

The Effect of Tax Incentives and Cash Flow on Accounting Conservatism (Case Study of a Food and Beverage Sub-Sector Manufacturing Company Listed on the Indonesia Stock Exchange in 2020-2022)

Olifia Tala¹, Rocyke Pangkey², Valencia Tumiwa³

Department of Accounting, Faculty of Economics and Business, Manado State University¹³
Postgraduated Programme Study of Corporate Economics, Padjajaran University, Sumedang²

Corresponding e-mail:

oliviatala@unima.ac.id

ABSTRACT

Every company is required to be careful in preparing financial reports to avoid fraud. However, there are still many companies that are not careful in preparing their financial reports, so many cases of financial report manipulation occur. The study aims to examine the effect of tax incentives and cash flow on accounting conservatism in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022. The method used in this study is quantitative method. The population in this research is food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for 2020-2022. The purposive sampling method is a method used to determine the number of samples to be studied based on certain criteria, so that there are 20 companies that meet the criteria as needed by the author. Panel data regression analysis is used as a data analysis technique with EViews 12 software as a research tool. The research results show that (1) tax incentives have a negative and significant effect on accounting conservatism and (2) cash flow has a positive and significant effect on accounting conservatism.

Keywords: Tax, Incentives, Cash Flow, Accounting, Conservatism.

JEL Classification : M40, M41, M48

Article info:

Received 30th May 2024

Revised 31st May 2024

Accepted 10th June 2024

Available online 10th June 2024

1. INTRODUCTION

Currently, business competition in Indonesia is growing very rapidly as seen from the increase of new businesses from day to day both companies engaged in trade, services and manufacturing. This can happen because more and more parties are interested in developing their innovations in the business world. The company will take any way to maintain its business by maintaining good financial performance. Financial statements are one of the benchmarks to measure financial performance.

Accounting is very useful in the business world to provide financial reports that will be used by interested parties in the framework of decision making. Financial statements that have been prepared will later provide financial information to its users. Each financial report produced affects each other. (Harini et al., 2020)

Every company should not be careless in making financial reports. One of the principles of accounting was conservatism which came to be known as the precautionary principle. Conservatism is a principle that obliges companies to recognize revenue later when it actually happens. This will certainly affect the data in the financial statements. (Priharto, 2023).

In addition, the principle of conservatism can make the value of debt and expenses will be



higher than the value of assets and income which will be lower, so among researchers the principle of accounting conservatism is often considered as something that can cause debate because there are parties who consider that companies that apply this principle will produce financial statements that do not show the actual financial condition. However, apart from that, the principle of conservatism also has its own use, namely to avoid profit manipulation that can be done by management. (Savitri, 2016)

For example, in Indonesia there is still unconservative behavior in manufacturing companies is the case of PT Tiga Pilar Sejahtera Food Tbk which manipulated financial statements in 2017 so that overstatements were found in several accounting items amounting to Rp4 trillion in accounts receivable, inventory and assets, in revenue accounts amounting to Rp662 billion, and Rp329 billion in earnings before interest, taxes, depreciation and amortization (Wareza, 2019). There is also the case of PT Kimia Farma Tbk which is now a subsidiary of PT Bio Farma (Persero) which reported a net profit of Rp132 billion, but it turned out that in 2002 it was found that the company's net profit was actually only Rp99.56 billion which means Rp32.6 billion lower than the reported profit. In the new financial report, there was an overstatement in the raw material industry unit, namely sales of IDR 2.7 billion, logistics units in inventory of goods of IDR 23.9 billion, pharmaceutical wholesaler units in inventory of IDR 8.1 billion and sales of IDR 10.7 billion.(Sandria, 2021)

Based on the two case examples above, it can be seen that there are still companies that do not apply the precautionary principle in preparing their financial statements. Two of the factors that could influence conservatism in this study were tax incentives and cash flow. (Harini et al., 2020)

Companies are taxpayers who can contribute considerable income to the state. If the company gets a large profit, the greater the tax burden that must be paid by the company to the government, so there are many companies will look for ways to minimize the profit. (Rombe et al., 2017) To avoid this, the government provides tax incentives to companies based on certain criteria. Tax incentives are better known as special provisions provided by the government to facilitate and relieve investors in terms of taxation.

According to Hasibuan in (Lahay et al., 2022) tax incentives are part of the country's strategy to build the country's economy by luring investors to invest in their own country. Tax incentives that are usually given are in the form of tax exemption, reduction of tax payments, reduction of tax rates, and tax deferral.

In 2008 there were changes made by the government to the Income Tax Law, namely by issuing Law Number 36 of 2008 which provides incentives to facilitate taxpayers. One of these changes is the change in the income tax rate from a progressive rate to a single rate which is effective starting in 2009 at 28%, in 2010 at 25% and then decreasing again to 22% in 2020 and 2021, and since 2022 the corporate income tax rate to 20% and providing incentives of 3% lower for corporate taxpayers in the form of Limited Liability Companies (Tbk) with certain conditions. (Harini et al., 2020)

Companies do not need to try to reduce profits if they receive tax incentives. However, if the company does not or lacks tax incentives then the company will apply the principle of conservatism to minimize profits.

Another factor that can influence management's decision to apply the principle of conservatism is cash flow. (Nugraeni & Triyono, 2023)

If in a company cash inflows and cash outflows are large, it will show the situation that the cash flow statement is overstate so that it will not get a good impression. This will make companies tend to apply accounting conservatism so that their financial statements look more stable (Suharni et al., 2019).

According to (Nurhasanah et al., 2023) tax incentives affect accounting conservatism and according to (Suharni et al., 2019) cash flow has a significant effect on conservatism in

manufacturing companies listed on the Indonesia Stock Exchange in 2012-2017.

This research was conducted on food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022 because the food and beverage sub-sector has an important role to meet primary human needs so that it often receives special attention from consumers. Although there have been quite a lot of studies examining in this sub-sector, this study uses the latest year, namely 2020-2022 to provide up-to-date information on the application of the principle of conservatism of sample companies.

2. LITERATURE REVIEW

2.1 Agency Theory

Tax accounting is a part of accounting that specifically examines the management and submission of financial information of companies or individuals in accordance with applicable tax regulations. Tax accounting focuses on calculating, analyzing and developing business strategies related to the company's economic transactions and this involves the application of various accounting methods for tax purposes, for example calculating to recording taxes in commercial financial reporting and company fiscal reports (Talenggoran, Pangkey and Sumampouw 2023).

According to (Anthony & Govindarajan, 2005) the concept of agency theory is when the principal hires an agent who is another party to carry out services and hands over authority in terms of decision making to the agent. The owner or shareholder who acts as the principal party will give the task to the manager (agent) to carry out a certain job where the agency acts as a decision-making party. The theory was developed by Jensen and Meckling in 1976.

2.2 The Concept of Accounting Conservatism

According to (Sari et al., 2015), one of the principles of accounting is the principle of conservatism. Accounting conservatism is an attitude shown by an accountant when facing two or more choices in preparing financial statements. This will affect the financial statements made by the company related to the recognition of income and costs. Financial statements will be used as a basis for managers to make decisions related to policies in the company.

According to Watts in (Savitri, 2016) the application of the accounting conservatism will make companies not directly record revenue before it occurs, but directly record the costs that may occur. And for the recognition of own assets and debts, assets are valued lower while debts are valued higher.

2.3 Tax Incentives

According to (Nurhasanah et al., 2023) tax incentives are a policy decided by the government with the aim of encouraging certain economic activities through a tax payment reduction program to individual and corporate taxpayers in accordance with criteria set by the government.

According to Winardi in (Yulia, 2023) the purpose of tax incentives is to provide an economic boost. The tax function is not only to provide revenue to the government, but also to provide encouragement in terms of the country's economy to certain fields including the business sector.

2.4. Cash Flow

According to Kashmir and Jakfar in (Harini et al., 2020) cash flow is one of the reports in a company that shows the amount of money coming into the company and the amount of money coming out of the company by type.

Operating cash flow is a benchmark to measure cash flow in this study because according to Setia et al. in (Trisia & Sumampouw, 2022) the information shown by operating cash flow is something that often gets attention from potential investors and investors. Operating cash flow is usually used to see the quality of company performance through cash activities for company operational activities.

2.5. Hypothesis

2.5.1. The Influence of Tax Incentives on Accounting Conservatism

Tax incentives are policies taken by the government to support the nation's economy by providing a reduction in the tax burden based on certain criteria. Tax incentives will benefit companies because they do not need to pay a large tax burden and will benefit the government to support the nation's economy. If companies receive tax incentives provided by the government, then companies will be more motivated to pay taxes without burden. The first hypothesis proposed in this research is:

H1: Tax incentives influences accounting conservatism

2.5.2. The Influence of the Cash Flow on Accounting Conservatism

Cash flow shows the cash state in the company, so that if high cash flow is found, the company will apply the principle of conservatism to prevent large amounts of profit. A cash flow statement that shows a large amount of cash flow means that the company also gets a large amount of profit, so that the tax to be paid will also be high. So by applying accounting conservatism that records income slower than costs dan records assets lower than debt, it will affect the statement of cash flow and profit obtained by the company where profits will look lower. The second hypothesis proposed in this research is.

H2: Cash flow influences accounting conservatism

3. RESEARCH METHODS

This study used a quantitative method. According to (Sugiyono, 2018) quantitative methods are research methods based on data that really exist and can be in the form of numbers measured using statistics to test calculations related to the problem under study with the aim of obtaining a conclusion.

The data used in this study is financial statement collected through the site of the Indonesia Stock Exchange (www.idx.co.id). The data collection technique used is a documentation technique, which is a data collection technique based on existing data.

Table 3.1. Operational Definition of Variables

Measured Variables	Indicators
Tax Incentives (X1)	$TP = \frac{PPh \text{ Rates } (PTI - CTE)}{TA}$ Information: TP: Tax Plan PTI: Pretax Income CTE: Current Tax Expense TA: Total Asset
Cash Flow (X2)	$CFO = \frac{\text{Cash flow operation}}{\text{Total Assets}}$
Accounting Conservatism (Y)	$CONACC = \frac{(NIO + DEP - CFO) \times (-1)}{TA}$ Information: NIO: Net Income Operation DEP: Depresiasi + Amortisasi CFO: Cash Flow Operation TA: Total Asset

The total population in this study was 97 companies and sample selection was carried out using purposive sampling techniques. Based on the purposive sampling technique with five criteria needed by the author according to the research needs, 20 sample companies were obtained to be researched in this study.

4. RESULTS AND DISCUSSION

4.1. Results

4.1.1. Descriptive Statistics

Table 4.1. Descriptive Statistical Analysis

	Mean	Median	Maximum	Minimum	Std. Dev.
Tax Incentives	0,019052	0,015900	0,054700	-0,002000	0,013663
Cash Flow	0,107965	0,107100	0,441600	-0,298400	0,129799
Accounting Conservatism	-0,036543	-0,024050	0,190900	-0,351500	0,095206

Source: EViews 12 Output, 2024

4.1.2. Panel Data Regression Analysis Model Estimation

Table 4.2. Chow Test

Cross-section F	2.205046	(19,38)	0.0187
Cross-section Chi-square	44.588276	19	0.0008

Source: EViews 12 Output, 2024

The probability result of the Chi-square cross-section shows numbers $0.0008 < 0.05$ so that the selected model is a fixed effect model. Next is the Hausman test to test the best model between the random effect model and the fixed effect model.

Table 4.3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.476108	2	0.1067

Source: EViews 12 Output, 2024

The probability cross-section random results show numbers $0.1067 > 0.05$ so that the selected model is a random effect model. Next is the Lagrange Multiplier test to test the best model between the random effect model and the common effect model.

Table 4.4. Lagrange Multiplier Test

Breusch-Pagan	2.974148	20.04856	23.02270
	(0.0846)	(0.0000)	(0.0000)

Source: EViews 12 Output, 2024

The results of the Breusch-Pagan cross-section show numbers $0.0846 > 0.05$, meaning that the selected model is a common effect model. So based on the testing stage that has been done, the best model to be used in this study is the random effect model.

4.1.3. Classic Assumption Test Results

Normality Test

Based on the output of EViews 12, the probability value is $0.304223 > 0.05$, so according to (Ghozali, 2018) if the probability value exceeds 0.05 it means the data is normally distributed.

Multicollinearity Test

Table 4.5. Multicollinearity Test

	IP	CF
IP	1.000000	0.693365
CF	0.693365	1.000000

Source: EViews 12 Output, 2024

Based on the table above, it can be seen that the correlation coefficient between the Tax Insetif variable and the Cash Flow variable of 0.693365 is smaller than 0.80, so it can be concluded that there is no multicollinearity.

4.1.4. Hypothesis Test Results

The t value of the table is obtained from $k = 3$ (number of variables), $n = 60$ (number of samples) so $df = 60 - 3 = 57$. When viewed from the percentage point of the distribution t with a significant level of 5%, the table t value is 2.00247.

Based on the output results of EViews 12, the results of the t test on the Tax Incentive variable (X1) have a negative value but the negative number does not need to be ignored because it only shows the direction of influence, so that the calculated t value of $16.65214 > t$ table is 2.00247 and a significant value of $0.0000 < 0.05$, then H_0 is rejected and H_1 is accepted meaning that the Tax Incentive variable has a negative and significant effect on Accounting Conservatism. The results of the t test on the Cash Flow variable (X2) obtained a calculated t value of $32.03711 > t$ table 2.00247 and a significant value of $0.0000 < 0.05$, then H_0 was rejected and H_2 was accepted, meaning that the Cash Flow variable had a positive and significant effect on Accounting Conservatism.

4.1.5. Determinant Coefficient Test Results (R^2)

Table 4.6. Determinant Coefficient Test (R^2)

R-squared	0.946154
Adjusted R-squared	0.944265
S.E. of regression	0.019582
F-statistic	500.7882
Prob(F-statistic)	0.000000

Source: EViews 12 Output, 2024

Based on table 4.6 above, the adjusted R-squared value shows a number of 0.944265 or 94.4265% rounded to 94.43%. The value of the coefficient of determination shows that the independent variable consisting of Tax Incentives and Cash Flow is able to explain the Accounting Conservatism variable by 94.43%, while the remaining 5.57% ($100\% - 94.43\%$) is explained by other variables that are not included in this study.

4.2. Discussion

4.2.1. The Influence of the Tax Incentives on Accounting Conservatism

The results of this study show that tax incentives have a negative and significant effect on accounting conservatism. This means that if tax incentives increase, the accounting conservatism applied will decrease. Companies that benefit from tax incentives provided by the government do not need to shrink profits by applying the principle of accounting conservatism.

The results of this study support Agency Theory which shows the relationship between company management and the government. Managers are obliged to account for their income to the government by paying taxes. Meanwhile, to prevent agency conflicts, the government provides tax incentives to avoid manipulating financial statements that can be done by companies if they have to pay a large amount of tax burden to the government.

The results of this study are in line with research conducted by (Pangkey et al., 2024) which shows that tax incentives have a negative and significant effect on accounting conservatism. However, the results of this study are not in line with research conducted by (Yulia, 2023) which shows that tax incentives do not have a significant effect on accounting conservatism.

4.2.2. Influence of the Cash Flow on Accounting Conservatism

The results of this study show that cash flow has a positive and significant effect on accounting conservatism. This means that if cash flow increases, the level of accounting

conservatism applied by the company will increase. If the cash flow statement shows an overstate situation then accounting conservatism will make the report looks more stable. Meanwhile, if the cash flow value is low, then the company will not apply accounting conservatism considering the concept of the principle of conservatism that does not directly recognize income, so that when the company applies the principle of accounting conservatism when cash flow is low, it will allow cash flow to show a negative or smaller number so that the effectiveness of the company in managing operational activities will be questioned.

The results of this study support Agency Theory which shows the relationship between company management and investors. Managers are required to account for their financial statements to investors. That way, investors can see the performance of managers related to how they manage money entering and leaving the company. If the manager manages it well, the act of manipulating financial statements without the knowledge of investors is impossible to avoid agency conflicts between managers and investors. The results of this study are in line with those conducted by (Harini et al., 2020) and (Nugraeni & Triyono, 2023) which show that cash flow has a positive and significant effect on accounting conservatism.

5. CLOSING

5.1. Conclusion

The results show that Tax Incentives have a negative and significant effect on Accounting Conservatism, which means that if tax incentives increase, it will affect the level of accounting conservatism applied by companies where the conservatism applied will decrease. And vice versa, if tax incentives decrease, it will affect the level of accounting conservatism applied by the company where the conservatism applied will increase.

The results show that Cash Flow has a positive and significant effect on Accounting Conservatism, which means that if cash flow increases it will affect the level of accounting conservatism applied by the company where the conservatism applied will increase. And vice versa, if cash flow decreases, it will affect the level of accounting conservatism applied by the company where the conservatism applied will decrease.

5.2. Suggestion

The companies sampled in this study are food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2020-2022 period. Therefore, the next researcher should examine the application of accounting conservatism in other sub-sectors such as the miscellaneous industry sub-sector and the basic industry and chemical sub-sector.

It is expected that future studies can add other independent variables that can also affect the application of accounting conservatism such as capital intensity, profitability, leverage and company size.

REFERENCES

- Anthony, R., & Govindarajan, V. (2005). *Management Control System Jilid I dan II Terjemahan Kurniawan Tjakrawala dan Krista*. Penerbit Salemba Empat.
- Ghozali, I. (2018). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 25*. Badan Penerbit Universitas Diponegoro.
- Harini, G., Syamra, Y., & Setiawan, P. (2020). *Pengaruh Insentif Pajak, Pajak, dan Cash Flow terhadap Konservatisme Akuntansi (Studi pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia)*. 1 (Januari).
- Lahay, P. A., Kantohe, M., & Marunduh, A. P. (2022). Analisis Penerapan Insentif Pajak bagi Wajib Pajak UMKM yang Terdampak Covid-19 di Kota Manado. *Jurnal Akuntansi Manado*,



3(1), 36–44.

- Nugraeni, D. A., & Triyono. (2023). *Pengaruh Kesulitan Keuangan, Cash Flow, Financial Leverage, Cash Holding terhadap Konservatisme Akuntansi pada Perusahaan Sektor Pertambangan Tahun 2019-2021*. 4(6), 7979–7987.
- Nurhasanah, S. R., Abbas, D. S., & Santoso, S. B. (2023). *Pengaruh Insentif Pajak dan Penilaian Ekuitas Terhadap Konservatisme Akuntansi*. 2(1).
- Pangkey, R. I. J., Kantohe, M., & Karwur, Y. (2024). *Pengaruh Insentif Pajak dan Kualitas Audit terhadap Konservatisme Akuntansi*. 5(1), 300–310.
- Priharto, S. (2023). *Mengenal Konservatisme dalam Akuntansi beserta Contohnya*. Kledo.Com. <https://kledo.com/blog/konservatisme-akuntansi/>
- Rombe, A., Rahardjo, H., & Hartanto, S. (2017). Analisis Pengaruh Insentif Pajak terhadap Penghindaran Pajak Perusahaan (Studi Empiris Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2011-2015). *Jurnal Akuntansi Kontemporer (JAKO)*, 9 No. 2.
- Sandria, F. (2021). *Deretan Skandal Lapkeu di Pasar Saham RI, Indofarma-Hanson!* CNBC Indonesia. <https://www.cnbcindonesia.com/market/20210726191301-17-263827/deretan-skandal-lapkeu-di-pasar-saham-ri-indofarma-hanson>
- Sari, N., Kalbuana, N., & Jumadi, A. (2015). *Pengaruh Konservatisme Akuntansi, Kualitas Audit, Ukuran Perusahaan terhadap Penghindaran Pajak*. 431–440.
- Savitri, E. (2016). *Konservatisme Akuntansi: Cara Pengukuran, Tinjauan Empiris dan Faktor-faktor yang Mempengaruhinya*. Pustaka Sahila.
- Sugiyono. (2018). *Metode Penelitian Kuantitatif, Kualitatif, dan R&D*. Alfabeta.
- Suharni, S., Wildaniyati, A., & Andreana, D. (2019). *Pengaruh Jumlah Dewan Komisaris , Leverage , Profitabilitas , Intensitas Modal , Cash Flow , Dan Ukuran Perusahaan Terhadap Konservatisme (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2012-2017)*. 8, 17–24.
- Trisia, N. N., & Sumampouw, O. (2022). Pengaruh Arus Kas Operasi dan Laba Akuntansi terhadap Pengembalian Saham pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang Terdaftar di Bursa Efek Indonesia Periode 2017-2019. *Jurnal Akuntansi Manado*, 3(2), 286–296.
- Wareza, M. (2019). *Tiga Pilar dan Drama Penggelembungan Dana*. CNBC Indonesia. <https://www.cnbcindonesia.com/market/20190329075353-17-63576/tiga-pilar-dan-drama-pengelembungan-dana>
- Yulia, R. K. (2023). *Pengaruh Insentif Pajak dan Growth Opportunity Terhadap Konservatisme Akuntansi Pada Perusahaan Manufaktur Yang Bergerak di Bidang Industri dan Konsumsi yang terdapat di Bursa Efek Indonesia Pada Tahun 2020-2021*. 1(3), 400–413.