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THE INFLUENCE OF FINANCIAL DISTRESS, PROFITABILITY AND LEVERAGE ON ACCOUNTING CONSERVATISM IN MANUFACTURING COMPANIES ON THE INDONESIA STOCK EXCHANGE 2017-2021 PERIOD

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Abstract

This study aims to determine the effect of Financial Distress, Profitability and Leverage on Accounting Conservatism in Manufacturing Companies on the Indonesia Stock Exchange for the 2017-2021 Period. The research method used is quantitative, with secondary data obtained from financial statements on the Indonesia Stock Exchange with a total sample of 58 companies using the purposive sampling technique. The data analysis technique used is descriptive statistical analysis, multiple linear regression analysis, analysis prerequisite test, classical assumption test and hypothesis testing. The results show that financial distress and leverage significantly negatively affect accounting conservatism, while profitability does not. The coefficient of determination in this study is 11.2% which offers the ability of financial distress, profitability and leverage to explain its impact on accounting conservatism. In contrast, the rest is explained by other variables.
Keywords: Financial Distress, Profitability, Leverage, Accounting Conservatism, Manufacturing Company

INTRODUCTION

Every company should be careful in compiling financial reports that are indispensable for internal and external parties to assist the decision-making process in the hope that these decisions can increase company profits. One of the basic assumptions underlying the preparation of financial statements is the accrual basis, which according to Setiyowati et al. (2018:24) accrual basis is where transactions are recognized when they occur (not when cash is received or paid) and reported in the financial statements of the current period. According to Savitri (2016:20), the accrual basis requires companies to apply accounting conservatism that not only focuses on actual transactions but also includes recording transactions that can result in cash inflows and outflows arising from the past or future. In a state of uncertainty in the future, the company applies accounting conservatism to anticipate the uncertainty so as not to exaggerate the amount of profit.

The purpose of this application is to present financial statements that are balanced. If excessive in determining profits, it will harm the internal and external parties of the company, especially investors who invest their funds in the company (Iskandar & Sparta, 2019). The most crucial reason for applying the principle of conservatism is that financial reporting prevents the recognition of unrealized profits based on pessimism and offsets the optimistic attitude of managers. However, in Indonesia, the principle of conservatism is still controversial. According to Prayanthi & Pantow (2018), conservatism is essential because it can minimize agency costs to reduce the possibility of managers manipulating financial statements, and the quality of information from reports increases in value from stock prices. Meanwhile, on the contra, if the company applies conservatism, the information tends to be biased and needs to show the actual conditions that occur (Tazkiya & Sulastiningsih, 2020).

According to El-Haq (2019), the conservatism carried out by the company can be seen in the selection of accounting recording methods. Several accounting methods include the weighted average inventory method, depreciation of property, plant, and equipment on a declining balance, amortization of declining balances, and recognizing research and development costs as expenses. In practice, many manufacturing companies on the Indonesia Stock Exchange (IDX) in the depreciation of fixed assets use the declining balance method. These companies include PT Waskita Beton Precast Tbk., PT Steel Pipe Industry Of Indonesia Tbk., PT Lion Works Tbk., PT Pelangi Indah Canindo Tbk., PT Duta Pertiwi Nusantara Tbk., PT Alkindo Naratama Tbk., PT Indonesian Tobacco Tbk., PT Kimia Farma Tbk., PT Pyridam Farma Tbk., PT Atmindo Tbk., PT Multi Prima Sejahtera Tbk., PT Selamat Sempurna Tbk., PT Indo-Rama Synthetics Tbk., PT Voksel Electric Tbk. The data is based on financial reports downloaded through the Indonesia Stock Exchange website.

Manufacturing companies have sectors that are quite attractive to investors, namely the consumer goods sector, which is listed on the Indonesia Stock Exchange from 2017-2020. According to the Investment Coordinating Board (BKPM), the most promising sector is the consumer goods industry. It is evidenced by the food and beverage sub-sector, which ranks at the top in investment realization. The Investment Coordinating Board (BKPM) recorded that in 2015–Q1-2020, investment in the food and beverage sub-sector reached IDR 293.2 trillion or equivalent to USD 21.4 billion or 21.7% of the total investment in all sectors (BKPM, 2020). With the phenomenon of manufacturing companies that are of interest to investors, financial statements must be considered so there is no manipulation by managers who behave optimistically. With conservative principles, managers are avoided opportunistic behaviour when presenting financial statements.

The data in table 1 shows the manager's lack of application of conservative principles. The company must be more careful not to cause overstated profits (excessive). Furthermore, the lack of application makes it easy for managers to manipulate financial statements that aim to give a good impression of company performance and report engineering causes losses to investors and other interested parties.

Table 1 Manufacturing Company Accounting Conservatism 2017-2021

	Year				
Accounting Conservatism	2017	2018	2019	2020	2021
	-0,07	-0,07	-0,03	-0,01	-0,05

Source: Data processed by Researchers (2022)

In this study, some variables affect accounting conservatism, and the first is financial distress. According to Ugur et al. (2020), financial distress is a company condition that causes bankruptcy or liquidation symptoms. Financial distress is problem companies face because they fail to settle obligations or debts and cannot generate sufficient cash flow for payments (Arifin, 2018, p. 189). Research conducted by Sulastri & Anna (2018) and Syifa et al. (2017) show that financial distress significantly affects the accounting conservatism of manufacturing companies. In contrast to research conducted by Rivandi & Ariska (2019), financial distress hurts accounting conservatism because high financial distress conditions will encourage companies to show increased profits so that they are judged well by shareholders; by generating high profits, managers will reduce accounting conservatism. Furthermore, according to Indarti et al. (2021), financial distress does not affect accounting conservatism.

The variable that affects the second conservatism is profitability. According to Larasati (2021), profitability is a measurement of the income available for capital invested in the company. It helps investors see the professionalism of a company that can turn its investment from assets into profits. Profitability ratios that can be measured in manufacturing companies use Return on Equity (ROE) by assessing the company's equity ability to create profits. In contrast to the research conducted by Andreas et al. (2017), there is a partially significant positive effect between profitability and accounting conservatism. Research by Abdurrahman & Ermawati (2019) shows that profitability negatively affects accounting conservatism. If profitability is high, the company is less conservative (more aggressive) and more confident in offering performance prospects to investors. Furthermore, according to El-Haq (2019), profitability has no significant impact on accounting conservatism.

The last variable that affects accounting conservatism is leverage; according to Husnan (2019, p. 2.24), leverage is how much the company uses debt. Based on the research of Yanti et al. (2017) and Sugiarto & Fachrurrozie (2018), leverage has a significant positive effect on accounting conservatism. This study calculates leverage with the Debt to Equity Ratio (DER), a comparison of total debt to total company equity PURWASIH (2020). Another study conducted by Suyono (2021) found that leverage has a significant negative effect on conservatism. Because the high leverage indicates the company's condition could be better, managers must be more aggressive in preparing financial statements.

LITERATURE REVIEW

Agency Theory

According to Iskandar & Sparta (2019), agency theory is a theory that comes from a problem between the principal and the agent, with the principal as the owner or shareholder and the agent as the manager who manages the company. The purpose of this theory is to explain the procedures for how the parties enter into an employment contract that can minimize costs as a result of information asymmetry. Supported by the theory, according to LaFond & Watts (2008), the emergence of information asymmetry problems is caused by the manipulation of financial statements in agency theory. The concept of report manipulation is in line with Hariyanto's (2020) statement that this practice is influenced by conflicts of interest between shareholders and managers when each party tries to get the benefits they want. Management often does the recording of high profits to manipulate agency theory. The reason for doing so is the bonus from management's work indicators in achieving gains and getting significant attention for investors in making a decision. Therefore, applying conservatism can prevent managers from manipulating financial statements. According to Sudane et al. (2020), managers increase accounting conservatism to anticipate and reduce potential conflicts between shareholders and managers.

Accounting Conservatism

Savitri (2016:24) explains that accounting conservatism is an accounting concept that recognizes expenses and liabilities quickly but recognizes income and assets slowly and is believed to have been received by the company. If the company experiences an uncertain profit, it is not immediately recorded in the financial statements. Managers use the principle of conservatism to be careful in preparing financial reports so that they are not too optimistic in determining profits, where optimism will harm parties who depend on financial statements (Siswanto & Wijaya, 2021). Supported by research by Juliani & Wardhani (2018), accounting conservatism is used by companies for choosing accounting methods and estimating that the book value of assets is relatively low.

Financial Distress

Kristanti (2019:3) explains that financial distress is an early-stage event where a company cannot pay its obligations. If it occurs continuously, it will result in bankruptcy, which damages the financial system and organizational systems of a company. Financial distress is also called the company's financial difficulties, where there is a decrease in profits or even gains experience adverse losses. A similar thing was stated by Arifin (2018, p. 189), explaining that financial distress is called an early warning that the company will face problems. If the company's debt is more significant, it experiences financial distress earlier than companies with low debt. This early warning will give the company time to make improvements or improvements in terms of production and marketing so that financial distress problems can be overcome. Herlina et al. (2019) research explains that financial distress provides essential and valuable information for investors or creditors when making decisions.

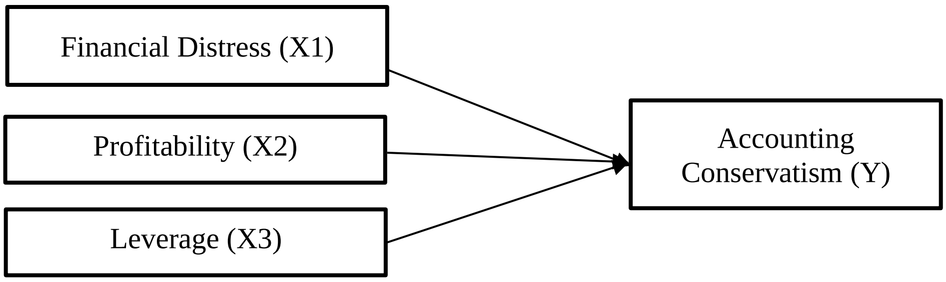
Profitability

Kasmir (2010:115) explains that profitability is a company's ratio to measure the effectiveness and efficiency of management in generating profits, where profits are generated from investment and sales income. The same thing was stated by Sulindawati & dkk (2017:135), explaining that the profitability ratio aims to measure profits from various company capabilities that come from the use of capital. In addition, the theory from Sujarweni (2017:64) that companies use profitability ratios to consider the level of rewards or gains related to profits, capital or company assets.

Leverage

Hery (2014:142) explains that leverage measures a company's ability to fulfil all its short-term and long-term obligations. The company uses this ratio to see the extent to which the company must account for the debt to meet assets or equity. Supported by Sujarweni (2017:61) explains that this ratio is used to measure the effectiveness of company management in using or using the resources they have, such as assets and capital resources. Moreover, the theory by Mowen et al. (2017:965) that this ratio helps companies measure how much their debts can be repaid, from short-term to long-term obligations and are finally evaluated by creditors.

THEORETICAL FRAMEWORK



Based on the constellation of the relationship between the variables above, the research hypothesis is as follows:

H_1: There is an influence between Financial Distress on accounting conservatism.
H_2: There is an influence between profitability on accounting conservatism.
H_3: There is an influence between leverage on accounting conservatism.
H_4: There is an influence among Financial Distress, Profitability, and Leverage on accounting conservatism.

METHOD

This study uses a quantitative research approach. According to Suryani & Hendryadi (2016, p. 109), quantitative research is a phenomenon studied by researchers who use theories and hypotheses based on empirical data from numbers and financial ratio data. The data analysis technique in this study is multiple linear regression analysis to determine the causal relationship of two or more independent variables that will affect the dependent variable Qomusuddin &

Romlah (2021, p. 82). This study determines the relationship between the variables Financial Distress (X1), Profitability (X2), and Leverage (X3) on the dependent variable Accounting Conservatism (Y) Manufacturing Company. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample in quantitative research is part of several units taken from the population for research Djaali (2020, p. 41). The data used in this study is secondary data obtained from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021, obtained from the Indonesia Stock Exchange (IDX) website. The sampling technique used is purposive sampling, which according to Sugiyono (2018, p. 121), is a sampling technique with specific considerations following the research objectives. The following describes some of the references or criteria used by researchers for research:

Table 2 Research Sample Criteria

Research Sample Criteria	**Number of Companies**
Manufacturing Company listed on the Indonesia Stock Exchange	203
Manufacturing Companies that are not listed on the Indonesia Stock Exchange during the observation period from 2017 to 2021	(50)
Manufacturing companies that do not publish financial statements in the observation period from 2017 to 2021	(8)
Manufacturing companies that experience losses during the study period.	(70)
Total Samples	**75**

Source: Data processed by Researchers (2022)

Based on the criteria in table 2, 75 companies are used as samples, but data outliers total 17 companies, so this study examines 58 companies used as the final sample. The data was then analyzed using the Statistical Package for Social Sciences (SPSS) software. The research data is in the form of a time series; that is, the data during the year of observation is averaged.

RESULTS AND DISCUSSION

1. Multiple Linear Regression Analysis

Table 3 Multiple Linear Regression Analysis Results

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta
(Constant)	.005	.017	
Financial distress	-.009	.003	-.613
Profitability	.146	.103	.236
Leverage	-.035	.013	-.462

a. Dependent Variable: Konservatisme Akuntansi

Sources: SPSS v.25, 2022

Based on table 3 Coefficient produces data for the regression equation, including 0.005 for constants, -0.009 for financial distress, 0.146 for profitability, and -0.035 for leverage. Based on these data, the regression equation is formulated as follows:

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Information: Y = Accounting Conservatism; X_1 = Financial distress; X_2 = Profitability; X_3 = Leverage

The next test is the analysis prerequisite test, which carried out two tests: normality and linearity. The normality test in this study was to conclude that the data were normally distributed using the One-Sample Kolmogorov-Smirnov Test and the Normal Probably Plot. The Kolmogorov-Smirnov Test can be viewed on Asymp. Sig. (2-tailed), The data is usually distributed if the significant value is more remarkable than 0,05. The linearity test determines whether there is a linear relationship between the independent and dependent variables. This test is seen from the output on the ANOVA Table. If the significant level of deviation from linearity is more excellent than 0,05, then each independent variable to the dependent variable is said to be linear.

2. Normality Test Results

Table 4 Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		58
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.03066026
Most Extreme Differences	Absolute	.090
	Positive	.090
	Negative	-.067
Test Statistic		.090
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Sources: SPSS v.25, 2022

Based on the results of the output of the normality test in table 4, it can be seen that the Asymp value. Sig. (2-tailed) Unstandardized Residual of 0.200 > 0.05. So the data on financial distress, profitability, leverage, and accounting conservatism is normally distributed, and the data can be used for further testing.

3. Linearity Test Results

Table 5 Linearity Test X_1 with Y

ANOVA Table

			Sum of Squares	f	Mean Square	F	ig.
Konservatisme Akuntansi * *Financial distress*	Between Groups	(Combined)	.063	4	.001	4.999	104
		Linearity	.003		.003	12.063	040
		Deviation from Linearity	.060	3	.001	4.866	108
	Within Groups		.001		.000		
	Total		.064	7			

Sources: SPSS v.25, 2022

Table 6 Linearity Test X2 with Y
ANOVA Table

			Sum of Squares	Df	Mean Square	F	Sig.
Konservatisme Akuntansi * Profitabilitas	Between Groups	(Combined)	.017	19	.001	.744	.752
		Linearity	.000	1	.000	.384	.539
		Deviation from Linearity	.017	18	.001	.764	.726
	Within Groups		.046	38	.001		
	Total		.064	57			

Sources: SPSS v.25, 2022

Table 7 Linearity Test X3 with Y
ANOVA Table

			Sum of Squares	Df	Mean Square	F	Sig.
Konservatisme Akuntansi * *Leverage*	Between Groups	(Combined)	.050	46	.001	.882	.641
		Linearity	.001	1	.001	.608	.452
		Deviation from Linearity	.049	45	.001	.888	.635
	Within Groups		.014	11	.001		
	Total		.064	57			

Sources: SPSS v.25, 2022

Table 5 shows that financial distress has a linear relationship with accounting conservatism because the significant value in the output deviation from linearity is greater than 0.05, which is 0.108. Table 6, the profitability variable has a linear relationship with accounting conservatism because the significant value in the output deviation from linearity is greater than 0.05, which is 0.726. Moreover, in table 7, the leverage variable has a linear relationship with accounting conservatism because the significant value in the output deviation from linearity is greater than 0.05, which is 0.635.

Furthermore, the classical assumption test includes autocorrelation, multicollinearity, and heteroscedasticity tests. The autocorrelation test is used to see the relationship between this period's confounding error and the previous period's confounding in the regression model. The results of the autocorrelation test can be seen in table 8 as follows:

4. Autocorrelation Test Results

Table 8 Autocorrelation Test Results
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	.398[a]	.159	.112	.03150	2.280

a. Predictors: (Constant), *Leverage*, Profitability, *Financial distress*
b. Dependent Variable: Konservatisme Akuntansi

Sources: SPSS v.25, 2022

Based on table 8, the Durbin-Watson value is 2.280. The comparison uses the value of Sig. 5%, the number of samples is 58 (n), and the number of independent variables is 3 (k-3). The dW value is greater than the dU value, which is 1.6860, and the dW value is smaller than (4-dU), which is 2.314. So, dW is between dU and (4-dU), so it can be concluded that there is no autocorrelation problem in this data.

Furthermore, the regression model uses a multicollinearity test to determine the

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relationship between independent or independent variables (X_1, X_2, and X_3) in the regression model. The results of the multicollinearity test can be seen in table 9 as follows:

5. Multicollinearity Test Results

Table 9 Multicollinearity Test Results

Coefficients

Model		Collinearity Statistics Tolerance	VIF
1	*Financial distress*	.370	2.705
	Profitability	.566	1.766
	Leverage	.531	1.883

a. Dependent Variable: Konservatisme Akuntansi

Sources: SPSS v.25, 2022

The data in table 9 shows that VIF on financial distress variable 2.705 < 10 and tolerance 0.370 > 0.1. The profitability variable is 1.766 < 10, and the tolerance is 0.566 > 0.1. Furthermore, the leverage variable is 1.883 < 10, and the tolerance is 0.531 > 0.1. So, the regression model in this study does not have multicollinearity problems between financial distress, profitability, and leverage variables. Furthermore, the heteroscedasticity test shows the inequality of variance in the regression analysis. The results of the heteroscedasticity test can be seen in table 10 as follows:

6. Heteroscedasticity Test Results

Table 10 Heteroscedasticity Test Results

Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.005	.010		.459	.648
	Financial distress	.002	.002	.269	1.248	.218
	Profitabilitas	.024	.064	.065	.374	.710
	Leverage	.009	.008	.209	1.162	.250

a. Dependent Variable: ABSRESID

Sources: SPSS v.25, 2022

Table 10 shows that the value of Sig. for financial distress is 0.218, for profitability is 0.710, and for leverage is 0.250. If the significant matter is > 0.05, there is no heteroscedasticity problem. So, there is no heteroscedasticity in this study.

After passing the Classical Assumption Test (Autocorrelation, Multicollinearity, and Heteroscedasticity), quantitative multiple regression analysis can be performed. The results of the hypothesis (t-test, F-test, and coefficient of determination) carried out by multiple regression analysis can be seen in tables 11, 12, and 13 below:

7. Coefficient of Determination Test Result

Table 11 Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	.398[a]	.159	.112	.03150	2.280

a. Predictors: (Constant), *Leverage*, Profitability, *Financial distress*

b. Dependent Variable: Konservatisme Akuntansi

Sources: SPSS v.25, 2022

Based on table 11, the Coefficient of Determination shows that R is multiple correlation values with some 0.398. Then R square (R^2) is 0.159. Then the adjusted coefficient of determination is 0.112. And lastly, Std. The error of the Estimate is 0.03150. With an Adjusted R Square (R^2) of 0.112, it can be concluded that the percentage of financial distress (X_1), profitability (X_2), and leverage (X_3) explain the accounting conservatism variable (Y) simultaneously is 11.2%.

8. F-Test Result

Table 12 F. Test

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.010	3	.003	3.396	.024[b]
	Residual	.054	54	.001		
	Total	.064	57			

a. Dependent Variable: Konservatisme Akuntansi
b. Predictors: (Constant), *Leverage*, Profitability, *Financial distress*

Sources: SPSS v.25, 2022

Table 12 shows that the F-test results show that the F-test is 3.396, meaning it is greater than the Ftable of 2.78, and the significance value is 0.024 <0.05. Thus, financial distress, profitability, and leverage significantly affect accounting significantly.

9. t-Test Result

Table 13 t-test

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.005	.017		.322	.748
	Financial distress	-.009	.003	-.613	-2.986	.004
	Profitabilitas	.146	.103	.236	1.422	.161
	Leverage	-.035	.013	-.462	-2.695	.009

a. Dependent Variable: Konservatisme Akuntansi

Sources: SPSS v.25, 2022

DISCUSSION

The research results shown in table t above can be interpreted with the following discussion:

1. The Effect of Financial Distress on Accounting Conservatism

Based on table 13, the t-test of the independent variables on the independent variables is obtained. The value of financial distress coefficient has a negative value and a significance value of 0.004 <0.05. These results indicate that financial distress significantly negatively affects accounting conservatism. It suggests that the size of the company's financial distress influences accounting conservatism, so the study's first hypothesis (H1) is declared accepted.

By the agency theory of Hariyanto (2020), the practice of information asymmetry is influenced by conflicts of interest between shareholders and managers who want to achieve their respective benefits. In troubled financial conditions caused by managers who are not good at managing the company, the manager's actions will reduce conservatives so that external parties do not know about their poor performance. One way is to satisfy investors by recording current profits from estimated future profits. It is supported by the theory of (Schroeder et al., 2020, p. 178). They advocate that if managers carry out conservative applications with hesitation, the best alternative is to overestimate assets or profits by including future expectations. It means that if managers experience financial difficulties, they will hesitate to make reports conservatively, so another alternative that managers do is to have future earnings expectations.

The results of this study are similar to the relevant research conducted by Yanti et al. (2017), which states that financial distress in this study has a significant negative impact on the accounting conservatism variable. This study explains that company managers will make high profits with the aim of external parties being able to provide loans so that the company can survive in conditions of financial difficulties. Subsequent research was conducted by Ramadhani & Sulistyowati (2019) with the results of a t-test of -2.130 while t table of 2.02439 and a significance value of 0.040 so that it can be concluded that financial distress has a significant negative effect on accounting conservatism.

2. The Effect of Profitability on Accounting Conservatism

Based on table 13, the t-test of the independent variables on the independent variables is obtained. The significant value of profitability is 0.161>0.05. These results indicate that profitability does not affect accounting conservatism. In other words, the size of the company's profitability ratio has no impact on accounting conservatism, so the study's second hypothesis (H2) is rejected.

By the agency theory of Sudane et al. (2020) that to anticipate and reduce the occurrence of potential conflicts between shareholders and managers, managers increase conservatism to be careful in determining company profits. Still, in this study, profitability has no effect because the company has poor performance, so it carries out optimistic financial reporting. (not conservative). It supports the theory of Sukamulja (2019, p. 97), explaining that the profitability ratio reflects or describes how the company's management performance in maintaining the effectiveness of the company's operational activities so that to look good the manager's performance, the company does not apply conservatively in record profits.

The results of this study are similar to the relevant research conducted by El-Haq (2019) with the results of the t-count of -1.956 while the t-table of 2.01063 and a significance value of 0.057 so that it can be concluded that profitability does not affect accounting conservatism. In another study conducted by Yusrizal et al. (2021), the P value is greater than alpha and concluded that profitability has no significant effect on accounting conservatism because the profitability of the companies studied is still low and tends to carry out earnings management rather than conservative nature.

3. The Effect of Leverage on Accounting Conservatism

Based on table 13, the t-test of the independent variables on the independent variables is obtained. The leverage coefficient value has a negative value and a significance value of 0.009 <0.05. These results indicate that leverage has a significant negative effect on accounting conservatism. It suggests that the size of the company's leverage influences accounting conservatism, so the study's third hypothesis (H3) is declared accepted.

Supported by the agency theory of Iskandar & Sparta (2019), managers usually do not work by the contract in the company's operational activities, resulting in agency conflicts for their welfare. Manufacturing companies in the research sample are highly dependent on debt for funding. Furthermore, having a high debt-to-equity ratio is closely monitored by creditors, so companies prefer to compile financial statements that are less conservative or optimistic so that creditors see that companies regulated by managers have not failed to pay their debts. Supported by Hery (2018, p. 168) theory that creditors will lend funds to debtors who do not have financial failures because if they give them to the company, creditors will bear significant risk; with this statement, the manager will make financial statements that do not show the failure of the company, so managers are less conservative.

The results of research conducted by Suyono (2021) resulted in a coefficient of -0.580

and Sig. At 0.000 results in the conclusion that leverage significantly negatively affects accounting conservatism. This study explains that the higher the leverage ratio, the managers tend to be less conservative and choose accounting methods that increase profits. By selecting this method, the company will gain creditors' trust so that it is flexible in supervising its operations, considering that the company being funded does not experience financial difficulties. Subsequent research was carried out by Mumayiz & Cahyaningsih (2020), with the results of this study a coefficient value of -0.046491 and a significance value of 0.0008, so it can be concluded that leverage has a significant negative effect on conservatism. Based on the researcher's research and previous studies, leverage negatively and significantly affects accounting conservatism.

4. The Effect of Financial Distress, Profitability, and Leverage on Accounting Conservatism

Based on table 12, the F test results, the significance value is 0.024 <0.05. These results indicate that Financial Distress, Profitability, and Leverage significantly affect accounting conservatism. It suggests that the size of financial distress, profitability, and company leverage influences accounting conservatism, so the fourth hypothesis (H4) is declared accepted.

According to LaFond & Watts (2008), the agency theory explains the emergence of information asymmetry problems between managers and shareholders due to the manipulation of financial statements. In that case, the company is conservative so as not to manipulate the preparation of financial information so that shareholders continue to trust the manager to manage the company. It is in line with the theory of Savitri (2016, p. 75-86) that the factors that influence accounting conservatism are high profitability so that the financial compensation that must be issued is increased so that the company carries out a conservative application, the company shows good performance against lenders or leverage ratios. , the state of the company's financial difficulties, so it must be careful to anticipate future financial problems.

Research conducted by Shen et al. (2020) showed that accounting conservatism produces a high-quality information environment to protect investors' interests effectively. The variables that affect accounting conservatism are essential to note so that companies remain in an environment that protects investors. Furthermore, in line with the results of the research by Abdurrahman & Ermawati (2019), where the significant level of the F test is 0.000, the independent variables have an overall effect on accounting conservatism. Moreover, the coefficient of determination shows that the adjusted R-square value of 0.440 or 44% affects accounting conservatism. The variables used are leverage, financial distress, and profitability on accounting conservatism. Another study by Putra & Sari (2020) showed simultaneous test results of 13,143 and a significance value of 0.004, which is smaller than 0.05, which means that financial distress, leverage, and profitability have a simultaneous effect on accounting conservatism.

CONCLUSION

Based on the results and discussion of research data analysis conducted to examine the effect of financial distress, profitability, and leverage on accounting conservatism, the conclusions of the study are as follows:

1. There is a significant negative effect of financial distress on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021. The higher the company's financial distress, the lower the accounting conservatism applied. On the other hand, the lower the company's financial distress, the higher the accounting conservatism significantly.

2. There is no effect between profitability on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021. It means that the size of the company's profitability ratio has no impact on accounting conservatism
3. There is a significant adverse effect between leverage on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021. The higher the company's leverage, the lower the accounting conservatism applied significantly. On the other hand, if the company's leverage is lower, the accounting conservatism will be considerably higher.
4. There is a significant positive effect between financial distress, profitability and leverage on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021. The higher financial distress, profitability and leverage, the significantly higher accounting conservatism applied. Conversely, if the lower financial distress, profitability and leverage simultaneously, the lower accounting conservatism significantly.

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