JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)
Vol. 4 No. 1 /April 2020
ISSN 2550-0732 print / ISSN 2655-8319 online

THE EFFECT OF LITIGATION RISK ON ACCOUNTING CONSERVATISM, LEVERAGE & MANAGERIAL OWNERSHIP AS MODERATION

Yulita Mustikasari*[1], Kartika Hendra Titisari[2], Anita Wijayanti[3]
Universitas Islam Batik, Surakarta Indonesia*[123]
lithadulce@gmail.com

Abstract: Pressures in the competitive business world, directly or indirectly result in companies doing earnings management, conflicts of interest that result in accounting conservatism menyaebabkan tendency economically shareholdersto file a lawsuit (litigation). This study was conducted to examine the effect of the litigation risk accounting conservatism with leverage and managerial ownership as a moderating variable. The population in this study is the retail trading company listed on the Indonesia Stock Exchange from 2013 to 2017. Sampling was purposive sampling method to obtain 21 companies for 5 years. In this study, the type of data is quantitative data, to test the three hypotheses using path analysis with WarpPLS. Based on the results of the analysis indicate that the litigation risk variables affect the accounting conservatism, moderate leverage variable risk of litigation against accounting conservatism, *while managerial ownership variable is not moderating variable between the risk of litigation againts accounting conservatism.*

Keywords: Litigation Risk, Leverage, Managerial Ownership, Accounting Conservatism.

INTRODUCTION

Many cases of financial manipulation result in losses for investors, creditors and regulators, resulting in litigation risk (lawsuits). Most investors are only focused on earnings information, without taking into account the company's real profits because in this case the manager has the authority to choose alternatives in recording transactions in managing company profits that have an impact on information asymmetry (inequality of information). Pressures in the business world competition directly or indirectly cause the company to manage earnings. Companies whose profits always increase from period to period consistently will result in the risk of companies experiencing losses greater than the percentage increase in profit. One alternative to the accounting concepts stipulated in SAK is the concept of conservatism accounting. Conservatism is an accounting principle where profit and asset figures tend to be low, while cost and debt figures tend to be high Juanda (2007). Conservatism in accounting implies an asymmetric verification requirement between the recognition of profit and loss, so the higher the difference in verification required for the recognition of profit and the recognition of a loss, the higher the level of accounting conservatility of Watts (2003). The problematic financial condition of a company can encourage managers to manage the level of accounting conservatism. The use of accounting profit is not only influenced by the manager's performance but it can also be influenced by the accounting conservatism policy adopted by the manager (Lo, 2005).

Litigation risk as an external factor that can encourage managers to report more conservative company finances. The manager's impetus to apply accounting conservatism will be stronger if the risk of litigation threat to the company is relatively high Juanda (2007). Litigation risk has the potential to incur significant costs for dealing

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

with legal issues. Rationally managers will avoid losses due to litigation by presenting financial statements conservatively, because profits are too high. Leverage shows how much the assets used to carry out the company's operational activities are financed by debts from external parties. If the company will increasingly apply the conservative principle. Having high debt can cause creditors to have the right to know and monitor the course of the operations of the company Lo (2005). As research by Deviyanti (2012) which proves the positive influence between leverage on accounting conservatism.

The principle of accounting conservatism is controversial because there are many criticisms that arise over the application of this principle, but there are also those who support, those who oppose the conservatism principle argue that the application of the principle of accounting conservatism in preparing financial reports will be able to produce financial statements that tend to be biased because they are not biased reflect the true financial condition of the company Supriyanto (2006). However, on the side of those who support the principle of conservatism, it is argued that, by applying the principle of accounting conservatism in preparing financial statements, it will be useful to avoid opportunistic behavior of managers who want to manipulate earnings Fala (2007). The company does not always make management more aware of its reporters if the expected legal penalties faced are getting bigger, but on the contrary it can increase misreporting. From this statement it appears that in a company the risk of litigation is high, it will make the quality of financial reporting lower (Laux, 2011).

A conflict of interest resulting in accounting conservatism causes an economic tendency for shareholders to file lawsuits (litigation). Leverage as a measure of how well the company is able to pay off its debts is able to influence the occurrence of litigation risk due to accounting conservatism. And this research wants to see the manager whose role is to optimize shareholder value, then he acts as the owner as well. The basic mechanism in previous studies uses various measurements. However, in this study, researchers have an interest in whether litigation risk influences accounting conservatism with leverage and managerial ownership as moderating variables.

Theoretical Framework and Hypothesis Development

Agency Theory

Agency theory according to Weston and Brigham (1998), agency relationships occur between shareholders (owners) and managers and shareholders (through managers) and creditors. In the agency relationship between company owners and company managers and company managers and creditors, it is likely that companies will choose accounting procedures that increase profits or procedures that do not apply the principles of accounting conservatism. The principle of accounting conservatism is not implemented because the bonus calculation will be obtained by managers and other insiders calculated from the value of profits obtained by the company. Then another reason is to show good performance, so the company will easily borrow funds from creditors. Because in a high profit situation, the creditor will believe that the company is able to cover its debts and assume the company can reduce the level of debt risk not paid.

Positive Accounting Theory

Positive accounting theory (positive accounting theory) according to Watts and Zimmerman (1986) argues that there are three hypotheses in positive accounting theory that can motivate managers to carry out accounting conservatism. These hypotheses are (1) Hypothetical bonus program (bonus plan hypothesis), (2) Hypothesis

debt agreement (political cost hypothesis). These hypotheses have each

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

proxy used as factors influencing the choice of accounting conservatism. Proxies are leverage ratios which are proxies in explaining the debt agreement hypothesis, then company size and capital intensity which are proxies in explaining the political cost hypothesis, and managerial ownership and public ownership which are proxies in explaining the bonus program hypothesis.

Accounting conservatism

Accounting conservatism The principle of accounting conservatism is intended so that the recognition of assets and earnings is recognized carefully because of the uncertainties surrounding economic and business activities, because the calculation of income tax is related to the figures contained in Apriani's income statement (2015). Conservatism is the attitude or flow (school of thought) in the face of uncertainty to take actions or decisions on the basis of emergence (outcome) which lies from the uncertainty of the financial statements. Conservative attitude also means being cautious in dealing with risk by being willing to sacrifice something to reduce or eliminate the risk of Suwardjono (2014). The term conservatism is generally used accountants must report the lowest of some possible values for assets and income and the highest of some of the possible values for liabilities and expenses (Eldon S Hendriksen, 2008).

Risk of litigation with accounting conservatism

Litigation risk is one of the factors that influence the accounting conservatism of Utami (2011). According to Utami (2011) also the risk of litigation is defined as the risk inherent in the company that allows the threat of litigation by parties with an interest in the company such as creditors, investors and regulators. Shella Deslatu's research (2010) in manufacturing companies from 2005 to 2008 shows that litigation has a significant effect on accounting conservatism through multiple linear regression analysis. Asti Awalia's research (2014) on companies listed on the Indonesia Stock Exchange in the period 2010-2012 using the purposive sampling method for certain criteria, in statistical tests shows that litigation risk has a significant effect on the positive effect of discretionary accruals, which is an inverse quality of financial reporting.

Litigation risk is a legal risk that will be borne by the company due to lawsuits from parties who feel disadvantaged. Litigation risk can be measured from various financial indicators that are determinants of the possibility of Juanda litigation (2007). Company risk relates to the possibility of the company experiencing litigation by investors and creditors. Litigation risks can arise from creditors and investors. Litigation risk originating from creditors can be obtained from risk indicators for the inability of companies to pay short-term and long-term debt Suryandari (2012). More clearly the process by which an individual or entity takes a dispute, case to court or complaint and settles claims or replacements for damages. There are two possibilities for litigation to arise from creditors and investors. From the creditor's point of view, litigation can arise because the company does not operate in accordance with the agreed contract. From the investor's side, litigation can arise because the company carries out operations that will result in losses for the investor as reflected by price movements and volume of shares by hiding some negative information that should be attached (Juanda, 2007).

Litigation risk that has the potential to cause significant costs due to dealing with legal issues, it can be concluded that the high risk of litigation (lawsuits), the less likely the occurrence of accounting conservatism carried out by company management

H1: Risk of litigation affects accounting conservatism. Leverage

Zuhriyah's research (2016) shows that simultaneous leverage has an influence on accounting conservatism. While partially the

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

results obtained that leverage negatively affects accounting conservatism Leverage has a significant effect on accounting conservatism (Putri, 2017). The leverage ratio has a positive and significant effect on accounting conservatism in the research of Angga Alfian (2013). By using two measurements, namely accrual conservatism as an accounting-based measurement and book market ratios as market-based. While research by Deviyanti (2012) shows the same results, namely leverage has a positive and significant effect on accounting conservatism, the difference lies in the measurement of accounting conservatism by using the measurement model of Givoly and Hayn (2002).

Leverage is how much assets the company has come from liabilities or capital, Brigham and Houstun (2010). Leverage is measured using the ratio between total liabilities and total assets. The ratio can serve to determine the company's position and obligations are fixed to other parties and the value of fixed assets with existing capital. The greater the leverage ratio means the higher the value of the company's debt, and the greater the accounting conservatism carried out by company managers. The leverage ratio of a company can be a tendency to breach a liability agreement with a creditor, so company management chooses accounting policies to increase discretional accrual income to avoid breach of the agreement (Becker, 1998).

The leverage ratio shows how much a company uses external debt to finance a company or expand. The higher the leverage ratio indicates the higher the company's debt so that the company is not conservative (Ramadhoni, 2014). The use of debt that is too high will endanger the company because the company will fall into the extreme leverage category, ie the company is trapped in a high level of debt and it is difficult to release the debt burden, whether the company's ability to repay its debts can affect the risk of litigation.

H2: Leverage moderates the effect of litigation risk on accounting conservatism.

Managerial ownership

Managerial ownership has an insignificant effect on accounting conservatism through multiple linear regression analysis research on Shella Deslatu (2010). In contrast to Ari Purwanti (2017) research studies prove that by using multiple linear regression multiple hypotheses are developed to prove that managerial ownership has a significant positive effect on litigation risk. Yogie Ramadhoni (2014) shows the level of managerial ownership has a significant effect on accounting conservatism as measured by the accrual income measures of the Givoly and Hayn (2002) model. Angga Alfian (2013) research results show managerial ownership has no effect on accounting conservatism of multiple linear regression analysis. While the research study according to Brilianti (2013) using the same analysis shows that managerial ownership negatively influences accounting conservatism.

Managerial ownership is one of the company's internal factors that determines the company's progress. The owner or can be known as the shareholder is a provider of funds needed by the company. Managerial ownership is a share of management by the percentage of shares owned by management (Sujono and Soebiantoro, 2007). A measure of the proportion of ordinary shares held by management in a company. Managerial investors usually consist of company managers such as the Board of Directors and the Board of Commissioners or individual members. The greater the proportion of management ownership, the management tends to try harder for the interests of shareholders to increase the value of the company one of them by applying accounting conservatism. Every 1% increase in managerial ownership of total share ownership will encourage a high litigation risk index. Although the increase is

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

not as high as the increase in litigation risk index due to aggressive manager accrual policy Purwanti (2017).

The bonus plan hypothesis is very influential on accounting methods that can maximize their utility so they get high bonuses, so managers tend to have an incentive to declare lower profits so as to maximize bonuses in the future (Lasdi, 2008). Arguments of Fama and Jensen (1983) and Greenwood and Empson (2003) in Purwanti (2017) the relationship between locus of control and the risk of litigation is reversed, where the proportion of owners (who are also managers) is low, it will actually encourage high litigation risk. Are managers who are also shareholders suspected of being able to influence the risk of litigation resulting from a hierarchical structure that provides flexibility for policy makers.

H3: Managerial ownership moderates the effect of litigation risk on accounting conservatism.

METHODS

Research Design and Sampling Techniques This research belongs to quantitative research using secondary data. The population of all retail trading companies listed on the Indonesia Stock Exchange in 2013-2017. The sample in this study used a purposive sampling method.Sample criteria as follows:

Table 1. Summary of Sampling Criteria

No	Criteria	Amount
1.	Retail trading companies were listed on the IDX successively during 2013-2017	25
2.	Retail trading companies were delisted during 2013-2017	(4)
3.	Companies that do not issue financial statements use the IDR currency unit	(4)
4.	Incomplete companies publish an overall financial statement regarding the variables examined	(5)
The final number of samples used in the study		12
Number of observations 12 x 5 years		60

The data collected to be sampled in this study were 60 data from (12 companies multiplied by 5 years of observation).

Dependent Variable

The conservatism measure used is to use the accrual measure of the Givoly and Hayn (2002) model stating that issuing depreciation accruals because of positive accruals that will reverse when fixed assets are obtained and not caught in the difference between earnings and cash flow, the results of TACC multiplied by -1 then divided with total assets so that the greater the positive value of the ratio, the more conservative. Then it is calculated as follows:

$$TACC\ it = \frac{NIit - CFOit}{TAit} \quad x - 1$$

Where :
TACCit = Total Accrual for company i in period t
Niit = Net income plus depreciation and amortization for company i in period t
CFOit = Cash flow from operational activities for company i in period t
TAit = Total assets for company i in period t

Independent Variable

Litigation risk increases with increasing law enforcement in a capital market environment. Therefore, an error arises due to non-compliance with accounting standards and the delay of negative financial statement information will easily be subject to prosecution. To measure the risk of litigation this study carries out a factor analysis (component factor analysis) on variables (1) stock returns and stock volume turnover, both of which are proxies for stock volatility. (2) liquidity and leverage, both of which are proxies of financial risk. (3) company size (size) which is a proxy of political risk.

The stages of litigation risk measurement are as follows:

Calculate stock returns (RET), stock turnover (TURNOV), liquidity (LIK), leverage (LEV), company size (SIZE) with the formula:

$$RETt = \frac{(Pt - Pt\text{-}1)}{Pt\text{-}1}$$

TURNOVt = VOLt / LBSt
LIKt = short-term debt / current assets
LEVt = long-term debt / total assets
SIZEt = LogNatural total assets
In this case :
RETt: company stock return period t
Pt: t-period share price
Pt-1: share price in the previous period (t-1)
TURNOVt: turnover or volume turnover of shares
VOLt: average volume of shares
LBSt: number of shares outstanding
LIKt: company liquidity period t
LEVt: corporate leverage period t
SIZEt: company size period t
The five variables are compiled by doing factor analysis to determine litigation risk index. A high index value indicates a high risk of litigation, and vice versa for a low index.

Moderation Variable
Leverage

A leverage ratio can also be an indication for lenders to increase the security of a refund given to Watts (2003). The leverage ratio is calculated by comparing the total debt with the total assets of the company. Qiang (2003) states that leverage is a proxy for the tendency of companies to violate debt agreements.

According to Kasmir (2008) the measurement of leverage uses the debt to total asset ratio (DAR), as follows:

$$DAR = \frac{\text{Total Amoun of debt}}{\text{Total assets}}$$

Thus, the higher the leverage shows the higher the ex ante probability of debt violations, so the stronger the incentive to increase profits because company growth is the company's ability to increase its size (Kaliapus and Trombley, 2001).

Managerial ownership

Managerial ownership is a form of ordinary shares owned by company management (directors, commissioners, managers) which is measured by the percentage of the total shares owned by management compared to the total number of shares outstanding in the public, said managerial ownership if 20% of shares owned by individuals or groups with an interest in the company. The higher managerial ownership structure of the shares in the company will encourage managers to tend to choose accounting that is conservative (consistent). The desire to have a manager for a company makes managers not only think about the bonus that will be obtained if the profits are high but the manager is more concerned with the continuity of the company in the long run so that managers are interested in developing the company. Then this variable is measured in the following way:

$$\text{Managerial ownership} = \frac{\text{Total management ownership}}{\text{Number of shares outstanding}} \times 100\%$$

Data analysis technique

The research method uses multiple regression analysis techniques developed further into path analysis to test the three hypotheses. Each hypothesis was analyzed using Partial Least Square software, WarpPLS software version 4.0. PLS-SEM is

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

a type of multivariate analysis (multivariate analysis) in social science. Multivariate analysis is an application of statistical methods to analyze several research variables simultaneously or simultaneously. Hair et al. (2013) in (Mahfud Sholihin, 2013). PLS-SEM is similar to ordinary least squares (OLS) regression analysis because it aims to maximize the variation of the dependent variable by maximizing R-square and minimizing the residual or predictive error, while also being able to evaluate data quality based on the measurement model. Therefore, PLS-SEM can be seen as a combination of regression and factor analysis. PLS-SEM can still solve the estimation problem even if the sample size is not large, the data are not normally distributed multivariately (scale indicators by category, ordinal, interval and ratio), the presence of missingvalues, and the presence of multicollinearity problems between exogenous variables (Mahfud Sholihin, 2013).

RESULTS AND DISCUSSION

Test Model Measurement (Outer Model) The outer model test is used to assess the overall measurement model in which to obtain the stability of the estimated value of the Variance Inflation Factor (VIF) <2.5 - 3.3 indicates there is no multicol. Multicollinearity is to test whether the regression model found a correlation (strong relationship) between variables. A good regression model should not occur correlation between variables or multicollinearity symptoms do not occur.

Table 2. Outer Model Test Results

Variablel	Type	VIF	Requirements	Remarks
RL 1	Formative	1.291	VIF < 2,5 or <3,3	Multicoll Free
RL 2	Formative	1.364	VIF < 2,5 or <3,3	Multicoll Free
RL 3	Formative	1.441	VIF < 2,5 or <3,3	Multicoll Free
RL 4	Formative	1.191	VIF < 2,5 or <3,3	Multicoll Free
RL 5	Formative	1.191	VIF < 2,5 or <3,3	Multicoll Free
KA	Formative	0	VIF < 2,5 or <3,3	Multicoll Free
LEV	Formative	0	VIF < 2,5 or <3,3	Multicoll Free
KM	Formative	0	VIF < 2,5 or <3,3	Multicoll Free
LEV*RL 1	Formative	2.759	VIF < 2,5 or <3,3	Multicoll Free
LEV*RL2	Formative	1.424	VIF < 2,5 or <3,3	Multicoll Free
LEV*RL3	Formative	1.653	VIF < 2,5 or <3,3	Multicoll Free
LEV*RL4	Formative	2.231	VIF < 2,5 or <3,3	Multicoll Free
LEV*RL5	Formative	1.661	VIF < 2,5 or <3,3	Multicoll Free
KM*RL 1	Formative	1.448	VIF < 2,5 or <3,3	Multicoll Free
KM*RL 2	Formative	2.396	VIF < 2,5 or <3,3	Multicoll Free
KM*RL 3	Formative	2.732	VIF < 2,5 or <3,3	Multicoll Free
KM*RL 4	Formative	1.485	VIF < 2,5 or <3,3	Multicoll Free
KM*RL 5	Formative	1.613	VIF < 2,5 or <3,3	Multicoll Free

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

The results of Table 2 above show that the indicators of litigation risk (RL 1), 1,364 (RL 2), (RL 3), (RL 4), (RL 5), accounting conservatism (KA), leverage (LEV), and ownership managerial (KM) shows the free value of multicollin. From the overall data it is stated that all variables are good because they do not have multicollinearity between variables.

Structural Model Test (Inner Model)

The structural model or inner model describes the relationship between latent variables based on substantive theory. The design of a structural model of the relationship between latent constructs is based on the formulation of the problem or research hypothesis, Ghozali (2008). The structural model (inner model) includes a model fit test, path coefficient and. Model compatibility test has 3 test indexes, namely Average Path Coefficient (APC), Average R-square (ARS) and Average Variance Factor (AVIF) with APC and ARS criteria accepted with conditions <0.05 and AVIF <0.5, Mahfud Sholihin (2013).

Table 3. Model Test Results (Goodness fit)

	Results	P-value	Terms	information
APC	0.373	<0.001	P-value <0,05	well
ARS	0.579	<0.001	P-value <0,05	well
AARS	0.556	<0.001	P-value <0,05	well
AVIF	1.617		AVIF if < 5, ideally< 3.3	ideal
AFVIF	2.297		AFVIF if < 5, ideally < 3.3	ideal

Table 3 shows that the Average Path Coefficient (APC) is 0.373 and the P-value is <0.001, the Average R-Squared (ARS) is 0.579 and the P-value is <0.001, the Average Adjusted R-squared (AARS)) amounting to 0.556 and a P-value of <0.001. Based on the requirements, Average Path Coefficient (APC), Average R-Squared (ARS), Average Adjusted R-squared (AARS) have fulfilled the requirements because they have a P-value of 0.001 with a P-value <0.05.

While the Average block VIF (AVIF) value of 1,617, the Average Full Collinearity VIF (AFVIF) value of 2,297 are eligible because the Average block VIF (AVIF) and Full Collinearity VIF (AFVIF) values are below 5 and are ideal under 3.3. The results above indicate that the data do not contain multicol, so it can be concluded that the model fits the data (Hengky Latan, 2016).

R-square

R-square is used to assess the effect of the independent latent variable on the dependent latent variable, whether it has a substantive effect. R-square value <0.67; <0.33; and <0.19 for the independent variables in the structural model showing strong, moderate and weak models (Hengky Latan, 2016).

Table 4. R-square values

Variabel	*Adjusted R-squared*
Konsv A	0.556

Table 4 shows the R-square adjusted value for the accounting conservatism variable of 55.6%, which means the model is quite good because the variability of the accounting conservatism variable can be explained by the variability of litigation risk, leverage and managerial ownership by 55.6% while the remaining

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

44.4% explained by other variables outside the study.

a. Q-Squared

The next Q-Squared structural model test is to calculate predictive relevance to find out whether the model has predictive relevance or not with a Q2 value> 0 and vice versa.

Tabel 5.Nilai *Q-Squared*

Variabel	*Q-squared*	Syarat	Ket
Konsv A	0.556	$Q^2>0$	relevan

The results in Table 5 show the Q-Squared value produced by the model 0.556 or> 0 which means the model has predictive relevance which can be interpreted as having a good observation value and also estimating the parameters.

Hypothesis test

Hypothesis testing with path analysis is done by path analysis or models that have been made, with a significance level of 0.05. The basis of this research decision is the P-value where the significance level is 5% or <0.05. Path coefficient and p-value are used to see the coefficient value of each construct of the p-value table is used to see the significance of the predictive effect parameter between latent variables measured with a significant value of p-value <0.05, so if the significance value> 0.05 Ho rejected, whereas if the significance value <0.05 Ha is accepted.

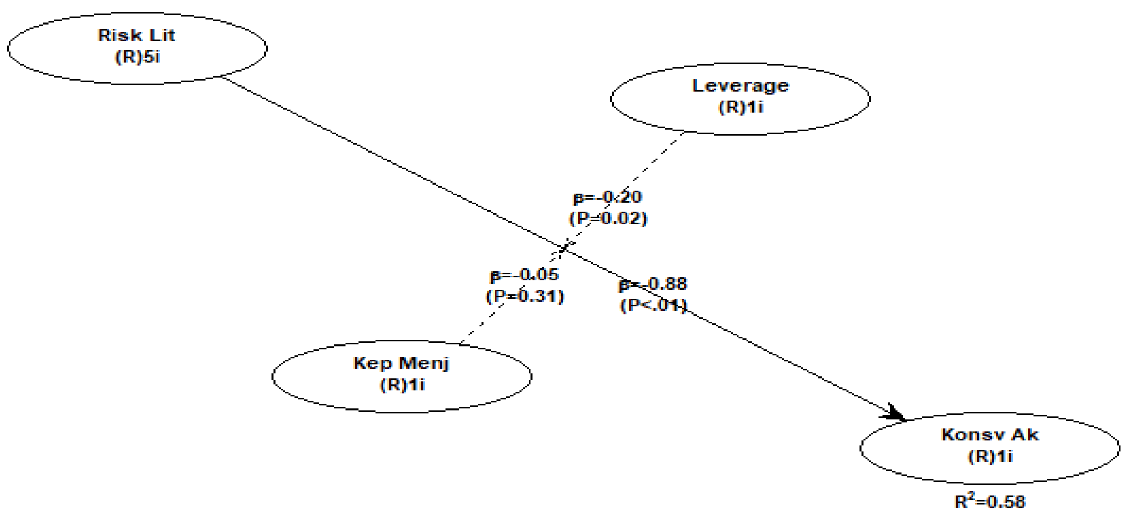

Figure 1. Research Results

In Figure 1 shows that the magnitude of the effect of litigation risk (Risk Lit) on accounting conservatism (Konsv Ak) of 58% with a value of R2 = 0.58. The magnitude of the path coefficient, P-value and the results of the test of the influence of the construct are measured by looking at the path coefficient and the level of significance summarized in Table 6 as follows

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

Table 6. Path Coefficients and P-Value Results

Path Hypothesis	ES	Path Koefisien	P-value	Terms	Information
(H1) Risk Konsrv → Akt	0,656	-0,878	<0,001	P<0,05	accepted
(H2)Lev*Risk → Lit Konsrv Akt	0,081	-0,195	0,018	P<0,05	accepted
(H3) Kep Menj*Risk → Lit Konserv Akt	0,003	-0,046	0,307	P<0,05	rejected

In Table 6 shows the results of testing the path analysis method, the regression equation can be seen as follows:

Y = -0,878 RiskLit + -0,195 Lit Risk * Lev + -0,046 Lit Risk * KepMenj

Litigation Risks to Accounting Conservatism.

The results of the analysis presented in Figure 1 & Table 6 show that litigation risk negatively affects accounting conservatism, this study supports the research of Shella Deslatu (2010), Asti Awalia (2014), and Yogie Ramadhoni (2014) in contrast to the results of Zuhriyah's research (2016) shows that litigation risk positively influences accounting conservatism, while Putri's research (2017) explains that litigation risk does not affect accounting conservatism.

It can be said that litigation risk variables have the opposite relationship to accounting conservatism in which lawsuits that are proxied by stock prices and stock volume turnover as a proxy for volatility, liquidity and leverage as financial proxies, and size as a proxy for political risk can explain that the five indicators have a relationship to influence the existence of conservative financial reporting that is proxied using accrual income, so the lower the risk of litigation, the more conservative the company's annual reporting.

Litigation risk variable has an effect size value of 0.656 with a large enough value category> 0.35. Litigation risk has a coefficient value of -0.887 and a probability value (P-value) of <0.001 or <0.05 which means that the results of the first hypothesis testing show an effect on accounting conservatism, Ho is rejected and H1 is accepted, it can be concluded that litigation risk negative effect on accounting conservatism with a probability value <0.001 and a coefficient value of -0.887.*Leverage*

Moderating the Risk of Litigation against Accounting Conservatism.

The results of the analysis as presented in Figure 1 & Table 6 show that leverage has an influence between litigation risk on accounting conservatism, supporting research by Zuhriyah (2016), Putri (2017), which shows that leverage has an influence on accounting conservatism and Angga Alfian's research (2013) , Deviyanti (2012) shows that leverage positively influences accounting conservatism by using a debt to total asset ratio (DAR) measurement. Does not support the results of research conducted by Brilianti (2013) shows that leverage has no effect on accounting conservatism, it is said that leverage variable moderates the relationship of litigation risk to accounting conservatism, it can be said that leverage can influence the level of litigation risk influence on accounting conservatism, total debt that can be paid by the company is able to control the risk of litigation (lawsuits) where there is conservative financial reporting.

The leverage variable as moderation shows the effect size value of 0.081 with the middle category> 0.02 or <0.15. Leverage has a coefficient value of -0.195 and a probability value (P-value) of 0.018 or <0.05 explains that leverage affects the relationship of risk of litigation and accounting conservatism. Leverage moderates the effect of litigation risk on accounting conservatism, Ho is rejected and H2 is accepted.

Managerial Ownership Moderates the Risk of Litigation against Accounting Conservatism.

The results of the analysis as presented in Figure 1 & Table 6 show that managerial ownership does not affect the risk of litigation against accounting conservatism. The analysis test results of this study support the research of Shella Deslatu (2010) and Angga Alfian (2013) that managerial ownership has no effect on accounting conservatism. In contrast to the results of Yogie Ramadhoni's (2014) study which states that managerial ownership influences accounting conservatism as measured by the accrual income model of Givoly and Hayn (2002), it can be concluded that managerial ownership does not moderate the risk of litigation against accounting conservatism, the existence of company management as a holder shares with the number of shares held do not affect the level of litigation risk (lawsuits) which is caused by the existence of a conservative level of financial statements.

Managerial ownership variable as moderation has an effect size value of 0.003 with a small category> 0.02. Managerial ownership has a coefficient of -0.046 and a probability value (P-value) of 0.307 or> 0.05. These results indicate that managerial ownership does not affect the relationship between litigation risk and accounting conservatism, then the managerial ownership variable is not a moderating variable, Ho is accepted and H3 is rejected.

CONCLUSION

The results of this study identify that (1) Litigation risk (lawsuits) with a high scale can be considered to determine that a quality financial statement is stated to have a low conservative level, (2) leverage influences the risk of litigation against accounting conservatism in high debt conditions able affect the level of conservative financial reporting that results in the risk of litigation (lawsuits) getting stronger. (3) managerial ownership does not moderate the risk of litigation against accounting conservatism, with the company's management role as a shareholder not affecting the risk of litigation (lawsuits) due to the high level of accounting conservatism. Investors are expected to be more aware of the importance of accounting conservatism which is influenced by the variables in this study, so that they can be considered in determining which companies have sound financial statements. So that future expectations are as planned.

The author realizes that in this study still has limitations that need to be corrected by subsequent researchers: (1) This study only uses 3 variables to analyze the effect of accounting conservatism, namely the independent variable risk of litigation, leverage and managerial ownership as a moderating variable by producing an R value -square 55.6% where the remaining 44.4% is explained by variables outside the study. (2) This study only uses the moderation analysis model, not the whole linking between research variables. (3) This study only uses path analysis with the design of two way interactions so it cannot ensure causality (basic assumptions) between variables.

REFERENCES

Angga Alfian, A. S. (2013). Analisis Faktor-Faktor Yang Berpengaruh Terhadap Pemilihan Konservatisme Akuntansi. *Journal Of Accounting Volume 2, Nomor 3*, 1-10.

Apriani, M. (2015). Faktor-faktor Yang Mempengaruhi Konservatisme Akuntansi Pada Perusahaan Manufaktur yang Terdaftar DI BEI (2008-2011). *Jom FEKON Vol.2 No. 1* .

Ari Purwanti, S. (2017). Pengaruh Akrual Dan Kepemilikan Manajerial Terhadap Risiko Litigasi. *Jurnal*

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

Media Riset Akuntansi, Auditing & Informasi. Vol 17 No. 2, 145-158.

Asti Awalia, D. (2014). Pengaruh Risiko Litigasi Terhadap Kualitas Pelaporan Keuangan Dengan Keahlian Hukum Komite Audit Sebagai Variabel Pemoderasi . *Diponegoro Journal Of Accounting*, HAL. 1-13.

Becker, C. M. (1998). Audit Quality on Earnings Management. . *Social Science Research Network*, Vol 13. No. 2. Pp. 1-24.

Deviyanti, D. A. (2012). Faktor-FAktor Yang Mempengaruhi Penerapan Konservatisme Dalam Akuntansi. *Skripsi Semarang: Fakultas Ekonomi Universitas Diponegoro*.

Eldon S Hendriksen, M. F. (2008). *Teori Akunting (Buku 1) (Edisi 5).* Tangerang.

et.al, L. (2003). Earnings Management and Investor Protection: an International Comparison. *Journal of Financial Economics. 69*, 505-527.

Fala, D. Y. (2007). Pengaruh Konservatisma Akuntansi Terhadap Penilaian Ekuitas Perusahaan Dimoderasi Oleh Good Corporate Governance. *Simposium Nasional Akuntansi*.

Ghozali, I. (2008). *Structural Equation Modelling edisi II.* Semarang: Universitas Diponegoro.

Juanda, A. (2007). Pengaruh risiko litigasi dan tipe strategi terhadap hubungan antara konflik kepentingan dan konservatisme akuntansi. *Naskah publikasi penelitian dasar keilmuan*.

Lara, J. (2005). Beatriz Gaercia Osma and Fernando Penalva. *Accounting Conservatism and Cororate Governance*.

Lasdi, L. (2008). Determinan Konservatisma Akuntansi. *National Conference UKWMS*.

Laux, V. d. (2011). *Managerial Reporting, Overconfidence and Litigation Risk*. Retrieved from http://business.gwu.edu/accountancy/files/managerial-reporting-overconfidence-litigation-risk.pdf

Lo, W. E. (2005). Pengaruh Tingkat Kesulitan Keuangan Perusahaan Terhadap Konservatisma Akuntansi . *STIE YKPN, Makalah Simposium Nasional AKuntansi XI*.

Mahfud Sholihin, P. D. (2013). *Analisis SEM-PLS dengan WarpPLS 3.0.* Yogyakarta: ANDI Yogyakarta.

Purwanti, A. (2017). Pengaruh Akrual Dan Kepemilikan Manajerial Terhadap Risiko Litigasi. *Jurnal Media Riset AKuntansi & Informasi*, hal. 145-158.

Putri, A. G. (2017). Pengaruh Kesulitan Keuangan, Risiko Litigasi dan Leverage terhadap Konservatisme Akuntansi Pada Perusahaan Dagang Yang Terdaftar Di BEI (2012-2014). *JOM Fekon, Vol.4 No.1*.

Shella Deslatu, Y. K. (2010). Pengaruh Kepemilikan Manajerial, Debt Covenanr, Litigation, Tax and Political Costs Dan Kesempatan bertumbuh terhadap konservatisma akuntansi. *Ekuitas Vol. 14 No.2* , hal: 137-151.

Supriyanto, K. d. (2006). Pengaruh Moderasi Size Terhadap Hubungan Laba Konservatisma dengan Naraca Konservatisma. *Simposium Nasional Akuntansi (SNA) IX di padang*.

Suryandari, E. d. (2012). Pengaruh Risiko Litigasi dan Tingkat Kesuitan Keuangan Terhadap Hubungan Antara Konflik Kepentingan dan Konservatisme Akuntansi. *E-Jurnal. Akuntansi dan Investasi Fakultas Ekonomi UMY* , Vol.12, N0.2.

Suwardjono. (2014). *Teori Akuntansi Perekayasaan Laporan Keuangan .* Yogyakarta: BPFE.

Utami, R. F. (2011). Influence Risk Of Litigation And The Financial Distress Company's Accounting Conservatism.

Watts, R. L. (1986). *Positive Accounting Theory.* USA: Prentice-Hall.

Submitted: October 03, 2019; Revised: February 27, 2020; Accepted: March 31, 2020 Published: April 17, 2020

Watts, R. L. (2003). Conservatism In Accounting Part I: Explanantions And Implications. *Journal of Accounting and Economics*, 207-301. http://ssrn.com/abstract=414522.

Yogie Ramadhoni, Z. M. (2014). Pengaruh Tingkat Kesulitan Keuangan Perusahaan, Risiko Litigasi, Struktur Kepemilikan Manajerial dan Debt Convenant Terhadap Konservatisme Akuntansi. *JOM Fekon*, Vol.1 No. 2.

Zuhriyah, E. A. (2016). Konservatisme, Leverage, Financial Distress, Litigation Dalam Kaitannya Dengan Konservatisme Akuntansi.