THE EFFECT OF COMPANY SIZE AND LITIGATION RISK ON ACCOUNTING CONSERVATISM (EMPIRICAL STUDY ON FOOD AND BEVERAGE SUBSECTOR COMPANIES LISTED ON THE IDX

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Abstract

Accounting conservatism is a prudent reaction to financial statements to deal with uncertainty in economic and business activities. The purpose of this study is to test and determine the effect of company size and litigation risk on accounting conservatism. The research population used is the food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2021-2023. The sampling technique used in this study was the purposive sampling method and obtained 28 companies selected according to the research criteria. This type of research is quantitative using secondary data. The data analysis method used in this study is descriptive statistical analysis, classical assumption test, multiple linear regression and hypothesis testing using SPSS version 27 software. The results obtained partially in this study concluded that company size has a significant effect on accounting conservatism and litigation risk has a significant effect on accounting conservatism. While simultaneously company size and litigation risk have a significant effect on accounting conservatism.

Keyword: *Accounting Conservatism, Company Size and Litigation Risk.*

Abstrak

Konservatisme akuntansi merupakan reaksi kehati-hatian (*prudent reaction*) terhadap laporan keuangan untuk menghadapi ketidakpastian yang terjadi dalam aktivitas ekonomi dan bisnis. Tujuan penelitian ini adalah untuk menguji dan mengetahui pengaruh ukuran perusahaan dan risiko litigasi terhadap konservatisme akuntansi. Populasi penelitian yang digunakan adalah perusahaan subsektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia tahun 2021-2023. Teknik pengambilan sampel yang digunakan dalam penelitian ini dengan menggunakan metode *purposive sampling* dan diperoleh sebanyak 28 perusahaan yang terpilih sesuai dengan kriteria penelitian. Jenis penelitian ini adalah kuantitatif dengan menggunakan data sekunder. Metode analisis data yang digunakan dalam penelitian ini adalah analisis statistik deskriptif, uji asumsi klasik, regresi linear berganda dan uji hipotesis dengan menggunakan perangkat lunak SPSS versi 27. Hasil yang didapatkan secara parsial dalam penelitian ini menyimpulkan bahwa ukuran perusahaan berpengaruh signifikan terhadap konservatisme akuntansi dan risiko litigasi berpengaruh signifikan terhadap konservatisme akuntansi. Sedangkan secara simultan ukuran perusahaan dan risiko litigasi berpengaruh signifikan terhadap konservatisme akuntansi.

Kata Kunci: Konservatisme Akuntansi, Ukuran Perusahaan dan Risiko Litigasi

I. NTRODUCTION

In a globalized world, information is easily accessible and used for a variety of purposes. In the field of accounting, it refers to parties who have internal and external interests in the business such as managers, investors, and creditors. Companies use various ways to protect themselves so that their business runs smoothly. Financial statements are prepared according to the Financial Accounting Standards (SAK) set by the Financial Accounting Standards Board (DSAK). SAK gives flexibility to management in choosing accounting procedures to produce financial statements. Management can create high-quality accounting financial reports because of the freedom. Nevertheless, in reality, managers often abuse this authority by falsifying the figures of the financial statements, thus causing the reports to misrepresent the company's actual financial situation. As a result, there is reason not to trust the validity of the information in financial statements, which deceives report users when they make decisions. (Tazkiya & Sulastiningsih, 2020).

The presentation of financial statements is critical to the long-term survival of the company. The company uses these reports to communicate relevant financial data while adhering to accounting rules, such as the principles of conservatism. Conservatism has a tendency to accelerate the recognition of costs and delay the recognition of income. This concept states that if there is uncertainty about the loss, the loss will be recorded. On the other hand, if there is uncertainty about profits, then these profits do not have to be recorded. Therefore, financial statements usually result in lower asset values and profits, to prepare for possible losses in the future (Savitri, 2016).

Accounting conservatism is generally applied to deal with uncertainty and reduce excessive optimism on the part of management. By using accounting conservatism, information inequality can be minimized by minimizing incentives as well as managers' ability to manipulate financial statements. Although the application of accounting conservatism in practice has its pros and cons, some argue that this principle limits the actions of managers who tend to maximize profits, thus avoiding agency problems. However, there are also those who argue that this principle hinders the quality of financial statements because it does not meet the actual conditions. Although there are pros and cons, the principle of conservatism is still used today because pessimism can be used to offset the optimism of managers to minimize the tendency to exaggerate profits in financial reporting (Halimah et al., 2021).

However, as shown by the many fraudulent acts in compiling financial statements in Indonesia, not all companies apply accounting conservatism, one of which is through the

CNBC Indonesia website (Wareza, 2020), there is a case of inflating financial statement funds by PT Tiga Pilar Sejahtera Food Tbk (AISA). The results of an investigation by PT Ernst & Young Indonesia (EY) into the new management of PT Tiga Pilar Sejahtera Food Tbk (AISA) on March 12, 2019, found that the fact of the old directors was found to be an allegation of inflating accounts receivable, inventory and fixed assets of IDR 4 trillion and a total of IDR 662 billion in revenue and IDR 329 billion in EBITDA of the issuer's food business entity. This causes overstatements in financial statements. The engineering of the results of these financial statements has caused many losses.

The results of previous research related to factors that affect the application of accounting conservatism show inconsistent results. Inconsistent results found in studies (Daryatno & Santioso, 2020) litigation risk and firm size had no effect on accounting conservatism. Meanwhile, research (Andani & Nurhayati, 2021) states that company size and litigation risk have an effect on accounting conservatism.

Based on the description that has been explained earlier, the researcher is encouraged to conduct research related to "The Influence of Company Size and Litigation Risk on Accounting Conservatism (Empirical Study on Food and Beverage Subsector Companies Listed on the IDX in 2021 – 2023)".

II. THEORETICAL STUDIES

1. Agency Theory

Agency Theory according to Jensen & Meckling (1976) is defined as "the relationship between two parties bound by an agreement or contract for the benefit of business". Both parties in question are the principal and the manager (agent) (Malenza et al., 2021). Principal-agent conflicts can result from differences of interest, which raises agency issues. The quality of financial statements can then be influenced by these differences in interests. Because the agent has a close relationship with the business, this allows the agent to overstatement to maximize his or her interests and the agent has greater access to internal information than the principal. This leads to information asymmetry. Therefore, applying the principles of accounting conservatism in financial statements prevents this by avoiding over-presenting profits, so that the information presented can be a more reliable basis for decision-making (Agata et al., 2021).

2. Company Size

According to Halim (2015) "Company size is a value that indicates the size of the company". There are two categories, namely large and small companies. Companies in large categories generate high profits and have more complicated systems. On the other hand, small

companies operate with a simpler structure and generate not very large revenues. The larger the size of the company, the higher the political costs incurred. To minimize these costs, companies use conservative accounting methods (Puspita & Srimindarti, 2023). The company's size formula is as follows:

$$SIZE = Ln\ (Total$$

3. Litigation Risks

According to Maux and Francoeur (2014) "The risk of litigation is the risk of lawsuits from interested parties who feel aggrieved by financial statement information that is not in accordance with the company's condition". Investors, creditors, and regulators are some of the stakeholders (Wiecandy & Khairunnisa, 2020). Rationally, managers use the principle of conservatism in their financial statements to avoid losses caused by litigation risks. Because excessive profits result in a greater risk of litigation. Companies can lower the risk of litigation if reported profits are conservative, especially if the company adheres to the concept of prudence in acknowledging profits (Furwati et al., 2022). The formula for litigation risk is as follows:

$$RL = LnTotal\ Aset + \frac{Hutang\ Tidak\ Lancar}{Total\ Aset} + \frac{Hutang\ Lancar}{Aset\ Lancar}$$

4. Accounting Conservatism

Watts (2023) states that conservatism is "the principle of prudence in financial reporting where companies are not in a hurry to acknowledge and measure assets and profits and immediately acknowledge losses and debts that have the possibility of occurring." (Savitri, 2016:22). Conservatism is a cautious response to uncertainty in the company to ensure that risks are adequately considered in a business context. The concept of conservatism results in lower assets and profits while debt and costs are higher. This is because conservatism applies the concept of delaying income recognition and acknowledging burdens, which results in reported income usually being too low (understatement) (Tazkiya & Sulastiningsih, 2020). The formula of accounting conservatism is as follows:

$$CONACC = \frac{(NIO + DEP - CFO)}{TA} \times (-1)$$

Information:

CONACC: Accounting Conservatism

NIO   : Net profit for the current year

DEP : Depreciation of fixed assets for the current year

CFO : Total cash flow from operating activities

TA : Total assets

III. RESEARCH METHODS

This study uses a type of quantitative research. Quantitative is research based on the philosophy of positivism, used to examine samples with the aim of testing hypotheses. This study aims to examine the influence of firm size and litigation risk on accounting conservatism. The population of this study is food and beverage subsector companies listed on the Indonesia Stock Exchange in 2021-2023 with a total population of 32 companies. This study uses a sampling technique with the purposive sampling method where samples are selected according to criteria. The sampling criteria for this study are:

Table 1. Sampling Criteria

Sample Criteria	Sum
Food and beverage subsector companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023	32
Food and beverage subsector companies that did not publish their financial statements in 2021-2023	(2)
Food and beverage subsector companies that do not present financial statements in rupiah currency units in 2021-2023	(2)
Number of company samples	28
Number of data processed (28 x 3 years)	**84**
Data Outlier	(4)
Total samples used in the study	**80**

Source: Data processed in 2024

After sampling was carried out with the above criteria, 28 companies were obtained with a total research sample of 80 data because there were 4 data outliers. The data collection method is in the form of secondary data from the annual financial statements of companies in the food and beverage subsector listed on the Indonesia Stock Exchange for 2021-2023.

IV. RESEARCH RESULTS

1. Descriptive Statistical Analysis

Descriptive statistical testing is an analysis method that provides an overview of the data and shows the average value, standard deviation, maximum, minimum, amount, range, curtosis, and skewness (Ghozali, 2021).

Table 2. Descriptive Statistical Analysis Results

Descriptive Statistic				
	N	Min	Max	Mean	Std. Deviation
UP	80	24.655	32.860	28.610	1.80002
RL	80	25.752	33.858	29.396	1.78147
KA	80	-0.187	0.159	-0.024	0.06569
Valid N (listwise)	80				

Source: SPSS Output (2024)

According to the table above, it can be found:

a) According to the table above, it can be found.

b) The litigation risk has a minimum value of 25.752 while the maximum value is 33.858 with an average value of 29.396 and a standard deviation value of 1.78147.

c) Accounting conservatism has a minimum value of -0.187 while the maximum value is 0.159 with an average value of -0.024 and a standard deviation value of 0.06569.

2. Classic Assumption Test

2.1 Normality Test

The normality test is carried out to find out whether the residual variable has a normal distribution. The normality test was carried out based on the Kolmogorov-Smirnov (KS) statistical test. The criteria used in this test are if sig. > 0.05 then the data is distributed normally.

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		80
Normal Parametersa.b	Mean	.0000000
	Std. Deviation	.06270378
Most Extreme Differences	Absolute	.071
	Positive	.044
	Negative	-.071
Test Statistic		.071
Asymp. Sig. (2-tailed)		.200d

Source: SPSS Output (2024)

Based on table 3, the results of the normality test using the Kolmogorov-Smirnov (KS) test show the value of Asymp. Sig. is 0.200, this indicates that the regression model is normally distributed because the significance level > 0.05.

2.2 Multicollinearity Test

The multicollinearity test ascertains whether the regression model shows a correlation between independent variables or not. According to (Ghozali, 2021), the level of tolerance and VIF to determine whether or not there are symptoms of multicollinearity, with the provision that:

a) The tolerance value < 0.10 and VIF > 10, there are symptoms of multicollinearity.

b) The tolerance value > 0.10 and VIF < 10, there were no symptoms of multicollinearity
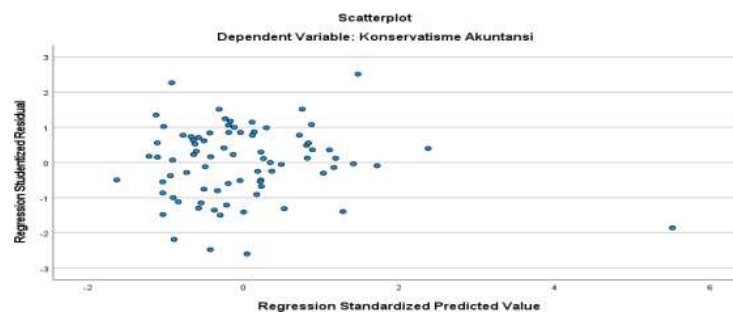
Table 4. Multicollinearity Test Results

Coefficients[a]			
Model		Collinearity Statistic	
		Tolerance	VIF
1	UP	.157	6.388
	RL	.157	6.388

Source: SPSS Output (2024)

Based on table 4, it shows that each independent variable gets a tolerance value of more than 0.10 and a VIF value of less than 10. With that, it is said that the regression model has no symptoms of multicollinearity.

2.3 Heteroscedasticity test

The purpose of the heteroscedasticity test is to test whether there is a residual disparity from one observation to another. Heteroscedasticity is known by scatterplot graphs. Where if the graph is in the form of a pattern such as wavy, widening and narrowing, this indicates the fact that there is heteroscedasticity. However, if there is no indication of heteroscedasticity, the pattern is unclear and the dots are scattered around the number 0 on the Y axis at random.

Figure 1. Heteroscedasticity Test Results

As seen in the image above, it shows that the data is randomly scattered and the dots do not form a certain pattern. Data above and below the value of 0 on the Y axis.

2.4 Autocorrelation Test

The Autocorrelation test aims to test whether in the linear regression model there is a correlation between the disruptive error in the t-period and the t-1 period. The autocorrelation test of this study used the Durbin-Watson test. The following are the requirements in the DW-Test to determine whether or not there is an autocorrelation:

a) dW < dL, autocorrelation detected (+)

b) dW > 4-dL, autocorrelation detected (-)

c) dU < dW < 4-dU, Undetectable autocorrelation.

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
		Model Summary[b]			
1	.298[a]	.089	.065	.0635129	2.013

Source: SPSS Output (2024)

Table 5 shows a DW value of 2.013 between the dU and 4-dU values or specifically 1.6882 < 2.013 < 2.3118 which can be concluded that there is no autocorrelation.

3. Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Analysis Results

Coefficients[a]

		Unstandardized Coefficients		Unstandardized Coefficients		
		B	Std. Eror	Beta	t	Sig.
1	Constan	-.188	.119		- 1.51	.118
	UP	-.022	.010	-.605	- 2.201	.031
	RL	.027	.010	.734	.2.669	.009

Source: SPSS Output (2024)

From the data in table 7 of the regression data processing results, the regression equation is described by:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$

$Y = -0.188 + -0.022 + 0.027 + e$

Based on the regression equation above, it can be explained as follows:

a) The constant value of the result is -0.188 if the independent variable has a value of 0 or constant, the dependent variable is -0.188.

b) The regression coefficient of company size (β_1) results in -0.022, so it can be interpreted that if there is an increase or addition of 1 company size, it decreases the application of accounting conservatism by -0.022.

c) The litigation risk regression coefficient (β_2) is 0.027, this shows that every increase or addition of 1 litigation risk will increase the application of accounting conservatism by 0.027.

4. T test (Partial)

The purpose of the t-test is to test the significant magnitude of the influence of individual (partial) independent variables (X) on dependent variables (Y). If the value of sig. Less than the error level (alpha) of 0.05 and the calculation > the table of independent variables was declared to have a significant effect. However, if the value of sig. Generated more than the error level (alpha) of 0.05 and calculated < the table, independent variables are said to have no effect.

Table 7. Test Results t

Coefficients

		Unstandardized Coefficients		Unstandardized Coefficients		
		B	Std. Eror	Beta	t	Sig.
1	Constan	-.188	.119		-1.581	.118
	UP	-.022	.010	-.605	- 2.201	.031

Source: SPSS Output (2024)

The results of the company size test obtained a significance value of 0.031 < an error rate (alpha) of 0.05 and a calculation value of -2.201 > a table of 1.991. Therefore, it can be concluded that the size of the company has a significant influence on accounting conservatism, so the conclusion obtained is (H1) accepted.

The results of the litigation risk test showed a significance value of 0.009 < an error rate (alpha) of 0.05, then a calculation value of 2.669 > a table of 1.991. Therefore, it can be concluded that litigation risk has a significant effect on accounting conservatism. The conclusion was obtained, namely (H2) accepted.

5. F Test (Simultaneous)

This test is to find out whether the independent variable (X) has a simultaneous effect on the dependent variable (Y).

Table 8. F Test Results

		Sum of Squares	df	Mean Squar e	F	Sig.
1	Regressio n	.030	2	.015	3.762	.028
	Residual	.311	77	.004		
	Total	.341	79			

Source: SPSS Output (2024)

Based on the test results in table 9 above, it shows a Fcal value of 3.762 and a Ftable value of 3.12, which means that Fcal > Ftable is 3.762 > 3.12. In addition, the value of sig. 0.028 < error rate (alpha) 0.05. From the results, it was concluded that the size of the company and the risk of litigation simultaneously had a significant effect on accounting conservatism. So it is stated that (H3) is accepted.

6. Coefficient Determination Test

The purpose of the determination coefficient test is to find out the percentage amount given by the free variable to the bound variable. Adjusted R2 indicates the value of the determination coefficient.

Table 9. Determination Coefficient Test Results

Model Summary[b]

Mode l	R	R Squar e	Adjuste d R Square	Std. Error of the Estimate	Durbin-Watson
1	.298[a]	.089	.065	.0635129	2.013

Source: SPSS Output (2024)

From table 9, the results of the determination coefficient are shown with an Adjusted R2 value of 0.065, meaning the influence of the variables of company size and litigation risk on accounting conservatism gives a value of 0.065 which is interpreted that the variable of accounting conservatism is described as the variable of company size and litigation risk of

6.5%. The remaining 93.5% were described by other variables that were not included in this study.

DISCUSSION

The Influence of Corporate Size on Accounting Conservatism

The results of the test of the company size variable (X1) obtained a tcal value of -2,201 and ttable 1,991. Which means that tcount > ttable (-2,201 > 1,991). Then the significance value of 0.031 gives an indication of 0.031 < 0.05. Until it is said that the size of the company (X1) has a significant effect on accounting conservatism (Y). H1 is accepted.

Based on agency theory and hypothesis test results, showing that the size of the company has a negative and significant influence on accounting conservatism, which means that a large company will lower its accounting conservatism. This is due to managers who seek to report earnings more enthusiastically and reduce the recognition of losses in order to create a positive reputation for their achievements, although this can attract political attention and close scrutiny. In contrast, small companies are more cautious about announcing their profits. This is intended to keep the company's business running smoothly, as smaller companies are more susceptible to potential external changes.

The results of this study are consistent with what was done (Asmara & Putra, 2023) that company size has a significant negative effect on accounting conservatism. However, unlike the results of the study (Lestari et al., 2023), the size of the company does not affect accounting conservatism.

The Effect of Litigation Risk on Accounting Conservatism

The results of the litigation risk variable (X2) test obtained a tcal value of 2.669 and a ttable of 1.991. Which means tcount > ttable (2,669 > 1,991). Then the significance value of 0.009 gives an indication of the significance value of 0.009 < 0.05. Until it is stated that the risk of litigation (X2) has a significant effect on accounting conservatism (Y). H2 is accepted.

Based on agency theory and hypothesis test results, it shows that litigation risk has a positive and significant influence on accounting conservatism, meaning that the higher the risk of litigation, the tendency of companies to apply conservatism in the accounting field also increases. Because the company wants to protect itself from future lawsuits related to non-conservative financial reporting.

The results of this study are in line with the study (Andani & Nurhayati, 2021) that litigation risk has a significant positive effect on accounting conservatism. However, unlike the results of the study (Daryatno & Santioso, 2020), litigation risk does not have a significant effect on accounting conservatism.

The Effect of Company Size and Litigation Risk Simultaneously on Accounting Conservatism

The result of the F test with a significance value of 0.028 means a significance value of < 0.05 (0.028 < 0.05). Then the value of Fcal is 3.762 while Ftable is 3.12, then the value of Fcal $>$ value of Ftable (3.762 > 3.12).

Until the results of the F test, it is interpreted that the independent variables of company size (X1) and litigation risk (X2) simultaneously (simultaneously) have a significant effect on the dependent variable of accounting conservatism (Y).

The results of this study are in line with a study (Daryatno & Santioso, 2020) that the size of the company and the risk of litigation simultaneously affect accounting conservatism.

V. CONCLUSION

Based on the results of testing and discussion, conclusions were drawn, namely:

1. The size of the company has a significant effect on accounting conservatism.

2. Litigation risk has a significant effect on accounting conservatism.

3. The size of the firm and the risk of litigation simultaneously have a significant effect on accounting conservatism.

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