JISS Journal of Indonesian Social Science

Vol. 5, No. 9, September 2024
E-ISSN:2723 – 6692
P-ISSN:2723– 6595
http://jiss.publikasiindonesia.id/

The Effect of Capital Intensity, Financial Distress, Growth Opportunity, and Tax Incentives on Accounting Prudence with Litigation Risk As A Moderating Variable

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KEYWORDS
Capital Intensity; Financial Distress; Growth Opportunity; Litigation Risk; Prudence Akuntansi; Tax Incentives

ABSTRACT
This research aims to determine and examine the effect of Capital Intensity, Financial Distress, Growth Opportunity, and Tax Incentives on Accounting Prudence with Litigation Risk as a Moderating Variable. This research uses secondary data collected from the Indonesia Stock Exchange (IDX), stock information from the Yahoo Finance website, and the official websites of sector-related companies. Furthermore, this study is quantitative and employs multiple linear regression analysis, with the research population comprising the Transportation and Logistics Sector and the Technology Sector for the period 2020-2022. Based on the hypothesis testing results, the study shows that the Capital Intensity variable positively affects Accounting Prudence. Additionally, financial distress has a negative effect on accounting Prudence. Meanwhile, Growth Opportunities and Tax Incentives do not affect Accounting Prudence. Furthermore, the Litigation Risk variable cannot moderate the relationship between Capital Intensity, Financial Distress, Growth Opportunity, and Tax Incentives with Accounting Prudence.

Introduction

Accounting practices play an essential role in making a company's financial statements. This approach emphasizes the importance of the prudential principle, where assets and income are measured carefully, and less optimistic estimates are preferred. The goal is to anticipate potential risks in the future. In this case, financial statements are an information medium for internal or external parties who want to understand information related to their company's activities (Aryani & Muliati, 2020). The capital market, which functions as a way to bring together companies and investors, has now experienced very rapid development, especially in Indonesia. Determining the right decision for investors to invest their capital is very important to reduce investment risk.

Financial statements, according to PSAK Number 1 (IAI, 2018), provide a structured review of an entity's financial position and performance, aiming to provide relevant information for economic decision-making. In Indonesia, this report must be in accordance with the Financial Accounting Standards (SAK) set by DSAK. Users of financial statements expect accurate and high-quality information, so the reports must meet basic principles, including neutrality, which ensures the information is unbiased and does not favour any particular party. This principle is in line with accounting prudence, which emphasizes prudence in decision-making amid future economic uncertainty, for example by accelerating cost recognition or delaying income recognition.

Cases of manipulation of financial statements, such as those allegedly that occurred at PT Waskita Karya and PT Wijaya Karya in 2023, show the importance of accounting prudence. Both companies reportedly showed profits despite negative cash flows, raising suspicions of manipulation. Management has the freedom to choose accounting methods, but it is sometimes abused to manipulate financial statements so that they do not reflect the actual condition of the company (Tazkiya & Sulastiningsih, 2020). This case shows the importance of accounting prudence for the reliability of the company's financial information. Violations of this principle can have adverse legal and reputational implications for the company. Therefore, companies need to comply with accounting principles in order to maintain the integrity and transparency of financial reporting.

Accounting performance in the presentation of financial statements can provide several factors, including capital intensity, financial distress, and growth opportunities. The first is capital intensity, which refers to the percentage of a company's capital in the form of assets and is associated with investment in assets, as stated by Rivandi & Ariska (2019). The high number of assets held by the company leads to an increase in investment in assets. Ultimately, it results in a high depreciation expense that automatically reduces the company's profit. To avoid political costs, management tends to report profits conservatively (Yuniarta, 2021). Previous studies have shown that capital intensity does not have a significant effect on accounting prudence (Khasanah & Henny, 2023). Meanwhile, research conducted by Rivandi and Ariska (2019) shows that capital intensity has a positive and significant effect on accounting conservatism.

The second factor is the company's growth opportunity, which refers to the potential for increased investment in the capital market. Effective equity management is a crucial factor in increasing the company's growth opportunities. As growth opportunities increase, companies must be cautious to anticipate and reduce current profits, thereby generating maximum profits (Primasari, 2020). A study conducted by Usbah and Primasari (2020) demonstrated that growth opportunities exert a positive influence on accounting prudence. Conversely, previous research conducted by Dhanendra et al. (2023) also shows that growth opportunities have a negative effect on accounting conservatism.

Third, financial distress occurs when a company experiences an initial signal or indicator of bankruptcy when it is in a deteriorating financial condition before liquidation or bankruptcy occurs (Haryadi et al., 2020). In some studies, financial distress has a positive influence, and some have a negative influence. The research conducted by Sugiyarti and Rina (2020) concluded that financial distress has a positive influence on accounting conservatism (accounting prudence). Meanwhile, the research conducted by Dhanendra et al. (2023) indicated that growth opportunities have a negative effect on accounting conservatism.

In addition to the non-tax factors that have been explained, there are also tax factors that can affect accounting prudence, namely tax incentives. Tax incentives or tax incentives are tax facilities given to domestic or foreign investors that are used for specific activities in a particular field that can affect economic activities (Sumantri, 2018). Previous research has shown that tax incentives have a positive influence on accounting conservatism (Sugiyati & Rina, 2020). In one of the studies conducted by other researchers, it was concluded that tax incentives did not have a positive effect on accounting conservatism (Stiawan et al., 2022).

In some studies, there is also another factor, namely litigation risk. Litigation risk is a risk that can result in a company dealing with the law (Sinambela & Almilia, 2018). This risk is inherent in the company's operational activities and can cause the company to be entangled in legal proceedings by parties who feel harmed by the related company (Nadila & Nursiam, 2023). Litigation risk is represented by the company's capacity to meet short-term and long-term debt obligations, which can increase the company's use of accounting prudence (Sholikhah & Suryani, 2020). Effective external oversight and strict law enforcement encourage managers to be cautious in making decisions to prevent litigation risks, which can ultimately increase litigation costs. The greater the risk of litigation, the more widespread the application of accounting prudence in the company.

A study conducted by previous researchers conducted by Fernando et al. (2023) shows that litigation risk affects accounting conservatism. In this case, the external factor of litigation risk encourages managers to report the company's finances more carefully. The level of motivation of managers to apply accounting prudence increases along with the threat of litigation against the company. Due to the relationship between litigation risk and accounting prudence and the varying results from previous literature, this study uses litigation risk as a moderation variable. In addition, in this study, there are control variables that can affect accounting prudence, namely profitability. Profitability is how much a company is able to generate profits or profits in a certain period, with the efficient management of resources entrusted to the company. Research conducted by Goffar and Muhyarsyah (2022) shows that profitability has a positive and significant effect on accounting conservatism.

This study aims to deepen the two previous studies conducted by Stiawan et al. (2022) and Dhanendra et al. (2023). In both studies, the researcher took several variables, namely capital intensity, financial distress, growth opportunity, tax incentives, and litigation risk and added profitability as a control variable. The difference between the two studies and this study lies in the sample, year of research, and terms used. In this study, researcher employed the transportation and logistics sector, in addition to technology listed on the Indonesia Stock Exchange, for the 2020-2022 period. In contrast, Stiawan et al. (2022) focused their research on a food and beverage company. The company in question is listed on the Indonesia Stock Exchange for the period 2015-2019. The research conducted by Dhanendra et al. (2023) is a case study of a manufacturing company on the Indonesia Stock Exchange for the period 2019-2021. The difference between this study and the previous research, in addition to the sector, is that this study also uses the term accounting prudence. In contrast, the two studies still use the term accounting conservatism and add profitability as a control variable.

This study aims to find out whether capital intensity, financial distress, growth opportunity, and tax incentives influence accounting performance in the transportation, logistics, and technology sectors listed on the IDX for the 2020-2022 period, with litigation risk as moderation and profitability as a control variable. Although previous research has explored the topic, the results obtained are mixed. Therefore, researchers are motivated to re-examine and prove the influence of the variables to be studied.

Materials and Methods

This study employs secondary data sourced from the annual reports or financial reports of transportation, logistics, and technology sector companies listed on the Indonesia Stock Exchange (IDX) for the period spanning 2020 to 2022. The data was accessed via the official IDX website (www.idx.co.id) and the official websites of related companies.

The research sample was selected using the purposive sampling method, which is a sampling technique carried out with certain criteria to ensure a sample that is relevant to the research objectives. The sample selection criteria in this study included:

1. The companies included in the transportation, logistics, and technology sectors on the IDX during the 2020-2022 period.
2. The companies that have complete and publicly available financial reports during the period.
3. The companies that did not experience delisting or temporary suspension of stock trading during the study period.

This technique is used to ensure that the sampled companies meet the conditions relevant to the research variables, namely capital intensity, financial stress, growth opportunities, and tax incentives. After the data was collected, the analysis was conducted using multiple linear regression with the help of SPSS application.

Results and Discussions

Results of data analysis

Descriptive Statistics Results

From the results of descriptive statistical tests that have been carried out using SPSS, the following data can be generated:

Table 1 Descriptive Statistical Test Results

	N	Min.	Max.	Mean	Std. Deviation
Prudence Akuntansi	90	-0,341	0,140	-0,04882	0,091093
Capital Intensity	90	0,089	10,746	1,76830	1,818924
Financial Distress	90	-19,989	-0,148	-6,56921	5,193602
Growth Opportunity	90	0,039	13,226	2,42088	2,182430
Tax Incentives	90	0,000	0,117	0.01713	0,018217
Litigation Risk	90	0,024	5,088	0,80370	0,973469
Profitability	90	-0,004	0,537	0,07256	0,081266

Source: Data processed (SPSS)

Classical Assumption Test

1. Normality Test

Table 2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		90
Normal Parameters[a.b]	Mean	0,0000000
	Std. Deviation	0,04377872
Most Extreme Differences	Absolute	0,082

	Positive	0,082
	Negative	-0,082
Test Statistic		0,082
Asymp. Sig. (2-tailed)		**0,192**

Source: Data processed (SPSS)

The results of the Normality Test, as presented in Table 3, indicate that the Kolmogorov-Smirnov test yielded a significant value of 0.192, which is greater than the 5% threshold. This finding suggests that the regression model employed in the study is normally distributed and has satisfied the assumption of normality. Consequently, it can be advanced to the subsequent stage of the test.

2. Multicoloniality Test

Table 3 Multicollinearity Test Results

Variable	VIF	Information
CI	1,823	No Multiclonality
FD	2,680	No Multiclonality
GO	6,995	No Multiclonality
TI	18,529	Multicollinearity is present
LR	16,005	Multicollinearity is present
CI*LR	7,252	No Multiclonality
FD*LR	10,885	Multicollinearity is present
GO*LR	6,789	No Multiclonality
TI*LR	5,650	No Multiclonality
PROFIT	15,585	Multicollinearity is present

Source: Data processed (SPSS)

Table 3 of the Multicollinearity Test Results indicates that if the VIF value exceeds 10, it can be concluded that there are symptoms of multicollinearity. As evidenced in the aforementioned table, several variables are affected by the symptoms of multicollinearity. But in the use of regression with moderation variables will generally have the problem of multicollinearity (Gujarati & Porter, 2009). This is not a problem if there is still one or several variables that are not affected by the symptoms of Multicoloniality.

3. Autocorrelation Test

Table 4 Autocorrelation Test Results

Model	K	N	dL value	dU value	Durbin-Watson	4-dU value	4-dL Value	Conclusion
Multiple Regression	4	89	1,5627	1,7501	1,718	2,2499	2,4373	Tidak Ada Kesimpulan

Source: Data processed (SPSS)

Based on Table 4 Autocorrelation Test Results, the Durbin-Watson (DW) value is 1.718, the lower limit (dL) value is 1.5627, and the upper limit (dU) is 1.7501. Then, for the 4-dL value of

2.4373 and the 4-dU value of 2.2499. From these results, it can be concluded that the regression model used in this study is inconclusive and meets the criteria, namely dU<DW<dL.

4. Heteroscedasticity Test

Table 5 Heteroscedasticity Test

Variabel	Sig.	Information
CI	0,562	No Heteroscedasticity Occurs
FD	0,629	No Heteroscedasticity Occurs
GO	0,695	No Heteroscedasticity Occurs
TI	0,531	No Heteroscedasticity Occurs
LR	0,446	No Heteroscedasticity Occurs
CI*LR	0,874	No Heteroscedasticity Occurs
FD*LR	0,989	No Heteroscedasticity Occurs
GO*LR	0,904	No Heteroscedasticity Occurs
TI*LR	0,338	No Heteroscedasticity Occurs
PROFIT	0,779	No Heteroscedasticity Occurs

Source: Data processed (SPSS)

The results of the glacier test, as presented in Table 5 of the Heteroscedasticity Test Results, indicate that there is no heteroscedasticity between the independent variables in the regression model. This is evidenced by the fact that the overall variables exceed 0.05, thereby rendering the regression model suitable for use.

Hypothesis Test

Table 6 Multiple Linear Test Results

Variable	Direction Prediction	Regression Coefficient (B)	Sig. (one-tailed)	Results
(Constant)		-0,097		
CI	+	**0,012**	**0,038**	**H_1 Accepted**
FD	-	**-0,005**	**0,041**	**H_2 Accepted**
GO	+	-0,012	0,141	H_3 Rejected
TI	-	5,255	0,010	H_4 Rejected
LR		0,002	0,478	
CI*LR	+	-0,001	0,489	H_5 Rejected
FD*LR	+	-0,029	0,022	H_6 Rejected
GO*LR	+	0,002	0,360	H_7 Rejected
TI*LR	+	-3,325	0,029	H_8 Rejected
PROFIT		-0,624	0,086	
Adjusted R^2	**0,152**			
Uji F	**2,598**			
Sig.	**0,009**			

Source: Data processed (SPSS)

Based on Table 6 above, it can be found that the regression model equation in this study is as follows:

PRUD = -0,097 + 0,012 CI – 0,005 FD – 0,012 GO + 5,255 TI + 0,002 LR – 0,001 CI*LR – 0,029 FD*LR + 0,002 GO*LR – 3,325 TI*LR – 0,624 PROFIT

Information:

β	: Regression Coefficient
PRUD	: Accounting Prudence
CI	: Capital Intensity
FD	: Financial Distress
GO	: Growth Opportunity
TI	: Tax Incentives
LR	: Litigation Risk
PROFIT	: Profitability

1. Coefficient of Determination Test (R^2)

   From the results of Table 6 of the Determination Coefficient Test Results, the adjusted R^2 value is 0.152 which means 15.2% variation on the dependent variable, namely Accounting Prudence explained by Capital Intensity, Financial Distress, Growth Opportunity, and Tax Incentives. While the remaining 84.4% (100% - 15.2%) are variations of other independent variables that affect Accounting Prudence but are not included in the regression model of this study.
2. Test F

   The F-test was employed to ascertain whether all independent variables exerted a significant influence on the dependent variable, with a significance level of 0.05 or 5%. As evidenced in Table 8 of the F-Test Results, the F-value is 2.598, with a significance of 0.009. Therefore, it can be inferred that the independent variables in this study have a significant effect on the dependent variables.
3. Test t
   a. The t-test is employed to ascertain the extent to which partially independent variables exert influence on dependent variables. This is achieved by comparing the significance values associated with each variable. Table 4.8 of the Hypothesis Test Results indicates that the effect of capital intensity on accounting performance can be summarized as follows: As evidenced in Table 6, the results of the hypothesis test indicate that the t-test for the capital intensity variable yielded a significance value of 0.038, which is less than 0.05. Additionally, the unstandardized beta value was 0.012, exhibiting a positive direction. It can thus be concluded that H1 is accepted. This evidence substantiates the assertion that the capital intensity variable exerts a positive influence on accounting prudence.
   b. The Effect of Financial Distress on Accounting Performance: As evidenced in Table 6, the results of the hypothesis test indicate that the t-test for the financial distress variable yielded a significance value of 0.041, which is less than 0.05. Additionally, the unstandardized beta value was found to be -0.005, indicating a negative direction. It can be concluded that hypothesis H2 was rejected. This evidence substantiates the assertion that the financial distress variable exerts a detrimental impact on accounting prudence.
   c. Effect of Growth Opportunity on Accounting Performance: Table 6 reveals that the t-test results for the growth opportunity variable have a significance value of 0.141, which is greater than 0.05. Additionally, the unstandardized beta value is -0.012, indicating a negative direction. Consequently, it can be concluded that H3 was rejected, and thus, the

hypothesis that the growth opportunity variable influences accounting prudence is not supported.The Effect of Tax Incentives on Accounting Performance: Based on Table 6 of the Hypothesis Test Results, the results of the t-test for the tax incentive variable have a significance value of 0.010 where the value is less than 0.05 and an unstandardized beta value of 5.225 with a positive direction. It can be concluded that H4 was rejected. This proves that the variable tax incentives do not influence accounting prudence.

d. The Effect of Litigation Risk on Accounting Performance: Based on Table 6, the results of the Hypothesis Test show that the results of the t-test for the litigation risk variable have a significance value of 0.478 where the value is greater than 0.05 and an unstandardized beta value of 0.002 with a positive direction. This proves that the litigation risk variable does not influence accounting prudence.
e. The Effect of Litigation Risk as a Moderation between Capital Intensity and Accounting Performance: Based on Table 6, the results of the Hypothesis Test show that the results of the t-test for the interaction between capital intensity and litigation risk have a significance value of 0.489 where the value is greater than 0.05 and an unstandardized value Beta of -0.001 with a negative direction. It can be concluded that H5 was rejected. This proves that the litigation risk variable is not able to strengthen the capital intensity of accounting prudence.
f. The Effect of Litigation Risk as a Moderation between Financial Distress and Accounting Performance: Based on Table 6, the results of the Hypothesis Test show that the results of the t-test for the interaction between financial distress and litigation risk have a significance value of 0.022 where the value is less than 0.05, and the value is unstandardized Beta of -0.029 with a negative direction. It can be concluded that H6 was rejected. This proves that the litigation risk variable is not able to weaken financial distress to accounting prudence.
g. The Effect of Litigation Risk as a Moderation between Growth Opportunity and Accounting Performance: Based on Table 6 of the Hypothesis Test Results, it shows that the results of the t-test for the interaction between growth opportunity and litigation risk have a significance value of 0.360 where the value is more significant than 0.05 and an unstandardized value beta of 0.002 with a positive direction. It can be concluded that H7 was rejected. This proves that the litigation risk variable is not able to strengthen the growth opportunity for accounting prudence.
h. The Effect of Litigation Risk as a Moderation between Tax Incentives on Accounting Performance: Based on Table 6 of the Hypothesis Test Results, it shows that the results of the t-test for the interaction between tax incentives and litigation risk have a significance value of 0.029 where the value is less than 0.05 and an unstandardized value Beta of -3.325 with a negative direction. It can be concluded that H8 was rejected. This proves that the litigation risk variable is not able to weaken tax incentives against accounting prudence.
i. Effect of Profitability on Accounting Performance: Based on Table 6, the results of the hypothesis test show that the results of the t-test for the profitability variable have a significance value of 0.086 where the value is greater than 0.05 and an unstandardized beta value of -0.624 with a negative direction. It can be concluded that the profitability variable does not have a positive influence on accounting prudence.

Discussion

The Effect of Capital Intensity on Accounting Prudence

Based on the results of the tests that have been carried out in this study, it is proven that capital intensity has a positive influence on accounting prudence. This shows that high or low capital intensity will affect the application of accounting prudence in a company. The greater the capital intensity of a company, the greater the responsibility for the funds provided by investors. This shows that the funds provided are really used for the company's operational activities in generating the amount of assets so that more and more other investors are interested in investing their capital. In order to maintain investor confidence in the funds provided, company managers will implement accounting policies that generate high profits.

In positive accounting theory, a high level of capital intensity can be an indication of a company's ownership of a large number of assets that can be used to generate revenue or sales. The larger the size of a company, the greater the political cost. This is because the government will prioritize companies that show a high level of capital intensity. As a result, company managers will choose accounting prudence methods to reduce the company's profits. The results of this study are in line with the findings of Budiman (2021) and Rivandi & Ariska (2019), which prove that capital intensity has a positive influence on accounting prudence. This shows that capital intensity has a positive effect on accounting prudence because investors and creditors have an interest in the company's profit. This will result in investors maintaining control or exercising control over operational decisions through managers. That will emphasize the act of profit manipulation because managers will tend to be conservative in reporting the company's profits.

The Effect of Financial Distress on Accounting Performance

Based on the results of the tests that have been carried out in this study show that financial distress has a negative influence on accounting prudence. This shows that when a company experiences financial distress, it will tend to avoid the principle of accounting prudence in the preparation of its financial statements. The financial distress situation experienced by the company is an early sign of the company's financial condition that will experience bankruptcy. Shareholders or owners of a company are unlikely to want negative outcomes for their company, such as financial distress. Owners, shareholders, or owners of companies tend to protect their investments from financial distress. Companies that experience financial distress will avoid the principle of accounting prudence.

In agency theory, the principal, who is the owner of the company and the agent, who is the management, have their interests. Each will try to manage because the agent is a party that has the potential to be replaced. This is because the management tries to take preventive measures so that the condition of financial distress is not known to the principal, namely the shareholders or owners of the company. Management, which plays the role of manager, must have more information, and management has access to information acquisition faster than shareholders or company owners. This is how management can help protect the company from potential financial difficulties. By not applying accounting conservatism in the presentation of financial statements, management can help boost profits. It's easy to see why this thing looks good on paper. In any case, this can mask any financial difficulties that the company may face. Moreover, this is great for company owners and managers, who will not be held accountable for their company's performance. The results of this study are in line with the findings of Dhanendra et al. (2023) and Sholikhah and Suryani (2020), which prove that financial distress has a negative influence on accounting prudence because when experiencing financial distress conditions, the company will reduce the level of use of accounting prudence principles.

The Effect of Growth Opportunity on Accounting Prudential

The results of the tests that were carried out in this study show that growth opportunities have no influence on accounting prudence. Positive accounting theory states that both large and growing companies will tend to report profits conservatively to minimize political costs, such as regulatory demands and labour, and avoid stricter government scrutiny in terms of taxes and public demands in terms of social responsibility. This is because external parties will highlight larger companies more than small companies.

In this study, growth opportunities do not affect accounting prudence because managers in a company do not apply accounting prudence principles in presenting financial statements to meet their investment needs. Therefore, the principle of accounting prudence is not applied by all company managers. It is suspected that not all managers do not apply the principles of accounting prudence to meet funding needs at a time when the company is growing. Companies that are experiencing growth need funding that is mainly obtained from outside the company and already has a strong corporate governance structure, thus reducing the possibility of company managers applying accounting prudence principles by lowering profits to meet the company's investment fund needs in its growth. The results of this study are in line with the findings of Dhanendra et al. (2023) and Rizki et al. (2023), which states that growth opportunities have no influence on accounting prudence.

The Effect of Tax Incentives on Accounting Prudence

Based on the results of the tests that were carried out in this study show that tax incentives do not influence accounting prudence. This can be shown that the increase in tax incentives will not result in a change in the level of accounting prudence carried out by the company. When tax incentives do not increase, this also does not cause companies to become more conservative. Accounting prudence can result in financial statements being more negatively biased, with lower taxes. However, this approach can raise suspicion from the tax authorities, which can then make financial statements more accurate. As a result, companies tend to refrain from applying accounting prudence with the specific purpose of reducing their tax liability.

This shows that companies that take advantage of tax incentives to apply accounting prudence principles can face fiscal challenges in the future. This is because tax incentives can reduce the application of accounting prudence. After all, in the year of the enactment of the new tax rate, the company will report profits that have been deferred in the previous year. As a result, the tax paid on the profit will be lower because it uses a new lower rate than the previous year. This principle corresponds to the tendency of individuals to avoid or minimize tax payments, which also applies in the context of companies. As a result, the company is trying to lower its profits in order to reduce the tax burden that must be paid. The results of this study are in line with the findings of Atika et al. (2021), which stated that tax incentives do not influence accounting prudence.

The Effect of Litigation Risk as a Moderation between Capital Intensity and Accounting Prudence

Based on the results of the tests that have been carried out in this study show that litigation risk cannot strengthen the relationship between capital intensity and accounting prudence, which means that the higher the level of litigation risk, the lower the influence of capital intensity on accounting prudence. The high level of capital intensity of a company will make fund management even more complex and show that the company is a capital-intensive company. Capital-intensive companies have the potential to increase corporate profits and will give rise to indications that increased profits are the result of manipulation that can trigger litigation risks so that the application of accounting prudence becomes lower.

Based on the theory of agency, it is stated that in situations where the risk of litigation increases, the agent (manager) will seek to reduce information asymmetry and conflicts of interest by being more careful in financial reporting. When capital intensity is high, litigation risk reinforces the need for prudent financial reporting as a means to reduce uncertainty and maintain investor and stakeholder confidence. Therefore, litigation risk serves not only as a risk mitigation but also as a reinforcement of control against more prudent accounting practices. The results of this study are in line with the findings of Khasanah and Henny (2023), which state that capital intensity does not influence accounting prudence. On the other hand, this study is not in line with Fernando et al. (2023), who stated that litigation risk has a positive effect on accounting prudence.

The Effect of Litigation Risk as a Moderation between Financial Distress and Accounting Prudence

The results of the tests carried out in this study show that litigation risk cannot weaken the relationship between financial distress and accounting prudence. This indicates that when a company experiences financial distress, there is potential for litigation that can increase the likelihood of less prudent accounting practices. In agency theory, there is a conflict of interest between management (agents) and shareholders (principals).

If a company experiences financial distress, management may be inclined to take actions that can improve short-term financial performance, even though these actions are ultimately unprofitable for the long term and can be detrimental to shareholders. As a result, although financial distress encourages management to underreport, litigation risks force company management to maintain prudence in financial reporting to avoid potential lawsuits from shareholders or other parties. The results of this study are in line with the findings of Rifqi and Sasongko (2023) and Fernando et al. (2023), which prove that financial distress has no effect on accounting prudence and litigation risk has a positive effect on accounting prudence.

The Effect of Litigation Risk as a Moderation between Growth Opportunities and Accounting Performance

The results of the tests that have been carried out in this study show that litigation risk cannot strengthen the relationship between growth opportunity and accounting prudence. The higher the threat of litigation, the stronger the influence of growth opportunities in encouraging management to apply prudence accounting to financial statements. This can happen because growing companies may prefer to report their profits optimistically to attract investors and meet contractual obligations with creditors, so financial statements are less likely to be conservative despite the threat of litigation. Thus, litigation risk does not provide an additional incentive for managers to be more cautious in financial reporting when there is a high growth opportunity.

Based on positive accounting theory, companies with high growth opportunities often face pressure to show financial performance to attract investors who can support the company's growth in the future. The results of the hypothesis that growth opportunities do not have a positive effect on accounting prudence indicate that when a company experiences growth, managers do not need to apply accounting prudence principles because they already have good corporate governance. As a result, litigation risk cannot strengthen the relationship between growth opportunity and accounting prudence. The results of this study are in line with the findings of Dhanendra et al. (2023), which state that growth opportunities have no influence on accounting prudence. On the other hand, this study is not in line with Fernando et al. (2023), who state that litigation risk has a positive effect on accounting prudence.

The Effect of Litigation Risk as Moderation between Tax Incentives on Accounting Performance

The results of the tests that have been carried out in this study show that litigation risk cannot weaken the relationship between tax incentives and accounting prudence. This shows that the size of litigation risk does not affect management's decision to apply accounting prudence to benefit from tax incentives provided by the government. This can happen because the company will carry out tax planning in response to the litigation risk given by the government which will cause a delay in reporting profits in the year before the new tariff takes effect. Subsequent reporting is carried out in the year in which the new tariff is enforced. In this case, there is no violation of the terms of the contract as long as the interests of investors and creditors are still met. Therefore, there will be no lawsuits, and thus, there is no threat of litigation against the company.

Litigation risk acts as an important external control mechanism so that it can reduce information asymmetry and conflicts of interest between managers and owners. If the tax incentives are large enough, managers may tend to present financial information in a variety of ways that are beneficial to the company from a tax standpoint. However, the risk of litigation minimizes the likelihood of action from the company's manager. The pressure exerted by litigation risk on managers to report financial information more conservatively and prudently reduces the likelihood of using aggressive accounting practices with the aim of taking advantage of tax incentives. The results of this study are in line with the findings of Atika et al. (2021) and Fernando et al. (2023), which state that tax incentives have no effect on accounting prudence, and litigation risk has a positive effect on accounting prudence.

Conclusion

This study was conducted to examine the influence of Capital Intensity, Financial Distress, Growth Opportunity, and Tax Incentives on Accounting Prudence with Litigation Risk as a Moderating Variable in Transportation and Logistics Technology Sector Companies for the 2020-2022 period. Based on the results of the analysis and discussion that was described in the previous chapter, this study concludes several important things related to the factors that affect accounting performance. First, it was found that Capital Intensity had a positive influence on Accounting Performance, indicating that the higher the capital intensity, the greater the tendency of the company to apply the prudential principle in accounting. In contrast, Financial Distress has a negative influence on Accounting Performance, which means that difficult financial conditions tend to reduce the application of this principle. Furthermore, this study reveals that Growth Opportunity, Tax Incentives, and Litigation Risk do not have a significant influence on Accounting Performance. This means that growth opportunities and tax incentives do not affect the application of the prudential principle, and litigation risk does not play a role in strengthening or weakening the relationship between other factors and Accounting Prudence. In particular, Litigation Risk cannot strengthen the relationship between Capital Intensity and Accounting Performance, nor can it weaken the relationship between Financial Distress and Accounting Performance. In addition, litigation risk cannot strengthen the relationship between growth opportunity and accounting performance, nor can it weaken the relationship between tax incentives and accounting performance. Finally, this study concludes that profitability does not influence accounting performance. Thus, the level of a company's profit does not determine the extent to which the prudential principle is applied in financial reporting. These conclusions provide important insights for companies in understanding the factors that affect the application of Accounting Prudential and can aid in more informed financial decision-making.

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