

Determinants Factor Influences on Accounting Conservatism at Consumer Goods Industry Companies in Indonesia

Anton Arisman¹ and Luk Luk Fuadah²

¹ STIE Multi Data Palembang, Palembang, Indonesia

² Faculty of Economics, Universitas Sriwijaya, Palembang, Indonesia

Keywords: Capital Intensity, Accounting Conservatism, Level of Financial Difficulty, Debt Level.

Abstract: This study aims to examine the mediating role of capital intensity variables that influence the relationship of financial difficulty levels, and the level of debt on accounting conservatism in consumer goods industry companies listed on the Indonesia Stock Exchange. The population in this study were consumer goods industry companies in Indonesia listed on the Stock Exchange in 2011-2017 only 10 companies as a sample. The method used in this study is a quantitative method whose data is taken secondary through www.idx.co.id and data analysis using the Structural Equation Model (SEM) with the help of WarpPLS. The theory used in the research is agency theory. The results show that capital intensity is a mediating variable in the relationship between the level of financial difficulty, the level of debt and accounting conservatism. Limitation of this study, first, this study only focus on consumer good industry. Second, the framework is not the best framework. The suggestions might use for future research. First, future research could use other sectors such as banking sector, manufacturing sector etc. Second, future research should use other variables, for instance, corporate governance, leverage and profitability.

1 INTRODUCTION

The concept of conservatism is used by managers and business owners to reduce the risk of using excessive optimism. However, the concept of conservatism is not used excessively because it will result in biased financial report results and does not reflect the actual reality resulting in errors in the presentation of the company's profit or loss. Information on a company that does not reflect the actual conditions will cause doubtful report quality that misleads financial report users and does not support users of financial statements in making decisions.

Capital intensity is one indicator of the political cost hypothesis. Large companies will be more highlighted by the government, so capital-intensive companies will report conservatively to avoid large political costs so that it will allow management to reduce profits or financial statements tend to be conservative (Chen, Chen, Lobo, & Wang, 2010).

Financial difficulties are a signal or an initial symptom of bankruptcy or a decrease in the financial condition of the company. The financial condition of the company with a problem in financial condition

has triggered financial difficulties and make the company bankrupt. The level of corporate financial difficulties can affect the level of accounting conservatism. A high level of financial difficulty will encourage managers to reduce the level of accounting conservatism. Users of financial statements need to understand the possibility that changes in accounting earnings are one of the benchmarks of the manager's performance (Gigler, Kanodia, Sapiro, & Venugopalan, 2008).

The debt level of a company shows how much the company is financed by debt and its ratio to the total assets of the company. The company wants to show good performance towards the lender so that getting a loan and the lender can feel confident that the funds provided will be guaranteed. Therefore, companies do financial reporting optimistically or not conservatively (Chen et al., 2010).

Research conducted by Chen, Chen, Lobo, & Wang (2010) shows that borrow and lend have the significant effect on accounting conservatism. Nasir, Ilham, & Yusniati (2014) shows that the managerial ownership structure has no significant effect on the level of conservatism, litigation risk does not have a significant effect on the level of conservatism,

liquidity has a significant effect on the level of conservatism, and political costs have no significant influence on accounting conservatism. Ahmed & Duellman (2011) reveal over confidence of Managerial have a negative link on conservatism accounting. Sodan (2012) find that Companies have higher debt cost, but have the lower level of conservatism. Kim, Li, Pan, & Zuo (2013) find that at seasoned equity offering, accounting conservatism reduced the cost of financing.

Iyengar & Zampelli (2010) showed that conservatism has an effect on performance. Furthermore, Callen, Chen, Don, & Xin (2016) conclude that borrowers have the high level to accounting conservatism and have the link on performance. However, Garcia Lara, Osma, & Penalva (2016) find that companies do more conservatism and their more invest and issue the debt. They also find that conservatism has a relation on overinvestment decrease (Lara, Osma, & Penalva, 2016). This research on consumer goods companies is an indication of accounting conservatism

Based on the background described above, the formulation of the problem in this study is how the capital intensity variable mediates the relationship between the level of financial difficulty, and the level of debt to accounting conservatism. The purpose of this research is to identify and provide empirical evidence regarding the mediation of capital intensity variables on the relationship between the level of financial difficulty, the level of debt and accounting conservatism.

2 LITERATURE REVIEW

2.1 Agency Theory

Agency theory, based on the occurrence of a conflict of interest, between the manager (agent) and the owner (principal). Managers who are not business owners will not be diligent and careful in managing the company (Fama & Jensen, 1983; Jensen & Meckling, 1976; Ross, 1973). Jensen & Meckling (1976) added about agency costs which are financial costs associated with identifying, detecting and preventing agency problems, as well as the costs of managerial opportunistic behavior

In theory, companies have little desire to control agency problems (Jensen & Meckling, 1976; Ang, Cole, & Lin, 2000). However, professionalization implies that owner-managers will delegate authority to middle-level managers who are not necessarily owners (Hofer & Charan, 1984). Over the past

several decades, the official institution of theoretical analysis of managerial situations has become a reference in understanding agency concepts (Laffont & Martimort, 2001). The owner is usually described in this framework as one person or one homogeneous group realized by one person. Agents are usually described in the same way, although some work that has been done on agency problems is obtained from several agents/managers (Holmstrom, 1989). Within that framework, both owners and agents are assumed to pursue personal/economic interests expressed in the form of expected utilities. Agents are assumed to be more risk-averse than owners because owners are usually richer (Laffont & Martimort, 2001) and, for simplicity of mathematics, principals are usually assumed to be not risky (utility = 0). The utility expected by the agent is determined by the trade-off between the benefits of compensation received as payment for business and the sacrifice costs incurred for business activities. The framework usually assumes that the marginal utility of compensation decreases and the marginal disutility of the sacrifice increases with each additional unit of effort.

Agency theory also predicts that agents with lower capabilities will spend less effort on the company. This is because the agent's decision on how much effort to spend involves increasing trade, as well as getting the better performance against additional efforts from the sacrifice made. But lower capabilities indicate that agents cannot improve the performance of more companies and, thus, will benefit more than additional efforts. As a result, the agents/managers who have a low level of ability to be interested in optimizing their utility are expected to work less or choose the more free time, as a result of rationality rather than laziness (Laffont & Martimort, 2001).

2.2 Accounting Conservatism

The company in presenting quality accounting information is faced with limitations or commonly called constraints, cost-benefit relationships, materiality principles, industry practices, and conservatism. Conservatism is a principle that recognizes costs and losses more quickly, recognizes income and profits more slowly, assesses assets with the lowest value and obligations with high value (Basu, 1997). Gul, Srinidhi, & Shieh, (2002) provide an overview of conservatism as a reaction of prudence in dealing with uncertainty risks that are often faced by companies, where in the face of uncertainty the company considers the risks that are

interconnected in the current global business environment.

Agustina, Rice, & Stephen, (2015) provide an explanation of conservatism as an accounting principle which if applied will result in low income and asset figures, and cost figures tend to be high. Conservatism in a company is applied differently depending on the characteristics possessed by a company, where one of the decisive factors in the commitment of management and internal parties in providing information that is transparent, accurate, and not misleading for investors. The principle of conservatism is a reaction that tends to lead to a cautious attitude in the face of uncertainty inherent in the company and encompass business and economic activities to try to ensure that internal uncertainties and risks that are a threat in the business environment are sufficiently considered. Furthermore, Callen, Segal, & Hope (2010) conclude that conservatism ratio is a ratio about current earning from current and future earning.

2.3 Capital Intensity

Capital intensity is the amount of money invested to get one dollar worth of output. The more capital used to produce the same unit, the more capital the company says. There are several industries that are considered more capital intensive and in these industries, the increase in capital intensity results in an increase in the quality of production and production on time (Shaheen & Malik, 2012). Furthermore, Comanor & Wilson (2013) provide an illustration of the ratio of capital intensity which is one of the important information for investors because it can show the level of efficiency in the use of capital that has been invested. While Zmijewski & Hagerman, (1981) provide an overview of capital-intensive companies that have greater political costs and management tends to reduce earnings or financial statements so that they tend to be conservative directly to financial performance.

2.4 The Financial Difficulty

The level of financial difficulty begins when the company cannot meet the payment schedule or when cash flow projections indicate that the company will soon be unable to fulfill its obligations (Biddle, Ma, & Song, 2010). Fitri (2015) added that financial difficulties began when the company could not meet the payment schedule or when the cash flow projection indicated that the company could not fulfill its obligations. A bad financial situation can

encourage managers to reduce the level of accounting conservatism to a certain level according to their desires and goals. The level of financial difficulty in this study was measured using the Zscore model formulated by Altman to measure the condition of the company's financial health. Altman Zscore by using the following formula (Fitri, 2015):

$$\text{Zscore} = X1 + 1.4 X2 + 3.3 X3 + 0.6 X4 + 1.0 X5$$

Where:

X1: Working capital to total assets

X2: Retained earnings against total assets

2.5 Debt Level

Its activities in a company can have funding sources from within or internally the company (own capital) and from outside (debt). So, it can be said that debt is an obligation to hand over money, goods, or provide services to other parties in the future as a result of transactions that occurred before (Beatty, Weber, & Yu, 2008). Biddle, Ma, & Song, (2010) revealed that the greater the debt to asset ratio, the greater the probability that the company will increase the profit to be reported or the financial statements presented tend to be not conservative.

The level of debt in research is measured by a debt to asset ratio. So that the higher the level of corporate debt, the company tends to increase profits and the reported financial statements tend not to be conservative. The formula for measuring this level of debt is as follows (Biddle et al., 2010):

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

2.6 The Framework

It can be seen, The framework of this study in Appendix 1.

2.7 Hypotheses Development

2.7.1 Financial Difficulty and Capital intensity

Financial difficulties begin when the company cannot meet the payment schedule or when the cash flow projection indicates that the company cannot fulfill its obligations. A bad level of financial difficulty will have an impact on reducing the capital intensity ratio. So that managers reduce the level of accounting conservatism. When companies experience financial difficulties, managers as agents are judged to have poor quality so that managers have

the pressure to change managers. This pressure drives managers to reduce accounting conservatism (Fitri, 2015). From the description above it can be concluded that the first hypothesis stated in this study is:

H1: The financial difficulty have a positive link on capital intensity

2.7.2 Debt Levels and capital intensity

The debt level is used by the company to measure the condition of the company's ability to the extent that the company can cover its debts to outside parties from the owner's capital. The level of debt is also used as a consideration for creditors to provide loans to companies. If the company's ability to pay off its debts is low, then the creditor will rethink to give the loan to the company. Because the risk possessed by creditors will also be large. Therefore, managers tend to take action to increase profits so that the level of debt is low (Beatty et al., 2008).

The greater the level of debt a company has, the greater the likelihood that the company will increase its profits and the financial statements will not be conservative. The greater the level of debt means that the condition of the company is not so good, so managers tend to increase reported profits to look good by creditors, and result in companies not being conservative (Chen et al., 2010). Nikolaev (2010) reveals that debt has relationship with capital. Yogendrarajah (2013) research from Colombo Stock Exchange in Srilangka. The result of research showed that debt financing has a positive and significant with capital intensity (Yogendrarajah, 2013). Pourali & Samadi (2013) research from Tehran Stock Exchange found that not significant between leverage or debt level and capital intensity. From the description above it can be concluded that the hypothesis stated in this study is:

H2: Debt levels have a negative link on capital intensity

2.7.3 Capital Intensity relates to the level of accounting conservatism

Zmijewski & Hagerman, (1981) states that capital intensity shows the level of efficiency in the use of all of the company's assets in generating certain sales volumes. The higher the capital intensity, the more efficient the overall use of assets in generating sales. Chan, Lin, & Strong (2009) find that cost of equity capital has a positive link on conditional conservatism, however, cost of equity has a negative

link on unconditional conservatism in United Kingdom companies (Chan et al., 2009). Alfian & Sabeni, (2013) state that capital-intensive companies have greater political costs and managers tend to reduce profits or financial statements tend to be conservative. Previous research in Indonesia reveal capital intensity has a positive link with conservatism accounting (Purnama & Daljono, 2013; Susanto & Ramadhani, 2016). Lee (2010) reveal that the higher conservatism, the less financial flexibility not only debt but also equity decisions. Conservatism level of a country's financial reporting system reduce the cost of debt and equity capital (Li, 2015). From the description above, it can be concluded that the hypothesis stated in this study is:

H3: Capital intensity affects accounting conservatism.

3 METHODS

3.1 Research Approach

The type of research used is quantitative research, because researchers want to know the relationship between capital intensity, level of financial difficulty, and level of debt to accounting conservatism in the consumer goods industry sub-sector

3.2 Subjects and Research Objects

The research subjects used in this study were Industrial companies of the Consumer goods industry sub-sector contained in the Indonesia Stock Exchange for the period 2011-2017 and the object of research used in this study were capital intensity, level of financial difficulty, level of debt, and accounting conservatism.

3.3 Population and Research Sample

The population in this study were consumer goods industry companies listed on the Indonesia Stock Exchange in the period 2011-2017. The sample used in this study uses purposive sampling method and obtained 10 companies. It can be seen in Appendix 2.

3.4 Research Variables and Data Analysis Techniques

In this study, there were 4 variables consisting of accounting conservatism (KA), capital intensity

(IM), financial difficulty level (TKK), and debt level (TH). In summary, the operational definition of the variables in this study can be seen in the following table in appendix 3

3.5 Data Analysis

Data analysis techniques used in this study are structural equation models with variance or component-based structural equation modeling or known as Partial Least Square (PLS). The software used to analyze research data for the purpose of testing the hypothesis is the WarpPLS statistical program.

3.6 Hypothesis testing

Research hypothesis testing is based on the estimation of structural model coefficients. Testing each hypothesis is based on the estimated probability value of the structural model. The research hypothesis is supported if the t-statistic value is greater than the t-table value (± 1.96) or seen from the probability value (Ghozali, 2013).

The research model:

$$IM = \alpha_1 + \beta_1 TKK + \beta_1 TH + \varepsilon_1 \quad (1)$$

$$KA = \alpha_2 + \beta_1 IM + \varepsilon_2 \quad (2)$$

4 RESULT AND DISCUSSION

Based on the output (appendix 4) produced by WarpPLS data, the results of testing hypotheses can be explained as follows;

1. H1 reveals financial difficulties have a positive relationship to capital intensity. The level is significant $P < 0.01$, which means below the significance level of acceptance of 1% (0.01) where the estimated value of the coefficient is 0.42. H1 based on results is accepted.
2. H2 states the debt level has a negative relationship to capital intensity. The results show the estimated value of the coefficient variable from the Debt Level produced is -0.50 with a significance level of $P < 0.01$, which means that the level of acceptance of significance is 1% (0.01). The second hypothesis (H2) is accepted.
3. H3 states the intensity of capital affects accounting conservatism. Based on the results of the study, the estimated value of the variable

coefficient of the resulting capital intensity is 0.64 with a significance level of $P < 0.01$, which means below the acceptable level of significance of 1% (0.01).

4.1 Financial Difficulty and Capital Intensity

Based on the results of data processing with WarpPLS 3.0 shows that the relationship between the level of financial difficulty and capital intensity is positive and statistically significant (0.42, $p < 0.01$). This result provides support for the First hypothesis

The argument for the acceptance of this first hypothesis is as follows; companies that use accounting conservatism principles are believed to have a high level of understanding of how conservatism principles help companies in increasing capital intensity. According to agency theory, the emergence of accounting conservatism is based on the occurrence of conflicts of interest, between managers (agents) and owners (principals). Managers who are not business owners will not be diligent and careful in managing the company (Fama & Jensen, 1983; Jensen & Meckling, 1976; Ross, 1973).

4.2 Debt Levels and Capital Intensity

WarpPLS results show that the relationship between debt levels and capital intensity is negative and very strong and statistically significant at (-0.50, $p < 0.01$). This result provides support for the second hypothesis

The argument for the acceptance of this second hypothesis is as follows; Debt levels lower have encouraged companies to increase capital intensity. According to agency theory, with agents as arms of discipline, agents have the pressure to minimize debt levels, so agents need to nurture capital in order to be able to cover the debt, when it is at a high enough and vulnerable level.

4.3 Capital Intensity and Accounting Conservatism

This result gives WarpPLS results show that the relationship between capital intensity and accounting conservatism is positive and very strong and statistically significant at (0.64, $p < 0.01$). This result provides support for the third hypothesis

The argument for the acceptance of this third hypothesis is as follows; capital intensity has encouraged companies to increase conservatism in accounting. According to agency theory, both the

owner and the agent are assumed to pursue personal/economic interests expressed in the form of expected utility. Agents are assumed to be more risk-averse than owners because owners are usually richer (Laffont & Martimort, 2001). Capital intensity is related to the capital of the owner of the company invested in the company.

5 CONCLUSION

First, the level of financial difficulty has a positive and significant effect on capital intensity. The higher the level of financial difficulties facing the company will cause the higher level of intensity of capital in the company.

Second, the level of debt has a negative and significant effect on capital intensity. The higher the level of debt set by management within the company will cause the lower capital intensity required due to the accounting conservatism principle applied by management.

Third, the capital intensity has a positive and significant effect on accounting conservatism. The more intensity of capital in the company causes the higher accounting conservatism applied by management.

There are several limitations in this study. First, this study only focuses on consumer good industry. Second, the framework is not the best framework. The suggestions might use for future research. First, future research could use other sectors such as banking sector, manufacturing sector etc. Second, future research should use other variables for instance, corporate governance, leverage, and profitability.

This study provides support for the use of accounting conservatism in companies. This means that companies in the decision-making process can hold on to the principle of conservatism which is supported by the level of financial difficulties being faced and the level of debt that is borne by the company, which is supported by the value of the capital in the company.

REFERENCES

- Agustina, Rice, & Stephen. (2015). Analisa Faktor-Faktor yang Mempengaruhi Penerapan Konservatisme Akuntansi pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. In *Simposium Nasional Akuntansi XVIII* (p. Universitas Sumatera Utara, Medan).
- Ahmed, A. S., & Duellman, S. (2011). Managerial Overconfidence and Accounting Conservatism *. *Accounting and Finance*, 51(3), 609–633.
- Alfian, A., & Sabeni, A. (2013). Analisis Faktor-faktor yang berpengaruh terhadap pemilihan konservatisme Akuntansi. *Diponegoro Journal of Accounting*, 2(3), 1–10.
- Ang, J. S., Cole, R. A., & Lin, J. W. U. H. (2000). Agency Costs and Ownership Structure. *The Journal of Finance*, LV(1), 81–106. <https://doi.org/10.1111/0022-1082.00201>
- Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics*, 24, 3–37. <https://doi.org/10.1107/S1600536811044138>
- Beatty, A., Weber, J., & Yu, J. J. (2008). Conservatism and Debt. *Journal of Accounting and Economics*, 45(2–3), 154–174. <https://doi.org/10.1016/j.jacceco.2008.04.005>
- Biddle, G. C., Ma, M. L., & Song, F. M. (2010). *Accounting Conservatism and Bankruptcy Risk*. London, United Kingdom: Pearson Education, Inc.
- Callen, J. L., Chen, F., Don, Y., & Xin, B. (2016). Accounting Conservatism and Performance Covenants: A Signaling Approach. *Contemporary Accounting Research*, 33(3), 961–988.
- Callen, J. L., Segal, D., & Hope, O. (2010). The Pricing of Conservative Accounting and the Measurement of Conservatism at the Firm-Year Level. *Review of Accounting Studies*, 15(1), 145–178.
- Chan, A. L., Lin, S. W. J., & Strong, N. (2009). Accounting conservatism and the cost of equity capital: UK evidence. *Managerial Finance*, 35(4), 325–245. <https://doi.org/10.1108/03074350910935821>
- Chen, H., Chen, J. Z., Lobo, G. J., & Wang, Y. (2010). Association between Borrower and Lender State Ownership and Accounting Conservatism. *Journal of Accounting Research*, 48(5), 973–1014. <https://doi.org/10.1111/j.1475-679X.2010.00385.x>
- Comanor, W. S., & Wilson, T. A. (2013). Advertising Market Structure and Performance Author (s): William S . Comanor and Thomas A . Wilson Source : The Review of Economics and Statistics , Vol . 49 , No . 4 (Nov . , 1967) , pp . 423-440 Published by : The MIT Press Stable URL : <http://www.jst. The Review of Economics and Statistics>, 49(4), 423–440.
- Fama, E. F., & Jensen, M. C. (1983). Separation of Ownership and Control. *Journal of Law and Economics*, 26(2), 301–325.
- Fitri, R. Y. (2015). Pengaruh Risiko Litigasi terhadap Hubungan Tingkat Kesulitan Keuangan dan Konflik Kepentingan dengan Konservatisme Akuntansi. *Jurnal Akuntansi*, 3(1), 81–109.
- Garcia Lara, J. M., Osma, B. G., & Penalva, F. (2016). Accounting conservatism and firm investment efficiency \$. *Journal of Accounting and Economics*, 61(1), 221–238. <https://doi.org/10.1016/j.jacceco.2015.07.003>
- Ghozali, I. (2013). *Partial Least Square*. Universitas Diponegoro. Semarang.

Gigler, F., Kanodia, C., Sapra, H., & Venugopalan, R. (2008). Accounting Conservatism and the Efficiency of Debt Contracts University of Chicago Graduate School of Business Contracts. *Research Paper No. 08-02*, (The University of Chicago Graduate School of Business), 1–41.

Gul, F. A., Srinidhi, B., & Shieh, T. (2002). The Asian Financial Crisis, Accounting Conservatism and Audit Fees: Evidence from Hong Kong. *Ssrn*, (SSRN-id315062.pdf), 1–36. <https://doi.org/10.2139/ssrn.315062>

Hofer, C. W., & Charan, R. (1984). The Transition to Professional Management: Mission Impossible? *American Journal of Small Business*, 9(1), 1–11. <https://doi.org/Article>

Holmstrom, B. (1989). Agency costs and innovation. *Journal of Economic Behavior and Organization*, 12(3), 305–327. [https://doi.org/10.1016/0167-2681\(89\)90025-5](https://doi.org/10.1016/0167-2681(89)90025-5)

Iyengar, R. J., & Zampelli, E. M. (2010). Does accounting conservatism pay? *Accounting and Finance*, 50, 121–142.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305–360.

Kim, Y., Li, S., Pan, C., & Zuo, L. (2013). The Role of Accounting Conservatism in the Equity Market: Evidence from Seasoned Equity Offering. *Accounting Review*, 88(4), 1327–1356.

Laffont, J.-J., & Martimort, D. (2001). *The Theory of Incentive: Principal- Agent Model*. United Kingdom: Pearson Education, Inc.

Lee, J. (2010). The Role of Accounting Conservatism in Firms' Financial Decisions. *Research Science Research Network, Singapore*, 1–53.

Li, X. (2015). Accounting conservatism and the cost of capital: international analysis. *Journal of Business Finance and Accounting*, 44(5/6), 555–582.

Nasir, A., Ilham, E., & Yusniati. (2014). Pengaruh Struktur Kepemilikan Manajerial, Risiko Litigasi, Likuiditas dan Political Cost terhadap Konservatisme Akuntansi. *Jurnal Ekonomi*, 22(2), 93–109.

Nikolaev, V. V. (2010). Debt Covenants and Accounting Conservatism. *Journal of Accounting Research*, 48(1), 137–174. <https://doi.org/10.1111/j.1475-679X.2009.00359.x>

Pourali, M. R., & Samadi, M. (2013). The study of relationship between capital intensity and financial leverage with degree of financial distress in companies listed in Tehran Stock Exchange. *International Research Journal of Applied and Basic Sciences*, 4(12), 3830–3839.

Purnama, W., & Daljono. (2013). Pengaruh Ukuran Perusahaan, Rasio Leverage, Intensitas Modal, dan Likuiditas Perusahaan terhadap Konservatisme Perusahaan (Studi pada Perusahaan yang Belum Menggunakan IFRS). *Diponegoro Journal of Accounting*, 2(3), 1–11.

Ross, S. a. (1973). The economic theory of agency: The principal's problem. *The American Economic Review*, 63(2), 134–139. <https://doi.org/10.2307/1817064>

Shaheen, S., & Malik, Q. A. (2012). The Impact of Capital Intensity, Size of Firm And Profitability on Debt Financing In Textile Industry of Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, 3(10), 1061–1066.

Sodan, S. (2012). Conditional conservatism and the cost of debt: Evidence from Central and Eastern Europe. *Croatian Operational Research Review*, 3, 245–255.

Susanto, B., & Ramadhani, T. (2016). Faktor-faktor yang Memengaruhi Konservatisme (Studi pada Perusahaan Manufaktur yang Terdaftar di BEI 2010-2014). *Jurnal Bisnis Dan Ekonomi*, 23(2), 142–151.

Yogendrarajah, R. (2013). The Impact of Capital Intensity, Size of Firm and Firm's Performance on Debt Financing in Plantation Industry of Sri Lanka Gamlath, G R M a & Rathirane, The Impact of Capital Intensity, Size of Firm and Firm's Performance on Debt Financing in Pla. In *International Conference on Management and Economics* (pp. 1–9).

Zmijewski, M. E., & Hagerman, R. L. (1981). An income strategy approach to the positive theory of accounting standard setting/choice. *Journal of Accounting and Economics*, 3(2), 129–149. [https://doi.org/10.1016/0165-4101\(81\)90010-0](https://doi.org/10.1016/0165-4101(81)90010-0)

APPENDIX 1

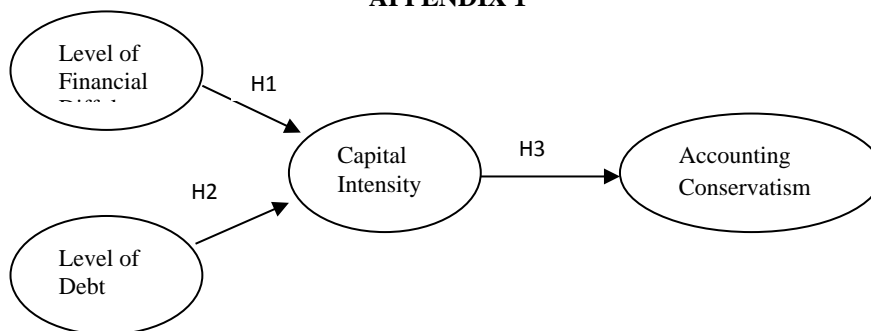


Figure 1: The Research Framework

APPENDIX 2

Table 1: List of Companies' Food and Beverage 2011-2017 Used as Research Samples

NO	Company Name	Code of Company
1.	PT. Delta Djakarta Tbk	DLTA
2.	PT. Tiga Pilar Sejahtera	AISA
3.	PT. Mayora Indah	MYOR
4.	PT. Indofood Sukses Makmur Tbk	INDF
5.	PT. Wilmar Cahaya Indonesia	CEKA
6.	PT. Prsidha Aneka Niaga	PSDN
7.	PT. Sekar Laut Tbk	SKLT
8.	PT. Nippon Indosari Corporindo Tbk.	ROTI
9.	PT. Ultra Jaya	ULTJ
10.	PT. Multi Bintang Indonesia Tbk.	MLBI

APPENDIX 3

Table 2: Definition of Variables

No	Research Variable	Definition	Measurement	Scale
1.	Accounting conservatism (KA)	Accounting conservatism is a reaction that tends to lead to a cautious attitude in reporting earnings figures	Accounting Conservatism = net profit + depreciation - operationg cash flow x -1 / total asset	Ratio
2.	Capital intensity (IM)	Capital intensity is a measure that describes how much efficiency the company uses in its entire assets to generate sales.	Capital intensity = total asset before depreciation/ sales	Ratio
3.	Financial difficulty level (TKK)	The level of financial difficulty is a condition where the company shows a stage of decline in the company's financial condition that occurred before the bankruptcy occurred.	Zscore = 1,2 X1 + 1,4 X2 + 3,3 X3 + 0,6 X4 + 1,0 X5	Ratio
4.	Debt level (TH)	The level of debt is the use of assets and sources of funds by companies that are used to finance or finance companies obtained from outside the company.	Debt Level = total debt/total asset	Ratio

APPENDIX 4

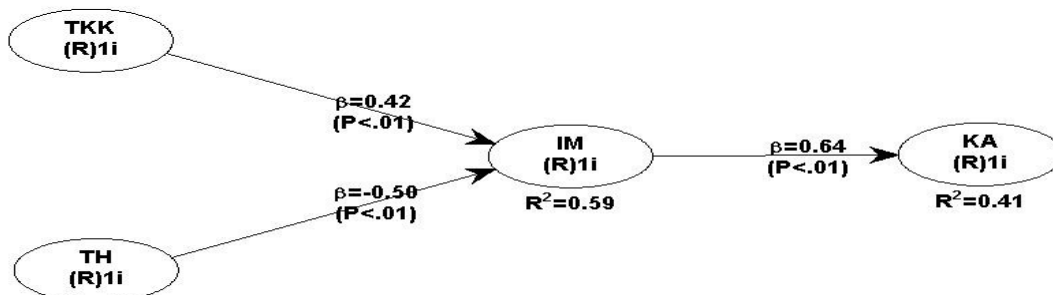


Figure 2: The Result from Partial Least Square