International Journal of Economic Research

ISSN : 0972-9380

available at http: www.serialsjournals.com

Volume 14 • Number 17 • 2017

Managerial Ownership, Litigation Risk, Financial Distress and Accounting Conservatism
(An Empirical study on listed manufacturing companies at Indonesian Stock Exchange period 2010-2014)

Lies Zulfiati[1] and Anisya[2]

[1] *Sekolah Tinggi Ilmu Ekonomi Indonesia, Jln Kayu Jati Raya, Jakarta Timur*
E-mails: lies.zulfiati@stei.ac.id; anisya.syaa@gmail.com

Abstract: The purpose of this study is to examine the impact of managerial ownership, litigation risk, and financial distress on financial statement conservatism of listed manufacturing firms at Indonesian Stock Exchange period 2010-2014. This study uses a measure of accruals to measure the level of conservatism. Data sample for this study taken from Indonesia Stock Exchange website with purposive sampling technique, and multiple regression was used to analyze data. The result show that litigation risk tends to impact positively and significantly on conservatism, and financial distress have negatively significant impact on conservatism. However, managerial ownership do not have significant impact on conservatism, the statement that the managerial ownership have a significant impact on financial statement conservatism was not proved.

Keyword: Conservatism, Managerial Ownership, Litigation Risk, Financial distress.

I. INTRODUCTION

Conservatism is still considered important by some parties so that is still considered interesting area for research. As the Lasdi (2009), although in the absence of rules and regulations that ordered conservatively reporting, corporate managers have an incentive to report financial statements conservatively. Furthermore, there are those who oppose these principles because they do not reflect the actual condition of the company so that the quality of financial reports into doubt. That is what make conservatism debatable. Until now conservatism is still widely used as a study by researchers to answer the questions.

The principle of conservatism into a form of prudence is widely practiced in the making of the financial statements. With these principles, financial statements has been made will be pessimistic financial statements. Such attitudes need to neutralize excessive optimistic attitude that existed at the managers and owners, and it is also necessary to prevent possible fraudulent practices. One of these fraudulent practices is to acknowledge the current gain of the profits in the future that will be able to interfere with decisions made by users, such as investors. Investors would think that the company has a big advantage and certainly guarantee funds invested in the company will generate returns as expected. But the reality is quite the opposite. An optimistic attitude is exactly what led to overstatement is considered to be more dangerous than understatement. Consequences arising from the loss or bankruptcy will do more harm than benefit. If the overstatement is considered detrimental to the investor, the investor can do a lawsuit to the manager.

Conservatism also serves to reduce the conflict between management and shareholders. Managers of the company as the agent entrusted with the responsibility to manage the funds of the shareholders have an interest in attempting to manage the company. Managers have an interest in trying to meet the desired target by shareholders and also has a personal interest in maximizing the incentives that he can be when managing the company. The manager of the company is the most widely holds business information so that the manager is the party that it is possible to manipulate the financial statements in order to produce information that could affect its stock price. Studies examining the managerial ownership towards conservatism ever undertaken by the Dewi (2014), which shows the positive influence and Deviyanti (2012) research which showed negative influence.

In managing the company, the manager will certainly avoid the risks that may be faced by companies such as litigation risk, the risk of a lawsuit from investors or creditors who feel harmed. Conservative financial statements believed to reduce the risk. Lasdi (2009) stated the reason is that litigation tends to be more produced by overstatement lower than statements of earnings and net assets. Due to the expected litigation costs of overstatement higher than lower statement, the management and the auditor has an incentive to declare lower earnings and net assets. The study discusses about the litigation conducted by Lasdi (2009) suggested that litigation risk has significant impact on the financial statements conservatism.

Under certain conditions the company will choose not to use the principle of conservatism. One was when the company is experiencing financial distress. Financial distress resulted in the company requires more funds to finance the activities of the company as well as the funds to repay its debts, could result in higher debt levels. If the company is experiencing financial distress and continue to use conservative accounting, the financial statements be the understatement that would give a bad signal for external parties, especially the creditors so that the creditors will not lend to the company's sustainability, so that when a company is experiencing financial distress, the company will not apply the principle of conservatism in the financial statements. As in the study Ningsih (2013) suggested a positive influence though not significantly.

Based on the background mentioned, this study examines the effect of managerial ownership, litigation risks, and financial distress against the conservatism of financial statements. The purpose of this study was to test the effect of managerial ownership, litigation risks, and financial distress towards conservatism in the financial statements of companies listed on Indonesia stock exchanges.

II. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Conservatism

Conservatism is a principle that most affect the valuation in accounting (Dewi, 2004 in Sukriya 2011). Therefore, conservatism until now still has an important role in accounting practices. However, despite the conservatism is the most important concept in the financial statements but there is no authoritative definition in the accounting literature (Sukriya, 2011).

Conservatism has basic principles, namely (1) have to admit losses may occur, but it should not anticipate profit before it happens. (2) when faced with several options, accountants are expected to choose the method of accounting least favorable (Suharli, 2009 in Dewi, 2014).

In International Financial Reporting Standards (IFRS) replaced the concept of conservatism with prudence. Prudence itself is not much different from conservatism, only the prudence of revenue recognition may be immediately recognized when revenue recognition requirements are met. Wibowo (2002) in Widya (2005): "conservatism is an important principle in financial reporting in order to recognition and measurement of assets and profits is done with great caution, because of economic and business activity surrounded by uncertainty." Suwardjono (2010) conservatism is an attitude or stream (sect) in the face of uncertainty to take action or decisions based on an outcome the worst one of these uncertainties. Givoly and Hayn (2000) in Lasdi (2009) defines conservatism as the initial recognition of the cost and loss and delay the recognition of revenue and profit. Lasdi (2009) stated that although accounting conservatism is an important concept in financial reporting, but none are authoritative definition in the accounting literature.

It can be concluded that conservatism is prudence to face the uncertainty that may occur by recognizing gains slower, and recognize losses faster.

Agency Theory

Agency theory is the basis of the theory underlying the company's business practices. Agency theory explains the agency relationship that arises when the owner (principal) employs another person (the agent) to provide a service and delegate decision-making authority to the agent (Oktomegah, 2012). Agency theory states that as agents of the shareholders, managers do not always act in the interests of shareholders because the principal has an interest to get the maximum return on any funds he invested. Meanwhile an agent has an interest to maximize the incentives for each job in representing the principal to do his job. To that end, the shareholders need to pay a supervision that can be done through means such as binding agents, examination of the financial statements, and restrictions on decision-making by management. Their supervisory activities require a fee agency.

Conservatism can be explained from the perspective of agency theory. According to the agency theory, managers (agents) have an action the opportunity to maximize their own welfare at the expense of the interests of shareholders, debtholders, and other contracting parties (principals). The theory explains the company is a nexus of contract that is a meeting place for contracts between the various parties with potential conflicts of interest (Juanda, 2007).

The views of agency theory where there is a separation between the agent and the principal to lead to the emergence of a potential conflict may affect the quality of reported earnings. The management who have certain interests will tend to draw up earnings for their intended purpose and not for the sake of interest of the principal. Under these conditions we need a control mechanism that can align the interests of the differences between the two sides by apply the principles of accounting conservatism (Nugroho, 2012).

Positive Accounting Theory

One of the hypotheses contained in the positive accounting theory is a bonus plan hypothesis. This hypothesis explained that company managers with bonus plans tend to choose accounting procedures with changes in reported earnings from future periods to the present period. This hypothesis seems quite reasonable. The managers of the company, like others, want a high reward. If the rewards they rely, at least in part, on the bonuses reported in net income, the possibility that they could increase their bonus in that period by reporting net income as high as possible. One way to do this is to choose accounting policies that boost reported earnings in the period, so that managers often behave in line with the bonus given, and tend to perform earnings management that profit targets are met.

Watts and Zimmerman (1986) in Prasetyo (2011) suggested that the company has plans bonuses, company managers will prefer this method of accounting to shift profits from the future into the present so as to increase current earnings. This could be because the manager prefers giving higher wages to the present. In the bonus contracts known two-term Bogey (lowest profit level to get the bonus) and a cap (the highest income level to get the bonus). If you are under bogey, no bonus gained managers, whereas if income is above the cap, the manager will not receive additional bonuses. If the manager is under bogey, managers tend to reduce profits in the hope of bigger bonuses in the next period, as well as if income is above the cap. So only if the net income is between the bogey and cap, managers will seek to raise the company's net profit.

Watts and Zimmerman (1986) in Prasetyo (2011) suggested that the company has plans bonuses, company managers will prefer this method of accounting to shift profits from the future into the present so as to increase current earnings. This could be because the manager prefers giving higher wages to the present. In the bonus contracts known two-term Bogey (lowest profit level to get the bonus) and a cap (the highest income level to get the bonus). If you are under bogey, no bonus gained managers, whereas if income is above the cap, the manager will not receive additional bonuses. If the manager is under bogey, managers tend to reduce profits in the hope of bigger bonuses in the next period, as well as if income is above the cap. So only if the net income is between the bogey and cap, managers will seek to raise the company's net profit.

Positive accounting theory predicts that the level of financial distress may affect the level of accounting conservatism. Managers have a tendency to raise profit to hide poor performance, so if a company is experiencing financial distress, the manager as the agent can be considered to be in violation of the contract. The company's financial condition is problematic due to the poor quality manager. These circumstances can lead to the shareholders to make a replacement manager, who then can reduce the market value managers in the labor market. Such threats may encourage managers to reduce the level of accounting conservatism. In companies that do not have financial problems, the manager does not face the pressure of breach of contract so that managers applying conservative accounting to avoid possible conflicts with creditors and shareholders (Lo, 2005).

Signaling Theory

Signaling theory explain why companies have an incentive to provide financial information to external parties. The external parties in question here is the investor, creditor or other information users (Prapaska, 2012). Encouragement of companies to provide information because there is asymmetry of information between the company and external parties. External parties then assess the company as a function of the mechanism signaling different. Lack of information outsiders about the company led them to protect themselves by giving a low price for the company. Alternatively, an external party does not have the same information will have a perception about the value of all companies (Wolk, et al., 2001 in Wulandari, 2014).

Based on the theory of signaling, the manager raised the level of accounting conservatism if the company's financial problems. If a company in financial distress and have poor prospects, the manager gave a signal by holding conservative accounting. However, the manager will reduce the level of conservatism when a high-level financial distress corresponding positive accounting theory (Suprihastini and Pusparini 2007 in Dewi 2014).

Managerial Ownership and conservatism

Managerial ownership is one of the factors that affect conservatism. According to Lafond and Rouchowdhury (2007), managerial ownership is the percentage of the company's shares by a director of the company compared to the number of shares outstanding companies as a whole.

In the agency theory, the relationship between managers and shareholders described as the relationship between the agent and the principal. Policies and decisions taken within a company is strongly influenced by the size of the shareholding structure (Deviyanti, 2012). If the external shareholders have a bigger stake than the management, the shareholders are entitled to know and intervene in policy-making company, and if the external shareholders have smaller shares than management that shareholders lack the power to interfere in policy making companies, one of them is the method of accounting is used, in this case conservatism. Veres, et.al (2013) in Septian and Anna (2014) states that the greater proportion of the stock part of the manager, the profit generated will be more conservative because of stock ownership the manager is motivated to take no action that decreases the value of the company.

Wu (2006) in Ward (2008) found that the percentage of companies that have higher managerial ownership patterns show a more conservative in reporting their income. This shows evidence that there is a positive relationship between managerial ownership with the level of conservatism in the company. Therefore, this hypothesis was formed as follows.

H1: Managerial ownership have a positive influence on financial statements conservatism

Litigation Risk and conservatism

The application of accounting principles only based on accounting standards cannot guarantee its effectiveness when there is no mechanism to strengthen the implementation of the environment. Furthermore, the mechanism accounting standard regulatory environment (Regulatory Environment), its application cannot be effective if it is not reinforced by the mechanism of the legal environment (Legal Environment). Legal environment elements strengthen the effective implementation of the standards, because there is the threat of litigation consequences for the company (Wulandari, 2014).

The risk of litigation arising from the creditors caused the company does not carry out operations in accordance with the agreed contract. Examples are the company's inability to pay debts that have been given creditors, both short-term debt and long-term debt. In terms of investors, litigation could arise for the company running the operation that would result in losses for investors, reflected in the stock price movement and volume, hides some negative information that should be reported is one example (Juanda, 2007).

Litigation risk can arise from the manager who did not disclose the information from the financial statements, so that the asymmetry of information between the company's managers and external parties. External parties can conduct a lawsuit over it because of SAK (revised 2009) has explained that the entity must present a complete financial statement so that the external company will obtain accurate and correct information on the company's financial position.

For companies, the effort to avoid prosecution and the threat of litigation to encourage managers to disclose information that is likely to lead to: (i) the disclosure of bad news immediately in the financial statements, (ii) delay the good news, (iii) selecting accounting policies tend to be conservative (Soetharaman *et al.,* 2002 in Suryandari & Priyanto 2012).

Litigation risk is the risk inherent in the company that allows the threat of litigation. If the financial statements are not presented in full, not in accordance with the contractual agreement with the investor, the investor has the right legal action. If the presentation of financial statements is not complete it will be a risk of litigation is high, it is that triggers managers tend to be more conservative because managers will look more closely at accounting practices in order to avoid the threat of legal provisions. Meanwhile, if the financial statements are presented in full, then the risk of litigation will be decreased so that managers tend to be less conservative. Management would avoid the risk of litigation by applying the principle of conservatism in its financial statements, because of the risk of litigation is a risk that potentially cause no small cost for dealing with legal issues. Therefore, this hypothesis was formed as follows.

H2: Risk of litigation have positive influence on the financial statements conservatism

Financial Distress and conservatism

Health company can be described from its ability to finance its operations, to meet the obligations of the short-term to a long-term on time, and with good liquidity. Financial distress occurred before a company actually bankrupt. Financial distress began when the company can not meet the payment schedule or when the cash flow projections indicate that the company will soon be unable to meet its obligations (Brigham and Ehrhardt, 2013). Financial distress is a condition that indicates the stage of decline in the company's financial condition that occurs prior to the bankruptcy or liquidation.

Financial distress can occur in various companies and may be a marker / signal from bankruptcy that may be experienced by the company. If the company has been included in financial distress, then management must be careful because it could have gone on stage of bankruptcy. Companies management experiencing financial distress need to take action to resolve the financial problems and prevent bankruptcy. One of the actions is expected to be done by the management is the engineering of the financial statements to draw back investors, that of not using the principle of conservatism in its financial statements.

H3: Financial distress conservatism negative influence on the financial statements

III. RESEARCH METHOD

A) Data

The data used in this research is secondary data published an authorized company, the source of the intended data obtained from the website of Indonesia Stock Exchange (www.idx.co.id). The data in this study were obtained from the financial statements of a manufacturing company in Indonesia which have been audited during the period 2010-2014.

B) Sample

The population used in this research is manufacturing companies listed in Indonesia Stock Exchange during the period 2010-2014. While the sample is a fraction of the number and characteristics of which is owned by the population (Sugiyono, 2010). Using purposive sampling method, sample criteria in this study are as follows.

1. The company is listed on the Indonesia Stock Exchange (BEI) respectively during the period 2010-2014.
2. The Company publishes an annual report in a row during the period 2010-2014.
3. The Company publishes audited financial statements respectively, during the period 2010-2014 and using the financial year ended on December 31.
4. There completeness, respectively, during the period 2010-2014 in the financial statements required in the study.

The following table is the result of the process of selecting samples:

The number of companies listed on the Stock Exchange in 2010-2014	126
The number of companies that do not provide an annual report per 31 des 2010-2014	(47)
The number of companies that did not provide financial statements at 31 des 2010-2014	(8)
The number of companies that do not disclose an overview of stock	(18)
The number of companies sampled	53
Observation Number 5 years	265
Outlier	(23)
N	242

C) Variables Measurements

1. Managerial Ownership

Managerial ownership is a condition in which the manager has the company's shares or in other words the manager as well as corporate shareholders (Tarin, et al, 2007 in Pujiati, 2015). Managerial ownership is referred to in this research is the percentage of shares held by the managerial (commissioners and directors) compared to the number of shares owned by external parties. This information can be seen from the notes to the financial statements in the share capital part. The formula used is as follows:

$$Managerial\ Ownership = \frac{\Sigma\ shares\ owned\ by\ commissioners\ and\ directors}{\Sigma\ Outstanding\ shares} \times 100\%$$

2. Litigation Risk

Litigation risk can be measured on various financial indicators become determinant likelihood of litigation. Just as research conducted by Juanda (2007), this research refers to the Qiang (2003) and Johnson *et al.* (2001) in Juanda (2007), which measure the cost or risk litigation from the ex-ante that measure some indicators that can give rise to litigation.

To measure the risk of litigation, this research did component factor analysis to the variables: (1) The stock returns and stock volume turnover, both are a proxy for the volatility of the stock; (2) the liquidity and solvency, both are a proxy of financial risk; (3) the size of the company which is a proxy of the political risk. Factor analysis was used to define the structure of a data matrix and analyze the structure of the mutual relationship (correlation) between the large number of variables by defining a set of variables or dimensions in common and are often referred by a factor (Ghozali, 2001). This analysis serves to find a way of summarizing the information contained in the initial variables into a set of new dimensions or variate (factor). These five variables composited by factor analysis to determine the risk index litigation. Higher index value indicates a high litigation risk, and vice versa for a lower index value.

3. Financial Distress

The Altman bankruptcy prediction model would be more appropriately interpreted as a description of the condition of the company is experiencing financial distress (Ningsih 2013). From various research results regarding the comparison of models of measurement financial distress that have been done by Hadi and Anggraeni (2008), Prabowo and Wibowo (2015), Indriani (2014), and Dwi Anugrah (2015) to compare the level of accuracy in predicting financial distress, the model Altman is believed to be the most accurate model in predicting financial distress for manufacturing company.

Altman model for a manufacturing company that has goes public are as follows:

$Z = 1.2Z_1\ \ 3.3Z_3 + + + 1.4Z_2, 0.6Z_4 + 0.999Z_5$

Z_1 = working capital / total assets

Z_2 = retained earnings / total assets

Z_3 = earnings before interest and taxes / total assets

Z_4 = market value of equity / book value of total debt

Z_5 = sales / total assets

D) Hypothesis Testing Model

This study wants to demonstrate empirically the influence of managerial ownership, litigation risk, and financial distress towards conservatism. The hypothesis testing models used are as follows:

$$KONS_{i,t} = a + b_1KM_{i,t} + b_2RL_{i,t} + b_3KK_{i,t} + e$$

Where:

b1, b2, b3 = regression coefficient KM, RL, FD

KM = Managerial Ownership

RL = Risk of Litigation

KK = Financial Distress

e = residual values

IV. RESULTS AND ANALYSIS

A) Descriptive Statistic

Descriptive statistical analysis aims to provide a picture or description of the data in the test. Table 1 presents the descriptive statistics for the sample in the research model.

Tabel 1
Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
KONS	242	-1.05	.42	-.2551	.24628
KM	242	.00	.91	.0358	.13484
RL	242	-.03	7.93	3.1223	1.77472
KK	242	-1.42	1.75	-.1245	.71503
Valid N (listwise)	242				

In Table 1 shows the results of descriptive statistical tests, it appears that there are four variables of the study with a sample as a whole as much as 242 samples.

a) Conservatism: The average value of -0.2551 conservatism shows the sample companies have a low level of conservatism which means that on average companies prefer not to apply the principle of conservatism in its financial statements. While the value of a standard deviation of 0.24628 with a minimum value of -1.05 and a maximum value of 0.0351.

b) Managerial Ownership: The average value of managerial ownership is 0.0298 indicates the sample companies have stock ownership by management are quite low, the more the value of a standard deviation of 0.13484 with a minimum value of 0.00 and a maximum value of 0.91.

c) Litigation Risk: The average value of the risk of litigation is 3.1223 indicates the sample companies have a level of litigation risk is relatively small, the more the value of the standard deviation of 1.77472 with a minimum value of -0.03 and a maximum value of 7.93.

d) Financial Distress: The average value of financial distress is -0.1245 shows the sample companies have financial disytress levels are relatively small, the more the value of a standard deviation of 0.71503 with a minimum value of -1.42 and a maximum value of 1.75.

B) Hypothesis Testing

Coefficients[a]

Tabel 2

Model		*Unstandardized Coefficients*		*Standardized Coefficients*		
		B	*Std. Error*	*Beta*	*T*	*Sig.*
1	(Constant)	-.366	.032		-11.488	.000
	KM	.049	.114	.027	.425	.672
	RL	.033	.010	.236	3.438	.001
	KK	-.055	.024	-.159	-2.322	.021

a. Dependent Variable: KONS

Tabel 3

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.339[a]	.115	.104	.23317

a) Predictors: (Constant), Kesulitan Keuangan, Kepemilikan Manajerial, Risiko Litigasi

In Table 3 it can be seen that the R is 0,339 and determination coefficient is 0,104. It is seen that the ability of free variables (managerial ownership, litigation risks, and financial distress) showed the dependent variable variance (conservatism) was at 10.4% in the research model. There are still 89.6% other independent variables variance that have not been described in this study.

The test results of the research hypothesis as follows:

1. Managerial Ownership

   Variable managerial ownership has a significance value of 0,672 is higher than 0,05 with a beta coefficient marked positive. This means HO accepted, meaning that managerial ownership variable has no significant effect on conservatism, so the first hypothesis stating that managerial ownership positively affects the application of conservatism can not be accepted or rejected. this means that managerial ownership is not a variable that can significantly influence the implementation of conservatism.

   This is most likely due to the managerial ownership in this study was too small, with an average of 0.0358, so a lesser role in the decision on the company's management, including the application of accounting conservatism. Theoretically when the ownership of the management of the company's stock is quite high, is seen to align the potential difference between the interests of shareholders with management. Nugroho (2012) and Safiq (2010) mentions the agency problem assumed to be lost if a manager is also as an owner, but on the other hand there is also a possibility that the more managers want to show the financial statements that are considered attractive to investors which will impact on the rise the price of shares they own in the company and get a benefit from the increase in the stock price.

The results of this study support Widayati (2011), which provide evidence that managerial ownership is not influential to accounting conservatism. However, these results are not consistent with research Dewi (2014), Deviyanti (2012) and Safiq (2010), which states managerial ownership significantly influence accounting conservatism, by reason of management ownership in the shares of companies seen to align the potential divergence of interests between shareholders with management. So that the agency problem assumed will be lost if a manager is also as an owner.

2. Litigation Risks

Litigation risk variables have a significance value of 0,001 is smaller than 0.05 and a beta coefficient shows the number is positive. This means HO rejected and Ha accepted, meaning that the variable risk of litigation proved partially significant influence on the application of conservatism, so the second hypothesis which states that the risk of litigation positive influence on the implementation of conservatism acceptable.

This condition occurs because of litigation risk is defined as the risks inherent in the company which allows the litigation by the parties concerned with companies that feel aggrieved. The parties interested in the company include lenders, investors and regulators. The risk of litigation could arise from the creditors and investors. In terms of creditor litigation could arise because of the company does not conduct its operations in accordance with the contract agreed upon, such as being unable to pay debts that have been granted creditor.

From the investor side, litigation could arise because of the company running the operation that would result in losses for investors, as reflected in the share price movement and volume shares. With this condition, then the manager will balance between the risk of litigation arising with the benefits to be obtained because of conservative accounting.

Various regulatory and enforcement of existing laws in the accounting environment, requires managers to look more closely at accounting practices in order to avoid the threat of legal provisions. The demands of increasingly strict law enforcement is going to potentially cause litigation if the company is in violation, so will encourage managers to be cautious in applying accounting.

These results support the positive accounting theory which states the very strict legal environment, the tendency of managers to financial reporting conservatively higher. These results also support the research Hati (2011) and Lasdi (2008), which expressed high litigation risk influence on accounting conservatism. But the results of this study do not support research Juanda (2007), which states the risk of litigation have no significant effect on accounting conservatism.

3. Financial Distress

Variable financial distress has significant value of 0.021 is less than 0.05 and a beta coefficient shows the number is negative. This means HO rejected and Ha accepted, meaning financial distress proved partially significant influence on the implementation of conservatism, so the third hypothesis which states that the financial distress has negatively influence on the implementation of conservatism is acceptable.

This condition occurs because the ratio of the level of financial distress began when the company does not meet the payment schedule or when the cash flow projections indicate that the company will soon be unable to meet its obligations. Financial distress condition caused by poor quality manager. These circumstances can lead to the shareholders to make a replacement manager, who then can reduce the market value managers in the labor market. Such threats may encourage managers to reduce the level of accounting conservatism.

In companies that do not have financial problems, the manager does not face the pressure of breach of contract, so managers applying conservative accounting to avoid possible conflicts with creditors and shareholders, therefore the higher level of the financial distress that will encourage managers to reduce the level of conservatism.

The results support the positive accounting theory which predicts that the level of financial distress the company may reduce the level of accounting conservatism, if a company is experiencing financial distress, manager as the agent can be considered in violation of the contract and be more careful in conducting financial accounting is conservative. The results also support the research Dewi (2014), which states the level of financial distress have significant influence on accounting conservatism. But the results of this study do not support research Alhayati (2013), which states the level of financial distress does not significantly influence accounting conservatism.

V. CONCLUSION, LIMITATION AND FURTHER RESEARCH

A) Conclusion

This study aims to determine whether there is significant influence between managerial ownership, litigation risk and financial distress to the implementation of conservatism. Based on the analysis and interpretation of data, it can be concluded as follows:

1. Managerial ownership does not significantly influence on the implementation of conservatism, but shows the direction that is positive, these results show that the company's shares by the management is still not yet a factor that encourages managers to apply the principle of conservatism, it is probably because managers tend to want to show financial statements which is attractive to outside investors that the impact on rising prices of shares they own and provide for their personal gain.
2. Litigation risks positive and significant impact on the application of conservatism, these results support the positive accounting theory which states the very strict legal environment, the tendency of managers to report conservatively finance will be higher, the various regulatory and enforcement of existing laws in the accounting environment, demanding managers to better examine accounting practices in order to avoid the threat of legal provisions. The demands of increasingly strict law enforcement is going to potentially cause litigation if the company is in violation, so will encourage managers to be cautious in applying accounting.
3. Financial distress have a significant negative influence on the implementation of conservatism, the results of this study support the positive accounting theory which predicts that the level of financial distress the company may reduce the level of accounting conservatism.

B) Limitation and Further Research

This study has limitations as follows; in this study, the sample is used only to the extent of the manufacturing company. The level of Adjusted R Square in accrual accounting conservatism using the model Zhang (2007) in this study only 10.4%, this suggests that other variables not used in this study has a major influence on accounting conservatism as measured by accrual models Zhang (2007). The variables in this study represent only a fraction of the variables that affect conservatism. Further research may add other industries such as banks and financial institutions, add a variable that has not been tested in this study because it proved in this study new explain 10.4% of the factors that affect the application of conservatism. Conservatism can be measured use other models such as the use of proxy model of market to book ratio, discretionary accrual models, etc.

REFERENCES

Alfian, Angga. (2013), Analisis Faktor-Faktor Yang Berpengaruh Terhadap Pemilihan Konservatisme Akuntansi. Volume 2, Nomor 3, Tahun 2013, Halaman 1-10 ISSN (Online): 2337-3806.

Alhayati, Fajri. (2013), Pengaruh Tingkat Hutang *(Leverage)* Dan Tingkat Kesulitan Keuangan Perusahaan Terhadap Konservatisme Akuntansi (Studi Empiris Pada Perusahaan Yang Terdaftar di PT BEI). Skripsi. Universitas Negeri Padang.

Brigham and Ehrhardt. (2013), Financial Management: Theory and Practice. South-Western Cengage Learning.

Deviyanti, Dyahayu Artika, (2012), *Analisis Faktor-Faktor Yang Mempengaruhi Penerapan Konservatisme Akuntansi (Studi Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia).*

Dewi, A. A. A. Ratna. (2004), Pengaruh Konservatisme Laporan Keuangan Terhadap Earnings Response Coefficient. *Jurnal Riset Akuntansi Indonesia*. Vol. 7 No. 2, Mei: 207-223.

Dewi, Ni Kd Sri Lestari, (2014), *Pengaruh Struktur Kepemilikan Manajerial, Leverage, dan Financial Distress terhadap Konservatisme Akuntansi.* E-Jurnal Akuntansi Universitas Udayana 7.1 (2014): 223

Etd.repository.ugm.ac.ig/index.php?mod=penelitian_detail&sub=penelitiandetail&act=view&typ=html&buku_id=89002&obyek_id=4

Hadi dan Anggraeni. (2008), Pemilihan Prediktor Delisting Terbaik (Perbandingan Antara The Zmijewski Model, The Altman Model, Dan The Springate Model). E-Journal Fakultas Ekonomi Universitas Islam Indonesia.

Hati, Lia Alfiah Dinanar. (2011), Telaah Literatur Tentang Faktor-Faktor Yang Mempengaruhi Konservatisme Akuntansi. Jurnal Ekonomi & Pendidikan, Volume 8 Nomor 2, November 2011.

http://yanuar-nugroho.blogspot.co.id/2012/07/akuntansi-konservatisme.html accessed, 24 July 2016 @ 14.00 WIB

https://teoriakuntansipositif.wordpress.com/ accessed 24 October 2015 @ 05.00 WIB

Indriani, Dwinta. (2014), Analisis Perbandingan Model Prediksi *Financial Distress* dalam Menetukan Prediktor Terbaik. Fakultas Ekonomi Universitas Negeri Padang.

Jensen, M. C and Meckling, W.H. (1976), Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Journal of Financial Economics, October, 1976, V. 3, No. 4, pp. 305-360. Avalaible from: *http://papers.ssrn.com*

Johnson, *et al.* (2001), *The Impact of Securities Litigation Reform on The Disclosure of Forward Looking Information by High Technology Firms.* Journal of Accounting Research Vol. 39, No. 2.

Juanda, Ahmad. (2007), Pengaruh Risiko Litigasi dan Tingkat Strategi Terhadap Hubungan Antara Konflik Kepentingan dan Konservatisma Akuntansi. Simposium Nasional Akuntansi X.

La Fond, Ryan., and Sugata Roychowdhury. (2007), Managerial ownership and accounting conservatism. Working Paper, Massachusetts Institute of Technology.

Lasdi, Lodovicus. (2009), Pengujian Determinan Konservatisma Akuntansi. Jurnal Akuntansi Kontemporer Vol. 1 No. 1.

Lo, Eko Widodo. (2005), Pengaruh Tingkat Kesulitan Keuangan Perusahaan terhadap Konservatisme Akuntansi. Simposium Nasional A kuntansi VIII. 396 – 440.

Mamduh. M. Hanafi. (2003), *Analisis Laporan keuangan,* Penerbit UPP AMK YKPN, Yogyakarta.

Ningsih. (2013), Pengaruh Tingkat Kesulitan Keuangan Perusahaan dan Risiko Litigasi Terhadap Konservatisma Akuntansi. Fakultas Ekonomi Universitas Negeri Padang.

Nugroho, Deffa Agung. (2012), Pengaruh Struktur Kepemilikan Manajerial, Debt Covenant, Tingkat Kesulitan Keuangan Perusahaan, Dan Risiko Litigasi Terhadap Konservatisme Akuntansi. Diponegoro Journal of Accounting Volume 1, Nomor 1, Tahun 2012, Halaman 1-13.

Oktomegah, Calvin. (2012), Faktor-Faktor Yang Mempengaruhi Penerapan Konservatisme Pada Perusahaan Manufaktur Di BEI. Jurnal Ilmiah Mahasiswa Akuntansi-Vol 1, No 1, Januari 2012.

Prabowo, Reza & Wibowo. (2015), Analisis Perbandingan Model Altman Z-Score, Zmijewski, dan Springate dalam Memprediksi Kebangkrutan Perusahaan Delisting Di BEI Periode 2008-2013. ISSN 2338-9753 Volume 1 No 3 Juni 2015.

Pramudita, Nathania. (2012), Pengaruh Tingkat Kesulitan Keuangan Dan Tingkat Hutang Terhadap Konservatisme Akuntansi Pada Perusahaan Manufaktur Di BEI. Jurnal Ilmiah Mahasiswa Akuntansi-Vol. 1, No. 2.

Prapaska, Johan Ruth. (2012), Analisis Pengaruh Tingkat Profitabilitas, Keputusan Investasi, Keputusan Pendanaan, dan Kebijakan Dividen terhadap Nilai Perusahaan pada Perusahaan Manufaktur di BEI Tahun 2009-2010. Skripsi. Fakultas Ekonomi dan Bisnis, Universitas Dipenogoro: Semarang.

Prasetyo, Wika Septian. (2011), Pengaruh *Corporate Governance, Bonus Plans, Debt covenant,* Dan *Firm Size* Terhadap Manajemen Laba (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia 2008-2010). Fakultas Ekonomi Universtas Diponegoro, Semarang.

Priambodo, Muhammad Setio. (2015), Analisis Faktor-Faktor Yang Mempengaruh Tingkat Konservatisme Perusahaan-Perusahaan Di Indonesia. Volume 4, Nomor 4, Tahun 2015, Halaman 1 ISSN (Online): 2337-3806.

Pujiati. (2015), Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Dan Kesempatan Investasi Terhadap Kebijakan Dividen Dengan Likuiditas Sebagai Variabel Pemoderasi (Studi Empiris Pada Perusahaan Sektor Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Periode 2008-2013). Skripsi. Fakultas Ekonomi Universitas Negeri Yogyakarta.

Qiang, Xinrong. (2007), *The Effects of Contracting, Litigation, Regulation, and, Tax Costs on Conditional and Unconditional Conservatisme: Cross-Sectional Evidence at The Firm Level*. The Accounting Review Vol.82, No. 3 pp. 759-796.

Reskino & Vemiliyarni. (2014), Pengaruh Konvergensi Ifrs, *Bonus Plan*, *Debt Covenant*, Dan *Political Cost* Terhadap Konservatisme Akuntansi. AKUNTABILITAS Vol. VII No. 3, Desember 2014 P-ISSN: 1979-858X Halaman 185 – 195.

Safiq dan Kusumastati. (2012), *Managerial ownership, Accounting Conservatism, and Cost of Debt.* The 13th Annual Conference Asian Academic Accounting Asosiation (Kyoto, Japan 2012).

Safiq, Muhamad. (2010), Kepemilikan Manajerial, Konservatisma Akuntansi, dan Cost of Debt. *Simposium Nasional Akuntansi XIII.*

Sari, Dahlia. (2004), Hubungan antara Konservatisme Akuntansi dengan Konflik *Bondholders-Shareholders* Seputar Kebijakan Dividen dan Peringkat Obligasi Perusahaan. *Simposium Nasional Akuntansi VII*. Denpasar: 1043-1058.

Septian, Ardo dan Anna, Yane Devi. (2014), Pengaruh Kepemilikan Manajerial, Ukuran Perusahaan, *Debt Covenant,* Dan *Growth Opportunities* Terhadap Konservatisme Akuntansi (Studi Pada Sektor Industri Farmasi Yang Terdaftar Di Bursa Efek Indonesia Tahun 2008-2012). Fakultas Ekonomi dan Bisnis Universitas Telkom.

Sugiyono (2010), Metode Penelitian Kuantitatif Kualitatif dan R& D, Alfabeta Bandung.

Sukriya, Dewi. (2011), Analisis Pilihan Perusahaan Terhadap Akuntansi Konservatif (Studi Empiris Pada Perusahaan Manufaktur Di Bursa Efek Indonesia). Skripsi. Universitas Jember.

Suryandari & Priyanto. (2012), Pengaruh Risiko Litigasi dan Tingkat Kesulitan Keuangan Perusahaan Terhadap Hubungan Antara Konflik Kepentingan dan Konservatisme akuntansi. Jurnal Akuntansi dan Investasi Vol. 12 No. 2, halaman: 161-174.

Suwardjono. (2010), Teori Akuntansi: Pengungkapan dan Sarana Interpretatif. Edisi Ketiga. BPFE, Yogyakarta.

Wardhani, Ratna. (2008), Tingkat Konservatisme Akuntansi Di Indonesia Dan Hubungannya Dengan Karakteristik Dewan Sebagai Salah Satu Mekanisme Corporate Governance. Universitas Indonesia. Depok.

Watts, R.L. (2003), Conservatism in accounting part I: explanations and implications. Accounting Horizons 17, 207–221.

Widayati, Endah. (2011), Analisis Faktor-Faktor Yang Mempengaruhi Pilihan Perusahaan Terhadap Konservatisma Akuntansi. Skripsi. Universitas Diponegoro: Semarang.

Widya. (2005), Analisis Faktor-Faktor yang Mempengaruhi Pilihan Perusahaan Terhadap Akuntansi Konservatif. *Simposium Nasional Akuntansi VII Denpasar*: 709-724.

Widyasari, dkk. *Accounting Conservatism: Evidence from Financial distress, Litigation Risk, and Business Strategy. Bangkok Conference 2012 No. 11*.

Wulandari, Dina Tri. (2014), Pengaruh Risiko Litigasi Terhadap Konservatisma Akuntansi Sebelum dan Setelah Konvergensi IFRS pada Sektor Industri Manufaktur yang Terdaftar di Bursa Efek Indonesia. Skripsi. Universitas Widyatama: Bandung.

Yanti, Firga. (2012), Pengujian *Abnormal Return* Saham Sebelum Dan Sesudah Peluncuran Indeks Saham Syariah Indonesia (Issi). Jurnal Manajemen*,* Volume 01, Nomor 01.

Zhang, J. (2007), The Contracting Benefit of Accounting Conservatism to Lenders and Borrowers. *ELSEVIER : Journal of Accounting and Economics*, 27-54.