
The Effect of Accounting Conservatism, Free Cash Flow and Financial Distress on Company Value

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ABSTRACT : This research aims to investigate the relationship accounting conservatism , free cash flow, and financial distress on company value. Retrieval method sample in this study uses purposive sampling method, so obtained sample study as many as 21 Consumer Non Cyclical companies listed on the Indonesia Stock Exchange in 2017-2021. Data analysis was performed with panel data regression with use eviews 10. The findings reveal that in simultaneously test accounting conservatism, free cash flow, and financial distress have an effect to company value. However, Partial Accounting Conservatism and Free Cash Flow do not influential to value of company, while financial distress has an effect to value of companies in consumer non-cyclical companies

Keywords: Accounting Conservatism, Free Cash Flow, Financial Distress, The value of the company



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INTRODUCTION

Competition business moment This demand existing companies. For increase quality company . this done for the company can still compete with other companies and can increase value of company. Attempts to increase value of company is important thing , aspect the looked at tightly owned company give description to management about investors' perceptions of past performance and prospects company in the future come . because it , company will try maximizing the value of the Company that becomes Power he pulled for investors (Gupta & Suartana , 2018).

Enterprise values is investors ' evaluation of something company and often connected with price stock . Corporate value can too interpreted as rating of investors at the level success performance visible company from price stock . Enterprise values have connection positive to price something stock , where when price something stock going up also increase value something company the . The BEI Company PBV phenomenon above show that from nine sector company incorporated manufacturing in the Indonesia Stock Exchange (IDX) the average PBV movement move down. Decline company's PBV value incorporated manufacturing in the Indonesia Stock Exchange (IDX) can said as phenomenon business . decline company's PBV value manufacture suspected

consequence performance company decrease that causes value of company follow down . PBV in the sector industry basics and chemistry experience decline from in 2018 it was 1.87 to 1.54 in 2019 and in 2020 it was 1.34, showing exists strengthening of 0.13 of decline in 2018-2021 by 0.33 to only 0.20 in 2019-2020, a decline the is the smallest compared to sector other . There is a phenomenon business the add interest writer For do study this. Beside exists phenomenon as outlined in the background behind above, also exists difference results study between one researcher with other researchers (Diana & Hutasoit, 2017; Dirman, 2020; Mutende et al., 2017; Setiany, 2021).

In this study using agency theory and signaling theory as grand theory. Agency theory (agency theory) implies the existence of information asymmetry between managers as agents and owners (shareholders) as principals (Linawati, 2018). Agency theory has a focus on the relationship between two actors who have different interests, namely between agents and principals. This theory also provides an overview of the separation between management and shareholders. This separation has a goal to achieve effectiveness and efficiency in managing the company by employing the best agents in managing the company (Beaver, 2011; Kartika et al., 2020; Sayidah et al., 2020). There is a possibility that the agent may prioritize his personal interests by sacrificing the principal, but on the other hand the principal wants a high rate of return on the resources that have been invested. Agency theory is an agency relationship as a contract in which one or more principals (shareholders) use agents (management) to carry out company activities (Jensen and Meckling, 1976). Signaling theory is based on the idea that company insiders generally have better information about the company than outsiders. Brigham and Houston (2001:36) state that a signal is an action taken by company management that provides clues to investors about how management views the company's prospects. Signaling theory emphasizes the importance of information released by companies on investment decisions of parties outside the company . Signal theory states that companies with good quality will deliberately provide signals to the market, thus the market is expected to be able to distinguish good and bad quality companies (Jogiyanto, et al., 2017)

In agency theory, a financial manager must be good at making the right decisions in making a financial policy. The right financial decisions can increase the value of the company so that the prosperity of shareholders also increases. Firm value is an assessment of the owner's welfare level. For company valuation. Company value can be seen in the Financial Statements. The higher the quality of financial reporting, the more company information is reflected in financial reports (Sitorus & Murwaningsari, 2019). According to Patricia & Rusmanto, (2022), in Gul et al (2002) conservatism is a careful reaction in the face of uncertainty, where in the face of uncertainty companies consider the inherent risks in the business environment, this is confirmed by Handojo (2012) who states that conservatism causes the reported data to not be interpreted correctly, because what is reported in the financial statements is about figures that range for favorable matters but relatively high numbers for detrimental matters. Brigham and Houston, (2010: 108) state that free cash flow means cash flow that is actually available to be paid to all investors after the company has placed all of its investments in fixed assets, new products, and working capital needed to maintain operations. which is running (Annafi & Yudowati, 2021; Dudley et al., 2022; Eliu, 2014; Febriml Dwijayanti Universitas Katolik Widya Mandala Surabaya, 2010).

Financial Distress is (Financial Distress) is a condition in which companies are unable to pay the company's debts (its obligations) or cannot fulfill its financial obligations which will result in bankruptcy for a company (Muaqilah et al, 2021).

Firm Value is influenced by several factors (Puspitasari et al., 2023) among others is conservatism accounting. Patricia & Rusmanto, (2022) explains accounting conservatism is principle caution in recording and presentation report finance , that is , in order for the company No quick confess assets and profits , however quick Possible confess possible losses and debts will happened . Application accounting conservatism is not means all income must accepted before income the recognized . Income as the good news information verified especially formerly is value more tall compared to in matter confession to losses (*bad news*) (Basu, 1997 in (Octaviani & Suhartono , 2021)). Based on discussion above, futhermore this study purposes to examine the effect of Accounting Conservatism , Free Cash Flow and Financial Distress on Company Value (Empirical Study of Consumer Non-Cyclical Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period)

The phenomenon of financial distress can occur in every company in the capital market, meaning that not all companies are always in a position to experience profits. Therefore, companies that experience financial distress for a long time will make the company go bankrupt and have to get out of the capital market. To prevent bad risks, companies can as best they can carry out various analyzes, especially regarding bankruptcy risk (Taufi and Muliana, 2021).

H1: It is suspected that accounting conservatism, free cash flow and financial distress simultaneously influence firm value

The results of research conducted by Manik (2018) and Meilany & Hidayati (2020) state that accounting conservatism has a positive effect on firm value because accounting conservatism produces financial reports that are of higher quality and are not overstated so that investors assess the company as having a high value. A positive signal for investors is a consideration for investing so that it can increase the value of the company which is reflected through rising stock prices. Based on the description above, the research hypothesis is as follows:

H2: It is suspected that accounting conservatism has an effect on firm value

METHODS

Study This is study quantitative with use approach associative that is research conducted For look for connection between One variable with other variables . (Sugiyono , 2020). supported with analytical models panel data regression used as tool analysis prediction . Data used in study This is secondary data . Variables that will tested in study This is influence Accounting Conservatism , *Free cash flow* and Financial Distress on Firm Value in Consumer Non Cyclical companies listed on the IDX in 2017-2021 with access the website of the Indonesia Stock Exchange namely www.idx.co.id .

Operational variable study

Variables used in study This divided into two variables that is variable independent and variable dependent . Variable independent study This is accounting conservatism , *Free cash flow* and *Financial Distress* . Variable dependent is value of company .

The value of the company

Study This value of company be measured with use *Price To Book Value* (PBV). High *Price To Book Value* become the wishes of the owners company , because show prosperity holder stock is also

high . *Price To Book Value* can seen through value of value or value of book company its equity . *Book value per share* (value books per share) is calculated with share equity share normal with amount outstanding shares (Rahmawati et al., 2020) , measurement This can formulated as following :

$$PBV = \frac{\text{Harga saham per lembar}}{\text{Nilai buku per lembar}}$$

Accounting Conservatism

Accounting conservatism is practice lower profits and assets clean in respond news bad , but No raise profit and increase asset clean in respond news good (Zulfiara & Ismanto , 2019). Application accounting conservatism can is known through measurement with method reduce profit clean with operating cash flow Belkaoui (2006) in (Zulfiara & Ismanto , 2019).

$$CONACC = \frac{(\text{Laba bersih} + \text{Depresiasi}) - \text{Arus kas Operasi} \times (-1)}{\text{Total Asset}}$$

Free Cash Flow

Free cash flow is is generated cash flow from operation something business and available For distributed return to owner / holder share without influence growth moment this (Widanti & Utomo, 2021). (Christabel; Wake , 2020) variables independent free cash flow can counted use use formula :

$$FCF = \frac{\text{CFO} - \text{CFI}}{\text{Total Aset}}$$

Financial Distress

Platt & Platt (2002) in (Chalid & Kalsum, 2022) defines financial distress as stages decline condition finance something company before happening bankruptcy or liquidation . Deep financial distress study This be measured with use Altman Z-Score formula as following :

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 1E$$

Where:

$$A = \frac{\text{Aset lancar} - \text{utang lancar}}{\text{Total aset}}$$

$$B = \frac{\text{Laba ditahan}}{\text{Total aset}}$$

$$C = \frac{\text{Laba sebelum pajak}}{\text{Total aset}}$$

$$D = \frac{\text{Jumlah lbr saham} \times \text{Harga perlembar saham}}{\text{Total utang}}$$

$$E = \frac{\text{Penjualan}}{\text{Total aset}}$$

According to Sugiyono (2020) referred to with data analysis is activity after data from whole respondent or other data sources collected with method group data by variables and types

respondent . Data analysis method used in study This is method analysis quantitative with approach associative . As for data processing using Econometric View Software version 10 (Eviews10) and Microsoft Office (Excel) which are tool analysis statistics and economics of data.

RESULTS AND DISCUSSION

Data and Sample

This research was conducted using a purposive sampling method, where in determining the research sample using certain criteria set by the researcher. The data in this study is secondary data obtained from the Indonesia Stock Exchange (IDX) through the website www.idx.co.id. Data analysis involved one dependent variable, namely firm value, in 21 Consumer Non Cyclical companies within 5 years, so that 105 observations were obtained. As for the independent variables, namely accounting conservatism, free cash flow, and financial distress. Companies that produce goods and services primarily are categorized as the Primary Consumer Goods Sector (Consumer Non-Cyclical). This sector is the latest classification of the development of the industrial sector, where previously there were 9 sectors to 11 sectors for companies listed on the IDX as of January 25 2021 which was published on the website www.idx.co.id under the name "Indonesia Stock Exchange Industrial Classification" (IDX-IC).

Statistics Descriptive

Table 1. Statistics Descriptive

	Y	X1	X2	X3
Mean	4.229144	-0.276089	0.225791	6.459524
Median	2.565013	-0.238049	0.203090	5.457448
Maximum	28.88391	0.048333	0.665302	41.32980
Minimum	0.336875	-0.977404	-0.054348	1.113154
Std. Dev.	5.305942	0.192136	0.135671	5.386685
Skewness	3.015639	-1.116770	0.842422	3.447173
Kurtosis	13.02160	4.629043	3.530956	20.14079
Jarque-Bera	598.5383	33.43586	13.65269	1493.357
Probability	0.000000	0.000000	0.001085	0.000000
Sum	444.0602	-28.98932	23.70810	678.2500
Sum Sq. Dev.	2927.914	3.839273	1.914292	3017.704
Observations	105	105	105	105

Following information from results analysis statistics descriptive that has been processed is as following .

1. The value of the company

Descriptive statistical test results is known that Variable value of companies on statistical tests descriptive show that value of company own value of Lowest of 0.336875 owned by PT. Budi Starch & Sweetener, Tbk , in 2020 and value highest of 28.88391 owned by PT. Multi Bintang Indonesia, Tbk , in 2018. The average value (mean) is 4.229144 and the standard deviation of 5.305942, p This showing sufficient data distribution varies , because value of standard deviation more big from average value .

2. Accounting Conservatism

Descriptive statistical test results is known that variable accounting conservatism on statistical tests descriptive show that accounting conservatism has value of Lowest of 0.977404 owned by PT. PP London Sumatra Indonesia, Tbk , in 2019 and value highest of 0.048333 owned by PT. Delta Djakarta, Tbk , in 2021. The average value (mean) is -0.276089 and the standard deviation of 0.192136, p This showing sufficient data distribution varies , because value of standard deviation more big from average value .

3. Free Cash Flow

Descriptive statistical test results is known that free cash flow variable in statistical tests descriptive show that free cash flow has value of Lowest of -0.054348 owned by PT. BISI Internasional , Tbk , in 2018 and value highest of 0.665302 owned by PT. Multi Bintang Indonesia, Tbk , in 2017. The average value (mean) is 0.225791 and the standard deviation of 0.842422, p This showing sufficient data distribution varies , because value of standard deviation more big from average value .

4. Financial Distress

Descriptive statistical test results is known that financial distress variable in statistical tests descriptive show that financial distress has value of Lowest of 1.113154 owned by PT. Budi Starch & Sweetener, Tbk , in 2018 and value highest of 41.32980 owned by PT. HM Sampoerna , Tbk , in 2017. The average value (mean) is 6.459524 and the value standard deviation of 5.386685, p This showing enough results Good Because value of standard deviation more small from the average value , and the data distribution is sufficient good .

Result Study

Testing simultaneous F can used For know is in the regression model variable Independent (Accounting Conservatism , Free cash flow and Financial Distress) independently together (simultaneous) effect significant to variable Dependent (value company).

Table. 2 F Test Results

R-squared	0.919638	Mean dependent var	0.820708
Adjusted R-squared	0.896344	S.D. dependent var	0.819833
S.E. of regression	0.263950	Akaike info criterion	0.374852
Sum squared resid	4.807217	Schwarz criterion	0.958141
Log likelihood	4.131645	Hannan-Quinn criter.	0.610069
F-statistic	39.48054	Durbin-Watson stat	1.188469
Prob(F-statistic)	0.000000		

Table. 2 above obtained Prob value (F-statistic) of more than 0.000000 small from alpha 0.05. Can taken conclusion H1 is accepted that in a manner simultaneous accounting conservatism , free cash flow and financial distress have an effect to value of company . Table. 2 above , got known in the Adjusted R Square column shows value of of 0.896344 or of 89.63%. this means that variable conservatism accounting , free cash flow, and financial distress can influence of 89.63% against value of company , meanwhile the remaining 10.37% is influenced by other variables outside research .

Influence Accounting Conservatism, Free Cash Flow and Financial Distress respectively simultaneous to Company value

Hypothesis first (H1) ie The effect of the F test results (simultaneous) shows that the f-statistic test in study This own prob value (f-statistic) of $0.000000 < 0.05$. Then H1 is accepted . this can concluded that in a manner simultaneous variable conservatism accounting , free cash flow, and financial distress have an effect in a manner simultaneous to value of company . Then H1 is accepted . Prudence accounting can minimize happening asymmetry information with make limitation agent in do action management profit so that can produce quality information (Aristiani et al, 2017).

This naturally make more investors believe in invest capital in the entity the so that will cause increasing value of company . Besides that positive cash flow company will reflect level performance operational good company . Enhancement good performance will impact on increasing value of something company . In accordance with signaling theory which states with the presence of high free cash flow in the company is something good signal that can be delivered to investors about the future describing company will ability company in good cash creation. The phenomenon of financial distress can happens to every companies in the capital value ofet, that is No all company always in position experience profit . Of course just companies experiencing deep financial distress period a long time will make company That broke and had to go out from the capital value ofet. For prevent risk bad , company as good Possible can do various analysis , especially concerns risk bankruptcy (Taufi and Muliana, 2021).

Influence Accounting Conservatism to Firm Value

Hypothesis second (H2) ie effect of t test results (partial) above show variable accounting conservatism has value of tcount of -1.897879 , so got tcount $<$ ttable ($-1.897879 < 1.66277$), and the value probability $>$ significant ($0.0619 > 0.05$). this means accounting conservatism is not influential to value of company . Then H2 is rejected . this show exists another factor to be internal investor considerations evaluate company . Investors don't see applied accounting conservatism company so that stock value ofet price No increase and result principle accounting conservatism No affect investors' assessment of company. Elections and principles applied conservatism can resulted exists reporting profit or assets to be more low as well as report debts that become more high. Big company have A little motivation For do management profit Because company that has asset big will obtain pressure strong For serve report quality and reliable finance . this cause company big inclination more small do action management profit compared to company small. Research results This No in line with study previously Manik (2018), and Meilany & Hidayati (2020). However study This in line with research conducted by Octaviani & Suhartono , (2020) and stated that conservatism No influence value of company in the eyes of investors because part big company manufacture No apply conservatism in a manner consistent

Effect of Free Cash Flow on Firm Value

Hypothesis third (H3) ie the effect of Free cash flow on value of company, variable capital structure. The results of the t (partial) test above show variable free cash flow has value of tcount of 0.928138 , so got tcount $<$ ttable ($0.928138 < 1.66277$), and value probability $>$ significant ($0.3566 > 0.05$). This means no free cash flow influential to value of company. Then H3 is rejected. This due to the existing free cash flow in company part big used. For finance research and development, as well cost, meanwhile. For investment own small portion. Enterprise values No influenced by the free cash flow that is owned company. In case this, investors who plant shares

in the company not respond to returns with Good so that No influential on value of company. This due to the existing free cash flow in company part big used For finance research and development, as well cost ad , meanwhile For investment own Small portions, too lots of free cash flow will be resulted internal insufficiency and waste source Power company, so lead to cost agency as burden from holder stock .

Research results This No in line with research conducted by Rahmi & Wijaya, (2022), however study This in line with research conducted by Setyawan, (2019), and Selvianah and Hidayat, (2022) which states that free cash flow does not influential to value of company because too lots of free cash flow will be resulted internal insufficiency and waste source Power company, so lead to cost agency as burden from holder stock.

The Effect of Financial Distress on Firm Value

Hypothesis fourth (H4) ie influence *financial distress* to value of company. The results of the t (partial) test above show financial distress variable has value of tcount of 3.759937, so got tcount $>$ ttable ($3.759937 > 1.66277$), and value probability $<$ significant ($0.0004 < 0.05$). This means that financial distress has an effect to value of company. Then H4 is accepted . Financial distress is condition Where company experience difficulty finance or will experience bankruptcy Happening difficulty finance in something company will resulted descent value of company the . Investors will quick withdraw funds from the indicated companies experience difficulty finance. Financial distress as stage decline condition happening finances before bankruptcy or liquidation. this will result in investors or creditor No will Want to invest in indicated companies experiencing financial distress.

The phenomenon of financial distress can happens to every companies in the capital value ofet, that is No all company always safe and secure problem the finances . Of course just companies experiencing deep financial distress period a long time will make company That broke and had to go out from the capital value ofet. For prevent risk bad , company as good Possible can do various analysis , especially concerns risk bankruptcy . Financial distress is stage decline condition finance happened company before happen bankruptcy or liquidation . Study This in line with research by Chalid, Kalsum and Pelu, (2022) and Mega (2019) found financial distress had an effect on in a manner significant to value of company . If financial distress increases so will influential to decline value of company and more low financial distress then will the more increase value of company . However study This No in line with research conducted by Setyawan , (2019) and Selvianah & Hidayat, (2022) which states that financial distress is not influential to value of company

CONCLUSION

Results of data analysis and discussion research , then can pulled a number of conclusions , including the results of statistical tests show that accounting conservatism , free cash flow and financial distress have an effect in a manner simultaneous to value of company . With results this accounting Prudence can minimize happening asymmetry information with make limitation agent in do action management profit so that can produce quality information. Statistical test results show that Accounting conservatism is not influence to value of company. this show exists another factor to be internal investor considerations evaluate company . Investors don't see applied accounting conservatism company so that stock value ofet price No increase and result principle accounting conservatism No affect investors' assessment of company . Free Cash Flow no

influential to value of company . this due to the existing free cash flow in company as big used For finance research and development , as well cost ad , meanwhile For investment own small portion . Financial distress has an effect to value of company . If financial distress increases so will influential to decline value of company and more low financial distress then will the more increase value of company .

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