Determination of Debt Covenant, Laverage, Financial Distress Against Accounting Conservatism

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ABSTRACT

Purpose: The objective of this research is to examine the impact of financial hardships, debt covenants, and leverage on accounting conservatism in a partial and simultaneous manner.

Design/methodology/approach: The analysis focuses on firms operating in the industrial and consumer products sectors, which are listed on the Indonesia Stock Exchange (IDX) during the period from 2016 to 2020. This particular research methodology employs quantitative techniques to investigate a predefined population or sample. The samples were obtained using a purposive sampling strategy, which included selecting individuals based on preset criteria. This study uses data regression analysis as a method of data analysis, using the SPSS software.

Findings: The findings indicated that accounting conservatism was only partly unaffected by financial troubles. Debt covenants have a partial influence on accounting conservatism, while leverage partly has a notable impact on accounting conservatism. Furthermore, accounting conservatism is significantly affected by a combination of financial challenges, debt covenants, and leverage.

Paper type: Research Paper

I. INTRODUCTION

Conservative accounting is modified or excluded when it hinders the presentation of critical and reliable accounting data, according to Sumantri (2016). According to Wibowo (2002) in Harini et al. (2020), financial reporting rules for recognizing and measuring assets and profits are applied carefully to ambiguous economic and commercial processes. Accounting conservatism as a natural reaction to uncertainty and risk in planned companies. Some still find conservatism troublesome, some don't. Opponents of conservatism argue that its use to produce financial reports produces reports that are not objective and do not represent the company's true financial health (Raharjo and Dewi, 2016). However, conservatives argue that accounting conservatism in financial reporting prevents managers from acting opportunistically to increase profits. Khan and Watts (2009) state that conservative financial reporting can reduce information asymmetry by limiting management's manipulation of financial data. Companies changing their financial records show how accounting conservatism can fail. Management's incompetence inflates the company's net profit (www.cnnindonesia.com). A company's profit value that is too high is caused by profit recognition that is too optimistic. Garuda Indonesia's experience shows that situations like this may deceive investors and stakeholders. Therefore, it must be reduced. This also shows how rarely companies use conservative accounting rules when writing financial reports (Budiandru et al., 2019). The assumption is that the organization will face economic uncertainty in the future, requiring a careful approach in monitoring, identifying and assessing that data. Despite the controversy, conservative accounting methods persist. This strategy is still used because a more realistic viewpoint reduces managers' tendency to exaggerate profits in financial reporting. Overstating results is riskier than underestimating because financial statements show much greater profits than were achieved, increasing the likelihood of legal action. (Sari, 2020)

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Positive accounting theory states that management will relax prudent accounting standards when a company is struggling financially.

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Another factor that influences prudent accounting is leverage. Leverage describes how much debt a company uses to purchase assets. The business world requires large costs so they borrow from other parties (Abdurrahman and Erwati, 2019). According to Savitri (2016), the greater the leverage ratio, the more likely the company is to adopt non-conservative tactics to increase current profits. In line with Pambudi (2017), Rahayu and Sepian (2017), Rosa Dewinta, and Ery Setiawan (2016).

Financial difficulties can also disrupt accountants' conservatism. Financial problems are when a company's finances are bad or deteriorating and it is at risk of going out of business (Banjarnahor and Curry, 2018). Managers determine how carefully to budget when the organization has financial problems. Users of financial records should be aware that accounting profits fluctuate depending on the skill and conservatism of managers. When a company's finances are poor, owners can replace management. This may lower the manager's job market value. These dangers can cause managers to adjust their financial return behavior, which is used to evaluate their performance. So a bad financial crisis can force management to rethink its accounting conservatism (Pramudita, 2012).

The conservatism study (Quljanah et al., 2017) shows that growth opportunity and leverage together have a positive effect on accounting conservatism. This shows that expansion and leverage have a positive effect on stiffness. (Budiandru et al., 2019) revealed that debt restrictions provide benefits for careful accounting, but significantly. According to Putra and Sari (2020), leverage, income and financial conservatism have a small positive influence on each other . There is a slight negative relationship between financial condition and accounting prudence. (2018) Ursula and Adhvinna's prudent accounting is influenced by management ownership, company size, debt, and growth potential. Accounting conservatism is influenced by company size, debt, and growth potential. However, executive ownership has no effect on accounting conservatism. Prudent accounting benefits from development opportunities and financial pressures (Tazkiya and Sulastiningsih, 2020). This research is an extension of 2017 Quljanah et al. research on Growth Opportunities and Leverage and financial conservatism. This analysis examines the transportation business from 2017 to 2019 and includes debt covenants and financial distress. Debt agreements are added due to agency. The debt covenant hypothesis states that the more likely it is that a company violates its loan covenants, the more likely its management will use accounting practices that shift earnings from the future to the present. The debt agreement assumes management will overstate profits and assets to save on renegotiating the debt. Debt agreements are based on leverage. Financial problems may make it difficult to select an accounting approach for a company experiencing financial difficulties. Positive accounting theory states that a company's financial pressure influences the use of prudent accounting. Positive accounting theory states that managers are less careful in companies experiencing financial difficulties (Suprihastini & Pusparini, 2007). When a company experiences financial difficulties, shareholders may fire its management because they do not believe they can run it successfully. Changes in financial conservatism can help managers change earnings, which indicate job performance.

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A. Literature Review

1. Accounting Conservatism.

The principle of accounting conservatism is a fundamental concept that emphasizes careful recognition of assets and income, while emphasizing rapid recognition of expenses and liabilities. This technique is based on the assumption that activities related to business and the economy are, at their core, characterized by an element of uncertainty. The paradigm proposed by Givoly and Hayn (2000), which is often called Conservatism Based on Accrued Items, is used to assess conservatism. The following equation represents the computational procedure for determining Savitri's level of conservatism, as outlined in research conducted by Savitri in 2006:

$$MBV = \frac{HARGA\ PASAR\ SAHAM}{NILAI\ BUKU\ SAHAM}$$

2. Financial Difficulties

According to Fahmi (2017): 93, conditions of worsening financial problems that occur before bankruptcy or liquidation occur are called "financial distress". According to research by Risdayani and Kusmuriyanto (2015), the term "financial distress" refers to early indicators of worsening financial position in a business, as reflected in the organization's financial reports. This interpretation was carried out based on the research findings of Risdayani and Kusmuriyanto (2015). The Altman Z-Score model is a comprehensive tool relevant to both manufacturing and non-manufacturing businesses. This model is used in this research to measure the level of financial difficulties experienced by manufacturing and non-manufacturing businesses. Based on the findings of research conducted by Wiecandy and Khairunnisa in 2018, Altman's discriminant analysis shows a noteworthy ability in predicting financial difficulties with an accuracy rate of 95%. The Modified Altman Model (Altman, 2000) was used in this study to provide a measure of how difficult it is to meet financial needs. Following is the formula used for this specific purpose:

$$Zi = 0.717X1 + 0.847X2 + 3.107X3 + 0.42X4 + 0.998X5$$

X1 = (Current Assets – Current Liabilities) / Total Assets
X2 = Retained earnings / Total Assets
X3 = Profit Before Interest and Tax / Total Assets
X4 = Book Value of Common and Preferred Stock / Book Value of Total Debt
X5 = Sales / Total Assets

3. Leverage

The extent to which an organization's capital structure relies on money raised through loans can be measured using a metric known as leverage. According to Nurminda et al. (2015), having an excessive amount of debt can have a negative impact on the company because it will be increasingly difficult for the company to reduce its debt burden, thus potentially creating a prolonged debt condition. Setiawati and Lim (2018) stated that leverage can be used as a method to determine the proportional volume of a company's debt compared to its capital. By using the Debt Equity Ratio (DER), the aim of this research is to find out whether the company is able to fulfill its obligations related to its debt or not.

$$DER = \frac{Total\ Liabilitas}{Total\ Equity}$$

4. Debt Covenant

Management can use strategic accounting methods to increase profitability when the company is on the verge of violating loan covenants, according to the debt covenant. In this research, the replacement variable is leverage based on debt agreements. According to Fatmariani (2013), the formula for determining leverage is as follows: To determine the severity of the risk associated with loan delays, companies can use the ratio above (Deffa, 2012) to get a complete picture of their capital structure. To determine whether or not a company is able to pay off its debt, investors look at its leverage ratio. Debt agreements can be expressed in numerical form through a measurement process.

$$Debt\ Asset\ Ratio = \frac{Total\ Liabilitas}{Total\ Aset}$$

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II. METHODS

In research techniques, the ideas of population and sample are an important basis. A researcher will call a collection of people or objects a population if they are interested in studying them because they share certain characteristics. A total of 75 different businesses, all of which were active in the consumer goods market and were listed on the Indonesia Stock Exchange (BEI) between 2016 and 2020, were taken into consideration in this investigation. Purposive sampling is the method used for the sampling process in this particular research effort. The research sample consisted of 21 different businesses. Conducting a literature review as part of the data collection approach used typically requires the use of internet sources, books, and academic publications relevant to the theme being investigated. Quantitative data, presented in numerical form and correlated with research variables, are included in the data set used for this investigation.

The research above uses secondary data as its main source of information, namely information obtained from the websites of industrial companies listed on the stock exchange. This information is presented in the form of a financial report and you can obtain a copy by downloading it from the website http://www.idx.co.id/. Data analysis was carried out using multiple linear regression, which is the approach used in this research. The use of multiple regression analysis makes it possible to evaluate the influence, either collectively or individually, of independent factors on the dependently measured variables.

III. RESULTS AND DISCUSSION

A. Results
1. Descriptive Research Results

The overall data characteristics of each variable are shown in Table 1 as follows:

Table 1. Data Characteristics

	N	Min	Max	Mean	Std. Deviation
Financial distress	105	-30.23	5.73	1.7742	5.00596
Debt Coventant	105	.08	.76	.3663	.15595
Levarage	105	.08	3.16	.6781	.55861
Conservatism	105	.11	13997608.21	1651481	3575240.383
Valid N (listwise)	105				

Source: SPSS Processing Data, 2023

Based on the information shown in Table 1, the research project consisted of a total of 105 samples. The value of the variable representing financial difficulties can take various forms, with a minimum value of -30.23 and a maximum value of 5.73. Likewise, the debt covenant variable can vary between 0.08 to 0.76. The leverage variable has a value range from 0.08 to 3.16. Lastly, the value of the accounting conservatism variable can vary between 0.11 to 13,997,608.21, with the lowest value being 0.11. The financial distress variable has a mean value of 1.7742, the variable measuring the company's debt covenant is 0.3663, the variable measuring leverage has a mean value of 0.6781, and the variable measuring accounting conservatism has a mean value of 1651481. The current investigation shows that there is a significant deviation of 5.00596 . a unit of standard deviation from a value that is considered the norm for a variable measuring financial hardship. Likewise, the variable representing the company's debt agreement shows a difference of 0.15595 units , the variable representing the company's leverage shows a difference of 0.55861 units, and the variable representing the company's accounting conservatism shows a very large difference of 3575240.383 units.

2. Requirements Test / Classical Assumption Test

The purpose of conventional model testing is to determine the validity of the model. The investigation will use customary procedures to verify assumptions, including:

a. Normality Test Results

Graphical methods are used to carry out normality tests. Specifically, the distribution of data on the diagonal line in the Normal PP Plot of the normalized regression residuals is analyzed to determine whether the test completed normally or not. A plot of conventional probabilities of standardized residuals obtained from regression analysis is shown in Figure 1.

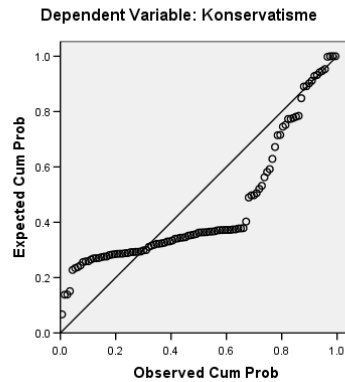Normal P-P Plot of Regression Standardized Residual

Figure 1. Normal PP Plot Graph

Source: SPSS Processing Data, 2023

The data points on the normal PP Plot of the regression normalized residuals deviate from the reference line, as shown in Figure 1, indicating that the residuals do not follow a uniform distribution around the line. There is no evidence to suggest that residual values follow a normal distribution.

b. Multicollinearity Test Results

In the context of this research, the aim of carrying out the multicollinearity test is to determine whether or not there is a regression model between the three independent variables which are symbolized by the variables financial difficulty (X1), leverage (X2) and the independent variables. , and leverage (X3) respectively. The aim of this investigation is to find out whether the model contains multicollinearity or not, by first developing a null hypothesis which assumes the presence of multicollinearity, then developing an alternative hypothesis which assumes the absence of multicollinearity. The research results are presented in Table 4.2 which is detailed as follows:

Table 2. Multicollinearity Detection

Variable	Tolerance	VIF
Financial distress	0.943	1,060
Debt covenant	0.217	4,599
Leverage	0.223	4,481

Source: SPSS Processing Data, 2023

Based on the information in Table 2, it can be seen that the Variance Inflation Factor (VIF) value for each indicator for all variables is more than the tolerance level of 0.1 (10%). In addition, a VIF value smaller than 10

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indicates that the regression model does not contain multicollinearity. As a result, the regression model does not experience multicollinearity problems, and there is no correlational relationship between independent variables.

c. Autocorrelation Test Results

The Durbin-Watson test, which is a common technique for finding serial correlation, is used to find autocorrelation in regression models. This test is commonly used. In the context of regression analysis, the fact that the d statistic relies on a calculated error estimate is one of the most significant advantages of using such statistics. The hypothesis used to detect autocorrelation states that the null hypothesis assumes the existence of positive autocorrelation, while the alternative hypothesis implies the existence of negative autocorrelation. This is what is meant by the expression "the alternative hypothesis assumes the existence of negative autocorrelation". Autocorrelation testing was carried out using the Durbin-Watson (DW) method. The Durbin-Watson test results are shown in Table 3 below.

Table 3. Durbin Watson Auto-Correlation Detection Test

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin-Watson
1	,591 [a]	,349	,330	2927433.45	,457

a. Predictors: (constans), Leverage, Financial difficulties, Debt Convenant
b. Dependent Variable: Conservatism
Source: SPSS Processing Data, 2023

The Durbin-Watson (DW) statistical value of 0.457 can be seen in Table 3. After analyzing the Durbin-Watson (DW) table at a significance level of 5% (0.05) , it can be seen that the sample size (n) is equal to 105, and there are 3 independent variables (k). The findings are as follows. The Durbin-Watson distribution table is used to calculate the Durbin-Watson (DU) statistic of 1.7501 and the Durbin-Watson (DL) limit of 0.8140. Positive autocorrelation can be seen from the discrepancy between the Durbin-Watson (DW) statistic calculated at 0.457 and the expected value assuming no autocorrelation (DU).

d. Heteroscedasticity Test Results

The heteroscedasticity test in this study determines whether the regression model has captured the relationship between accounting conservatism (Y) and the independent variables financial distress (X1), debt covenant (X2), and leverage (X3). Graphic analysis of the predicted plot of the dependent variable (ZPRED) and residual (SRESID) is shown in Figure 2.
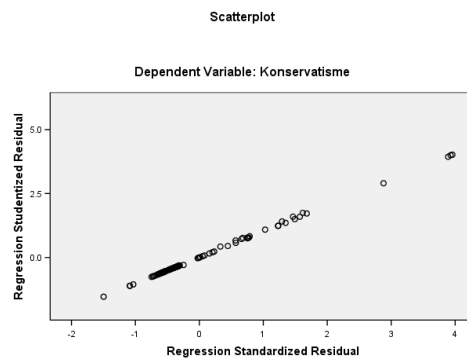

Figure 2. Heteroscedasticity Test Scatterplot Graph

Source: SPSS Processing Data, 2023

The plot of Figure 2 displays a clear trend, with data points evenly distributed across the Y-axis above and below zero. Based on the results of this research, the correlation between the absolute error value and each

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indicator is not heteroscedastic. Furthermore, the regression model shows that the fundamental assumptions are met.

3. Multiple Linear Coefficient Regression Analysis

The use of multiple linear regression equation models, also called multiple linear regression analysis, involves regression of the independent variable and the dependent variable simultaneously. The equation obtained from the analysis findings is expressed as a multiple regression equation.

Table 4. Multiple Linear Regression Equations

Variable	Regression coefficient	T count	Sig.	Information
Financial distress	68402,223	1,158	0.249	Not significant
Debt covenant	-18618426,249	-4,717	0,000	Significant
Leverage	7375742,582	6,780	0,000	Significant

Constant	: 3348296,216	F count	: 18,040
R	: 0.591	Sig.	: 0,000
R square	: 0.349		

Source: SPSS Processing Data, 2023

Thus, the regression equation is as follows:
Y = 3348296.216 + 68402.223 _ _ _
From Table 4.3, the Regression Equation has the following meaning:
1. When all independent variables are held constant at 0, accounting conservatism has an estimated value of 3348296.216.
2. Financial problems have a positive regression coefficient of 68402.223 with accounting conservatism. A one unit increase in financial problems is associated with an increase in accounting conservatism of 68402.223 units.
3. The regression coefficient for debt covenant and accounting conservatism is -18,618,426,249. This shows that debt agreements have a detrimental relationship with accounting conservatism. An increase in debt covenants by one unit reduces accounting conservatism by 18618426.249.
4. Regression studies show that leverage and accounting conservatism are positively correlated with a coefficient of 7375742.582. This shows that leverage increases accounting conservatism by 7375742,582 units per unit.

4. Hypothesis Testing Results
a. t test (partial test)

Individual t-test results are shown in Table 5:

Table 5. t test

Variable	Regression coefficient	t count	Sig.	Information
Financial distress	68402,223	1,158	0.249	Not significant

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Debt covenant	*-18618426,249*	*-4,717*	*0,000*	*Significant*
Leverage	*7375742,582*	*6,780*	*0,000*	*Significant*

Source: SPSS Processing Data, 2023

The following is a table presentation:
1. Table 5 shows 0.249 as significant. Financial problems (X1) exceed the significance criterion (0.05). Thus H0 can be accepted and Ha is discarded. This research does not find a significant relationship between financial difficulties (X1) and accounting conservatism (Y), thus rejecting the first hypothesis.
2. Table 5 data is significant at 0.000. The significance of Debt Covenant (X2) exceeds the predicted threshold (0.05). Thus H0 can be accepted and Ha is discarded. This analysis supports the second hypothesis by showing there is no statistically significant correlation between Debt Covenant (X2) and accounting conservatism (Y).
3. Table 5 data is significant at 0.000. The significance level of the leverage variable (X3) is below 0.05. H0 is rejected and Ha is supported by the results. The third hypothesis is supported by a statistically significant correlation between leverage (X3) and accounting conservatism (Y) in this study.

1. F Test (Simultaneous Test)
Simultaneous test results based on the F test are displayed in Table 6 as follows:

Table 6. F test

Model Summary ^{b}

	Model	Sum of Squares	Df	Mena Square	F	Sig.
1	Regression	4.6E+014	3	,330	18.40	,000 ^{a}
	Residual	8.7E+014	101			
	Total	1.3E+015	104			

a. Predictors: (constans), Leverage, Financial difficulties, Debt Convenant
b. Dependent Variable: Conservatism
Source: SPSS Processing Data, 2023

Based on Table 6, the significance of the occurrence of both events simultaneously is represented by the number 0.000. Because the significance level is less than 0.05, it can be concluded that all independent variables have a significant influence on the variables studied. This shows that difficulties in the banking sector (X1), debt covenants (X2), and leverage (X3) all have an impact on the level of conservatism seen in accounting (Y). As a result, the H0 hypothesis is not accepted, but the Ha hypothesis is accepted.

b. Coefficient of determination test
R-Square value in the analysis is shown in Table 7 as follows:

Table 7. Coefficient of Multiple Determination

Model Summary ^{b}

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin-Watson
1	,591 ^{a}	,349	,330	2927433.45	,457

a. Predictors: (constans), Leverage, Financial difficulties, Debt Convenant
b. Dependent Variable: Conservatism

Source: SPSS Processing Data, 2023

The R Square value is 0.349, which means that the influence of the independent variable on the dependent variable is 34.9%, while the remaining 65.1% is influenced by other factors not included in the model. This information is based on Table 7.

B. Discussion
1. The influence of financial difficulties on accounting conservatism

The estimation results of the financial distress variable produce a significance value of 0.249. The observed significance value, 0.000, is above the predetermined threshold of 0.05 , indicating that the variable under consideration exhibits statistical significance. These findings indicate that there is no significant relationship between the financial difficulty variable (X1) and the level of accounting conservatism assessed by Y. Thus, Hypothesis 1 is not valid. The positive sign of the regression coefficient related to the financial distress variable shows that as the number of financial difficulties increases, the influence of this variable on the use of accounting conservatism in companies decreases. The results of this research are in line with the findings of research conducted by Gutika Putri (2018) which concluded that there is no significant relationship between implementing a conservative accounting style and experiencing financial difficulties. On the other hand, the results of this study are not in accordance with previous research conducted by Viola and Patricia (2016). The research mentioned above reveals a strong correlation between financial difficulties and the application of accounting conservatism. Based on the principles of positive accounting theory, managers may strategically choose to disclose large amounts of corporate profits during periods of financial distress, with the aim of improving their prospects for obtaining potential loans from creditors. Companies facing financial challenges will demonstrate an increased need for cash to maintain operational activities and meet their financial commitments, resulting in increased debt levels. Therefore, conveying negative messages to external stakeholders, especially creditors, will hinder their willingness to provide loans for the continuity of company operations. As a result, a company may fail to adhere to the principle of conservatism in the preparation of its financial statements during a period of financial distress, as the continued application of conservative accounting practices will result in an understatement of the financial statements. If a company is facing financial difficulties, it is likely that the company will not adhere to the concept of conservatism in preparing its financial reports.

2. The influence of Debt covenants on accounting conservatism

The estimation results for the Debt Covenant variable show a statistically significant value of 0.000. The P-value obtained is 0.000, which is smaller than the predetermined significance level, namely 0.05, this shows that there is a statistically significant relationship between the Debt Covenant variable (X2) and accounting conservatism (Y). Therefore, we can accept Hypothesis 2. The findings of this study indicate that a higher amount of debt is associated with a higher tendency among creditors to seek accounting conservatism. The reasons for creditors' desire to recover these assets are rooted in their personal interests and concerns over any fraudulent activities carried out by management. The increasing size of corporate debt creates an equally large possibility for corporations to violate their loan agreements. As a result, creditors are given greater authority to monitor and supervise the implementation of company activities. Loan contracts often have provisions that limit the borrower's activities, such as restrictions on dividend distributions and restrictions on the level of corporate assets. Additionally, these contracts provide a mechanism to enforce compliance with the terms set forth in the loan agreement. Therefore, creditors have the prerogative to request the use of accounting conservatism principles in preparing financial statements. This is due to the fact that creditors have an interest in safeguarding the capital they provide, with the aim of achieving profitable results. Ahmed et al. (2002) believe that the use of accounting conservatism is not only driven by creditor demands, but may also be motivated by the awareness of company leaders. Company managers often use the principle of accounting conservatism as a means of maintaining the company's image in the eyes of creditors, thereby reducing the risk of violating loan agreements. This research is in line with other research conducted by Budiandru et al (2019) and Jao and Ho (2019), which shows the significant impact of debt agreements on accounting conservatism.

3. The Effect of Leverage on Accounting Conservatism.

The estimation results of the leverage variable provide a significance value of 0.000. It is recommended that the leverage variable has a statistically significant influence on accounting conservatism (Y) if the significance threshold is less than 0.05 (0.000 0.05). Therefore, it can be concluded that Hypothesis 3 has been validated. The results of statistical studies conducted show that there is a substantial relationship between the leverage variable and accounting conservatism. It is reasonable to anticipate that there will be a further increase in the level of accounting conservatism if the amount of debt increases. It is hypothesized based on positive accounting theory, which also incorporates the debt covenant hypothesis, that businesses with large levels of debt may exhibit a

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reduced amount of conservatism in their earnings reporting. This idea is included in positive accounting theory. This shift away from conservatism may even result in the use of less conservative reporting methods. When making choices regarding debt agreements, the motivation for these actions is rooted in the fact that businesses want to reduce the costs associated with renegotiating loan contracts as much as possible. The results of this research are in line with research findings conducted by Ursula and Adhvinna (2018) and Sari (2020) who both came to the same conclusion, namely that there is a statistically significant positive relationship between leverage and accounting conservatism. The conclusions of this study were consistent with these findings. In contrast to the results of previous research conducted by Hardiyanti et al (2022) which showed that leverage did not have a statistically significant effect on accounting conservatism, the results of this study show that leverage does have this effect. The positive coefficient of the leverage variable in the regression analysis means that an increase in leverage has a decreasing effect on the application of accounting conservatism. This conclusion can be drawn from the fact that the leverage variable has a positive coefficient. The lack of influence of leverage on accounting conservatism may be related to the fact that companies take a cautious approach in times of uncertainty, regardless of the scale of their debt levels. This may explain why leverage has no effect on accounting conservatism. This step was taken by the company in the hope of gaining the confidence and trust of creditors thereby increasing their willingness to provide financial assistance in the form of loans. As a result, companies do not prepare their financial reports by considering the prudential principle.

4. Financial difficulties, debt covenants and leverage simultaneously influence accounting conservatism

The estimation results were carried out by the F test and a significance value of 0.000 was obtained. This figure indicates that the significance threshold is lower than 0.05 (because 0.000 is less than 0.005). As a result, we can draw the conclusion that the fourth hypothesis is correct. The Adjusted R Square value is 0.349 or equivalent to 34.9 % of the total. This is determined by calculating the coefficient of determination. This shows that the independent factors, namely financial difficulties (X1), debt agreements (X2), and leverage (X3), account for a combined total of 34.9% of the variance in the dependent variable known as accounting conservatism. The remaining 64.9 % of the variance may be caused by other factors not taken into account in the study. The conclusion of this research is in line with the research findings of Hariyadi et al (2022) which states that the sum of all independent variables has a statistically significant influence on the variables studied. This shows that the characteristics of debt agreements, leverage, and financial crises all have an influence on accounting conservatism in their own ways.

V. CONCLUSION

A. Conclusion

The analysis of the previous chapter makes this finding possible.
1. This research finds that banking sector problems have a minimal impact on accounting conservatism. The t test shows a significance level of 0.249 which indicates that the result is greater than 0.05.
2. This research finds that debt covenants influence accounting conservatism. The t test shows a significance level of 0.000, lower than the conventional threshold of 0.05.
3. The data show substantial and partial relationships between leverage and prudent accounting. The t test with a significance level of 0.000 supports this view. The results obtained were below 0.05.
4. Research finds that financial crises, debt covenants, and leverage greatly influence accounting conservatism. The three components operate together. The F test, which produces a statistically significant result of 0.000 and a significance level greater than 0.05, supports this claim.

B. Suggestions

Some suggestions that may be made after analyzing the influence of financial distress, debt covenants, and leverage on accounting conservatism and conducting a thorough debate on the topic are as follows:
1. Companies should consider using debt as a source of funding because of the benefits it provides, which can help management place greater emphasis on developing a good capital structure strategy. This is because it is possible to reduce tax payments and encourage conservative accounting practices by reducing the interest paid on debt.
2. The corporation plans to allocate more future funds to operational costs and business development to maintain current growth rates. Additionally, corporations must consider the needs of their shareholders if they want to continue to earn their trust and loyalty. Implementation of operational control methods, with a focus on cost control to avoid uncontrolled cost increases, is essential for efficient growth management.

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