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The Effect of Financial Distress, Capital Intensity, Political Cost, And Company Size Against Accounting Conservatism

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Abstract

This research aims to analyze the influence of Financial Distress, Capital Intensity, Political Cost, and Company Size on Accounting Conservatism in manufacturing companies listed on the Jakarta Islamic Index from 2019 to 2023. A quantitative approach was employed using secondary data sourced from the financial statements of manufacturing companies listed on the Jakarta Islamic Index, published by the companies and the Indonesia Stock Exchange. The data were analyzed using panel data regression with the Fixed Effect Model (FEM). The results of the study indicate that Financial Distress, Political Cost, and Capital Intensity do not have a significant effect on Accounting Conservatism, while Company Size does have an effect on Accounting Conservatism. However, Financial Distress, Capital Intensity, Political Cost, and Company Size collectively have an influence on Accounting Conservatism.

Keywords

Accounting Conservatism; Financial Distress; Capital Intensity; Political Cost; Company Size

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1. INTRODUCTION

Financial statements serve as a critical tool for accountability regarding management performance, providing insights into a company's profitability and resource management. These statements are essential for decision-making by stakeholders, as they assess a company's current condition, predict future performance, and evaluate investment risks (Prayoga et al., 2024). To ensure accountability, financial statements must adhere to generally accepted accounting principles and standards. The Financial Accounting Standards (SAK) offer flexibility in the accounting methods and estimates used in financial reporting, allowing managers to choose varying levels of conservatism. This flexibility influences how transactions are recorded, with conservatism being a key approach in financial reporting. The principle of accounting conservatism encourages companies to recognize potential losses and liabilities promptly while delaying the recognition of revenues and profits, reflecting a cautious attitude towards uncertainties in business and economic activities (Phuong Hong

& Tra My, 2024a).

Proponents of accounting conservatism, such as Watts and Calvin Oktomegah, argue that it helps mitigate managerial optimism, which can distort the reported values of assets and revenues. This distortion can mislead stakeholders, including investors and creditors, who rely on accurate financial information for decision-making. A notable case illustrating the violation of accounting conservatism is PT Tiga Pilar Sejahtera Food Tbk (AISA), which manipulated its financial statements in 2017 by inflating its financial reports by approximately Rp 4 trillion. This manipulation misrepresented the company's performance and violated the conservatism principle, highlighting the risks associated with aggressive accounting practices (Darmayanti et al., 2023a).

Financial distress, characterized by a company's struggle to meet its financial obligations, often leads to aggressive accounting practices aimed at improving financial appearance. Companies in distress may recognize uncertain revenues and delay loss recognition to attract investments or secure loans, risking financial statement manipulation and harming stakeholders (Ramadhan & Ermaya, 2024). Research indicates that financial distress significantly affects accounting conservatism, with some studies suggesting that distressed companies may adopt more aggressive accounting practices, while others argue that immediate liquidity needs may take precedence over conservative reporting (Maiyo et al., 2025b). Capital intensity, defined as the ratio of fixed assets to total assets, also influences accounting conservatism. Companies with high capital intensity may adopt conservative practices to protect their significant investments in fixed assets. However, findings on this relationship are mixed, with some studies indicating a positive influence of capital intensity on conservatism, while others suggest no significant effect. Both IFRS and GAAP require companies to assess the impairment of fixed assets, reinforcing the need for conservative reporting (Safira et al., 2024a). Political costs, arising from regulatory influences, further impact accounting conservatism. Companies in highly regulated environments may adopt conservative practices to avoid scrutiny, while those perceiving low political risk may engage in more aggressive accounting. Research shows varied results regarding the influence of political costs on accounting conservatism, indicating a need for further analysis (Hartini et al., 2023a).

Company size is another critical factor influencing accounting conservatism. Larger firms, with more resources and stakeholders, are generally more likely to implement conservative accounting practices to maintain investor and creditor trust. However, some studies suggest that smaller companies may prioritize demonstrating better performance, leading them to overlook conservatism (Widhiastuti & Rahayu, 2022). Both IFRS and GAAP emphasize the importance of transparency and accountability, which can be more pronounced in larger companies due to greater scrutiny from regulators and investors. This research aims to explore how factors such as Financial Distress, Capital

Intensity, Political Cost, and Company Size influence accounting conservatism among companies listed on the Jakarta Islamic Index. By examining these dynamics, the study seeks to enhance understanding of accounting practices in Indonesia and discuss the implications of conservatism violations on stakeholder trust and market stability (Sholikhah & Baroroh, 2021a).

The principle of accounting conservatism has sparked considerable debate. Critics argue that conservative accounting can lead to biased financial statements that do not accurately reflect a company's financial condition. For instance, Kiryanto et al. suggest that conservative methods may distort financial reporting outcomes. This highlights the need for a balanced approach to accounting practices that considers both the benefits of conservatism and the potential for misrepresentation (Ludiana & Dwi Rohmatunnisa, 2022a). This research addresses a significant gap in the existing literature regarding the influence of various factors on accounting conservatism. By focusing on manufacturing companies listed on the Jakarta Islamic Index, the study aims to provide new insights into the dynamics of accounting conservatism in the Indonesian context. The findings are expected to contribute to the development of more robust accounting practices and enhance the understanding of how financial distress, capital intensity, political costs, and company size interact to influence accounting conservatism, ultimately informing stakeholders and improving the integrity of financial reporting in Indonesia.

This study constructs a conceptual framework based on the issues and previous scientific findings. Financial Distress (X1), Capital Intensity (X2), Political Cost (X3), and Company Size (X4) serve as independent variables, while Accounting Conservatism (Y) functions as the dependent variable. Based on the theoretical framework used and the findings outlined in previous research, the following hypotheses are proposed:

The Effect of Financial Distress on Accounting Conservatism

The relationship between financial distress and accounting conservatism can be analyzed through agency theory and signaling theory. Financial distress occurs when a company struggles to meet its financial obligations, potentially leading to bankruptcy. In such cases, management may feel pressured to present a healthier financial position to stakeholders, which can result in aggressive accounting practices that deviate from conservatism. According to agency theory, this behavior prioritizes short-term survival over long-term transparency. (Achyani et al., 2017a) supports the idea that financial distress significantly influences accounting conservatism, indicating that distressed companies are more likely to adopt less conservative practices. Conversely, (Phuong Hong & Tra My, 2024b) argue that financial distress does not affect conservatism, suggesting adherence to conservative practices to maintain credibility. This conflicting evidence underscores the complexity of the relationship, leading to the hypothesis that financial distress significantly affects accounting

conservatism, contributing to a better understanding of its implications for financial reporting.

H1: Financial Distress has an effect on Accounting Conservatism.

The Effect of Capital Intensity on Accounting Conservatism.

The relationship between capital intensity and accounting conservatism can be examined through resource-based theory and signaling theory. Capital intensity, defined as the proportion of fixed assets in total assets, may lead companies to adopt conservative accounting practices to protect their investments. Firms with high capital intensity have a vested interest in accurately reporting asset values to mitigate impairment risks. Research by (Darmayanti et al., 2023b) suggests that higher capital intensity positively influences accounting conservatism, while Mariati & Setiawan (2024) argue that this relationship may not be significant, indicating that companies might not adopt conservative practices despite substantial fixed assets. Additionally, signaling theory complicates this relationship, as companies may feel pressured to present strong financial performance, leading to aggressive accounting methods that deviate from conservatism. Given the mixed evidence, the hypothesis posits that capital intensity does not have a significant effect on accounting conservatism, aiming to clarify its role in financial reporting practices.

H2: Capital Intensity does not have an effect on Accounting Conservatism.

The Effect of Political Cost on Accounting Conservatism.

The relationship between political cost and accounting conservatism can be analyzed through agency theory and stakeholder theory. Political cost refers to expenses incurred due to political and regulatory influences, which can significantly affect financial reporting practices. Companies in highly regulated environments may adopt conservative accounting practices to mitigate risks associated with political scrutiny. From an agency theory perspective, management may prioritize shareholder interests by being conservative in financial reporting to avoid backlash from regulators or the public. Research by (Safira et al., 2024b) supports the idea that political cost significantly influences accounting conservatism, indicating that firms in politically sensitive environments are more likely to adopt conservative practices. Conversely, (Maiyo et al., 2025a) suggests that political cost may not always impact conservatism, as some companies prioritize operational performance. This conflicting evidence highlights the complexity of the relationship, leading to the hypothesis that political cost will have a significant effect on accounting conservatism, contributing to a better understanding of how political factors shape accounting behavior.

H3: Political Cost has an effect on Accounting Conservatism.

The Effect of Company Size on Accounting Conservatism.

The relationship between company size and accounting conservatism can be examined through agency theory and signaling theory. Company size, often measured by total assets or revenue,

influences accounting practices due to increased scrutiny from stakeholders. Larger firms may adopt conservative accounting practices to maintain transparency and accountability, signaling their commitment to prudent financial management. Research by Ramadona, as cited by (Hartini et al., 2023b), suggests that larger companies are more likely to be conservative in their reporting. However(Sholikhah & Baroroh, 2021b) argue that company size does not significantly affect accounting conservatism, indicating that smaller firms may prioritize aggressive reporting to demonstrate better performance. Additionally, signaling theory complicates this relationship, as larger companies may feel pressured to present strong financial results, leading them to adopt more aggressive accounting methods. Given the mixed evidence, the hypothesis posits that company size does not have a significant effect on accounting conservatism, aiming to clarify its role in financial reporting practices.

H4: Company Size does not have an effect on Accounting Conservatism.

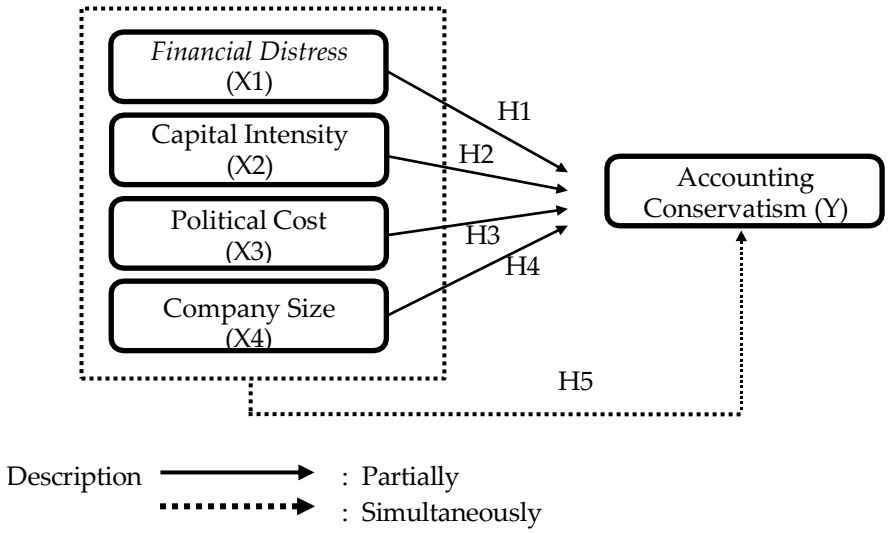
The Effect of Financial Distress, Capital Intensity, Political Cost, and Company Size on Accounting Conservatism.

The relationship between financial distress, capital intensity, political cost, and company size with accounting conservatism can be analyzed through agency theory, signaling theory, and resource-based theory. Financial distress may lead companies to adopt aggressive accounting practices to present a favorable image, as supported by (Ludiana & Dwi Rohmatunnisa, 2022b). Capital intensity, or the ratio of fixed assets to total assets, can influence conservatism; (Wiharno et al., 2023) found a positive relationship, while (Achyani et al., 2017b) suggest it may not be significant. Political cost, arising from regulatory scrutiny, can compel conservative practices, as indicated by (Duvadila Budiarto & Achyani, 2023), though (Ozgul, 2023) presents contrasting evidence. Company size also plays a role, with larger firms facing greater scrutiny, leading to more conservative practices, according to (Muafi, 2021). Given these interactions, the hypothesis posits that financial distress, capital intensity, political cost, and company size have a simultaneous effect on accounting conservatism, enhancing understanding of financial reporting dynamics.

H5: Financial Distress, Capital Intensity, Political Cost, and Company Size have a simultaneous effect on Accounting Conservatism.

Figure 1 below summarizes the relationships among the research variables and illustrates the related hypotheses to be examined in this study.

Figure 1. Framework of Thought
Source: Eviews 12 (Data Processed, 2024)



2. METHODS

Type of Research

In the context of this research, a quantitative research method is employed with a panel data regression approach. This approach is chosen for its ability to analyze data that varies both over time and across entities, allowing for a more comprehensive understanding of the relationships between financial distress, capital intensity, political cost, company size, and accounting conservatism. The advantages of panel data regression compared to other methods lie in the richness of the data produced, as it combines cross-sectional and time-series data, providing a broader dataset and enhancing the robustness of the analysis. Additionally, this method can control for unobserved heterogeneity, thereby reducing omitted variable bias. The larger sample size resulting from the combination of multiple time periods and entities also increases the statistical power of the tests, making it easier to detect significant relationships between variables. Panel data regression also allows for the analysis of dynamic relationships, enabling researchers to observe how changes in independent variables over time impact accounting conservatism. Thus, the use of quantitative methods with panel data regression in this research is justified as it provides a strong framework for testing the established hypotheses and offers insights into the complex interactions between the variables of interest in accounting practices (Sugiyono, 2022)

Research Data Source

The data source used in this research is secondary data, which contains the dependent and independent variables required for this study. Secondary data refers to data sources that do not provide information directly to the data collector, but rather through intermediaries such as other individuals or documents (Ph.D. Ummul Aiman et al., 2022). In this research, the secondary data is derived from the annual financial statements of manufacturing companies listed on the Jakarta Islamic Index from 2019 to 2023. The annual financial statements of the companies were accessed and downloaded from the official Jakarta Islamic Index website, which is www.idx.co.id.

Research Population and Sample

The population in this research includes all companies that meet the criteria of being public manufacturing companies listed on the index. The population is the area of generalization that consists of objects/subjects with specific qualities and characteristics determined by the researcher for study and from which conclusions are drawn (Maryani, 2017) In this research, the population studied consists of 7 manufacturing companies that have been consecutively listed on the Jakarta Islamic Index (JII) during the period from 2019 to 2023. The selection of only 7 companies is based on specific criteria that ensure the relevance and consistency of the data used in the analysis. First, only companies that meet the requirements for listing on the JII are included, as the JII has strict criteria related to Sharia compliance, financial performance, and transparency of financial reporting. Additionally, the listed companies must have complete and accessible financial data during the research period, which is essential for accurate and comprehensive analysis. Only companies that have been consistently listed for five consecutive years are included, ensuring stability and continuity in operations, which is important for longitudinal analysis. Finally, the selected companies must be in the manufacturing sector, which is the primary focus of this research, allowing for a deeper understanding of accounting conservatism practices within a specific industry context. By considering these criteria, this research can produce more valid and reliable findings, providing deeper insights into the factors influencing accounting conservatism in companies listed on the JII.

A sample is a subset of the total number and characteristics possessed by the population. If the population size is too large, the researcher may take a portion of the total population. Conversely, for a small population, it is advisable to use the entire population as the data source. In this research, since the population consists of fewer than 30 companies, all members of the population are used as the sample through saturated sampling. Saturated sampling is a sampling technique where all members of the population are used as the sample. This method is often employed when the population size is relatively small, typically fewer than 30 individuals (Achyani et al., 2017b). In this research, the sample consists of all manufacturing companies that have been consecutively listed on

the Jakarta Islamic Index (JII) during the period from 2019 to 2023, totaling 7 companies. The use of saturated sampling in this context is justified as it allows for a comprehensive analysis of the entire population, ensuring that no relevant data is overlooked. Previous studies, such as those conducted by (Yenti et al., n.d.), have successfully employed saturated sampling in similar contexts, focusing on specific sectors or indices with limited numbers of firms. By utilizing this method, the research can provide more accurate and reliable insights into the factors influencing accounting conservatism among the selected companies, as it captures the complete range of data available within the defined population. This approach enhances the validity of the findings and contributes to a more nuanced understanding of the dynamics at play in financial reporting practices within the manufacturing sector listed on the JII (Maryani, 2017).

Table 1.
List of Manufacturing Companies

No	Code	Company Name
1.	CPIN	Charoen Pokphand Indonesia Tbk
2.	ICBP	Indofood CBP Sukses Makmur Tbk.
3.	INDF	Indofood Sukses Makmur Tbk.
4.	INTP	Indocement Tunggal Prakarsa Tbk.
5.	KLBF	Kalbe Farma Tbk.
6.	TPIA	Chandra Asri Petrochemical Tbk.
7.	UNVR	Unilever Indonesia Tbk.

Source: Eviews 12 (Data Processed, 2024)

In this research, if there are companies that enter and exit the Jakarta Islamic Index (JII) during the observation period, only those companies that have been consistently listed for the entire duration of the five years from 2019 to 2023 will be included in the sample. This approach ensures that the analysis focuses on firms with stable operations and continuous compliance with the JII criteria, which is essential for maintaining the integrity of the data. Companies that were not listed for the full five-year period may exhibit different financial behaviors and reporting practices, potentially skewing the results. By including only those companies that have consistently been part of the JII, the research aims to provide a clearer and more reliable understanding of the factors influencing accounting conservatism within a stable and defined population. This criterion enhances the validity of the findings and allows for a more accurate assessment of the dynamics at play in financial reporting practices among the selected manufacturing companies.

Table 2.
Description and measurement of variables

Variable Name	Symbol	Measurement	Source
Financial Distress	X1	Z' = 0,717X1 + 0,847X2 + 3.107X3 + 0,42X4 + 0,998X5	(Sulastri & Devi, 2018)
Intensitas Modal	X2	CAPI= Fixed Assets / Total Assets	(Maharani & Dura, 2023)
Political Cost	X2	ETR (Effective Tax Rate) = Income Tax Expense / Profit Before Tax	(Rika Widianita, 2023)
Company Size	X4	Ln Total Aset	(Gusti & Merta, 2016)
Accounting Conservatime	Y	CONACC=((NIO+DEP-CFO)x(-1))/TA	(Tazkiya & Sulastiningsih, 2020)

Source: Eviews 12 (Data Processed, 2024)

Data Analysis Technique

This research employs panel data regression to analyze the influence of independent variables Financial Distress, Capital Intensity, Political Cost, and Company Size on the dependent variable, Accounting Conservatism. Panel data regression is advantageous as it integrates cross-sectional and time-series data, yielding richer insights. The Fixed Effect Model is utilized to control for unobserved variables that may affect the dependent variable, enhancing the validity of the results.

To determine the most suitable model, the Chow Test is conducted to choose between the Fixed Effect and Random Effect Models. Subsequently, the Hausman Test is performed to ensure the selected model accurately explains the relationship between the variables. Prior to regression analysis, classical assumption tests, including multicollinearity, heteroscedasticity, and normality tests, are conducted to confirm that the data meets the necessary assumptions.

Descriptive analysis provides an overview of the data, including metrics such as mean, median, maximum, minimum, and standard deviation for each variable. Hypothesis testing is performed using t-tests to assess the individual impact of each independent variable and F-tests to evaluate their simultaneous influence. Statistical software like Eviews is utilized for data processing and analysis, aiming to yield valid and reliable results regarding the impact of the examined variables on accounting conservatism in manufacturing companies listed on the Jakarta Islamic Index.

3. FINDINGS AND DISCUSSION

Findings Research

Descriptive Statistics

This analysis is to determine the description of variable Y data such as the amount of data (35), average value (-0.365), minimum value (-0.594), maximum (0.058), and standard deviation (0.144). And so on for other variables.

Table 6.
Statistical Descriptive Analysis

	Y	X1	X2	X3	X4
Mean	-0.364834	2.909906	0.393444	0.253744	31.45091
Median	-0.391714	3.270650	0.413439	0.228251	31.19903
Maximum	0.057808	5.001638	0.646070	0.787233	32.85992
Minimum	-0.594306	1.207953	0.120066	0.153427	30.44428
Std. Dev.	0.144016	1.232739	0.142753	0.107973	0.763718
Skewness	1.023984	-0.121216	-0.416155	3.688826	0.559913
Kurtosis	3.780986	1.509878	2.304448	18.37576	1.920083
Jarque-Bera	7.005995	3.323885	1.715778	424.1471	3.529502
Probability	0.030107	0.189770	0.424056	0.000000	0.171229
Sum	-12.76917	101.8467	13.77054	8.881038	1100.782
Sum Sq. Dev.	0.705177	51.66791	0.692862	0.396378	19.83104
Observations	35	35	35	35	35

Source: Eviews 12 (Data Processed, 2025)

The descriptive statistical analysis in this research presents various numerical values that provide insights into the characteristics and distributions of the variables involved. The mean value for each variable represents the average score across all observations in the sample. For instance, if the mean for Accounting Conservatism is -0.364834, it indicates that, on average, the companies in the sample exhibit a negative level of accounting conservatism. This suggests that these companies may be recognizing revenues and assets more aggressively than losses and liabilities, which is contrary to conservative accounting practices.

The negative mean value of Accounting Conservatism at -0.364834 indicates that, on average, the companies in the sample are likely engaging in aggressive recognition of revenues and assets, which contrasts with the principles of conservative accounting. This finding raises several important implications and questions regarding the behavior of these companies and how it aligns with previous research.

First, the negative average suggests that these companies may prioritize short-term financial performance over long-term sustainability. By recognizing revenues and assets more aggressively, they may be attempting to present a more favorable financial position to stakeholders, including investors and creditors. This behavior can lead to inflated financial statements, which may mislead stakeholders about the true economic condition of the companies. Such aggressive accounting practices can be particularly concerning in volatile market conditions, where the risk of financial distress is heightened.

Comparing this finding with previous research, it is essential to consider studies that have

explored the relationship between accounting conservatism and various factors such as financial distress, capital intensity, and company size. For instance, research by (Prayoga et al., 2024) indicates that companies experiencing financial distress tend to adopt less conservative accounting practices, aligning with the findings of this study. Similarly, studies by (Phuong Hong & Tra My, 2024a) suggest that firms with high capital intensity may also exhibit aggressive accounting behavior, potentially to protect their substantial investments.

Moreover, the implications of a negative mean for Accounting Conservatism can also be contextualized within the framework of agency theory. According to this theory, managers may engage in aggressive accounting practices to signal a healthier financial state to external parties, especially when facing pressures from stakeholders to meet performance expectations. This behavior can lead to a misalignment of interests between management and shareholders, as the former may prioritize personal or short-term gains over the long-term health of the company.

The median value serves as the middle point of the data when arranged in ascending order. If the median for Company Size is 31.45091, it indicates that half of the companies in the sample have a size smaller than this value, while the other half are larger. This measure is particularly useful for understanding the central tendency in the presence of outliers, as it is less affected by extreme values. The maximum and minimum values indicate the range of the data. For example, if the maximum value for Capital Intensity is 0.646070 and the minimum is 0.120066, this range shows the extent of variability in capital intensity among the companies. A wide range suggests that some companies have significantly higher capital intensity than others, reflecting differences in their asset structures or operational strategies.

The standard deviation provides insight into the dispersion of the data points around the mean. If the standard deviation for Financial Distress is 1.232739, it indicates that the financial distress scores of the companies vary significantly from the mean. A high standard deviation suggests that while some companies may be experiencing severe financial distress, others may be in a much healthier financial position. Skewness indicates the asymmetry of the data distribution. A skewness value of 1.023984 for Accounting Conservatism suggests a rightward skew, meaning that there are more companies with lower conservatism scores and a few with very high scores. Kurtosis measures the "tailedness" of the distribution; a kurtosis value of 3.780986 indicates a distribution that is more peaked than a normal distribution, suggesting that there are more extreme values than would be expected in a normal distribution.

The Jarque-Bera statistic for Accounting Conservatism is 7.005995 with a probability of 0.030107, indicating that the distribution of this variable significantly deviates from normality, as the p-value is less than 0.05. This finding suggests that the assumptions of normality may not hold for this variable,

which is important to consider in subsequent analyses. Overall, the descriptive statistics provide a detailed overview of the data characteristics, highlighting the average behaviors, variability, and distribution patterns of the variables involved in the study. These insights are crucial for understanding the context of the research and for interpreting the results of the inferential analyses that follow.

Model Selection Test

The chow test is used to determine whether the Common Effect (OLS) or Fixed Effect model is the most appropriate. From the results of outiput table 3, it can be seen that the probability (Prob) on Cross Section F < 0.05 (0.0016 < 0.05), so the better model is Fixed effect rather than Common effect.

Tabel 3.
Output Chow Test

Redundant Fixed Effects Tests
Equation: FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.164953	(6,24)	0.0016
Cross-section Chi-square	29.018234	6	0.0001

Source: Eviews 12 (Data Processed, 2025)

In the results of the Chow Test, the output indicates a probability value (Prob) of 0.0016, which is less than the significance level of 0.05. This suggests that the Fixed Effect Model is more appropriate than the Common Effect Model for this study. The significance of this finding implies that there are unique characteristics among the companies in the sample that need to be accounted for, reinforcing the necessity of using a model that can control for these individual effects.

The significance of selecting the Fixed Effect Model (FEM) over the Common Effect Model (CEM) is underscored by the results of the Chow Test, which indicate a probability value of 0.0016, significantly lower than the 0.05 threshold. This finding suggests that the differences among the companies in the sample are not random and that there are unique characteristics that influence the dependent variable, Accounting Conservatism.

One key justification for the choice of the Fixed Effect Model is its ability to control for unobserved heterogeneity that may exist across the companies. In panel data analysis, individual companies may have specific traits such as management practices, corporate governance structures, or industry dynamics that affect their accounting behavior. The FEM accounts for these unobserved characteristics by allowing each company to have its own intercept, effectively controlling for any time-invariant factors that could bias the results if ignored. This is particularly important in

accounting research, where such unobserved factors can significantly influence financial reporting practices.

Moreover, the Fixed Effect Model is particularly suitable when the focus is on analyzing the impact of variables that change over time within the same entities. In this study, the independent variables such as Financial Distress, Capital Intensity, Political Cost, and Company Size are likely to vary across the observation period, and the FEM allows for a more accurate assessment of how these changes affect Accounting Conservatism. By isolating the effects of these time-varying variables while controlling for individual company characteristics, the FEM enhances the validity of the findings.

Additionally, the use of the Fixed Effect Model can lead to more reliable estimates of the relationships between the independent variables and the dependent variable. By mitigating the risk of omitted variable bias that could arise from unobserved factors, the FEM provides a clearer picture of the dynamics at play in accounting conservatism among the companies analyzed. This robustness is crucial for drawing meaningful conclusions and making informed recommendations based on the research findings.

Tabel 4.
Output uji Hausman

Correlated Random Effects - Hausman Test
Equation: REM
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.758727	4	0.0447

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	0.012616	-0.009340	0.000225	0.1430
X2	-0.448731	-0.689153	0.043156	0.2471
X3	0.173479	0.068196	0.004881	0.1318
X4	0.243123	0.060914	0.004046	0.0042

Source: Eviews 12 (Data Processed, 2025)

The results of the Hausman Test reinforce the selection of the Fixed Effect Model (FEM) over the Random Effect Model (REM) by providing a probability value of 0.0447, which is below the 0.05 significance level. This finding indicates that the differences in unobserved variables across the companies in the sample are significant and that these variables are correlated with the independent variables being analyzed.

One key justification for choosing the Fixed Effect Model is its ability to control for these unobserved variables that may influence the dependent variable, Accounting Conservatism. In the context of panel data, companies may possess unique characteristics—such as management styles, corporate culture, or specific operational practices—that do not change over time but can significantly impact their financial reporting behavior. The FEM accounts for these time-invariant characteristics by allowing each company to have its own intercept, effectively controlling for any potential bias that could arise if these factors were omitted from the analysis.

Furthermore, the Fixed Effect Model is particularly advantageous when the primary interest lies in understanding the impact of variables that change over time within the same entities. In this study, the independent variables—such as Financial Distress, Capital Intensity, Political Cost, and Company Size—are likely to vary across the observation period. The FEM allows for a more precise estimation of how these changes affect Accounting Conservatism by isolating the effects of these time-varying variables while controlling for the influence of unobserved, time-invariant factors.

Additionally, the Hausman Test's indication that the Fixed Effect Model is more appropriate suggests that the Random Effect Model, which assumes that the unobserved effects are uncorrelated with the independent variables, may lead to biased estimates. If this assumption does not hold true, as indicated by the Hausman Test results, the REM could produce inconsistent and unreliable estimates, undermining the validity of the research findings.

Tabel 5.
FEM Regression Output

Dependent Variable: Y
Method: Panel Least Squares
Date: 02/10/25 Time: 01:12
Sample: 2019 2023
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.915447	2.647383	-2.989913	0.0064
X1	0.012616	0.024270	0.519823	0.6079
X2	-0.448731	0.287599	-1.560266	0.1318
X3	0.173479	0.137902	1.257985	0.2205
X4	0.243123	0.081007	3.001249	0.0062

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.046894	R-squared	0.890854
Mean dependent var	-0.364834	Adjusted R-squared	0.845377
S.D. dependent var	0.144016	S.E. of regression	0.056630
Akaike info criterion	-2.653276	Sum squared resid	0.076967
Schwarz criterion	-2.164452	Log likelihood	57.43232
Hannan-Quinn criter.	-2.484534	F-statistic	19.58892
Durbin-Watson stat	2.536049	Prob(F-statistic)	0.000000

Firstly, the overall model fit is indicated by the R-squared value, which in this case is approximately 0.890854. This suggests that about 89.1% of the variability in Accounting Conservatism can be explained by the independent variables included in the model. This high R-squared value indicates a strong explanatory power of the model, suggesting that the selected variables are relevant in understanding the factors that influence accounting conservatism among the manufacturing companies analyzed.

The coefficients for each independent variable provide further insights into their individual effects on Accounting Conservatism. The coefficient for Company Size (X4) is 0.243123, with a probability value of 0.0062. This indicates a statistically significant positive relationship between Company Size and Accounting Conservatism. In practical terms, this means that as the size of a company increases, its level of accounting conservatism also tends to increase. Larger companies may adopt more conservative accounting practices due to greater scrutiny from agencys, regulatory requirements, and the need to maintain a positive reputation in the market.

On the other hand, the coefficients for Financial Distress (X1), Capital Intensity (X2), and Political Cost (X3) are not statistically significant, with probability values of 0.6079, 0.1318, and 0.2205, respectively. This indicates that these variables do not have a meaningful impact on Accounting Conservatism in the context of this study. Specifically, the lack of significance for Financial Distress suggests that companies experiencing financial difficulties do not necessarily adopt more conservative accounting practices. Similarly, the results indicate that Capital Intensity and Political Cost do not significantly influence the level of conservatism in accounting practices among the companies analyzed.

Classical Assumption Test

Multicollinearity refers to a condition where there is a perfect or near-perfect linear relationship among independent variables in a regression model. A regression model is said to experience multicollinearity if there is a perfect linear function among some or all of the independent variables in

the linear function. As a result, it becomes difficult to determine the effect between the independent and dependent variables.

To assess the presence of multicollinearity, the Variance Inflation Factor (VIF) is examined. If the VIF value is less than 10, it indicates that there is no multicollinearity problem. From the output in Table 4, it can be observed that the VIF values for all four variables are less than 10, indicating that there is no multicollinearity issue in the regression model.

Tabel 7.
Multicollinearity test results VIF Method
Source: Eviews 12 (Data Processed, 2025)

Variance Inflation Factors
Date: 02/10/25 Time: 17:45
Sample: 1 35
Included observations: 35

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.386008	8252.380	NA
X1	0.000310	18.36515	2.726439
X2	0.018000	18.71154	2.121575
X3	0.017321	7.808272	1.167985
X4	0.001236	7284.791	4.170417

The implication of having no multicollinearity is that the regression results are likely to be stable and reliable. This stability means that the estimated coefficients for the independent variables can be interpreted with confidence, as they reflect the true relationships between the independent variables and the dependent variable, Accounting Conservatism. The absence of multicollinearity allows for clearer insights into how each independent variable influences the dependent variable without the confounding effects that arise from correlated predictors.

Furthermore, the stability of the regression results enhances the validity of the conclusions drawn from the analysis. Stakeholders can rely on the findings to make informed decisions based on the relationships identified in the model. In summary, the lack of multicollinearity indicates that the regression model is robust, and the results can be interpreted with a high degree of confidence, reinforcing the overall integrity of the research findings.

Table 8.
Heteroscedasticity test output of Glejser test method
Source: Eviews 12 (Data Processed, 2025)

Heteroskedasticity Test: Glejser
Null hypothesis: Homoskedasticity

F-statistic	1.506461	Prob. F(4,30)	0.2253
Obs*R-squared	5.854255	Prob. Chi-Square(4)	0.2103
Scaled explained SS	7.063087	Prob. Chi-Square(4)	0.1326

Test Equation:
Dependent Variable: ARESID
Method: Least Squares
Date: 02/10/25 Time: 17:52
Sample: 1 35
Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.821338	0.768337	2.370492	0.0244
X1	-0.016127	0.011494	-1.403012	0.1709
X2	-0.165603	0.087559	-1.891325	0.0683
X3	0.069504	0.085893	0.809193	0.4248
X4	-0.053330	0.022946	-2.324121	0.0271

R-squared	0.167264	Mean dependent var	0.049613
Adjusted R-squared	0.056233	S.D. dependent var	0.051507
S.E. of regression	0.050038	Akaike info criterion	-3.020521
Sum squared resid	0.075113	Schwarz criterion	-2.798329
Log likelihood	57.85912	Hannan-Quinn criter.	-2.943820
F-statistic	1.506461	Durbin-Watson stat	2.143922
Prob(F-statistic)	0.225313		

Heteroskedasticity refers to a condition where there is a non-constant variance of the residuals across all observations in a regression model. There are several methods to test whether the regression model meets the assumption of homoscedasticity, one of which is the Glejser Test. This test regresses the absolute values of the residuals against the independent variables. The criterion used is that if the Prob chi-square value for Obs*R-Squared is greater than 0.05, the null hypothesis is accepted, indicating that there is no heteroskedasticity problem in the regression model.

From the output in Table 5, it can be observed that the Prob chi-square value for Obs*R-Squared is 0.2103. Since this value is greater than 0.05, the null hypothesis is accepted, which means that there is no heteroskedasticity issue in the regression model.

The panel data regression analysis and hypothesis testing, including t-tests and F-tests, provide significant insights into the relationships between independent and dependent variables in this study. The Fixed Effect Model regression equation derived from the analysis is expressed as Y = -7.92 +

0.01*X1 - 0.45*X2 + 0.17*X3 + 0.24*X4. This equation illustrates how each independent variable influences the dependent variable, Accounting Conservatism.

The t-test, which assesses the significance of each independent variable on the dependent variable, reveals important findings. For Financial Distress (X1), the results indicate that it does not have a significant effect on Accounting Conservatism, as the calculated t-value of 0.519 is less than the critical t-value of 2.042, and the probability value of 0.608 exceeds the 0.05 threshold. Similarly, Capital Intensity (X2) also shows no significant impact, with a t-value of -1.560 and a probability value of 0.132, both indicating a lack of influence on the dependent variable. Political Cost (X3) follows suit, as its t-value of 1.258 and probability value of 0.220 suggest that it does not significantly affect Accounting Conservatism either. In contrast, Company Size (X4) demonstrates a significant positive effect, with a t-value of 3.001, which is greater than the critical t-value, and a probability value of 0.006, indicating a strong influence on the dependent variable.

The F-test is employed to determine whether the independent variables collectively have a significant effect on the dependent variable. The results show that the calculated F-value of 19.589 exceeds the critical F-value of 2.690, and the probability value is less than 0.05, leading to the rejection of the null hypothesis. This indicates that the independent variables, when considered together, significantly influence Accounting Conservatism.

The analysis of determination, represented by the Adjusted R Square value, indicates the proportion of variance in the dependent variable that can be explained by the independent variables. The Adjusted R Square value of 0.845 signifies that approximately 84.5% of the variation in Accounting Conservatism can be explained by the independent variables included in the model. This leaves 15.5% of the variation attributed to other factors not included in the study. The Adjusted R Square is particularly useful in this context, as it accounts for the number of independent variables in the model, providing a more accurate measure of explanatory power. Overall, these findings contribute to a deeper understanding of the dynamics influencing Accounting Conservatism in the manufacturing sector, particularly among companies listed on the Jakarta Islamic Index.

Discussion

The Effect of Financial Distress on Accounting Conservatism

The influence of Financial Distress on Accounting Conservatism is a critical area of investigation in accounting research. The findings of this study indicate that Financial Distress does not have a significant impact on Accounting Conservatism. This conclusion aligns with previous research, which also found that high levels of financial distress do not influence the adoption of accounting conservatism within companies. The rationale behind this observation may be that firms experiencing financial difficulties often prioritize immediate liquidity needs over conservative accounting practices.

When companies face financial distress, their primary focus tends to shift towards securing funds to meet short-term obligations rather than adopting conservative reporting measures that could potentially obscure their financial position.

This lack of a significant relationship can be contextualized within the framework of agency theory (Jensen & Meckling, 1976). When firms are in distress, management may engage in more aggressive accounting practices to present a more favorable financial position to stakeholders, including creditors and investors. This behavior can be driven by the need to attract additional financing or to avoid bankruptcy, leading to a preference for recognizing revenues and assets more readily than losses and liabilities. As a result, the expectation that financially distressed firms would adopt conservative accounting practices may not hold true in practice (Phuong Hong & Tra My, 2024a).

However, contrasting findings exist in the literature. Some studies suggest that financial distress positively influences accounting conservatism, indicating that companies in distress may adopt more conservative practices to mitigate risks. This divergence highlights the complexity of the relationship between financial distress and accounting behavior, indicating that the dynamics may vary across different contexts and industries. Further investigation is warranted to explore the specific factors that influence accounting behavior in distressed firms, as the impact of financial distress on accounting conservatism may not be uniform across all sectors.

The Effect of Capital Intensity on Accounting Conservatism

The analysis of Capital Intensity reveals that it does not have a significant effect on Accounting Conservatism. This conclusion is consistent with previous research, which suggests that while higher capital intensity may increase the capital intensity ratio, it does not guarantee that a company will adopt conservative accounting practices. This observation raises important questions about the relationship between asset structure and accounting behavior. The expectation that firms with high capital intensity would exhibit greater conservatism in their financial reporting may not hold true in practice.

The lack of a significant relationship can be understood through the lens of signaling theory (Brian L. Connelly, 2011). Companies may choose to signal their quality to the market through their financial reporting practices. In this context, firms with high capital intensity might opt for more aggressive accounting methods to present a more favorable financial position, especially if they believe that such reporting will attract investment or improve their market standing. This behavior contradicts the notion of conservatism and raises important questions about the relationship between asset structure and accounting behavior (Thomas, 2022).

Moreover, prior studies have produced mixed results regarding the relationship between Capital

Intensity and Accounting Conservatism. While some research indicates a positive influence, suggesting that firms with significant investments in fixed assets may adopt conservative practices to reflect the risks associated with their asset-heavy structures, the findings of this study suggest that the dynamics of capital intensity may vary across different contexts and industries. This underscores the need for further investigation into the specific factors that influence accounting behavior in firms with varying capital structures.

The Effect of Political Cost on Accounting Conservatism

The analysis of Political Cost indicates no significant effect on Accounting Conservatism. This finding is consistent with research that posits not all large firms are sensitive to political costs. The expectation that companies would adopt conservative accounting practices in response to political pressures may not hold true for all firms, particularly those that operate in environments where political costs are less pronounced or where management perceives limited risk from political scrutiny.

The lack of a significant relationship can also be contextualized within agency theory (Jensen & Meckling, 1976). Companies must manage relationships with various stakeholders, including shareholders, employees, customers, and the government. In some cases, firms may prioritize the interests of their primary stakeholders over political considerations, leading to a focus on operational performance rather than conservative financial reporting. This could explain why some large firms do not exhibit sensitivity to political costs in their accounting practices.

Moreover, prior studies have produced mixed results regarding the relationship between Political Cost and Accounting Conservatism. Some research indicates that political costs significantly influence accounting conservatism, suggesting that firms operating in politically sensitive environments may adopt conservative practices to mitigate risks associated with political scrutiny. However, the findings of this study suggest that the dynamics of political costs may vary across different contexts and industries, highlighting the need for further investigation into the specific factors that influence accounting behavior in relation to political pressures.

The Effect of Company Size on Accounting Conservatism

The analysis of Company Size reveals a significant positive effect on Accounting Conservatism. This finding aligns with research that posits larger firms tend to be more conservative in their financial reporting. The rationale behind this behavior may be rooted in the increased visibility and potential consequences that larger firms face in the market. As these companies are more likely to be under the watchful eye of regulators and investors, they may adopt conservative accounting practices to mitigate risks associated with misrepresentation and to maintain agency trust. The relationship between Company Size and Accounting Conservatism can also be understood through the lens of

agency theory (Jensen & Meckling, 1976). Larger firms often have more complex ownership structures, which can lead to agency problems between management and shareholders (Hartini et al., 2023a). To address these concerns, management may adopt conservative accounting practices as a means of signaling their commitment to prudent financial management and to protect the interests of shareholders (Widhiastuti & Rahayu, 2022).

The Effect of Financial Distress, Capital Intensity, Political Cost, and Company Size Simultaneously on Accounting Conservatism

The simultaneous analysis of Financial Distress, Capital Intensity, Political Cost, and Company Size indicates a significant collective effect on Accounting Conservatism. This finding implies that the independent variables, when considered together, significantly influence Accounting Conservatism (Sholikhah & Baroroh, 2021a). The collective impact of these factors suggests that they interact in ways that affect how companies report their financial positions.

The significance of this relationship highlights the complexity of accounting practices and the various influences that shape them. While individual variables such as Financial Distress, Capital Intensity, and Political Cost may not have shown significant effects in isolation, their combined influence with Company Size creates a substantial impact on Accounting Conservatism (Ludiana & Dwi Rohmatunnisa, 2022a). This underscores the importance of considering multiple factors simultaneously when analyzing accounting behavior, as the interplay between these variables can lead to different outcomes than when they are examined in isolation (Ludiana & Dwi Rohmatunnisa, 2022b).

4. CONCLUSION

This research provides significant insights into the factors influencing Accounting Conservatism among manufacturing companies listed on the Jakarta Islamic Index. The findings indicate that Financial Distress does not significantly affect Accounting Conservatism, suggesting that companies facing financial difficulties prioritize immediate liquidity needs over conservative accounting practices. Similarly, Capital Intensity and Political Cost were found to have no significant impact on Accounting Conservatism, indicating that not all firms are sensitive to these factors in their financial reporting. In contrast, Company Size has a significant positive effect, with larger firms tending to adopt more conservative practices due to increased scrutiny from stakeholders.

The collective analysis of Financial Distress, Capital Intensity, Political Cost, and Company Size reveals a significant effect on Accounting Conservatism, highlighting the importance of considering multiple factors simultaneously. This research successfully meets its objective of exploring the dynamics influencing accounting conservatism in the Indonesian manufacturing sector. However, limitations include a small sample size and a focus on companies listed on the Jakarta Islamic Index,

which may restrict the generalizability of the findings.

Future research should consider additional variables and a larger sample size to provide a more comprehensive understanding of accounting behavior. The implications of this study are relevant for investors, regulators, and companies, as it emphasizes the need for careful evaluation of financial statements, the importance of transparency, and the potential benefits of adopting conservative accounting practices to maintain stakeholder trust.

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