

## DOES THE INDEPENDENT BOARD OF COMMISSIONERS MODERATE THE DETERMINANTS INFLUENCING ACCOUNTING CONSERVATISM?



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### Abstract

Conflicting findings about what drives accounting conservatism raise doubts about the reliability of financial reports. This study examines how financial distress, capital intensity, and profitability affect accounting conservatism, with independent commissioners as a moderating variable. Using purposive sampling, it analyzes 104 manufacturing firms in the industrials and consumer staples sectors listed on the Indonesia Stock Exchange from 2019 to 2023. Panel data estimation is applied. The results show that financial distress has no significant effect on accounting conservatism, while capital intensity and profitability have significant positive effects. Independent commissioners do not moderate the effects of financial distress and profitability on accounting conservatism. Although they significantly moderate the relationship between capital intensity and accounting conservatism, they do not strengthen its positive impact. These findings offer useful insights for investors and regulators in evaluating earnings quality and improving transparency in financial reporting.

### INTRODUCTION

Financial reports are prepared with the primary goal of providing accurate and relevant data on a company's financial condition, including operational performance, current financial position, and cash inflows and outflows. This information is crucial as a basis for making strategic business decisions (Maharani & Kristanti, 2019). By applying the principle of accounting conservatism, financial reports

become a more effective tool for measuring management performance and providing relevant information for decision-making.

Maintaining trustworthiness and openness in financial reporting is where accounting conservatism really shines. To avoid overstating their financial success, businesses must adhere to this approach, which stresses caution by forcing them to quickly detect possible losses while delaying the identification of questionable benefits. Conservative accounting practices are widely adopted to mitigate information asymmetry, limit managerial opportunism, and enhance the credibility of financial statements for stakeholders (Sun et al., 2025). It emphasizes prudence by recognizing potential losses early while delaying the recognition of uncertain gains. This principle helps mitigate the risk of financial misstatements, which can lead to mistrust among stakeholders (Risdiyanti & Kusmuriyanto, 2022).

The selection of financial distress, capital intensity, and profitability as independent variables in this study is not random. These variables represent key financial dimensions that reflect a company's operational health, investment structure, and performance efficiency, all of which have theoretical and empirical links to accounting conservatism.

Financial distress reflects a company's solvency condition, which may influence management's preference for cautious financial reporting to maintain stakeholder trust and reduce bankruptcy risk (Altman et al., 2020; Rivandi & Ariska, 2019). Capital intensity indicates the level of fixed asset investment, which can increase political costs and regulatory scrutiny, thereby encouraging more prudent accounting treatment (Maharani & Kristanti, 2019; Prayoga et al., 2025). Profitability represents managerial performance and creates incentives for earnings management that may alter the degree of accounting conservatism applied (Gunanto, 2023; Solichah & Fachrurrozie, 2019). Therefore, examining these three variables is essential to understanding how internal financial conditions jointly shape conservative reporting behavior. To further ensure accountability in the use of conservative accounting rules and to enhance corporate governance processes, the moderating function of independent commissioners is vital. (Pratomo & Havivah, 2021).

The Garuda Indonesia case, which involved the manipulation of financial reporting in the 2018 fiscal year, illustrates the serious consequences of violating accounting conservatism principles. Beyond its immediate financial impact, the case significantly eroded investor trust and damaged the company's reputation, ultimately leading to changes in the board of directors and commissioners. However, this issue is not an isolated incident. Recent studies indicate that aggressive financial reporting practices and weak enforcement of conservative accounting continue to occur, even in firms with established corporate governance structures (Sun et al., 2025; Widhiastuti & Rahayu, 2022). This recurring phenomenon highlights a persistent gap between the formal presence of governance mechanisms, such as independent commissioners, and their actual effectiveness in ensuring conservative financial reporting. Therefore, examining the moderating role of independent commissioners in influencing accounting conservatism remains highly relevant in the current business environment. Consistent application of the principle of accounting conservatism is key to maintaining the integrity of financial reports and protecting the interests of all stakeholders (Risdiyanti & Kusmuriyanto, 2022).

Using positive accounting theory and signaling theory as a framework, this study will empirically investigate (1) what factors affect accounting conservatism and (2) how independent commissioners moderate the effect of agency theory-based corporate governance mechanisms on accounting conservatism. This study explores the factors influencing a company's adoption of conservative accounting practices. Specifically, it investigates the impact of financial distress, capital intensity, profitability, and corporate governance, as measured by the role of the board of commissioners.

The phenomenon of financial distress is increasingly relevant in today's volatile business environment. Financial distress arises when a company faces difficulty in fulfilling its financial obligations as a result of decreasing revenues and an excessive level of debt, or operational inefficiencies (Ross et al., 2022). For instance, continuous losses caused by ineffective marketing strategies can lead to situations in which a company's liabilities exceed its assets (Maharani & Dura, 2023). When companies experience financial distress, conservative accounting practices are often adopted to avoid overstating profits and to signal financial caution to investors and creditors (Rivandi & Ariska, 2019). However, some studies have shown that financial distress does not always lead to

conservative reporting, highlighting the need for further investigation (Putri, 2022). Previous research suggests that financially distressed firms may retain conservative accounting practices to sustain investor confidence and comply with regulatory requirements (Hsu & Yang, 2025).

Capital-intensive firms, characterized by significant investments in fixed assets, are more likely to adopt conservative accounting practices to manage political costs and enhance financial stability (Agustina et al., 2022). When examining an organization's financial structure and performance, it is crucial to consider capital intensity. The proportion of fixed assets held by a company increases as its capital intensity rises. Companies with high capital intensity generally face higher business risks because they are more vulnerable to technological changes, price fluctuations, and government policies, but they also have the potential for higher returns. The amount of money a company needs to increase its sales is measured by its capital intensity, and capital requirements increase accordingly. Companies facing financial difficulties or those with substantial assets are more likely to adopt conservative accounting approaches to mitigate risks and improve financial reporting accuracy (Maharani & Dura, 2023) and (Rivandi & Ariska, 2019).

When a company generates profits through sales, total assets, and capital for all invested funds, its efficiency is considered an indicator of profitability. Various stakeholders, such as investors, creditors, and company management, consider profit data essential for evaluating company performance. Furthermore, profitability is also a key indicator in business decision-making. Investors and creditors can use profitability information to assess an investment based on its risk and potential returns. A company's profitability indicates its capacity to utilize resources efficiently and its growth potential (Gunanto, 2023). Additionally, profit-oriented companies are often more proactive in applying conservative accounting practices to anticipate risks and provide more reliable financial information (Islami et al., 2022).

The novelty of this research lies in adding the independent board of commissioners as a moderating variable, because independent boards of commissioners are essential in mitigating agency conflicts and enhancing the quality of financial reporting. By providing external oversight, independent boards can help ensure that companies adhere to the principle of accounting conservatism (Pratomo & Havivah, 2021). Independent boards positively affect accounting conservatism, according to prior study by Haikal et al. (2020), which is supported by this conclusion. Disagreements between owners' (principals') and managers' (agents') objectives are known as agency disputes. A company's capacity to maximize shareholder value might be hindered by these conflicts, which have their roots in agency theory. As agents, managers have the risk of putting their own short-term gains ahead of the company's long-term goals, which may result in less-than-ideal decisions and even financial losses. (Islami et al., 2022). Owners (principals) and managers (agents) have a contractual relationship inside a company, as explained by agency theory. It draws attention to the fact that these parties may experience information asymmetry and conflicts of interest, which may impact decision-making and the performance of the organization (Mohammed et al., 2019). To bring agents' interests in line with those of principals, the theory stresses the need of good supervision and incentive systems. (Arwani, 2024).

Among the many theoretical pillars upon which this investigation rests is signaling theory. According to this hypothesis, managers are more likely to send signals that are reflective of the company's real state when there is an information asymmetry between them and the shareholders. Conflicts between agencies may emerge when managers have access to more thorough internal information than external stakeholders. This situation is known as information asymmetry. Through financial statements and disclosures, companies deliver signals to reduce uncertainty and convey credibility to investors and creditors. The application of accounting conservatism becomes one of these signals, demonstrating prudence in financial reporting and a commitment to reliable performance measurement. By recognizing potential losses earlier and delaying uncertain gains, companies project a signal of stability, integrity, and accountability (Sariroh, 2021). Therefore, signaling theory helps explain how managers utilize conservative accounting practices as a means to communicate financial health and minimize information asymmetry.

Positive accounting theory, on the other hand, seeks to explain and foretell real accounting practices by illuminating the elements that impact management's decision to implement accounting

rules. It is based on agency theory, which acknowledges that managers and owners may have competing interests owing to informational imbalances and different business objectives. (Maharani & Dura, 2023). This theory highlights the duality in managerial behavior: managers have an incentive to manipulate accounting information for personal gain, but they also have an incentive to choose accounting policies that can increase the company's value and attract investors. Both managers and shareholders are assumed to act rationally, with the primary goal of maximizing their own well-being (Putri, 2022).

Conservatism in accounting is a principle that prioritizes caution and prudence in financial reporting. It ensures that losses and expenses are recognized promptly, while revenues and assets are recognized only when certain. This approach prevents overstated profits and understated losses, providing a more accurate financial picture (Risdiyanti & Kusmuriyanto, 2022). Financial distress, a state in which a company struggles to meet its financial obligations, can significantly impact its accounting practices (Altman et al., 2020).

Theories of agency, signaling, and positive accounting provide the theoretical groundwork for this investigation. Agency theory states that conservatism in accounting decisions could arise from agency difficulties caused by disparities in interests between owners and managers. Managers may have incentives to manipulate financial statements for personal benefit, while principals seek transparent and prudent reporting to protect their investments. To reduce information asymmetry and potential conflicts, signaling theory explains that managers provide signals through financial statements to convey the company's actual financial condition to external parties (Sulastris et al., 2018a). Conservative accounting practices are one of these indications because they show that management is being cautious by anticipating losses rather than benefits. To back up this view, positive accounting theory postulates that managers make accounting decisions driven by goals to keep political expenses down, keep contracts under control, and provide the impression that the company is stable. Taken as a whole, these three theories illuminate the ways in which internal financial circumstances and company governance procedures impact the conservative use of accounting.

Just like firms experiencing financial distress, companies with high capital intensity tend to face heightened political pressures and increased public scrutiny. By adopting conservative accounting principles, these firms can mitigate conflicts of interest and safeguard their reputations. Consistent with the findings of Maharani & Kristanti (2019), capital intensity has a positive impact on accounting conservatism. Companies with high capital intensity are motivated to adhere strictly to conservative accounting principles to minimize political risks, protect assets, and ensure financial stability.

Solichah & Fachrurrozie (2019) indicate that highly profitable companies tend to adopt conservative accounting principles. These companies prefer to recognize losses sooner rather than later to smooth earnings and avoid overly high expectations from investors, governments, and competitors. However, Abdurrahman & Ermawati (2018) found that less profitable firms may resort to earnings management to attract investors. Interestingly, even highly profitable companies may engage in earnings management, indicating a complex relationship between profitability and accounting conservatism.

Independent commissioners play a crucial role in enhancing corporate governance by providing oversight and ensuring transparency in financial reporting (Pratomo & Havivah, 2021). Their role is to mitigate conflicts of interest between management and shareholders by enforcing the application of conservative accounting practices (Rajagukguk & Rohman, 2020). Independent commissioners can strengthen the reliability of financial reports, especially in companies with high capital intensity or those experiencing financial distress (Abdullah et al., 2024). However, their effectiveness may vary depending on the authority and knowledge they possess (Prayoga et al., 2025).

There has been a lot of study on the correlation between conservative accounting and factors including financial hardship, capital intensity, profitability, and independent commissioners. Companies in financial trouble may convey caution to creditors and investors by adopting cautious accounting procedures, according to studies. Previous research indicates that companies with cash flow problems or falling earnings should report losses sooner rather than later in order to keep the confidence of their stakeholders and lessen the likelihood of management-shareholder disputes. (Maharani & Dura,

2023). However, some studies suggest that financial distress may lead to less conservative reporting, as managers might resort to aggressive accounting to obscure poor performance (Rivandi & Ariska, 2019).

The influence of capital intensity on accounting conservatism has been widely documented in the literature. Firms characterized by high capital intensity, as evidenced by substantial investments in fixed assets, are more likely to be subject to heightened political scrutiny and increased regulatory oversight. To mitigate potential political costs, these firms often adopt conservative accounting practices to avoid accusations of profit manipulation (Maharani & Kristanti, 2019). This behavior aligns with the political cost hypothesis, in which firms with substantial capital investments are motivated to present financial statements that reflect caution and prudence to minimize external pressures (Prayoga et al., 2025).

Profitability is another critical determinant of accounting conservatism. Profitable firms tend to employ conservative accounting methods to stabilize earnings and maintain investor confidence (Dietrich et al., 2023). Research on profitability and its relationship with accounting conservatism shows mixed results. Some studies indicate that profitable companies adopt conservative accounting practices to avoid fluctuations in reported earnings and maintain a stable financial outlook (Solichah & Fachrurrozie, 2019). High profitability can motivate firms to recognize expenses early and delay revenue recognition to smooth earnings and reduce scrutiny. Conversely, firms with lower levels of profitability may be more inclined to adopt aggressive accounting practices in order to present a more favorable financial position., thereby reducing the level of conservatism in their reporting (Krismiaji & Sururi, 2021).

Within the corporate governance framework, independent commissioners play a pivotal role in influencing the degree of accounting conservatism. Transparency and the absence of earnings manipulation are maintained by the supervision system of independent commissioners. (Pratomo & Havivah, 2021). Their presence helps mitigate conflicts between management and shareholders, promoting conservative accounting practices (Rajagukguk & Rohman, 2020). However, some studies have found that the effectiveness of independent commissioners can vary depending on their level of expertise and authority. In certain cases, independent commissioners may not significantly impact the enforcement of conservative reporting practices due to limitations in knowledge or influence (Abdullah et al., 2024).

Based on the theoretical and literature review discussion, this study can address the hypothesis :

- H<sub>1</sub>: There is a positive influence of financial distress on accounting conservatism
- H<sub>2</sub>: There is a positive influence of capital intensity on accounting conservatism
- H<sub>3</sub>: There is a positive influence of profitability on accounting conservatism
- H<sub>4</sub>: There is a positive influence of independent commissioners on accounting conservatism
- H<sub>5</sub>: The Independent Board of Commissioners strengthens the positive influence of financial distress on accounting conservatism.
- H<sub>6</sub>: The Independent Board of Commissioners strengthens the positive influence of capital intensity on accounting conservatism.
- H<sub>7</sub>: The Independent Board of Commissioners strengthens the positive influence of financial distress on accounting conservatism.

This study contributes to the growing literature on accounting conservatism by highlighting the roles of profitability and governance in shaping financial reporting quality. The findings are relevant for regulators, investors, and corporate decision-makers seeking to promote transparency, reduce earnings manipulation, and strengthen investor trust. This study is important because previous research has produced inconsistent results.

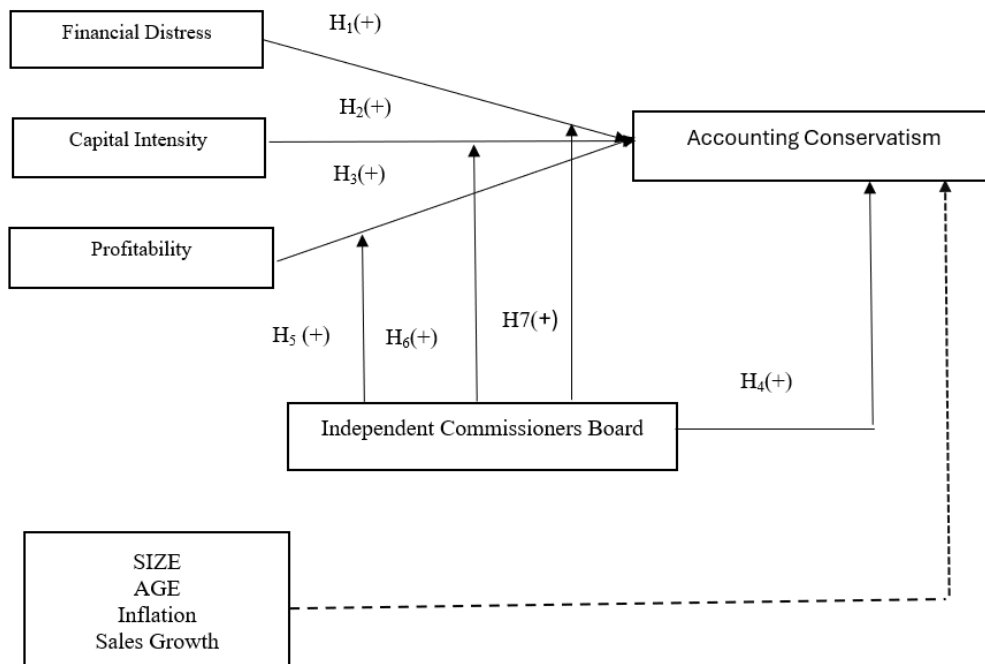


Figure 1. Conceptual Framework

Figure 1 presents the conceptual framework for this research. This framework clearly illustrates the interrelationships among the variables.

## METHOD

A quantitative research strategy was used in this investigation. Using a purposive selection approach, the sample was picked from a population that includes all manufacturing enterprises in the designated sectors. Companies that had an independent board of commissioners, regularly issued financial reports during the study period, and supplied full data for the variables under study were all considered for inclusion in the sample. One hundred and forty-four businesses met the requirements for inclusion in the study.

The present study concentrates on manufacturing firms listed on the Indonesia Stock Exchange (IDX), specifically within the industrials and consumer staples sectors, from 2019 to 2023. These companies more frequently use measures such as inventory, manufacturing expenses, allowance for doubtful accounts, and accruals—features that are relevant for measuring conservative elements, such as early loss recognition and delayed profit recognition. This study employs panel data covering the period from 2019 to 2023. The observation period was limited to 2023 because complete and audited data for 2024 were not fully available at the time of data collection. Including 2024 would result in an unbalanced panel and could potentially introduce data inconsistency, affecting the robustness of the estimation results. Therefore, the selected observation period ensures data completeness and maintains panel balance for reliable statistical analysis.

The present study aims to examine the effects of financial distress, capital intensity, and profitability as independent variables on accounting conservatism as the dependent variable, with the independent board of commissioners acting as a moderating variable.

Data used in the research comes from secondary sources, such as annual reports and financial statements found on the IDX website and official corporate websites. The following is an operationalization of the variables: financial distress is measured by financial ratios like the Altman Z-Score; capital intensity is evaluated by dividing total assets by fixed assets; profitability is evaluated by the return on assets (ROA) ratio; accounting conservatism is measured by the accrual-based method,

specifically by the difference between net income and operating cash flow; and the independent board of commissioners is measured by the proportion of independent commissioners to the total number of commissioners.

The study conducts a battery of classical assumption tests to guarantee the reliability and validity of the regression model. These include: (1) a Normality Test with the Shapiro-Wilk test to look at the distribution of residuals; (2) a Multicollinearity Test with the Variance Inflation Factor (VIF) to find out if the independent variables are potentially multicollinear; (3) a Heteroscedasticity Test with the Breusch-Pagan/Cook-Weisberg test to find out if the variance is inconsistent; and (4) a regression residual autocorrelation test with the Ramsey RESET test to see if there is serial correlation. The reliability of the conclusions derived from the regression analysis is guaranteed by these diagnostic tests.

Table 1. Research Data

Description	Total Observations
1. Public companies actively operating during the 2019-2023 period.	169
2. Public companies that don't have an eligible source of data needed for this study	(65)
3. Public companies fulfil the purposive sampling for this study.	104
4. The period of observations (in years)	5
Total	520

Table 1 explains that this study examines a sample of publicly listed companies on the Indonesia Stock Exchange (IDX) over five years, from 2019 to 2023. The selection of companies follows a purposive sampling approach, ensuring that only firms meeting specific criteria are included in the analysis. After applying the selection criteria, the final sample size is 104. The total number of firm-year observations across the five years is 520, providing a robust dataset for analysis. This research sample enables a longitudinal study, allowing for the examination of financial distress, accounting conservatism, and corporate governance practices over time. The inclusion of multiple years ensures that the findings are not limited to a specific period but instead reflect broader trends in financial reporting among Indonesian firms. By focusing on companies that consistently report complete financial data, this study ensures accuracy and reliability in its analysis, ultimately contributing to a deeper understanding of financial decision-making within publicly traded firms in Indonesia.

We use multiple linear regression analysis to look at how financial stress, capital intensity, and profitability affect accounting conservatism and see whether our assumptions hold. To further investigate how the impartial board of commissioners acts as a moderator, we use moderated regression analysis (MRA).

A look at the direct impacts of capital intensity, profitability, financial difficulty, and the independent board of commissioners on accounting conservatism is done in the first equation.

$$CON\_ACC = \beta_0 + \beta_1 FD_{it} + \beta_2 CI_{it} + \beta_3 PROF_{it} + \beta_4 DKI_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \beta_7 INFL_{it} + \beta_8 SG_{it} + e_{it} \dots\dots\dots(1)$$

The second equation includes the moderating effect of the independent board of commissioners on the relationships between financial distress, capital intensity, and profitability with accounting conservatism:

$$CON\_ACC = \alpha_0 + \beta_1 FD_{it} + \beta_2 CI_{it} + \beta_3 PROF_{it} + \beta_4 DKI_{it} + \beta_5 FD * DKI_{it} + \beta_6 CI * DKI_{it} + \beta_7 PROF * DKI_{it} + \beta_8 SIZE_{it} + \beta_9 AGE_{it} + \beta_{10} INFL_{it} + \beta_{11} SG_{it} + e_{it} \dots\dots\dots(2)$$

Table 2. Measurement of Variables

Variables	Formula	Sources
Dependent Variable		
Accounting Conservatism (CON_ACC)	CONN_ACC = - (Net Income+Depreciation -1)	Pratomo & Havivah (2021)
Independent Variables		
Capital Intensity (CI)	$CI = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$	Prayoga et al. (2025)
Profitability (ROA)	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Gunanto (2023)
Altman Z-Score Model		
Financial Distress (FD)	FD = - (1.2 X1+1.4 X2 + 3.3 X3 + 0.64 X4 +1.0 X5)	Hamzah & Annisa (2022)
Moderating Variable		
Board Independence (DKI)	$DKI = \frac{\sum \text{Independent Commissioners}}{\sum \text{Total Commissioners}}$	Al-Abedi et al. (2022), Alvino & Sebrina (2020)
Control Variables		
Firm Size (SIZE)	SIZE=ln (Total Assets)	Mushafiq et al. (2023)
Firm Age (AGE)	AGE=Observation Year – Establishment Year	Mushafiq et al. (2023)
Inflation (INFL)	INFL=Annual Inflation Rate	Mushafiq et al. (2023)
Sales Growth (SG)	$SG = \frac{\text{Sales in Year } t - \text{Sales in Year } t-1}{\text{Sales in Year } t-1}$	Daryaei et al. (2022)

X1= WCTA(Working Capital to Total Assets); X2= RE (Returned Earning to Total Assets Ratio); X3= EBIT (Earnings Before Interest and Taxes to Total Assets Ratio); X4= BV (Book Value of Equity to Book Value of Total Debt Ratio); X5= S (Sales to Total Assets).

Accounting conservatism, which is defined as the practice of quickly recording possible losses while postponing the identification of uncertain profits, is the dependent variable in this research, as shown in Table 2. Financial reporting must not inflate a company's assets or profits, according to this theory. (Risdiyanti & Kusmuriyanto, 2022). Accounting conservatism is measured using an accrual-based approach, where a higher negative accrual value indicates a greater level of conservatism (Putri, 2022). This approach provides a prudent representation of the company's financial condition and reduces the risk of misleading financial information (Maharani & Kristanti, 2019).

The first independent variable is Financial Distress (FD), which occurs when a company faces difficulties in meeting its financial obligations. Financial distress is typically characterized by declining revenues, increased liabilities, or operational inefficiencies (Ross et al., 2022). In this study, financial distress is measured using the Altman Z-Score, where a lower score indicates a higher risk of bankruptcy (Maharani & Dura, 2023). Companies experiencing financial distress are more likely to adopt conservative accounting practices to signal caution to stakeholders and mitigate conflicts of interest (Rivandi & Ariska, 2019).

Capital Intensity (CI), which is the ratio of fixed assets to total assets, is the second independent variable. An investment in machinery, equipment, and property with a protracted payoff period is indicative of a high capital intensity. (Kasmir, 2019). In order to control political expenses and public expectations, companies with a high capital intensity are more closely monitored by regulators and often use conservative accounting methods. (Maharani & Kristanti, 2019). This study measures capital intensity by calculating the ratio of fixed assets to total assets (Prayoga et al., 2025).

As a third independent variable, Profitability (PROF) assesses the degree to which an organization can turn its assets into profit. According to Gunanto (2023), the return on assets (ROA) ratio is a critical metric for evaluating financial performance, namely profitability. Conservative accounting techniques may help highly profitable companies stabilize their revenues and stay out of the spotlight (Solichah & Fachrurrozie, 2019). On the other side, aggressive accounting may be used by organizations whose profitability is dropping to make their financial situation seem better. (Islami et al., 2022).

An independent board of commissioners (DKI) acts as a moderating variable. Members of the board who do not have ties to the company's management or significant shareholders are known as independent commissioners. It is their responsibility to monitor and check that all financial reporting processes are open and follow the rules. (Pratomo & Havivah, 2021). The presence of independent commissioners helps mitigate conflicts of interest and promotes the application of conservative accounting principles (Rajagukguk & Rohman, 2020). This study measures independent commissioners as the proportion of independent commissioners to the total number of board members (Abdullah et al., 2024).

To strengthen the study's analysis, control variables were included. A company's size may be expressed as the natural logarithm of its total assets. When calculating the "age" of a corporation, add together all the years from its inception. Inflation (INFL), which measures inflation on an annual basis, could affect reporting practices and financial results. Sales Growth (SG) is a measure of a company's growth dynamics and market performance that shows the percentage rise in sales revenue each year.

## RESULTS

Table 3 shows the descriptive statistical analysis provides an overview of the dataset, which consists of 520 observations from manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023.

Table 3. Statistic Descriptive Analysis

Variables	Obs	Mean	Std. Dev.	Min	Max
CON_ACC	520	1.51	33.83	-481.60	188.06
FD	520	3.69	15.30	-24.84	260.01
CI	520	23.47	247.91	-0.19	10.03
PROF	520	2.70	6.92	-39.99	35.80
DKI	520	0.01	0.01	0.008	0.05
SIZE	520	12.48	3.90	2.52	19.92
AGE	520	38.30	14.57	16	81
INFL	520	1.90	1.99	0.34	5.51
SG	520	13.94	94.93	-98.33	0.05

Source: Processed Data, 2024

The descriptive statistics in Table 3 provide insights into the variation and characteristics of the variables used in the analysis. The accounting conservatism (CON\_ACC) variable displays a wide range, from -481.59 to 188.06, indicating diverse practices among firms in recognizing income and expenses. The standard deviation of 33.83 further reflects this variability, suggesting inconsistent application of conservative accounting principles across the sample. The financial distress variable (FD), measured using the inverted Altman Z-Score (multiplied by -1), has a mean of 3.69 with a large standard deviation of 15.30, indicating that while some firms exhibit strong financial health, others experience significant distress. This wide dispersion supports the need for cautious interpretation of its influence on conservatism.

Capital intensity (CI) also shows considerable variation, with a mean of 23.47 and an unusually high standard deviation of 247.91, suggesting that some firms invest heavily in fixed assets while others do not rely on capital-intensive operations. Profitability (PROF), measured by ROA, has a mean of 2.70, indicating modest average performance among firms, but the presence of negative values as low as -39.99 reflects the inclusion of loss-making firms in the sample. The proportion of independent commissioners (DKI) is consistently low (mean 1.17%), highlighting potential limitations in board independence across firms.

Firm size and firm age vary moderately, with most firms having a substantial operational history and moderate asset bases. Inflation and sales growth display noticeable variability, particularly the latter, suggesting fluctuations in company performance during the observation period.

Table 4. Normality Test Equations 1

Variable	Obs	W	V	z	Prob > z
resid1	520	0.25	0.34	12.98	0

Table 5. Normality Test Equation 2

Variable	Obs	W	V	z	Prob > z
resid2	520	0.199	0.36	12.98	0

Source: Processed Data, 2024

To ensure the validity of the regression models, classical assumption tests were conducted. Table 4 shows the normality test using the Shapiro-Wilk method for Equation 1, and Table 5 shows the normality test for Equation 2, yielding p-values of 0.000, indicating that the residuals are not normally distributed. However, this deviation from normality is acceptable given the large sample size (n = 520), which allows the Central Limit Theorem to justify the use of parametric tests.

Table 6. Multicollinearity Test Equation 1

Variable	VIF	1/VIF
DKI	1.03	0.97
PROF	1.03	0.97
CI	1.01	0.99
FD	1.01	0.99
<b>Mean VIF</b>	<b>1.02</b>	

Source: Processed Data, 2024

DKI = Board Independence; PROF = Profitability; CI = Capital Intensity; FD = Financial Distress

Table 7. Multicollinearity Test Equation 2

Variable	VIF	1/VIF
CI	749.62	0.001
DKI_CI	749.21	0.001
DKI_FD	18.89	0.05
FD	18.89	0.05
DKI_PROF	7.65	0.13
PROF	6.35	0.16
AGE	5.56	0.18
SIZE	5.14	0.19
DKI	1.82	0.55
INFL	1.07	0.93
SG	1.04	0.96
<b>Mean VIF</b>	<b>142.29</b>	

Source: Processed Data, 2024

FD = Financial Distress; CI = Capital Intensity; PROF = Profitability; DKI = Board Independence; SIZE = Size of The Companies; AGE = Age of The Companies; INFL = Inflation Rate; SG = Sales Growth.

The multicollinearity test using the Variance Inflation Factor (VIF) showed no indication of multicollinearity in Equation 1, with all VIF values below 10 (mean VIF = 1.02). However, in Equation 2, some variables, particularly interaction terms (e.g., DKI\_CI, CI), showed high VIF values exceeding 10, suggesting multicollinearity concerns. Care should be taken when interpreting the interaction effects in Equation 2.

Table 8. Heteroscedasticity Test Equation 1

Test	Chi2(1)	Prob > Chi2
Breusch-Pagan/Cook-Weisberg Test (CON_ACC)	86.34	0

Source: Processed Data, 2024

Table 9. Heteroscedasticity Test Equation 2

Test	Chi2(1)	Prob > Chi2
Breusch-Pagan/Cook-Weisberg Test (CON_ACC)	26.35	0

Source: Processed Data, 2024

The heteroscedasticity test using the Breusch-Pagan/Cook-Weisberg method returned p-values of 0.000 for both models, rejecting the null hypothesis of constant variance and indicating the presence of heteroscedasticity.

Table 10. Autocorrelation Test Equation 1

Test	F(3, 512)	Prob > F
Ramsey RESET Test (CON_ACC)	0.81	0.49

Source: Processed Data, 2024

Table 11. Autocorrelation Test Equation 2

Test	F(3, 512)	Prob > F
Ramsey RESET Test (CON_ACC)	0.81	0.4862

Source: Processed Data, 2024

The autocorrelation test using the Ramsey RESET test showed Prob > F values of 0.4862 for equation 1 and 0.3721 for equation 2, indicating no significant autocorrelation and supporting the validity of the models.

Table 12. Hypothesis Test for Equation 1 and Equation 2

Variables	Coefficient	Equation 1		Equation 2		
		Significance	Results	Coefficient	Significance	Results
FD	0.04	0.18	rejected	-0.04	0.404	H1 rejected
CI	0.001	0.16	rejected	0.38	0.003	H2 supported
PROF	0.41	0.008	supported	0.65	0.003	H3 supported
DKI	2.12	0.50	rejected	260.47	0.166	H4 rejected
DKI_FD				4.66	0.29	H5 rejected
DKI_CI				-22.82	0.003	H6 rejected
DKI_PROF				-17.63	0.13	H7 rejected
SIZE	0.93	0.14		0.68	0.28	
AGE	0.06	0.39		-0.01	0.49	
INF	-0.43	0.29		-0.49	0.16	
SG	0.023	0.07		0.03	0.15	
_cons	-13.93	0.23		-10.90	0.65	

Source: Processed Data, 2024

FD = Financial Distress; CI = Capital Intensity; PROF = Profitability; DKI = Board Independence; SIZE = Size of The Companies; AGE = Age of The Companies; INFL = Inflation Rate; SG = Sales Growth

The results from Table 12 indicate that financial distress (FD) does not have a statistically significant effect on accounting conservatism ( $p = 0.184$ ). This suggests that firms experiencing financial difficulties do not necessarily adopt more conservative accounting policies. One possible explanation is that distressed firms may prioritize aggressive earnings reporting to obscure poor performance and maintain investor confidence.

Capital intensity (CI) shows an insignificant influence on accounting conservatism ( $p = 0.003$ ). Although theoretically, capital-intensive firms are expected to report more conservatively due to political costs and depreciation-related prudence, this relationship was not supported statistically in the current sample.

Profitability (PROF), however, shows a significant positive relationship with accounting conservatism (coefficient = 0.409352,  $p = 0.008$ ). Given the measurement direction, where conservatism is calculated as a negative accrual, a positive coefficient indicates that higher profitability is associated with a less conservative reporting style. This may reflect managerial incentives to sustain strong earnings appearances in highly profitable firms.

The independent board of commissioners (DKI) has no significant effect on accounting conservatism ( $p = 0.495$ ), implying that the presence of independent oversight alone may not be sufficient to influence financial reporting conservatism. Control variables such as firm size, firm age, inflation, and sales growth also show no significant effect, supporting the notion that firm-specific dynamics and external macroeconomic factors have a limited impact on conservative accounting practices in this sample.

The results from Table 12 above expand on the previous analysis by including interaction terms to assess moderating effects. The results show that capital intensity (CI) and profitability (PROF) remain significantly associated with accounting conservatism, with both variables having positive coefficients (CI = 0.38,  $p = 0.003$ ; PROF = 0.65,  $p = 0.003$ ). These findings reinforce the idea that firms with high fixed asset intensity and strong profitability are more inclined toward less conservative reporting, consistent with managerial preferences for smoother earnings presentation.

Financial distress (FD) continues to show an insignificant effect ( $p = 0.404$ ), and the main variable for the independent board of commissioners (DKI) remains statistically insignificant ( $p = 0.166$ ), similar to equation 1. Among the interaction terms, only the interaction between capital intensity and independent commissioners (DKI\_CI) is statistically significant (coefficient = -22.82,  $p = 0.003$ ), indicating that independent commissioners weaken the negative impact of capital intensity on accounting conservatism. This suggests that in firms with high capital intensity, stronger governance through independent oversight may dampen aggressive financial reporting tendencies.

Other interaction terms, DKI\_FD and DKI\_PROF, do not show significant moderating effects, indicating that the independent board of commissioners does not substantially influence the relationship between financial distress or profitability and accounting conservatism.

Control variables remain insignificant in this model, and the R-squared value (0.0292) indicates limited explanatory power. Nonetheless, the interaction results between CI and DKI provide an important governance implication: effective board independence may counteract the tendency of capital-intensive firms to manipulate or understate financial risk through less conservative accounting.

## DISCUSSION

The findings of this study contribute to a deeper understanding of the complex interrelationships between accounting conservatism and financial distress, capital intensity, and profitability, as well as the moderating role of independent commissioners in manufacturing firms listed on the Indonesia Stock Exchange (IDX). The substantial standard deviation and broad range of accounting conservatism (CON\_ACC) indicate that enterprises use conservative principles in varied ways. The financial distress (FD) variable, measured using the inverted Altman Z-Score (multiplied by -1), also displays significant variability, reflecting diverse financial conditions among the sample firms. Capital intensity (CI) exhibits extreme dispersion, highlighting differences in fixed asset investment strategies. Profitability (PROF) includes both profit-making and loss-making firms, while the proportion of independent

commissioners (DKI) is relatively low across companies, pointing to limited board independence in practice.

This research found no correlation between accounting conservatism and financial hardship. Not all financially troubled companies use conservative accounting methods. This may be impacted by factors including the nature of the sector and the overall business strategy. Companies in solid sectors seem to continue their efforts to keep investor confidence high by generating more upbeat financial reports, even in times of financial volatility. Consistent with signaling theory, this explains why struggling businesses avoid sending the wrong message to stakeholders and the market by adhering to conservative accounting practices (Putri, 2022). The results of this study go counter to those of other research that found a favorable correlation between financial hardship and accounting conservatism. Accounting conservative rules are often used by financially struggling organizations to proactively avoid problems with creditors and shareholders (Sun et al., 2025; Widhiastuti & Rahayu, 2022). Finding a negative or negligible association between financial crisis and accounting conservatism, this study's conclusions are more in line with those of Rahmawati & Latif (2024) and Rivandi & Ariska (2019), among others. Consequently, rather of taking the usual cautious approach, some financially troubled organizations may choose for more aggressive accounting methods to give the impression that they are more stable.

This research found that capital intensity and accounting conservatism are significantly related. The fact that the study sample included only major corporations from certain industries may account for this. When economic or political risks are high, agency theory predicts that organizations with big fixed assets would adopt conservative accounting practices to keep management and shareholders from getting into a power struggle. Accounting conservatism is strongly correlated with capital intensity in this research. However, it is possible that other variables, such corporate policy, oversight, or an economic climate that does not need a greater degree of conservative are at play here. This finding is in line with previous studies that have shown how capital intensity positively affects accounting conservatism, suggesting that businesses with substantial fixed assets are more likely to adhere to these rules. Contrarily, Achyani et al. (2021) found that capital intensity does not always significantly affect accounting conservatism, particularly in industries with low volatility or inadequate regulatory oversight; thus, this result contradicts their findings.

The empirical findings indicate that profitability exerts a significant positive effect on accounting conservatism. In agency theory, high profitability typically creates pressure from shareholders for management to report favorable financial performance. However, highly profitable companies may choose to report conservatively as a strategy to smooth earnings over time and avoid excessive performance fluctuations. Research conducted by Solichah & Fachrurrozie (2019) supports the idea that profitability can enhance accounting conservatism. They argue posits that firms with higher profitability are more likely to adopt conservative financial reporting practices in order to mitigate excessive expectations from stakeholders, including investors and regulators. Conversely, research conducted by Abdurrahman & Ermawati (2018) found that profitability negatively affects accounting conservatism, as companies with high profits may disregard this principle to present more optimistic performance and attract investors.

An independent board of commissioners does not significantly influence the level of accounting conservatism. The presence of an independent board does not guarantee that a company will adopt more conservative and prudent financial reporting practices. In this study, the effectiveness of the independent board of commissioners appears to be suboptimal, possibly due to factors such as limited independence or infrequent oversight. According to agency theory, establishing an independent board of commissioners can help mitigate conflicts between owners and management. The principle of accounting conservatism should be promoted through strong oversight by an independent board to prevent management from taking excessive risks (Abdullah et al., 2024). This finding aligns with (Mandasari et al., 2022), which found that the presence of an independent board is not always a dominant factor in determining the level of accounting conservatism. Conversely, (Mohammed et al., 2019) argued that an independent board can improve financial reporting quality and encourage

conservative practices, as effective oversight by independent parties minimizes the risk of financial manipulation and ultimately strengthens conservatism.

This research found no evidence that an impartial board of commissioners mitigates the correlation between financial instability and conservative accounting practices. It is not certain that accounting conservatism will be implemented just because there is an independent board of commissioners. The attempts of the independent board of commissioners to promote the adoption of conservative accounting practices were unsuccessful for a number of reasons, including a lack of expertise and the board of directors' disregard for their recommendations (Abdullah et al., 2024). The results of this research go counter to agency theory, which emphasizes the need of external monitoring bodies like boards of commissioners to reduce management-shareholder disputes and improve the reliability of financial reports. This backs up research by Pratomo & Havivah (2021) and Mohammed et al. (2019), which show that an impartial board of commissioners isn't the best choice for keeping financial reporting up to par, particularly when money is tight.

According to the results, the impartial board of commissioners can moderate the effect of capital intensity on accounting conservatism, but it can't enhance it. Accounting conservative principles may be better understood via the lens of agency theory, which places an emphasis on the function of governance systems to guarantee their adoption. The independence of the board of commissioners makes it the ideal body to check the accuracy of financial statements and the management team. In this way, their existence helps safeguard the interests of all readers of financial statements while reducing pressure from shareholders to execute conservative accounting. (Mohammed et al., 2019) Also found that an independent board of commissioners positively influences accounting conservatism. However, capital intensity is shaped not only by internal company decisions but also by external factors, such as government regulations and economic conditions. These external influences limit the ability of independent commissioners to fully control the level of accounting conservatism, as other factors beyond their oversight also play a role (Daryatno & Santioso, 2020).

## CONCLUSION

This study assesses conservative accounting practices in relation to capital intensity, profitability, financial hardship, and the independent board of commissioners as a moderating variable. Accounting conservatism is positively associated with profitability, according to the research that examined 104 IDX-listed manufacturing businesses from 2019 to 2023. Profitable businesses are more inclined to be careful with their numbers when reporting them. Nevertheless, there are no direct repercussions that are statistically significant according to the inverted Altman Z-Score, which assesses capital intensity and financial stress.

There is no discernible correlation between accounting conservatism and the existence of impartial commissioners. Having said that, it does moderate the connection between capital intensity and accounting conservatism to a considerable extent, suggesting that businesses with a greater number of independent commissioners have a less favorable impact of capital intensity on conservatism. This research lends credence to the idea that capital-intensive businesses' governance structures should place more weight on strategic or operational supervision rather than financial conservativeness.

The classical assumption tests indicate that equation 1 meets the reliability criteria, whereas equation 2 shows potential issues with multicollinearity and heteroscedasticity, particularly in the interaction terms. Although the overall explanatory power of the models is limited, the results provide valuable insights into how internal financial conditions and corporate governance influence the application of accounting conservatism. Beyond the empirical findings, a deeper interpretation suggests that the composition of the board of commissioners, including factors such as tenure, independence, gender, and the presence of foreign institutional investors, can affect the level of conservatism in financial reporting. These insights highlight the importance for firms to carefully evaluate the structure and effectiveness of their governance bodies, particularly in contexts where reliable financial reporting is critical for maintaining investor confidence.

The implications of this study help investors understand how internal factors and corporate governance influence the quality of financial reports. By examining the application of accounting conservatism, investors can more carefully evaluate risks and make informed investment decisions. Additionally, the findings suggest that companies with strong profitability tend to pay greater attention to the implementation of conservative accounting practices.

This study is not without limitations. Multicollinearity was observed in several interaction terms, which may affect the estimation results of the research model. However, such issues are common in empirical studies involving moderation analysis. Future research should address multicollinearity by mean-centering or standardizing variables before creating interaction terms, employing estimation techniques robust to multicollinearity, increasing the sample size, and testing alternative model specifications to confirm the stability and robustness of the results.

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