015), shows that the Altman model is the best Financial Distress prediction model. So Financial Distress is measured using the Altman Z Score Modified formula, which is:

- 1) Working Capital divided by Total Assets,
- 2) Retained Earnings divided by Total Assets,
- 3) EBIT divided by Total Assets,
- 4) Market Value of Equity divided by Book Value of Total Debt.

With Z-score value: $6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$

2. Litigation Risk

In the measurement of litigation risk in this study, namely using Debt To Equity Ratio (DER) is a proxy for litigation risk in the following formula (Sari, 2020): $DER = Total\ Amount\ of\ Debt$ divided by Total Equity.

C. Mediating Variable

The mediating variable in this study is Accounting Conservatism, measured using the Market to Book Ratio which is defined as Market Value Equity divided by Book Value Equity (Octiana et al., 2020).

4. Data Collection

In this study data collection is carried out by:

1. Obtaining secondary data,
2. Using quantitative data,
3. Using the company's internal data sources,
4. Observation data collection methods in this study using non-participant observation methods

5. Results and Discussion

Data analysis in this study used several tests in the early stages, namely classical assumption testing, including Multicollinearity Test and Heteroscedasticity Test, then Path Analysis Test was carried out.

2.6 Numerical Results

5.1.1 Classic Assumption Test

1. Multicollinearity Test

Table 1. Multicollinearity Test

| Coefficients ^a | | | |
|---------------------------|-------------------------|-------------------------|-------|
| Model | | Collinearity Statistics | |
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | FINANCIAL DISTRESS | 0,930 | 1,075 |
| | LITIGATION RISK | 0,893 | 1,119 |
| | ACCOUNTING CONSERVATISM | 0,958 | 1,044 |

a. Dependent Variable: SUSTAINABILITY REPORT

Based on the results of the Table 1 above, Financial Distress has a tolerance value of $0.930 > 0.10$ and a VIF value of $1.075 < 10$, Litigation Risk has a tolerance value of $0.893 > 0.10$ and a VIF value of $1.119 < 10$, and Accounting Conservatism has a tolerance value of $0.958 > 0.10$ and a VIF value of $1.044 < 10$. So it can be concluded that from the three variables the regression model results do not experience multicollinearity symptoms. A good regression model is not experiencing symptoms of multicollinearity.

2. Heteroscedasticity Test

Table 2. Heteroscedasticity Test

| Coefficients ^a | | | |
|---------------------------|-------------------------|--------|-------|
| Model | | t | Sig. |
| 1 | (Constant) | 6,426 | 0,000 |
| | FINANCIAL DISTRESS | -0,790 | 0,430 |
| | LITIGATION RISK | -1,760 | 0,080 |
| | ACCOUNTING CONSERVATISM | -1,179 | 0,240 |

a. Dependent Variable: ABS_Res4

Based on the results of the Table 2 above, it can be concluded that Financial Distress has a value of 0.430, Litigation Risk has a value of 0.080, and Accounting Conservatism has a value of 0.240 as a result of the regression model of Financial Distress that variable does not experience symptoms of heteroscedasticity. So it can be concluded that the three variables have a significant value result > 0.05 . A good regression model is not experiencing symptoms of heteroscedasticity.

5.1.2 Path Analysis Test

Table 3. Path Analysis Test

| Variable | T Statistics | P Values |
|----------|--------------|--------------|
| Z -> Y | 4,303 | 0,000 |
| X1 -> Z | 2,906 | 0,004 |
| X1 -> Y | 3,215 | 0,001 |

| | | |
|---------|-------|--------------|
| X2 -> Z | 0,407 | 0,684 |
| X2 -> Y | 1,035 | 0,301 |

1. Hypothesis 1 and 2

Based on the results of the Table 3 above partially shows the financial distress variable has a t-count value of 2.906 > a t-table value of 1.97047 and a significant value of 0.004 < 0.05, then H0 is rejected and H1 is accepted. The litigation risk variable has a t-count value of 0.407 < t-table value of 1.97047 and a significant value of 0.684 > 0.05, then H0 is accepted and H2 is rejected.

2. Hypothesis 3

Based on the results of the table above partially shows the Accounting Conservatism variable has a t-count value of 4.303 > a t-table value of 1.97047 and a significant value of 0.000 < 0.05, then H0 is rejected and H3 is accepted.

3. Hypothesis 4 and 5

Based on the results of the table above partially shows the financial distress variable has a t-count value of 3.215 > a t-table value of 1.97047 and a significant value of 0.001 < 0.05, then H0 is rejected and H4 is accepted. The litigation risk variable has a t-count value of 1.035 < t-table value of 1.97047 and a significant value of 0.301 > 0.05, then H0 is accepted and H5 is rejected.

4. Hypothesis 6 and 7

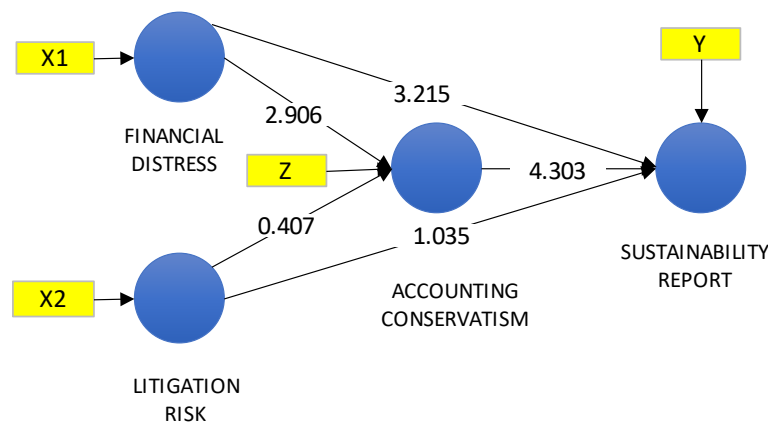


Figure 1. Hypothesis 6 and 7

Based on the results of the path image above, it can be seen that the direct effect on financial distress on the sustainability report is 3,215, but the indirect effect of financial distress on the sustainability report through accounting conservatism is $2,906 \times 4,303 = 12,504$ then the total effect given by financial distress on the sustainability report is $3,215 + 12,504 = 15,719$ it can be concluded from these results that the value of indirect influence is greater than the value of direct influence. So, accounting conservatism is able to mediate the effect of financial distress on the sustainability report, meaning that H0 is rejected and H6 is accepted.

Based on the results of the path image above, it can be seen that the direct effect on litigation risk on the sustainability report is 1,035, but the indirect effect of litigation risk on the sustainability report through accounting conservatism is $0.407 \times 4.303 = 1.751$, so the total effect given by litigation risk on the sustainability report is $1.035 + 1.751 = 2.786$ it can be concluded from these results that the value of the indirect effect is greater than the value of the direct influence. So, accounting conservatism is able to mediate the effect of litigation risk on the sustainability report, meaning that H0 is rejected and H7 is accepted. (Figure 1)

3. Conclusion

This study aims to analyze the Role of Accounting Conservatism in the Effect of Financial Distress and Litigation Risk on sustainability reports in Infrastructure, Utilities, and Transportation companies listed on the IDX for the period Q12019-Q32021, based on the results of research data analysis and calculations that have been carried out using IBM software applications. SPSS statistics 26 and using Smart PLS 3 as a tool to assist testing, which can be concluded as follows:

1. On the Financial Distress variable, the results of the study showed that financial distress has an influence on Accounting conservatism, If the company's condition experiences financial distress then the company is more careful in assessing uncertainty by applying the principle of accounting conservatism that can consider risks adequately and
2. Financial distress has an influence on sustainability reports, if the company's condition experiences financial distress will provide little information and when the company is in a nonfinancial distress condition will provide more information in the sustainability report as well as
3. Accounting conservatism can mediate the influence of financial distress on sustainability reports, if the company's condition experiences financial distress, then it must apply the principle of accounting conservatism that can provide clearer information in addition to information from the accounting conservatism the company anticipates also in revealing quite extensive information in the sustainability report.
4. On the Litigation Risk variable, the results show that Litigation Risk has no influence on accounting conservatism, The high level of litigation risk does not guarantee to control accounting conservatism and
5. Litigation Risk has no influence on sustainability reports, the condition of companies experiencing litigation risks makes sustainability reports difficult to get information that has been disclosed in financial statements for companies as well as
6. Accounting conservatism can mediate the effect of litigation risk on sustainability reports, when the condition of the company that experiences the risk of litigation caused by investors presenting too high profits and the company is not responsible so that in this circumstances the company applies the principle of accounting conservatism because it can provide sufficiently clear information with its prudence so as not to create obstacles in the sustainability report to provide further information has been disclosed in the financial statement.
7. On accounting conservatism variables, the results showed that the variables had an influence on sustainability reports. Accounting conservatism has a cautious reaction in financial reporting for companies and in the presence of sustainability reports that can provide more information that has been disclosed in financial statements for companies as accountability for management.

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