

## **The Influence *Financial Distress*, *Profitability* , *Company Size* and *Tax Incentives* on *Conservatism Accounting* in Listed Transportation Sector Companies at BEI Period 2020-2022**

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### **ABSTRACT**

Accounting conservatism ensures that companies respond carefully to inherent uncertainties and handle internal uncertainties and risks in the business environment appropriately. This study aims to examine the effect of financial distress, profitability, company size and tax incentives on accounting conservatism in transportation sector companies for the period 2020-2022. In this study, accounting conservatism as the dependent variable while financial distress, profitability, company size and tax incentives as independent variables. The population used is all transportation sector companies listed on the Indonesia Stock Exchange (IDX) in the 2020-2022 period. The data collection technique applied is purposive sampling, which is in accordance with the research criteria. The research sample consisted of 24 which resulted in 72 observations. Data analysis was carried out by multiple linear regression after first being tested with classical assumptions to ensure the data met the best linear unbiased estimate (BLUE) requirements. The results showed that financial distress and profitability have a significant positive effect on accounting conservatism, company size has a significant negative effect on accounting conservatism and tax incentives have an insignificant negative effect on accounting conservatism."

**Keywords:** Accounting Conservatism; Financial Distress; Profitability; Company Size; Tax Incentives.

### **INTRODUCTION**

Report Relevant , robust and informative financial reporting is essential For considered by users report finance . To achieve this, management must follow the principle of prudence that applies in the process of preparing financial statements. Mistakes in the process of preparing financial statements can mislead readers and harm related parties. Accounting conservatism is the principle of prudence in preparing financial statements that tends to recognize costs that may arise while income or profits that are expected to be obtained in the future are not recognized immediately. Financial distress, profitability , company size, and incentives tax is components that influence conservatism .

Component First namely financial distress. According to study Ridhasyah , et al (2022) financial distress refers to a situation moment a company experience difficulty financial in fulfil obligations that can be range from difficulty light until circumstances where the obligation exceeding the company's assets . This situation occurs when the company is unable or fails to provide sufficient funds to run its operations. The higher the financial distress, the manager will increase conservatism. When a company experiences difficulties in paying debts and continues to apply accounting conservatism, the financial statements look worse, thus having a negative impact on external parties, especially creditors. Previous research from Abdurrahman & Ermawati (2018) stated that financial distress was not significant, while Sari & Srimindarti (2022) stated that financial distress was significantly negative towards accounting conservatism.

The second component is profitability. According to Nahdliyah and Alliyah (2023), high profitability provides great benefits for investors and can improve the welfare of investors and employees which can then increase the company's production and investment. The more profitable the company, the better its reputation in the eyes of investors who hope the company will provide profits in the future. The results of Saputri's (2013) study showed that positive profitability was significant, while Islami, et al (2022) found that positive profitability was not significant to accounting conservatism.

Component third is company size. This component refers to the amount of assets owned by the company. Large companies tend to have a lot of assets. Despite their scale, they still face more complex challenges, such as high political costs. On the other hand, small companies will be more vulnerable to these problems but more flexible in dealing with crises. Sari's research (2021) states that company size is significantly positive, while Haryadi, et al (2020) shows that company size is not significantly negative towards accounting conservatism.

The fourth component is tax incentives. This component refers to tax reductions given to both domestic and foreign investors for certain activities or areas that can affect the economy. Companies often implement a tax-minimizing strategy by reporting a decrease in profits. Research by Sugiyarti & Rina (2020) states that the level of use of tax incentives is significantly positive, while Sumantri (2018) states that tax incentives are significantly negative towards accounting conservatism.

Companies competing on the IDX have experienced rapid development, especially in the transportation sector. Research aiming For analyzing " the influence of financial distress, profitability , company size and incentives tax to conservatism accounting ." Subject study encompassing all over companies in the sector transportation listed on the IDX during period 2020-2022.

## LITERATURE REVIEW

### *Signaling Theory*

This theory argues that managers provide information to investors or shareholders. This concept is related to information asymmetry which describes the difference in information between managers and stakeholders. This theory also explains why a company conveys information about the capital market, both financial and non-financial, to show that the company is better than other companies.

### **Influence *Financial Distress* To Conservatism Accountancy**

*Financial distress* is when company not enough capable fulfil obligation finances . Research Previously , Abdurrahman & Ermawati (2018) found that *financial distress* No significant , while Sari & Srimindarti (2022) found that *financial distress* influential negative to conservatism accountancy .

H<sub>1</sub> : Suspected that *financial distress* influential positive significant to conservatism accounting in the company sector transportation .

### **Influence Profitability To Conservatism Accountancy**

Profitability is ratio that measures ability a company in produce profit in term time certain . When the company own level high profitability , they tend generate huge profits big , which can result in burden tax high . Saputri's research (2013) found that positive profitability was significant but Islami, et al (2022) showed that positive profitability was not significant to accounting conservatism.

H<sub>2</sub> : Suspected that profitability influential positive significant to conservatism accounting in the company sector transportation .

### **Influence Company Size To Conservatism Accountancy**

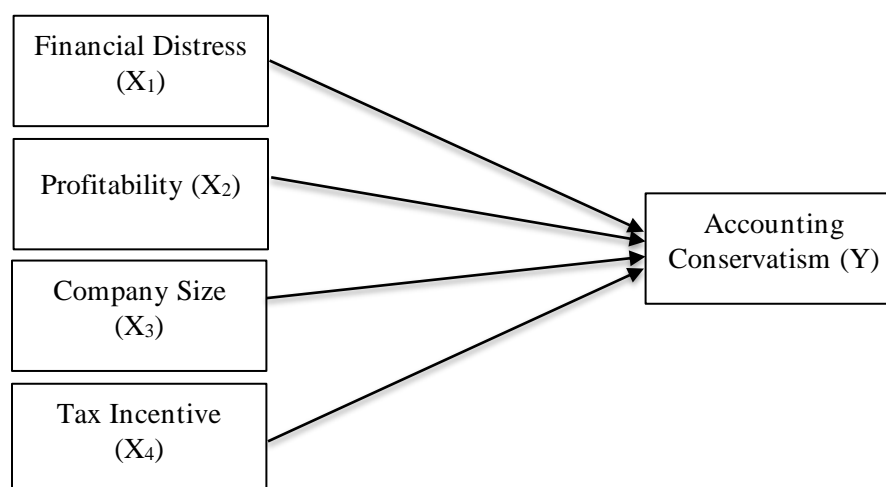
Company *size* viewed based on total assets estimated own connection negative with ratio conservatism . Change big tend invest in projects with return results more low For avoid decline profit . The more big *company size* so the more Good capacity owned the company that created image positive for company said . Research Sari ( 2021) shows that *company size* influential positive significant , while Haryadi, et al (2020) proved that *company size* influential negative No significant to conservatism accountancy .

H<sub>3</sub> : Suspected that *company size* has an effect negative significant to conservatism accounting in the company sector transportation .

### **Influence Tax Incentives Against Conservatism Accountancy**

Incentive tax that is subtraction tax given to both domestic and foreign investors foreign For activity certain that can influence economy . Research Sugiyarti & Rina (2020) proves that that incentive tax positive significant , while Sumantri (2018) proves that that incentive tax influential negative significant to conservatism accountancy .

H<sub>4</sub> : Suspected that incentive tax influential positive significant to conservatism accounting in the company sector transportation .



**Figure 1. Research Model**

## **RESEARCH METHODS**

This data use is secondary data obtained from report finance in the company sector transportation period observation 2020-2022 quoted from the official website of the Indonesia Stock Exchange ( IDX) at [www.idx.co.id](http://www.idx.co.id). Population study This is all over company sector transportation listed on the IDX in the 2020-2022 period with purposive sampling technique . Criteria in determine sample is as following :

**Table 1.** Criteria Sample Selection

Criteria	Amount
Transportation companies listed on the IDX for the 2020-2022 period	36
Transportation companies that do not publish report annual	(9)
The company issued due to outlier data	(3)
Total Sample	24
Year Observation	3
Amount Observation during period observation 2020-2022	72

Source : processed data writer

**Definition Operational****Financial Distress**

Financial distress is measured using the Altman Bankruptcy Prediction Model Z-score ( Syafri in Antoniawati and Purwohandoko , 2022) with formula as following :

$$Z - Score = 6,5X_1 + 3,26X_2 + 6,72X_3 + 1,05X_4$$

**Profitability**

In research This variable profitability proxied with Return on Assets (ROA) ratio which describes profit net profit obtained from the company's assets . According to Arifin in Bulutoding (2018). The formula For count profitability is as following .

$$ROA = \frac{Net Profit}{Total Assets} \times 100\%$$

**Company Size**

*Company size* measured with using natural algorithm (Ln) of total assets . Large companies tend invest with more projects small For avoid decline profit . Measurement *company size* . according to Firmasari in Haryadi, et al 2020 are :

$$Company Size = LN (Total Asset)$$

**Tax Incentives**

Incentive tax given to company can influence variable dependent Because tax income related direct with profit company . According to Ying & Cheng in Dewi and Rohman (2023) measurement incentive tax done with formula :

$$Taxplan (TP) = \frac{PPh Rates \times (PTI - CTE)}{TA}$$

**Data collection technique**

reports that are consistently published consecutively through the BEI reference center at [www.idx.co.id](http://www.idx.co.id).

**Data Analysis Techniques****Classical Assumption Test****Normality Test**

Testing This aiming For evaluate whether residual distribution in regression models normally distributed . If the assumption This No fulfilled , statistical test No applicable For sample small . The first way using non- parametric statistical tests *Kolmogorov-Smirnov* (KS) with condition mark significance more from 0.05.

**Autocorrelation Test**

Testing This aiming For test whether there is correlation between residual error in period t and error in period t-1 ( previous ). If there is a correlation, then an autocorrelation problem is found. These observations are sequential over time.

**Multicollinearity Test**

*Tolerance* measures the variation that is difficult to explain by the independent variables. A high VIF value means low *tolerance* , because  $VIF = 1/Tolerance$  . In general, the tolerance limit indicates multicollinearity is *tolerance* < 0.01 or VIF value > 10.

**Heteroscedasticity Test**

This test aims to test whether there is homoscedasticity in the regression model. The method used to test heteroscedasticity is the *park test* with a significance value of > 0.05.

**Analysis Multiple Linear Regression**

This analysis aims to evaluate influence variable independent to variable dependent with condition mark significance < 0.05. The regression equation in the research conducted is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Information:

Y = Accounting conservatism

$\alpha$  = Constant

$\beta_{1-4}$  = Coefficient

X<sub>1</sub> = Financial distress

X<sub>2</sub> = Profitability

X<sub>3</sub> = Company Size

$X_4$  = Tax planning

$\varepsilon$  = error

## Hypothesis Testing

### Determination Test

This test is used to explain the variation in the dependent variable in the regression analysis model symbolized by the compound coefficient ( $R^2$ ) and ranges from zero to one. Generally, the  $R^2$  value for *cross-section* data is relatively low because of the many variations between observations, while for *time series* data usually has a high  $R^2$  value.

## ANALYSIS RESULTS AND DISCUSSION

### Descriptive Statistical Analysis

**Table 2.** Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std.Deviation
Financial Distress	72	-34.96	14.89	0.3896	8.86635
Profitability	72	-57.83	59.95	-0.0085	16.86075
Company Size	72	10.23	18.84	13,3829	2.09634
Tax Incentives	72	-0.15	0.12	-0.0003	0.03819
Accounting Conservatism	72	-3.32	3.12	0.5635	1.00415
Valid N (Listwise)	72				

Source: statistical processing data

### Classical Assumption Test

#### Normality Test

**Table 3.** Results of Normality Test 1

Unstandardized Residual	
N	72
Test Statistics	0.124
Asymp . Sig (2-tiles)	0.008

Source: statistical processing data

Data outlet totaling 9 data, so that sample This totaling 72 data. The test results in table 3 do not normally distributed with value  $0.008 < 0.05$ . Therefore that , is done more data processing carry on use monte carlo method For test normal distribution of residual data.

**Table 4.** Results of Normality Test 2

Unstandardized Residual	
N	72
Test Statistics	0.124
Asymp . Sig (2-tiles)	0.202

Source: statistical processing data

Based on the Monte Carlo test in table 4 shows that the data is distributed normally with mark significance  $0.202 > 0.05$ .

### Autocorrelation Test

**Table 5.** Autocorrelation Test Results

	Unstandardized Residual
Z	-1,424
Asymp . Sig (2-tailed)	0.154

Source: statistical processing data

Table 5 proves that that results testing of  $0.154 > 0.05$  indicates No there is symptom autocorrelation in study This .

**Table 6.** Multicollinearity Test Results

Variables	Tolerance	VIF	Information
Financial Distress	0.728	1.37	Not occur multicollinearity
Profitability	0.385	2,595	Not occur multicollinearity
Company Size	0.793	1,251	Not occur multicollinearity
Conservatism	0.342	2,9323	Not occur multicollinearity
Accountancy			

Source: statistical processing data

### Multicollinearity Test

Table 6 shows that there is no evidence of multicollinearity. This is proven by the value tolerance  $> 0.1$  and VIF value  $< 10$ .

### Heteroscedasticity Test

**Table 7.** Heteroscedasticity Test Results

Variables	Sig	Information
Ln_FD	0.099	Not occur multicollinearity
Ln_ROA	0.884	Not occur multicollinearity
Ln_UP	0.569	Not occur multicollinearity
Ln_IP	0.472	Not occur multicollinearity

Source: statistical processing data

Based on Table 7 shows all over variable independent  $> 0.05$  which indicates that No there are symptoms of heteroscedasticity.

### Hypothesis Testing

### Determination Test

Table 8. Results of the Determination Coefficient Test

Variables	Adjusted R Square
Conservatism	0.195
Accountancy	

Source: data processed by SPSS

Based on table 8, the results of the determination coefficient value are 0.195 or 19.5% of the variation in accounting conservatism, while the remaining 80.5% (100%-19.5%) can be explained by other causes outside the research model.

## Discussion

### Influence *Financial Distress* to Conservatism Accountancy

*Financial distress* own influence positive significant to variable dependent meaning hypothesis First accepted . Improvement in *financial distress* will cause improvement significant at the level conservatism . Increase This describe condition bad finances . In the context of theory signal , condition This is signal negative for investors who indicate that a company experience problem finance and need caution more in report his finances .

### Influence Profitability to Conservatism Accountancy

Profitability own influence positive significant to variable dependent meaning hypothesis second accepted . An increase in profitability will contribute to an increase in the level of conservative accounting. An increase in profit will result in a greater tax burden, so companies need to take careful steps in managing financial statements to avoid risk. Based on signaling theory, companies that provide positive information about their financial performance tend to attract the attention of potential investors and have the potential to increase the value of a company.

### Influence *Company Size* to Conservatism Accountancy

*Company size* own influence negative significant to variable dependent meaning hypothesis third accepted . The company that is more big considered own more capacity big For manage risk and more guaranteed in a way financial , more companies small usually apply accountancy more conservative . Based on theory signal , company big need give clear information to related investors size and future prospects company For increase investor confidence .

### Influence Tax Incentives for Conservatism Accountancy

Incentive tax own influence negative No significant to variable dependent meaning hypothesis fourth rejected . This means decline incentive tax No impact big to increase principle caution in companies sector transportation .. This is due to differences in context or how companies utilize tax incentives. In signal theory, if a company utilizes tax incentives, investors may see this as a positive signal, but if it is not managed transparently, it can reduce investor confidence in the company's financial management.

## CONCLUSION

Study This prove that financial distress and profitability variables own influence positive significant , company size has an effect negative significant and incentive tax influential negative No significant to conservatism accountancy in sector transportation . Based on conclusion said , then the suggestion for study



next namely expand variables to be done research , extend period observation and involvement company from other sectors that BEI such as sector technology and mining .

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