

The Moderating Role of Leverage on Capital Intensity on Accounting Conservatism

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ABSTRACT

This research aims to examine the moderating role of leverage on capital intensity in relation to accounting conservatism. Using SPSS 26 and the purposive sampling method, this research focuses on manufacturing companies in the consumer goods and agricultural sectors listed on the Indonesia Stock Exchange (BEI) during the 2019-2022 period. The results show that capital intensity has a positive effect on accounting conservatism, while leverage has a negative effect. This means that the higher the capital intensity, the more conservative the company's financial statements, while companies with high leverage tend to be less conservative. Furthermore, Leverage does not moderate the relationship between capital intensity and accounting conservatism. These findings provide practical implications for manufacturing companies, investors, and regulators. Companies should consider capital intensity and leverage in conservative accounting policies. Investors can leverage this information for better decision making, and regulators can use these results to promote transparency in the manufacturing sector. This research also opens up opportunities for further study on other factors that influence accounting conservatism.

Keywords : capital intensity; leverage; accounting conservatism.

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Introduction

Globalisation increases competition and business growth, making financial reporting an important indicator of management success. These statements assess the financial effects of economic decisions, including assets, liabilities, equity, revenues, and expenses. Financial Accounting Standards provide flexibility in accounting methods, including the concept of conservatism to predict company profits.

In Indonesia, lack of attention to accounting principles results in problems. For example, PT Tiga Pilar Sejahtera Tbk increased its receivables from Rp 200 billion to Rp 1.6 trillion, making its 2017 financial statements look favourable. However, in 2018, the company was suspended. A similar case occurred at PT Indofarma Tbk. Iwan Supriyatna, (2021)

Capital intensity affects accounting conservatism, reflecting the company's assets. Large companies with significant capital attract government attention and influence investor perceptions. The level of capital intensity encourages analysis of company performance to minimise investment risk. The principle of conservatism ensures the accuracy of asset and profit recognition. Yuliana et al, (2022).

Leverage measures how much a company uses debt to finance its assets. Excessive debt can threaten the viability of the company. The leverage ratio compares the company's assets owned by shareholders and creditors. Research shows leverage has a negative impact on accounting conservatism, but some show a positive impact. Lusiani & Khafid, (2022).

In this context, the research aims to dig deeper into how leverage can affect the dynamics between capital intensity and accounting conservatism. Leverage is thought to play an important role as a moderating variable, which is expected to moderate the effect of capital intensity as the independent variable on accounting conservatism as the dependent variable. Thus, this study is expected to provide a more comprehensive insight into the factors that influence accounting conservatism in the context of the company Yurike et al, (2022).

Research Methods

The research object in this study was determined using purposive sampling method, namely determining the sample by considering certain criteria. The sample criteria in this study are as follows:

Companies in the consumer goods and agriculture industry sectors that are listed on the Indonesian stock exchange (IDX), and have published annual financial reports that have been audited by auditors during the period (2019-2022).

Table 1 Sampling

No	Criteria	Total
	Companies in the consumer goods and agriculture industry sectors that are listed on the Indonesian stock exchange (IDX), and have published annual financial reports that have been audited by auditors during the period (2019-2022).	65
	Companies in the consumer goods and agriculture sectors that do not publish complete annual financial reports related to the research variables. with this research variable	(31)
	Number of Samples that Meet the Criteria	34
	Research Period	4
	Number of Research Sample (34 X 4)	136

The variables analysed in this study consist of one variable that depends on other factors, namely the level of accounting conservatism, an independent variable in the form of capital intensity, and a moderating variable called leverage. The following are the measurements used for each variable in this study:

Table 2 Variable Measurement

Variables	Measurement	Scale	Referensi
Capital Intensity (CIR)	$CIR = \frac{Total\ Aset}{Sales} \times 100$	Rasio	Rivandi et al, (2019)
Leverage (DER)	$DER = \frac{Total\ Utang}{Ekuitas} \times 100$	Rasio	Tista Kadek & Suryawana Ketut, (2017)

Accounting Conservatism (CONNAC)	$\text{CONNAC} = \frac{(\text{NIO} + \text{DEP} - \text{CFO})}{1) \text{TA}}$	Rasio	givolly and hand (2000)
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This study uses multiple linear regression and Moderated Regression Analysis. The stages of analysis include descriptive statistical observations, classical assumption tests (normality, multicollinearity, heteroscedasticity, autocorrelation), as well as regression analysis and moderation. Finally, hypothesis testing is carried out to determine the significance of the influence of the variable

Result

Analisis Statistik Deskriptif

Tabel 3 Analisis Statistik Deskriptif

DESCRIPTIVE STATISTICS					
	N	Minimu m	Maximu m	Mean	Std. Deviati on
CONNAC	136	-,140	,897	,47743	,215223
ICR	136	,035	,996	,63160	,204198
DER	136	,059	,998	,58889	,247232
Valid N (listwise)	136				

Table 3 contains data on 136 samples of 34 manufacturing companies on the Indonesia Stock Exchange (2019-2022). Variables: capital intensity (ICR), leverage (DER), and accounting conservatism (Connac). Results: conservatism (-0.140 to 0.897, average 0.48), capital intensity (0.035 to 0.996, average 0.63160), leverage (0.63160), and accounting conservatism (Connac). 0.63160, leverage (0.059 to 0.998, average 0.58889).

The normality test is used to evaluate whether the residuals from the regression model have a normal distribution. A good regression model will have normally distributed residuals (Purnomo, 2016: 108). In the context of the normality test results, the significance obtained is 0.200, which is greater than the value considered significant, which is 0.10. Therefore, it can be concluded that the regression model in this study fulfils the assumption of normal distribution. Analysis using SPSS statistical software confirms that there is no significant normality problem in this model.

Tabel 4 Uji Multikolinearitas

COEFFICIENTS		
Model	Collinearity	
	Statistics	
	Tolerance	
	VIF	
1	ICR	,999 1,001
	DER	,999 1,001

a. Dependent Variable: CONNAC

The multicollinearity test aims to test whether there is a perfect or almost perfect correlation between the independent variables in the regression model. A good regression model does not have a perfect correlation between independent variables. The method used is tolerance and variance inflation factor (VIF). If $VIF < 10$ and $tolerance > 0.1$, then there is no multicollinearity. Based on table 4, the VIF value of the capital intensity and leverage variables is 1.001, with a tolerance value of 0.999. This indicates the absence of multicollinearity in the regression model.

Table 5 Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,208 ^a	,043	,029	,16775	2,053

a. Predictors: (Constant), DER, ICR

b. Dependent Variable: CONNAC

The autocorrelation test aims to test the relationship between residuals in period t and t in the regression model. A good model does not have autocorrelation (Purnomo, 2016). The Durbin-Watson (DW) test method is used. From figure 1, the DW value is 2.053. With $N = 136$ and $K = 2$, $DL = 1.6902$ and $DU = 1.7498$, the result of $1.7498 < 2.053 < 2.2502$ indicates no autocorrelation.

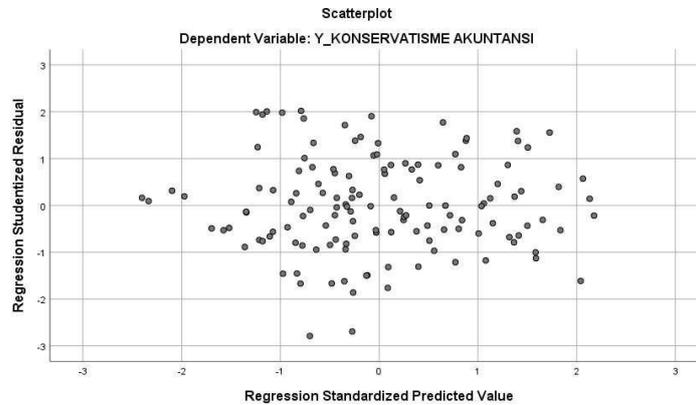


Figure 1. Test Heteroscedasticity

The heteroscedasticity test tests the inequality of variance and residuals between observations in the regression model. A good regression model does not show heteroscedasticity. Based on the scatter plot graph, the points spread without a clear pattern around zero, indicating the absence of heteroscedasticity(Purnomo, 2016: 125).

Tabel 8 Uji Regresi Linear Berganda

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
1 (Constant)	,408	,074		5,539	,000
ICR	,230	,088	,218	2,605	,010
DER	-,128	,073	-,147	-1,762	,080

a. Dependent Variable: CONNAC

This study uses multiple linear regression to analyse the relationship between one dependent variable (Y) and two or more independent variables (X). The constant value is 0.408. Capital intensity and leverage have a significant influence. Capital intensity (0.230) has a positive effect, while Leverage (-0.128) has a negative effect on accounting conservatism.

Tabel 9 Uji Moderated Regression Analysis

Coefficients ^a					
Model	Unstandardized Coefficients		Standardize	t	Sig.
	B	Std. Error	d Coefficients Beta		
1 (Constant)	,451	,147		3,073	,003
ICR	,162	,220	,153	,735	,464
DER	-,210	,255	-,242	-,825	,411
ICR*DER	,131	,390	,116	,336	,737

a. Dependent Variable: CONNAC

Moderating variables affect the relationship between the independent and dependent variables. In this study, the interaction test (MRA) was used. The regression constant 0.451 indicates accounting conservatism decreases by 0.451 if all variables are zero. CIR coefficient of 0.162 implies accounting conservatism increases by 0.162 when capital intensity increases by one unit. DER -0.210 indicates a one unit decrease in leverage increases accounting conservatism by 0.210. The interaction coefficient of CIR*DER 0.131 indicates an increase in accounting conservatism by 0.131 when capital intensity and leverage increase by one unit.

Tabel 7 Uji T

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,408	,074		5,539	,000
ICR	,230	,088	,218	2,605	,010
DER	-,128	,073	-,147	-1,762	,080

a. Dependent Variable: CONNAC

Test results: T calculated capital intensity 2.605, Leverage -1.762; T table 1.65639 at df 133; $\alpha=0.10$

First. The level of success in investing (X1) on the level of conservatism in accounting (Y) Based on the analysis, the level of success in investing shows a significance of 0.01 < 0.10 with a regression coefficient of 0.230. This result indicates the acceptance of hypothesis H1, namely that the level of success in investing has a positive impact on the level of conservatism in accounting..

Second. The use of debt (X2) on the level of conservatism in accounting (Y) Based on the analysis, the use of debt shows a significance of $0.08 < 0.10$ with a regression coefficient of -0.128 . These results confirm the acceptance of hypothesis H2, which states that the use of debt has a negative impact on the level of conservatism in accounting..

Third. The effect of the use of debt as a moderator on the relationship between the level of success in investing (X1) and the level of conservatism in accounting (Y) The results of the analysis show that the significance of the variable level of success in investing is $0.737 > 0.10$ with a regression coefficient of -0.336 . From these results, it can be concluded that hypothesis H3 is rejected, which means that the use of debt is not able to moderate the relationship between the level of success in investing and the level of conservatism in accounting.

The effect of capital intensity on accounting conservatism

First Hypothesis (H1) which states that capital intensity has a positive effect on accounting conservatism. Statistical tests show a significant relationship between capital intensity and accounting conservatism. Thus, this result is consistent with the theory which states that the greater the capital investment, the more likely the company is to apply conservative principles in accounting. This can be explained by the potential for higher political costs and the drive to reduce reported earnings with increasing capital.

The effect of leverage on accounting conservatism

The Second Hypothesis (H2) in this study states that Leverage has a negative impact on accounting conservatism. The statistical test results show that leverage significantly affects accounting conservatism, so H2 is accepted. Sulastri & Devi Anna (2018) assert that high leverage encourages companies to be more careful because it threatens their survival. High leverage also strengthens creditor oversight of the company's operations and accounting, making it difficult for managers to hide information.

Leverage moderates the effect of capital intensity on accounting conservatism

The Third Hypothesis (H3) is rejected because Leverage does not strengthen the relationship between capital intensity and accounting conservatism. The statistical test results show this. Therefore, it is important for companies to monitor Leverage so that the value of the company is protected. The company's ability to pay off debt with its equity can increase investor interest in investing.

Conclusion

Research shows that capital intensity affects accounting conservatism positively; the greater the capital, the more conservative the firm. However, leverage has a negative impact, forcing companies to be more cautious as it threatens survival. However, Leverage does not strengthen the relationship between capital and conservatism. It is important for companies to manage leverage carefully to protect value. A company's ability to pay off debt with equity can attract investors.

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