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# Capital Intensity, Covenants, Distress, and Pressure: Drivers of Accounting Conservatism

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## Abstract

Accounting conservatism is a principle of prudence in financial reporting, where companies recognize potential losses and liabilities promptly while delaying the recognition of assets and earnings. This study aims to examine the influence of capital intensity, debt covenants, financial distress, and earning pressure on the application of accounting conservatism. The research focuses on non-financial companies listed in the LQ45 index during the 2021–2023 period. Using purposive sampling, 25 companies were selected, resulting in 75 observation units. Data were analyzed using descriptive statistics and multiple linear regression with IBM SPSS version 25. The findings reveal that capital intensity and debt covenants have no significant effect on accounting conservatism. However, financial distress has a negative effect, while earning pressure has a positive effect on the application of accounting conservatism. These results highlight the role of internal financial conditions in shaping conservative accounting practices, offering insights for managers, investors, and regulators regarding risk assessment and financial reporting strategies.
**Keywords:** *Accounting Conservatism; Capital Intensity, Debt Covenant, Financial Distress, Earning Pressure.*



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# INTRODUCTION

Investors play a crucial role in the business ecosystem as providers of capital necessary focompanies to op-erate and grow. To make sound investment decisions, investors need accurate and reliable information re-garding a company's financial condition and performance. Financial statements serve as the primary source of such information, reflecting management's accountability in utilizing resources efficiently and in accordance with accounting standards. Therefore, financial reports must fulfill qualitative characteristics, including fundamental attributes like relevance and faithful representation, as well as enhancing attributes such as comparability, verifiability, timeliness, and understandability (Indonesian Institute of Accountants, 2022).

One of the key principles in preparing financial statements is conservatism, which promotes pru-dence in facing economic uncertainties and business risks. Accounting conservatism requires the recogni-tion of expenses, losses, and liabilities when they are probable, while revenues and gains are only recog-nized when they are

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realized. This approach helps prevent overly optimistic financial reporting, offering investors a more realistic view of a company's financial health. According to Savitri (2016), conservatism leads companies to understate assets and income while overstating liabilities and expenses.

In terms of capital requirements, capital intensity is an important indicator of how much a company relies on fixed assets in its operations. Companies with high capital intensity often attract more public at-tention and are therefore more likely to adopt conservative accounting practices to reduce reported profits and avoid political costs, such as government scrutiny or high taxes. Ariska (2018) found that capital inten-sity positively affects accounting conservatism. However, this finding is not supported by Fadhiilah and Rahayuningsih (2022), who found no significant effect. Many studies use the ratio of total assets to total sales as a proxy for capital intensity.

Another factor that influences accounting conservatism is debt covenants—agreements between com-panies and creditors to protect creditor interests. Companies with high debt levels are at greater risk of de-fault, leading management to present more favorable financial results by increasing reported earnings. Un-der such circumstances, managers may reduce conservatism to make the company appear more profitable. Research by Azizah et al. (2022) supports this view, showing that debt covenants negatively affect account-ing conservatism. In contrast, Suwarti et al. (2020) found no significant effect. In this study, the Debt-to-Asset Ratio (DAR) is used as a proxy for debt covenants.

Financial distress refers to a company's deteriorating financial condition, often marked by consistent profit decline and the potential for bankruptcy. In this scenario, management is under pressure to maintain investor and creditor confidence. One strategy is to reduce the application of conservatism and report higher earnings to give the impression of financial health. Ariska (2018) found that financial distress, measured by the Interest Coverage Ratio, negatively affects conservatism. However, Maharani and Dura (2023), using the Altman Z-Score, found no significant effect. This study uses the Modified Altman Z-Score, which can be applied to both public and non-public entities.

In addition to financial distress, earnings pressure is another factor influencing accounting conserva-tism. This pressure arises from a company's desire to minimize tax liabilities by reducing accrual-based profits. Since higher profits lead to higher taxes, companies are often motivated to shift profits to future pe-riods (income minimization) and adopt more conservative accounting methods. Several studies—including Li (2018), Putri et al. (2020), and Zahro (2021)—found that earnings pressure affects accounting conserva-tism. However, Sulastri et al. (2018) found no significant relationship.

From the factors discussed, it is evident that accounting conservatism is influenced not only by ac-counting standards and prudence principles but also by external pressures such as capital requirements, debt obligations, financial conditions, and tax policies. The varying results of different studies suggest that the impact of each factor depends on the context of the company, industry, and measurement method used. Therefore, a deep understanding of accounting conservatism is essential—not only for managers preparing reliable financial statements but also for investors and creditors assessing the quality of the financial infor-mation presented by companies.

The novelty of this research is addresses the mixed findings of prior research by re-rosexamining the factors influencing accounting conservatism—namely, capital

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intensity, debt covenant, financial distress, and earning pressure—using a sample of non-financial companies listed in the LQ45 index during the 2021–2023 period.

The research questions are as follows:

1. Does capital intensity positively influence accounting conservatism?
2. Does the debt covenant negatively influence accounting conservatism?
3. Does financial distress negatively influence accounting conservatism?
4. Does earning pressure positively influence accounting conservatism?

This study aims to:

1. Analyze the effect of capital intensity on accounting conservatism.
2. Examine whether debt covenants negatively influence accounting conservatism.
3. Investigate the relationship between financial distress and accounting conservatism.
4. Assess the impact of earning pressure on accounting conservatism.

This study is expected to contribute to academic literature by clarifying the mixed results of previous research. Practically, it offers insights for companies in managing financial reporting strategies, for inves-tors in evaluating financial performance, and for regulators in monitoring financial reporting practices that align with prudence and transparency.

Various studies have been conducted to examine the factors influencing accounting conservatism, with varying results depending on the industrial sector, observation period, and measurement methods used. Generally, factors such as capital intensity, financial distress, debt covenants, earning pressure, and firm size are frequently used as independent variables to assess their influence on the level of conservatism in financial reporting.

Ariska's (2018) study on non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2013–2017 period found that capital intensity positively affects accounting conservatism, while financial distress has a negative impact. Similar findings were reported by Rafida and Pratami (2023) in the property and real estate sector, where capital intensity increased conservatism, but financial distress and debt covenants reduced it. In contrast, Maharani and Dura (2020) as well as Fadhiilah and Rahayuningsih (2022) found no significant effect of capital intensity and financial distress on conservatism, depending on the sector and period under study.

The debt covenant variable has also shown inconsistent results. Sulastri et al. (2018) found that debt covenants, as measured by the debt-to-equity ratio (DER), positively influenced accounting conservatism among companies included in the top 50 of the ASEAN Corporate Governance Scorecard. However, studies by Suwarti et al. (2020) and Kurniawan et al. (2022) revealed no significant effect. Azizah et al. (2022) even found a negative impact of debt covenants on conservatism in food and beverage companies, suggesting possible managerial pressure to avoid reporting losses when nearing debt covenant violations.

Earning pressure, as an internal managerial factor, has also yielded mixed results. Sulastri et al. (2018) and Sugiyarti & Rina (2020) concluded that earning pressure does not significantly affect conservatism. However, Raharja & Sandra (2014) found a positive influence, along with the effects of tax planning, income smoothing, and growth opportunities. Their findings highlight that some managers employ

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conservative principles to reduce reported profits, for example, to minimize tax liabilities or to smooth earnings fluctuations.

These diverse findings can be explained through the Positive Accounting Theory developed by Watts and Zimmerman (1986). This theory suggests that managers act based on self-interest and are opportunistic in choosing accounting methods. It introduces three key hypotheses: the Bonus Plan Hypothesis, the Debt Covenant Hypothesis, and the Political Cost Hypothesis. For instance, managers whose bonuses are tied to profit tend to select accounting methods that increase current earnings to secure higher compensation.

The Bonus Plan Hypothesis posits that managers with earnings-based compensation plans are likely to accelerate revenue recognition to boost profits. The Debt Covenant Hypothesis explains that highly leveraged firms are more inclined to increase profits to meet debt covenant requirements. Meanwhile, the Political Cost Hypothesis indicates that large firms may understate earnings to avoid public scrutiny and potential political costs.

Beyond positive accounting theory, stakeholder theory also provides a critical framework for understanding accounting conservatism. This theory emphasizes that companies are accountable not only to shareholders but also to a broader range of stakeholders, including creditors, customers, communities, and the government. Thus, conservative reporting practices can serve as a strategic means to build trust and legitimacy in the eyes of stakeholders.

Accounting conservatism itself is a prudence principle that encourages the timely recognition of potential losses while delaying revenue recognition until it is realized (Stice et al., 2010). Savitri (2016) further states that conservatism reflects cautiousness in financial reporting, in which asset and income values should not be overstated. Therefore, conservatism serves as an essential tool for balancing financial information to avoid misleading report users.

Several key concepts associated with conservatism include capital intensity—the extent to which a firm utilizes fixed assets to generate revenue; debt covenants—agreements between debtors and creditors to restrict potentially harmful managerial actions; financial distress—a condition where a company's cash flows are insufficient to meet its obligations; and earning pressure—the motivation to adjust reported earnings for purposes such as tax efficiency. All of these factors can influence managerial decisions to adopt conservative accounting principles.

Considering the theoretical frameworks and the diverse empirical findings, it can be concluded that accounting conservatism is a complex phenomenon influenced by various internal and external corporate factors. The inconsistency of research findings highlights the need for a contextual approach in analyzing conservatism, taking into account industry characteristics, regulations, and managerial objectives. Further studies employing more standardized and comparative methodologies are crucial to gaining a more comprehensive understanding of the determinants of accounting conservatism in Indonesia.

## Hipothesis Development

Capital intensity refers to the degree to which a company relies on significant investments in physi-cal assets and capital resources to conduct its operational activities and generate revenue. In capital-intensive industries, such as manufacturing or utilities, substantial expenditures on machinery, equipment, and infrastructure are

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necessary for daily operations. Because capital represents a crucial resource for sustaining business functions, companies with high capital intensity are often more cautious when recogniz-ing assets and revenues. They tend to adopt a conservative approach, especially in accounting for potential asset impairments, to avoid overstating financial performance and to provide a more prudent reflection of their financial health.

Moreover, companies with large capital bases typically attract greater scrutiny from the public, regu-lators, and other stakeholders, which increases their exposure to political and regulatory costs. These politi-cal costs can arise from concerns about monopoly power, tax avoidance, or other socio-economic impacts associated with large firms. To mitigate such risks, large capital-intensive companies often practice accounting conservatism in their financial disclosures. By recognizing potential losses earlier and deferring profit recognition, these companies present lower reported earnings, which can help reduce adverse politi-cal attention and regulatory intervention.

This behavior aligns with the Political Cost Hypothesis in Positive Accounting Theory, which pos-its that managers in large firms strategically shift profits across accounting periods to minimize current period earnings and thereby avoid higher political costs. Empirical research supports this hypothesis, with studies such as those by Ariska (2018) and Azizah et al. (2022) demonstrating a positive relationship between capital intensity and accounting conservatism. These findings suggest that the degree of capital in-vestment in a firm significantly influences managerial decisions on financial reporting, reflecting a deliber-ate strategy to balance transparency with the minimization of external pressures.

Conceptual Hypothesis 1 is proposed as follows:

H1: Capital Intensity has a positive effect on Accounting Conservatism.

Debt covenants are contractual provisions that lenders impose on borrowers to safeguard their inter-ests by limiting managerial behavior that might jeopardize debt repayment. These covenants serve as pro-tective mechanisms to ensure that borrowers maintain financial discipline and reduce the risk of default. One common measure to represent the presence and strictness of debt covenants is the Debt to Asset Ratio (DAR), which indicates the proportion of a company's total assets financed through debt. A higher DAR generally reflects greater leverage and potentially stricter covenant requirements, as lenders seek assurance that the company's asset base is sufficient to cover its liabilities.

When companies apply for loans, potential lenders closely examine their financial statements to evaluate creditworthiness and the likelihood of timely debt repayment. In response, management may stra-tegically adopt accounting policies that increase reported earnings, often by limiting the use of conservative accounting practices. This behavior is consistent with the Debt Covenant Hypothesis, which posits that managers aim to present a stronger financial position to satisfy creditors' expectations. By reporting higher profits, companies can signal enhanced operational performance and reduce concerns over their ability to meet debt obligations upon maturity, thereby gaining greater trust from lenders.

Empirical research supports the notion that debt covenants influence accounting behavior, particu-larly by discouraging conservative accounting. Studies

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by Azizah et al. (2022) and Rafida & Pratami (2023) provide evidence of a negative relationship between the existence of debt covenants and the level of account-ing conservatism practiced by firms. Based on these findings, Conceptual Hypothesis 2 is formulated to propose that the presence of debt covenants reduces the application of conservative accounting principles, as managers seek to align reported results with the expectations set forth by creditors.

H2: Debt Covenant has a negative effect on Accounting Conservatism.

Sustained declines in profit can push a company toward financial distress, which, if not addressed, may ultimately lead to bankruptcy. Financial distress signals to principals—such as shareholders or own-ers—that the company is struggling to maintain financial health. In these situations, principals often inter-pret the distress as a reflection of poor managerial performance. When the company's financial condition deteriorates significantly, principals may lose confidence in management's ability to run the business effec-tively and efficiently. This erosion of trust can result in decreased support from shareholders and, in some cases, lead to the replacement of the management team.

In response to the threat of losing trust and support, managers may attempt to improve the compa-ny's reported financial performance by altering accounting practices. Specifically, they might reduce the level of accounting conservatism, which traditionally requires recognizing potential losses promptly while delaying the recognition of gains. By lowering conservatism, managers can accelerate the recognition of profits from future periods into the current period, thereby artificially enhancing reported earnings. This strategy aims to present a stronger financial position to principals and other stakeholders, hoping to restore confidence and secure continued backing.

Empirical research supports this behavior. For example, Ariska (2018) found that financial distress negatively affects the application of accounting conservatism. This suggests that when companies face fi-nancial difficulties, their managers tend to be less conservative in accounting choices, likely as a strategic effort to portray better performance. While this may temporarily improve perceptions, it also raises concerns about the accuracy and reliability of financial reporting during periods of distress.
Conceptual Hypothesis 3 is proposed as follows:

H3: Financial Distress has a negative effect on Accounting Conservatism.

Earning pressure refers to the deliberate managerial efforts to reduce reported profits on an accrual basis with the primary goal of minimizing tax liabilities. When a company reports higher profits, it inevita-bly faces a larger tax burden, which can negatively impact its cash flow and overall financial position. To mitigate this impact, managers may adopt strategies aimed at decreasing reported earnings, thus lowering taxable income and reducing the amount of taxes payable.

One common approach to managing earning pressure is the application of accounting conserva-tism. This accounting principle encourages the recognition of expenses and liabilities more promptly than revenues and assets, resulting in lower reported profits in the short term. By exercising conservatism, com-panies can systematically understate earnings, which aligns with their objective to minimize tax

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obliga-tions. This practice also helps firms to create a financial buffer against future uncertainties, thereby serving a dual purpose.

Empirical research supports this relationship between earning pressure and accounting conserva-tism. Raharja and Sandra (2014) found that earning pressure positively influences the level of accounting conservatism adopted by firms. Based on this evidence, Conceptual Hypothesis 4 is proposed, suggesting that higher earning pressure leads to greater use of accounting conservatism as a tool to manage reported profits and tax burdens effectively.
Conceptual Hypothesis 4 is proposed as follows:

H4: Earning Pressure has a positive effect on Accounting Conservatism.

Researh Model

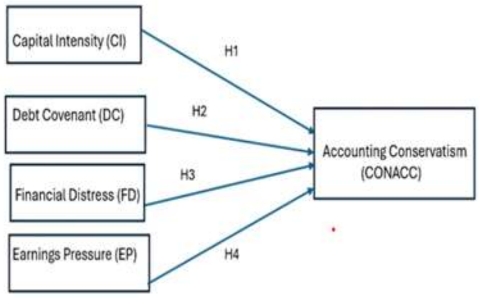


Figure 1. Research Model

# METHODOLOGY

This study employs a quantitative research method using secondary data, which is obtained from the annual financial statements available on the official website of the Indonesia Stock Exchange (www.idx.co.id) or from the respective websites of the selected companies. The data is analyzed using SPSS version 25.

To examine the relationship between the independent variables—Capital Intensity (CI), Debt Covenant (DC), Financial Distress (FD), and Earning Pressure (EP)—and the dependent variable, Accounting Conservatism (proxied by CONACC), this study applies multiple linear regression analysis. In addition to descriptive statistics, the multiple regression analysis is used to test the significance of the influence of one or more independent variables on the dependent variable. The analysis is conducted at a 95% confidence level, with a significance threshold (α) set at 5%.

Population and Research Sample

The population of this study consists of non-financial companies listed in the LQ45 Index during the 2021–2023 period, which are also listed on the Indonesia Stock Exchange (IDX) and have been audited. A purposive sampling method was used to select the sample based on the following criteria:
(1) non-financial companies that were consistently included in the LQ45 Index and listed on the IDX throughout the 2021–2023 period;

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(2) companies that consistently published audited annual financial reports ending on December 31 for the years 2021 to 2023;
(3) companies with complete data required for the study during the observation period.

Based on these criteria, a total of 25 companies (75 observational data points) were selected as the sample.

Research Variable

In this study, Accounting Conservatism is used as the dependent variable, while Capital Intensity, Debt Covenant, Financial Distress, and Earning Pressure serve as independent variables. The operational definitions of each variable are presented below:

Accounting Conservatism (CONACC) refers to the prudence principle in preparing financial reports, which emphasizes the timely recognition of losses and liabilities, while the recognition of assets and income is delayed until they are fully realized (Watts, 2003, as cited in Savitri, 2016). A more negative CONACC value indicates a higher level of accounting conservatism applied by the company, while a more positive CONACC value reflects lower conservatism. Accounting conservatism is measured using the following formula (Savitri, 2016):

CONACC = (Net Income + Depreciation Expense – Cash Flow from Operations) / Total Assets

Capital Intensity (CI) reflects the extent to which a company utilizes capital in the form of assets (both current and non-current) to generate sales through its operational activities (Ross et al., 2022). It is calculated as:

CI = Total Assets / Total Sales

A higher CI value indicates less efficient use of total assets in generating revenue, while a lower CI value suggests more effective asset utilization.

Debt Covenant (DC) represents a contractual agreement between a borrower (the company) and a lender (the creditor), designed to protect the lender from managerial actions that could harm their interests (Jao & Ho, 2019). In this study, the Debt Covenant is proxied by the Debt to Asset Ratio (DAR), calculated as:

DAR = Total Liabilities / Total Assets

A higher DAR indicates greater total liabilities, while a lower DAR implies a lower level of company debt.

Financial Distress (FD) reflects a company's deteriorating financial condition due to sustained profit decline, which may eventually lead to bankruptcy risk. Financial Distress is measured using the Modified Altman Z-Score (Tania et al., 2021), calculated as:

Z = financial distress
X1= Working Capital / Total Asset
X2= Retained Earnings / Total Asset

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X3 = Earning Before Interest & Taxes (EBIT) / Total Asset
X4 = Book Value Of Equity / Total Liabilities

The Z-Score categorizes financial health into three zones:
1. Safe Zone ($Z > 2.6$): No financial distress
2. Grey Zone ($1.1 < Z < 2.6$): Uncertain, potentially financially distressed
3. Distress Zone ($Z < 1.1$): Financial distress present

Earning Pressure (EP) refers to a strategy to reduce reported earnings through the application of accounting conservatism, primarily aimed at lowering the tax burden (Yin & Cheng, 2004, as cited in Sulastri et al., 2018). A higher EP value suggests higher current earnings and thus a greater application of accounting conservatism, while a lower EP indicates less use of conservatism due to lower earnings. EP is measured using the following formula (Sulastri et al., 2018):

EP = (Current Year Net Income – Previous Year Net Income) / Beginning of Year Total Assets

$$CONACC=\alpha+\beta1CI-\beta2DC-\beta3FD+\beta4EP+e \text{ .........(1)}$$

This study adopts a positivism research paradigm, as it emphasizes objective measurement and hypothesis testing using statistical methods. By employing secondary quantitative data from audited financial statements and testing the relationships among variables using multiple linear regression, the study aligns with the core principles of positivism, which include empirical validation, objectivity, and generalizability.

## RESULTS AND DISCUSSION

**Table 1. Number of Sample Data**

| Sampling Criteria | Numbe of Companies | Number of Observations |
|---|---|---|
| Non-financial companies in the LQ45 index, continuously listed on IDX from 2021 to 2023 | 25 | |
| Companies that did not provide audited annual financial statements ending December 31 from 2021 to 2023 | 0 | |
| Companies lacking complete required data | 0 | |
| Number of companies meeting criteria for 2021–2023 | 25 | 75 |
| Number of outliers (casewise diagnostics) | 0 | 0 |
| Final sample used | 25 | 75 |

Source: Processed by the researcher

The research population consists of non-financial companies included in the LQ45 index and listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. Using purposive sampling, 25 compa-nies (equivalent to 75 observational data points) were selected as the research sample. Additionally, no outlier data were found based on the casewise diagnostics.

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**Table 2. Descriptive Statistics Results**

| Variable | N | Min | Max | Average | STD |
|---|---|---|---|---|---|
| CONACC | 75 | - 0,10291 | 0,14394 | - 0,00458 | 0,04765 |
| CI | 75 | 0,43158 | 7,62317 | 2,20331 | 1,60345 |
| DC | 75 | 0,11412 | 0,81677 | 0,45464 | 0,18613 |
| FD | 75 | - 0,50198 | 9,86512 | 3,56896 | 2,15721 |
| EP | 75 | - 0,26503 | 0,43448 | 0,02019 | 0,09084 |

Source: Processed by the researcher

Table 2 shows that the CONACC and EP variables exhibit relatively high data dispersion (heterogenei-ty), as indicated by standard deviations exceeding the mean values. Conversely, the CI, DC, and FD varia-bles show lower data dispersion (homogeneity), indicated by mean values greater than standard deviations.

The lowest value for Accounting Conservatism (CONACC) is -0.10291, where the negative value indi-cates greater conservatism in financial reporting. The highest value is 0.14394, where the positive value in-dicates lower conservatism. The mean of -0.00458 indicates that, on average, firms tend to apply a relatively high level of conservatism in financial reporting.

The Capital Intensity (CI) variable reaches a maximum of 7.62317, indicating that IDR 7.62 in assets are used to generate IDR 1.00 in sales. The lowest value is 0.43158. A higher CI suggests less efficient asset use. The average CI of 2.20331 shows moderate efficiency in capital utilization.

The Debt Covenant (DC) measured by the Debt to Asset Ratio (DAR) has a minimum of 0.1142, mean-ing 11.42% of assets are financed by liabilities. The maximum of 0.81677 suggests most assets are funded through liabilities. The mean of 0.45464 indicates that, overall, equity remains the dominant source of fi-nancing.

The Financial Distress (FD) variable, measured using the Z-score, has a minimum of -0.50198, indicat-ing companies in financial distress (Z < 1.1). The maximum is 9.86512, indicating a healthy zone (Z > 2.6). The mean Z-score of 3.56896 indicates that most companies are financially sound.

The Earning Pressure (EP) variable has a minimum value of -0.26503 and a maximum of 0.43448. A negative EP indicates a decline in earnings, while a positive EP indicates an increase. The mean of 0.02019 suggests that, on average, companies experienced earnings growth.

**Table 3. Classical Assumption Tests**

| Test Type | Result | Conclusion |
|---|---|---|
| Normality | Sig. = 0.200 | Residuals follow a normal distribution (sig. > 0.05) |
| Multicollinearity | Tolerance > 0.1, VIF < 10 for all variables | No multicollinearity detected |
| Heteroscedasticity | Sig. for all variables > 0.05 | No heteroscedasticity detected |
| Autocorrelation | DW = 1.835 lies between 1.739 (du) and 2.261 (4 - du) | No autocorrelation detected |

Source: Processed by the researcher

Since all classical assumption tests have been passed, the next step is to evaluate the regression model's goodness-of-fit using the F-test and R-squared.

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**Table 4. Regression Model Fit Test**

a. F-Test (ANOVA)

| ANOVA[a] | | | | | |
|---|---|---|---|---|---|
| Model | Sum of Squares | Df | Mean Square | F | Sig |
| 1 Regression | 0.087 | 4 | 0.022 | 18.824 | .000[b] |
| Residual | 0.081 | 70 | 0.001 | | |
| Total | 0.168 | 74 | | | |
| a. Dependent Variable: CONACC | | | | | |
| b. Predictors: (Constant), EP, CI, DC, FD | | | | | |

Source: Processed by the researcher

b. Coefficient of Determination ($R^2$)

| Model Summary [b] | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| 1 | .720[a] | 0.518 | 0.491 | 0.340024863 |
| a. Predictors: (Constant), EP, CI, DC, FD | | | | |
| b. Dependent Variable : CONACC | | | | |

Source: Processed by the researcher

Table 4 presents a significance value from the F-test of 0.000, which is below the threshold of 0.05. This indicates that the variables Capital Intensity (CI), Debt Covenant (DC), Financial Distress (FD), and Earning Pressure (EP) jointly influence Accounting Conservatism (CONACC). Thus, the regression model is considered effective and appropriate. Furthermore, the combination of CI, DC, FD, and EP explains 49.10% of the variability in CONACC, as indicated by the adjusted R-squared value of 0.491. The remaining 50.90% is explained by other variables outside the scope of this study.

**Table 5. Hypothesis Testing Results**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandarized Coefficients | | Standarized Coefficients | T | Sig |
| | | B | Std Error | Beta | | |
| 1 | (Constant) | 0.016 | 0.034 | | 0.466 | 0.642 |
| | CI | - 0.005 | 0.003 | 0.154 | - 1.379 | 0.172 |
| | DC | 0.069 | 0.042 | 0.269 | 1.628 | 0.108 |
| | FD | - 0.011 | 0.004 | - 0.489 | - 2.572 | 0.012 |
| | EP | 0.297 | 0.050 | 0.567 | 5.929 | 0.000 |
| a. Dependent Variable: CONACC | | | | | | |

Source: Processed by the researcher

Based on Table 5, the multiple linear regression equation can be constructed as follows:

$$CONACC = 0.016 – 0.005\ CI + 0.069\ DC – 0.011\ FD + 0.297\ EP$$

## Discussion

This study investigated the influence of four key independent variables—Capital Intensity (CI), Debt Covenant (DC), Financial Distress (FD), and Earning Pressure (EP)—on the application of accounting conservatism in financial reporting among non-financial companies listed in the LQ45 index. The results yield mixed findings, with two hypotheses rejected and two accepted. Each is analyzed below within the

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theoretical frameworks of Agency Theory, Stakeholder Theory, and Positive Accounting Theory.

(1) Capital Intensity and Accounting Conservatism

The first hypothesis (H1), which posited that capital intensity has a significant effect on accounting conservatism, was rejected based on empirical findings. The statistical test yielded a significance value of 0.172 (refer to Table 5), which exceeds the conventional threshold of 0.05. This result indicates that capital intensity—defined as the ratio of total assets to sales—does not exert a statistically significant influence on the application of conservative accounting practices among the sampled firms.

In practical terms, whether a firm possesses a high or low level of capital intensity does not appear to drive managerial decisions regarding the adoption of prudence in financial reporting. This suggests that managers do not necessarily associate the magnitude of a company's asset base with the need for greater caution or conservatism in accounting policies. From the perspective of Agency Theory, this finding implies that managerial behavior may be more influenced by goals related to operational efficiency and revenue performance than by asset accumulation. Acting as agents of the shareholders, managers may prioritize achieving higher returns and maintaining operational agility, outcomes that can be pursued regardless of the size or capital intensity of the firm.

This interpretation is further supported by Stakeholder Theory, which offers an expanded lens to understand managerial behavior in relation to diverse stakeholder interests. From this viewpoint, managerial emphasis on efficient operations and conservative financial reporting can be seen as aligning with the expectations of various stakeholders—including investors, creditors, employees, regulators, and the broader community—who value transparency, long-term sustainability, and corporate accountability. Stakeholders are often more concerned with a firm's strategic outlook, profitability, and governance standards than with the sheer volume of its physical assets. Consequently, firms with both high and low capital intensity may adopt conservative accounting as a means to maintain credibility and foster trust.

Furthermore, this outcome reflects the possibility that conservative accounting practices are driven more by internal policy frameworks and external institutional expectations than by asset structure alone. For instance, firms may adopt conservatism to reduce litigation risk, manage earnings volatility, or comply with regulatory standards—factors that are not necessarily linked to capital intensity.

The findings of this study are consistent with previous research conducted by Maharani and Dura (2020), as well as Sholikhah & Baroroh (2021), both of which also found no significant relationship between capital intensity and accounting conservatism. However, these results contrast with studies by Ariska (2018) and Azizah et al. (2022), which reported a positive association between the two variables. Such discrepancies in empirical evidence suggest that the relationship between capital intensity and conservatism may be context-dependent, influenced by industry characteristics, managerial incentives, or regulatory environments.

In conclusion, while capital intensity might intuitively seem 2018)nked to risk management and thus to conservatism, this study demonstrates that such a connection does not hold statistically in the context of LQ45 firms. Managers appear to exercise accounting conservatism based on broader strategic and stakeholder considerations rather than solely on the capital structure of the firm.

(2) Debt Covenant and Accounting Conservatism

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The second hypothesis (H2) proposed a significant relationship between debt covenants—proxied by the Debt to Asset Ratio (DAR)—and accounting conservatism. However, the empirical results revealed a significance value of 0.108, which is above the standard threshold of 0.05. Consequently, H2 is rejected, indicating that the level of debt covenants in a firm does not exert a statistically significant influence on the adoption of conservative accounting practices.

According to Agency Theory, debt covenants are established as part of contractual agreements between creditors (principals) and managers (agents), with the goal of minimizing agency problems that may arise from differing interests. These covenants often include limitations on financing activities, dividend payments, or asset disposals to ensure that managers do not engage in excessive risk-taking or misreport financial outcomes. In theory, such constraints should encourage more conservative accounting behaviors, as managers seek to avoid breaching covenant terms and triggering negative consequences, such as penalties or renegotiation of loan agreements.

Despite these theoretical expectations, the findings of this study suggest that the presence of debt covenants—measured through the firm's DAR—may not be a strong enough motivator to influence conservative accounting behavior. Several possible explanations can account for this result. First, managers might already be inclined to report financial information conservatively due to reputational considerations or internal governance mechanisms, irrespective of their firm's leverage level. In this scenario, conservative accounting is less about reacting to contractual obligations and more about maintaining long-term credibility and trust among financial statement users.

Second, the effectiveness of debt covenants may depend on their design, enforcement, and monitoring. If such agreements are not rigorously monitored or lack specificity regarding accounting methods, managers may still have discretion over the extent of conservatism applied in financial reporting. This weakens the assumed link between debt covenants and accounting behavior.

From the Stakeholder Theory perspective, the results highlight that managers may voluntarily adopt responsible financial reporting practices to meet broader stakeholder expectations—particularly those of creditors and investors—rather than being solely driven by contractual restrictions. Transparent and prudent financial disclosures can strengthen relationships with key stakeholders, including financial institutions, by reducing information asymmetry and perceived risk. These efforts may, in turn, support future financing opportunities and enhance the firm's reputation in capital markets.

The findings of this study are consistent with previous research conducted by Sulastri et al. (2018), Suwarti et al. (2020), and Raharja and Sandra (2013), all of whom concluded that debt covenants do not significantly affect the level of accounting conservatism. However, these results differ from those reported by Rafida and Pratami (2023), who found a significant negative relationship, suggesting that higher debt levels can discourage conservatism due to increased pressure to meet performance expectations.

In conclusion, while debt covenants are intended to align managerial actions with creditor interests, their practical impact on accounting conservatism appears limited. Managerial discretion, reputational concerns, and the broader stakeholder

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environment may play more decisive roles in shaping accounting choices than leverage-related contractual terms alone.

(3) Financial Distress and Accounting Conservatism

The third hypothesis (H3) proposed a negative relationship between financial distress and accounting conservatism. This hypothesis is empirically supported, as the analysis yielded a significance value of 0.012 and a negative regression coefficient (B = -0.011), indicating a statistically significant inverse relationship between the two variables. In other words, as financial distress increases, the degree of accounting conservatism applied in financial reporting tends to decrease.

This finding aligns with the principles of Positive Accounting Theory, which posits that managers, when faced with unfavorable economic or financial conditions, are incentivized to engage in income-increasing accounting strategies. Under distress, companies may experience greater pressure to present a more favorable financial position, which can be achieved by accelerating the recognition of future revenues or by minimizing the recognition of current expenses. This behavior compromises accounting conservatism, which is fundamentally rooted in caution and the principle of not overstating income or assets.

Managers may adopt such aggressive accounting tactics as a means to avoid violating loan covenants, to prevent panic among investors, or to secure short-term financing. Although these strategies may temporarily stabilize a firm's image in the eyes of stakeholders, they introduce significant risks related to transparency and long-term accountability.

From the perspective of Agency Theory, financial distress tends to amplify conflicts of interest between managers (agents) and stakeholders (principals). Managers, under pressure to deliver acceptable financial outcomes and possibly preserve their own compensation or job security, may deprioritize truthful and cautious reporting in favor of short-term survival. This behavior results in a deviation from conservative accounting practices and opens the door to opportunistic behavior, such as earnings management or manipulation of financial statements.

Furthermore, Stakeholder Theory provides additional insight into the implications of this behavior. In times of financial difficulty, stakeholders—including creditors, investors, employees, and regulators—rely heavily on accurate and credible financial information to assess a company's viability and risks. When management chooses to downplay financial challenges or present an overly optimistic picture, stakeholder trust can quickly erode. Such erosion not only undermines the firm's reputation but may also hinder future access to capital and reduce stakeholder engagement.

The results of this study are consistent with those of (Ariska et al., 2018) and (Sugiyarti & Rina, 2020), both of which found a significant negative impact of financial distress on accounting conservatism. These findings support the notion that financial pressure can compromise the integrity of financial reporting. However, this outcome contrasts with the study by (Kurniawan et al., 2022), who did not observe a statistically significant relationship between financial distress and the use of conservative accounting practices.

In conclusion, the study reinforces the idea that financial distress can diminish the application of accounting conservatism. It highlights the need for strengthened corporate governance and oversight mechanisms to ensure that even in times of

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hardship, financial disclosures remain transparent, prudent, and aligned with stakeholder expectations.

(4) Earning Pressure and Accounting Conservatism

The fourth hypothesis (H4), which proposed a positive relationship between earning pressure and accounting conservatism, is supported by the empirical findings of this study. The analysis yielded a highly significant p-value of 0.000 and a positive regression coefficient (B = 0.297), indicating that an increase in earning pressure is significantly associated with the adoption of more conservative accounting practices by firms. These results affirm that under conditions of heightened earnings pressure, companies tend to employ accounting methods that err on the side of caution.

This outcome is consistent with the principles of Agency Theory. According to this theory, when managers (agents) operate under increased scrutiny from principals—such as shareholders and creditors—they are motivated to act in ways that align with the interests of those principals. Earning pressure intensifies this scrutiny, especially when firms are expected to meet earnings targets or maintain investor confidence. In such circumstances, managers may choose conservative accounting practices as a strategy to manage perceptions and safeguard their reputations. Techniques such as recognizing expenses sooner rather than later, or deferring revenue recognition, can serve to present a more prudent and sustainable picture of financial performance. This reduces the risk of future earnings restatements or credibility issues, thus narrowing the information asymmetry between managers and external stakeholders.

From the perspective of Stakeholder Theory, earning pressure does not only concern investors but also reflects the expectations of a broader group of stakeholders, including employees, regulators, analysts, and the public. When a firm experiences increased earning pressure, stakeholders are more likely to demand reliable, transparent, and ethically prepared financial statements. Adopting conservative accounting in response to these demands can be seen as a signal of responsible management and sound corporate governance. This, in turn, helps to enhance the firm's legitimacy and maintain stakeholder trust, especially in times of economic uncertainty or intense market competition.

The empirical findings of this study are in line with those reported by Biddle et al. (2022), Nizar & Kiswanto (2022), and Raharja and Sandra (2014), who similarly found that earning pressure has a positive and significant influence on accounting conservatism. These studies support the argument that managerial behavior adapts to performance pressure through more cautious financial reporting. However, the present results diverge from the findings of Sulastri et al. (2018) and Sugiyarti and Rina (2020), who found no significant relationship between earning pressure and conservative accounting. The discrepancy may be due to differences in research context, sample characteristics, or operational definitions of earning pressure and conservatism. Nevertheless, the current study contributes to the ongoing discourse by reinforcing the view that firms respond to earning pressure by adopting more conservative financial reporting as a strategic and governance-enhancing mechanism.

## CONCLUSION

This study aimed to examine the influence of capital intensity, debt covenant, financial distress, and earning pressure on accounting conservatism in non-financial LQ45 companies listed on the Indonesia Stock Exchange during the 2021–2023 period.

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The findings indicate that capital intensity and debt covenant do not have a significant effect on the level of accounting conservatism, leading to the rejection of H1 and H2. On the other hand, financial distress negatively affects accounting conservatism, while earning pressure has a positive effect, thereby supporting H3 and H4.

These results contribute to the understanding of financial reporting behavior through the lens of Agency Theory and Stakeholder Theory. The non-significant effect of capital intensity and debt covenant suggests that managerial decisions regarding conservative accounting are not merely influenced by the scale of assets or debt agreements, but rather by broader considerations such as operational efficiency, reputation management, and stakeholder trust. This supports the notion that managers may act in alignment with stakeholder expectations and long-term firm sustainability regardless of these financial metrics.

Conversely, the significant impact of financial distress on reducing accounting conservatism illustrates managerial tendencies to manage earnings opportunistically in times of crisis, as proposed by Positive Accounting Theory. This behavior increases agency problems and potentially erodes stakeholder confidence. In contrast, heightened earning pressure motivates managers to apply more conservative accounting to maintain transparency and fulfill the expectations of key stakeholders, particularly shareholders and regulators.

The implications of this study are twofold. Theoretically, the findings enrich the existing literature on accounting conservatism by integrating both Agency Theory and Stakeholder Theory to explain managerial behavior under different financial conditions. This study reaffirms the relevance of these theories in predicting how internal and external pressures can shape financial reporting strategies. Practically, the results underscore the importance for investors, creditors, and regulators to closely monitor companies experiencing financial distress, as such firms tend to engage in aggressive earnings management and are less likely to adopt conservative reporting practices. Furthermore, stakeholders should be aware that increased earnings pressure does not necessarily reduce the use of conservative accounting; on the contrary, it may encourage more prudent financial reporting when stakeholder expectations demand transparency and reliability.

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