THE INFLUENCE OF FINANCIAL DISTRESS, GROWTH OPPORTUNITIES, AND DEBT COVENANT TO CONSERVATISM OF ACCOUNTING COMPANY

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ABSTRACT
This research aims to examine the influence of financial distress, growth opportunities and debt covenant to the company's accounting conservatism at manufacturing companies listed on the Indonesia Stock Exchange in 2013 - 2017. This research used quantitative method. The populations of study were 144 manufacturing companies listed on the Indonesia Stock Exchange, with the sample of nine companies during 2013-2017. The data collection technique used a purposive sampling method to determine research samples. The statistical method used multiple linear regression analysis with SPSS version 22. The result of this research showed that financial distress did not have a significant influence on accounting conservatism. Growth opportunities had a significant positive influence on accounting conservatism. Debt covenant did not affect to accounting conservatism, and financial distress. Growth opportunities and debt covenant affect to company's accounting conservatism.

Keywords: Financial distress, growth opportunities, debt covenant, accounting conservatism

1. INTRODUCTION

Background of Research

The accounting principle used in financial report that now mostly applied by companies as a response of economic uncertainty condition in the future is conservatism principle. Juanda (2007) defines conservatism as a preference for accounting methods that produce the lowest values for assets and income. On the one side, it produces the highest value for debt and costs. Conservatism is commonly defined as a management action to anticipate error in financial report by recognizing estimates. Basu (1997) states that conservatism is an accounting practice by decreasing profits and net asset value. Darraough (1993) shows the importance of profit by stating that companies provide financial reports to some shareholders, with the aim to give relevant and timely information, so that it is useful in making investment.

Lafond and Watts (2006) also explained that conservatism financial report can prevent asymmetry information with limiting management in manipulating financial report. According to him, conservatism financial report can decrease agency costs.The users of financial report have to know the possibility of profit changes in accounting which are influenced not only by the manager's performance but also by the conservatism policy that he applied. In otherwise, signaling theory predicts that the financial trouble condition of companies can push managers to increase the level of accounting conservatism (Lo, 2005) decisions, monitoring, performance awards, and making contracts. So it gives reliable information, and profit can be persistent.

Schipperand Vincent (2003), explains that profits are used by investors and creditors as basis for making economic decision, especially making incontracting decisions (investment decisions), and standard setters. The decision of making contract based on low profit persistence caused an undesirable transfer of prosperity by all parties. For example, if investors estimate that high profit as manager's performance indicator, it will result in excessive compensation for managers as well as the estimation of high profit to cover and pay off the actual debt and give expert information for creditors to continue lending or confiscation suspend. Debt is finance from creditors for the continuity of company activities. With the loan from creditors, the company can continue operational activities.

The company's capability to earn profits cannot be apart from company's capital sources to finance the companies' activities so that they can continue and develop their business and get maximum profits. One source of companies' capital is debt. A high level of debt from the company will increase their potential accounting conservatism to maintain good company's performance for auditors and investors (Fanani, 2010). Conservatism is a concept that admits costs and loses to be faster, income and profits to be slower, value assets with the lowest value and obligations with the highest value. (Sari and Adhariani, 2009). Lack of conservatism can make misleading of financial report users. (Ardina, 2012)

Based on the background, the authors are interested in conducting a research with the title "The Influence of Financial Distress, Growth Opportunities and Debt Covenants on Conservatism of Accounting Company".

Statements of Problems

Based on the background above, the problems formulated in this research are as follows:

1. Does financial distress influence the company's accounting conservatism?
2. Do growth opportunities influence the company's accounting conservatism?
3. Does debt covenant influence the company's accounting conservatism?
4. Do financial distress, growth opportunities and debt covenants influence the company's accounting conservatism?

2. LITERATURE REVIEW

Positive Accounting Theory

According to Belkoui (2007) a positive theory is based on the argument that managers, shareholders and regulators or politicians are rational and that they are trying to maximize their usefulness, directly related to their compensation, and their prosperity. Accounting choices depend on variables that reflect incentives management in choosing accounting methods based on bonus plans, debt contracts, and political process. As a result, there are three hypotheses. They are as follows:

1. The Bonus Plan Hypothesis argues that company managers with bonus plans are possible use of accounting methods that increase profit report time after time. Rationally it might increase the percentage of bonus value if there is no compliance to the chosen method.
2. Debt Equity Hypothesis Opinion is the higher debt or equity of the company, it is the same as the closer ("tighter") opportunity of the company to limitations contained in debt covenant and the greater opportunity for violation of the agreement and cost of technical failure, so that the more possibility is that the managers use accounting methods that increase profits.
3. The Political Cost Hypothesis argues that large companies rather than small companies are more possible to choose accounting to decrease profit reports.

Agency Theory

Agency theory describes the

relationship between share holders as principal and management as agents. The concept of agency theory according to Jensen and Meckling (1976) in Haryono (2005: 65) defines "agency theory as an agency relationship and as a contract in which one or more principals (owners) use other people or agents (managers) to operate company activities. Principal provides facilities and funds for the company's operational needs. While the agent as a manager is obliged to manage the company entrusted by the shareholders (principal), to increase value and profit of the company. "

Signaling Theory

Signaling theory explains that signaling carried out by managers to decrease asymmetry information. Managers give information through financial report that implements conservatism accounting policies, that produces higher profit quality, causes this principle, prevents companies from exaggerating profits and helps financial report users by presenting profit and assets that are not overstate. Practically, management uses a conservative accounting policy by calculating high depreciation which will give low profits permanently. It means that there is no temporary influence on profit decrease which will reverse in the future (Fala in Nugroho, 2012).

Signal theory states how companies should give signals to financial report users. This signal constitutes information related to what has been done by management to realize the owner's whishes, the signal such as a promotion or other information to tell that the company is better than other companies. Signal theory explains that giving signals is carried out by managers to reduce asymmetry information.

Definition of Tax

According to constitution No. 28 2007 about General Provisions and Tax Procedures (UU KUP) Tax is mandatory contributions to the country owed by individuals or entities that are coercive based on the constitution, with no direct compensation and used for the country's needs for the maximum society prosperity.

Tax Grouping

According to Mardiasmo (2011: 5) tax groupings include:

1. Based on type

a. Direct tax is tax that has to be paid by the Taxpayer himself and cannot be delegated to others. For example income tax (PPh).

b. Indirect tax is tax ultimately can be charged or delegated to others. For example value added tax (PPn)

2. Based on character

a. Subjective tax is tax based on the subject; it means to get attention condition of taxpayer, for example Income Tax (PPh).

b. Objective taxistax based on the object, without getting attention condition of taxpayer, for example Value Added Tax (PPn).

3. Based on the Collecting Institution

a. Central tax is a tax collected by the Central Government and used to finance country households, for example Income Tax (PPh) and Value Added Tax (PPn).

b. Regional tax is tax collected by local governments and used to finance Regional households, such as Vehicle Taxes and motor vehicle transfer fees, Hotel and Restaurant Taxes (substitute development tax), Entertainment Taxes and Road Lighting Taxes.

Tax Function

Tax is a source of country's income that has two functions (Mardiasmo, 2011: 1), namely:

1. Budget function (budgetair) as a fund source for the government to finance its expenses.

2. Regulating function (regularend) as a

regulation or implementing government in the socio-economic area.

Tax Collection System

There are several tax collection systems, as follows:

1. Official Assessment System

A collection system that gives authority to government (tax authority) to determine the amount of tax that owed by taxpayers.

2. Self Assessment System

Collection system that gives full authority to taxpayers to count, calculate, pay, and report the amount of tax owed.

3. DATA AND RESEARCH TECHNIQUE ANALYSIS

Types of Research

The data collection method used in this research is documentary method, it is data collection technique by collecting, recording and reviewing secondary data in the form of financial report of manufacturing companies that published by Indonesia Stock Exchange or internet access.

Variables and Measurements

Variable is an attribute, nature or value of people, objects and activities that has particular variations determined by researchers to be examined and concluded (Sugiyono, 2012: 61). This research uses one dependent variable and two independent variables. To examine the proposed hypothesis, the variables that studied have to be limited as follow:

Independent Variable (X)

Independent variable is a variable that explains or influences other variables. Independent variable is also called the presumed cause variable. It can also be explained as (avtecedent variables). Independent variables in this research are:

1. Financial Distress (X1)

According to Pramudita (2012), financial distress is a stage of decline in a company's financial condition before bankrupt. It can be measured by the Altman Z-Score model. Bankrupt predictions with Altman Z-Score model are formulated as follows (Mastuti, 2013):

$$Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$$

Information:

X1 = *Net Working Capital / Total assets*

X2 = *Retained Earnings / Total assets*

X3 = *Earnigns Before After Tax / Total assets*

X4 = *Market Value Equity / Total Liabilities*

X5 = *Sales / Total assets*

2. Growth Opportunity (X2)

Growth here is seen from growth opportunities as measured by the market to book value of equity. Growth calculation formula according to Collins and Kothari (1989) in Widya (2005) is:

$$\textit{Market to book value of equity} = \frac{\text{Total of shares sheets circulate X share closing price}}{\text{total equity}}$$

3. Debt Covenant (X3)

Debt covenants are contracts aimed at borrowers by creditors to limit activities that might damage the value of loans and loan recovery (Fatmariani, 2013). Debt covenants are proxied by leverage ratios. Leverage is the ratio of total debt to total assets owned by the company. The ratio used to provide an overview of the capital structure of the company, so it knows the risk level of uncollectible debt (Deffa, 2012). The leverage ratio is used to assess the ability of the company (in this case assets) to pay off all of its debts.

$$\textit{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

3.3.2 Dependent Variables (Y)

Dependent variable is a variable that is explained or influenced by the independent variable. It is also called the presumed effect variable. It also can be called a consequent variable. Dependent variables in this research are:

1. Conservatism of Accounting Company (y)

Accounting conservatism shows the cautions of company that quickly recognize losses and burdens rather than profit or income. Dependent variable of this research is accounting conservatism that is measured by accrual measure. The measurement of this conservatism used accruals from company's operational activity. Operating accrual is a accrual total that appear in financial report as a result from company's operational activity. Meanwhile, cash flow used is cash flow. A measured conservatism based on Ahmad and Duellman (2007) is :

CONNAC = Operating Profit – Operating cash flow.

Population and Samples
Population

In research, data collection activities are the most important stage. Before collecting data we have to collect the population of object research. According to Sugiyono (2012: 61) population is a generalization area consisting of objects or subjects that have particular qualities and characteristics determined by researchers to be researched and concluded. Meanwhile, according to Margono (2010: 118) population is all data that concerns within a scope and time that we determine. In this research the population studied by the writer is all manufacturing companies listed on Indonesia Stock Exchange in period 2013 - 2017.

According to Sugiyono (2012: 62) sample is part of total and characteristics that owned by a population. The criteria of determining research sample include:

1. Manufacturing companies listed on Indonesia Stock Exchange from 2013 to 2017.
2. Companies that display financial report during the observation period.
3. Companies that report positive profits during the observation period.
4. Companies that use the rupiah during observation period.
5. Companies that have complete data needed in this research.

4. RESULTS AND DISCUSSION

From the statistical data above it can be concluded that growth opportunities have a significant positive effect on company's accounting conservatism. From the second hypothesis test it supports the results of previous research that have been conducted by Tri et al. (2015) and Indah et al. (2014) which states that growth opportunities have an influence on accounting conservatism, because companies with high growth opportunities require large total of funds to finance such growth in the future. The company will also increase total of investment or also called the company growth which tends to choose accounting conservatism, which has lower profit calculation so that no actions can damage the company's finances. In conservative accounting principles there are hidden alternative that used for investment, so conservative companies are identical with growing companies.

1. Influence of Debt Covenant on Company's Accounting Conservatism

From the third hypothesis testing on debt covenant variable (X3) to accounting conservatism, the mark of calculation t_{tabel} is 1.67943. Then compared t count of -1.336 with a significance value of 0.179. It means that t-count 1.367 < t_{tabel} 1.67943 and a significance value of 0.179> 0.05. So hypothesis in this study states that debt covenants do not have a significant influence on company's accounting conservatism.

From third hypothesis testing it supports the previous research results conducted by Luh et al. (2014) and Tri et al. (2015) which states that the covenant does not have a significant influence on company's accounting conservatism, the cause of the conservatism principle is a cautious attitude in dealing with uncertain business environments, so companies always use this principle regardless of whether high or low debt conditions. Another cause is the low value of company's leverage, which is 26.35%. It shows that if a company has high or low debt, it will not show that company is more conservative (Reskino&Vemiliyarni, 2014).

2. The Influence of Financial Distress, Growth Opportunities and Debt Covenants on Conservatism of Accounting Company

Based on the simultaneous hypothesis test results (Test F) in table 4.12 shows that Fcount at 6.047 and Ftable at 2.84 means Fcount>Ftable (6.047> 2.84), has a significant level of 0.002 because the significant level is smaller than 0.05 then it proves that H0 is rejected and H4 is accepted, so that it can be concluded that the independent variables (financial distress, growth opportunities and debt covenant) simultaneously affect the dependent variable (company's accounting conservatism).

5. CONCLUSION

This research uses 45 in manufacturing companies samples that listed on Indonesia Stock Exchange in period 2013-2017. The research variables were divided into two, namely independent variable and dependent variable. Independent variables in this research were financial distress, growth opportunities and debt covenants and dependent variable was accounting conservatism.

Based on the analysis and discussion in the previous chapter, the researcher can draw the conclusions as follows:

1. The results of the research shows that financial distress variable does not significantly affect company's accounting conservatism.
2. The results of the research shows that growth opportunity variable has a significant positive influence on company's accounting conservatism.
3. The results showed that debt covenant variable passively does not have a significant influence on company's accounting conservatism.
4. In simultaneous testing (together) the results of this study indicate that all independent variables (financial distress, growth opportunities and debt covenant) simultaneously affect the dependent variable (company's accounting conservatism).

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