

## **Good Corporate Governance and Profitability on Accounting Conservatism**

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### **Abstract**

**Introduction / Main Objectives:** This study examines the effect of good corporate governance mechanisms, consisting of institutional ownership, managerial ownership, and independent commissioners, and profitability on accounting conservatism, with leverage as a moderating variable. **Methods:** The study uses a quantitative approach with secondary data drawn from financial reports and annual reports of manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. A purposive sampling method yielded 31 companies with 93 total observations. Hypotheses were tested using moderated regression analysis with the absolute difference method, processed through SPSS version 26. **Results / Findings:** The results show that institutional ownership has a significant positive effect on accounting conservatism, while managerial ownership, independent commissioners, and profitability do not produce significant effects. With respect to the moderating role of leverage, the results show that leverage significantly strengthens the positive effect of institutional ownership on accounting conservatism. Leverage does not, however, significantly moderate the effects of managerial ownership, independent commissioners, or profitability on accounting conservatism. **Conclusion:** These findings indicate that the moderating function of leverage is selective, operating only through governance mechanisms that already demonstrate a direct monitoring effect on accounting conservatism.

**Keywords:** Accounting conservatism; Good corporate governance; Institutional ownership; Leverage; Profitability

**JEL Classification:** M40; M48

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### **INTRODUCTION**

Financial reports serve as the primary medium through which management demonstrates accountability in the use of company resources. These reports describe the company's financial condition and inform stakeholders about management performance. To be credible and useful, financial reports must adhere to established accounting objectives, rules, and principles in accordance with generally accepted standards. In this context, accounting conservatism plays a critical role, as it prevents management from acting opportunistically in contracts and thereby reduces agency costs (Susanto and Ramadhani, 2016). Conservatism in accounting serves as a mechanism to balance the need to address information asymmetry and curb opportunistic managerial behavior.

To identify the factors promoting accounting conservatism, numerous studies have been conducted. A robust corporate governance system has emerged as one of the most significant determinants. Hajawiyah et al. (2020) define corporate governance as a set of regulations that govern the behavior of managers, directors, employees, controllers, and other stakeholders. Within the corporate governance framework, managerial ownership, institutional ownership, and independent commissioners are widely studied as mechanisms that influence accounting conservatism.

Prior studies on the relationship between these corporate governance mechanisms and accounting conservatism have, however, produced inconsistent results. Regarding institutional ownership, Alkurdi et al. (2017), Hajawiyah et al. (2020), Yuniarsih and Permatasari (2021), and Ivone and Dewi (2021) found a significant negative effect on accounting conservatism, while Adhriatik and Ismangil (2019) and Achyani et al. (2021) found no significant effect. On managerial ownership, Pambudi (2017) and Yuniarsih and Permatasari (2021) reported a positive influence, whereas Adhriatik and Ismangil (2019), El-Haq et al. (2019), Hajawiyah et al. (2020), Christina (2021), and Kholifah (2021) found no significant relationship. With respect to independent commissioners, Hajawiyah et al. (2020), Pratomo and Havivah (2021), and Achyani et al. (2021) documented a significant positive effect, while Adhriatik and Ismangil (2019) and Ivone and Dewi (2021) reported otherwise. Profitability findings are equally inconsistent: Yuniarsih and Permatasari (2021) and Setiawan and Sugiyanto (2021) found that profitability positively influences accounting conservatism, whereas El-Haq et al. (2019) and Kholifah (2021) found no such relationship.

The inconsistency of these findings suggests that unmeasured contextual factors may moderate the relationship between corporate governance mechanisms and accounting conservatism. One such factor is leverage. As the leverage ratio increases, the financial risk for both the company and its creditors rises, and companies with high debt levels tend to adopt more conservative accounting practices. This occurs because high leverage threatens the company's financial survival, incentivizing creditors to closely monitor company operations (Mareta et al., 2021). This monitoring environment, in turn, encourages firms to apply conservative accounting standards. Despite this theoretical basis, leverage as a moderating variable in the relationship between corporate governance mechanisms, profitability, and accounting conservatism remains underexplored in prior literature.

This study addresses that gap by examining the effect of managerial ownership, institutional ownership, independent commissioners, and profitability on accounting conservatism, with leverage as a moderating variable, in manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. The theoretical framework of this study draws on agency theory, which posits that conflicts of interest between principals and agents arise from information asymmetry, and that corporate governance mechanisms serve as structural solutions to mitigate these conflicts. This study contributes to the existing literature by providing empirical evidence on the moderating role of leverage in strengthening or weakening the effect of corporate governance mechanisms and profitability on accounting conservatism in the Indonesian manufacturing sector.

Agency theory examines the contractual relationship between management and shareholders, in which management acts as the agent and the company owner acts as the principal. Jensen and Meckling (1976) explain that an agency relationship arises from a contract in which the principal delegates decision-making authority to the agent. Supriyono (2018) further describes agency theory as a framework that captures the relationship between the principal as the contract giver and the agent as the contract recipient. Saputra (2018) adds that an agency relationship is an arrangement in which one or more individuals appoint another person to conduct business transactions on their behalf.

Agency conflicts emerge when the interests of managers diverge from those of shareholders. Managers tend to seek higher salaries, bonuses, and reduced workloads, which may lead them toward profit-increasing behavior, whereas shareholders prefer cost minimization and maximum returns. These divergent interests create information asymmetry, which serves as the central problem addressed by corporate governance mechanisms. A stronger ownership stake in a company generally improves monitoring effectiveness and reduces opportunistic managerial behavior. In this context, corporate governance mechanisms, including managerial ownership, institutional ownership, and independent commissioners, function as structural tools to align the interests of agents and principals.

Accounting conservatism refers to the prudent approach in financial reporting whereby companies delay the recognition of revenues and assets while promptly recognizing expenses and liabilities that are likely to occur. Watts (2003) defines conservatism as a principle under which companies do not rush in recognizing and measuring assets and profits, but immediately recognize losses and debts when there is a possibility of their occurrence. The application of this principle directs companies toward accounting methods that report lower profits or assets and higher debt, thereby protecting creditors and investors from downside risk (Ridho and Arianto, 2022).

Although accounting conservatism serves as a risk-reduction mechanism, its application is bounded. Excessive conservatism can distort a company's periodic financial results and mislead decision-makers who rely on financial statements to assess the company's actual condition. Despite this limitation, conservatism remains an important quality in financial reporting, particularly in environments characterized by high information asymmetry between managers and external stakeholders.

Managerial ownership refers to the proportion of company shares held by management and directors (Yuniarsih and Permatasari, 2021). Utama (2018) identifies managerial ownership as one of the key internal factors that determine company progress, as managerial decisions are made to optimize the use of resources entrusted by investors. Based on agency theory, when managers hold a significant ownership stake, their personal interests become more aligned with those of shareholders, reducing the likelihood of opportunistic behavior. Positive accounting theory further suggests that managers with ownership stakes tend to plan for sustainable performance by increasing net income through conservative reporting, as they bear the direct consequences of poor financial outcomes. When managerial ownership is substantial, the manager's sense of ownership over the company intensifies, encouraging a greater commitment to company growth and the adoption of conservative accounting methods (Alfian et al., 2018). Ridho et al. (2020), Ain et al. (2020), and Fitri et al. (2017) confirm that managerial ownership has a positive effect on accounting conservatism. Based on this reasoning, the following hypothesis is proposed:

**H<sub>1</sub>:** Managerial ownership has a positive effect on accounting conservatism.

Institutional ownership refers to shares held by entities such as insurance companies, banks, investment companies, and other institutions (Yuniati et al., 2016). As the largest shareholder category in many companies, institutional investors hold the most influence in corporate decision-making and exercise direct control over management's financial policies. Institutional ownership plays a critical role in monitoring management, as institutions have both the incentive and the capacity to supervise company operations more optimally than individual shareholders (Pasaribu et al., 2018). This monitoring function reduces information asymmetry between management and external parties. Based on positive accounting theory, institutional investors also tend to prefer stable dividend income, which motivates companies to adopt conservative accounting practices that sustain long-term profitability. Ain et al. (2020), Yuniarsih (2021), and Ivone (2021) report that institutional ownership has a positive effect on accounting conservatism. Based on this reasoning, the following hypothesis is proposed:

**H<sub>2</sub>:** Institutional ownership has a positive effect on accounting conservatism.

Under Act No. 40 of 2007 on Limited Liability Corporations, an independent commissioner is a party who has no business or kinship relationship with the company's controlling shareholders, directors, or other commissioners. The presence of independent commissioners on the board is intended to strengthen oversight and ensure that managerial decisions align with shareholder interests. Handayani et al. (2022) state that independent commissioners carry out effective supervision and direct the company based on predetermined rules. Independent commissioners reduce the information asymmetry that frequently exists between senior management and business owners by acting as an intermediary between the two parties, particularly in the adoption of legal and tax-related policies. Hajawiyah et al. (2020), Pratomo and Havivah (2021), and Achyani et al. (2021) document that independent commissioners have a significant positive influence on accounting conservatism. Based on this reasoning, the following hypothesis is proposed:

**H<sub>3</sub>:** Independent commissioners have a positive effect on accounting conservatism.

Profitability refers to a company's capacity to generate profit from its operations. Companies with higher profitability generally face higher tax burdens, since income levels are positively correlated with taxes paid (Putra and Amanah, 2019). Pohan et al. (2018) note that increasing a company's operational capacity or financial resources tends to raise its profitability. When profitability is high, a company's retained earnings increase, which is associated with a conservative accounting approach, as managers seek to preserve and sustain those earnings over time. In this study, profitability is measured using Return on Equity (ROE), which compares a company's net profit to its total equity and reflects shareholders' assessment of the company's capacity to generate returns (Setiawan and Sugiyanto, 2021). Yuniarsih and Permatasari (2021) and Setiawan and Sugiyanto (2021) find that profitability has a positive effect on accounting conservatism. Based on this reasoning, the following hypothesis is proposed:



**H4:** Profitability has a positive effect on accounting conservatism.

Leverage refers to a company's capacity to repay its debt obligations using the totality of its assets (Darya, 2019). As a financial ratio, leverage measures the proportion of company assets financed by debt and indicates the degree of protection afforded to creditors. When a company carries significant debt, creditors become more cautious and increase their monitoring of company operations, which in turn reduces information asymmetry between managers and external parties (Susanto and Ramadhani, 2016). This heightened monitoring environment incentivizes management to present more conservative financial reports, as high debt levels represent a genuine threat to company survival.

Prior studies on the relationship between managerial ownership and accounting conservatism report inconsistent findings. Agency theory posits that high debt levels grant creditors the right to supervise company operational activities. Greater creditor supervision reduces information asymmetry between creditors and company managers (Marcheta, 2021), as creditors require transparency regarding returns on invested funds. When the company's debt ratio is high, management attempts to reduce perceived risk by presenting more stable and conservative profit reports. Leverage therefore reinforces the effect of managerial ownership on accounting conservatism by adding an additional layer of monitoring pressure. Based on this reasoning, the following hypothesis is proposed:

**H5:** Leverage strengthens the positive effect of managerial ownership on accounting conservatism.

Prior studies on the relationship between institutional ownership and accounting conservatism also report inconsistent results. According to Pasaribu et al. (2018), when monitoring costs are high, company owners appoint third parties, such as creditors, to assist in oversight. The level of debt relative to total assets, expressed as the leverage ratio, indicates the extent of this additional monitoring. As the leverage ratio increases, financial risk rises for both the company and its creditors, and companies with high debt levels become more cautious because such levels threaten the company's survival (Yuniarsih, 2021). Creditor monitoring reinforces the oversight carried out by institutional investors, making it more difficult for management to conceal information from either shareholders or creditors. Leverage therefore amplifies the monitoring effect of institutional ownership and encourages the application of conservative accounting practices. Based on this reasoning, the following hypothesis is proposed:

**H6:** Leverage strengthens the positive effect of institutional ownership on accounting conservatism.

The presence of independent commissioners limits managerial opportunism by ensuring that company policies align with established governance rules. When leverage is high, creditors impose an additional monitoring function that complements the oversight role of independent commissioners. The combined pressure from both creditors and independent commissioners creates an environment in which management finds it increasingly difficult to deviate from conservative reporting practices. High debt levels also heighten the financial stakes for the company, making conservative accounting a more rational choice for management seeking to maintain creditor confidence. Based on this reasoning, the following hypothesis is proposed:

**H7:** Leverage strengthens the positive effect of independent commissioners on accounting

conservatism.

Companies with high profitability tend to attract greater scrutiny from creditors when they also carry significant debt obligations, as creditors closely monitor the ability of profitable companies to service their debt. When leverage is high, management faces dual pressure from both creditors and shareholders to maintain consistent and reliable financial reporting. This dual monitoring function encourages management to sustain conservative accounting practices, as departures from prudent reporting could undermine creditor confidence and threaten the company's access to future financing. Based on this reasoning, the following hypothesis is proposed:

**H<sub>8</sub>:** Leverage strengthens the positive effect of profitability on accounting conservatism.

## RESEARCH METHOD

This study adopts a quantitative approach using descriptive analysis to examine the effect of corporate governance mechanisms and profitability on accounting conservatism with leverage as a moderating variable. The data used are secondary data in the form of financial reports and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2020. According to Sekaran et al. (2017), research design is a plan for collecting, measuring, and analyzing data based on the research questions of the study. The unit of analysis is the company, and pooled data across three observation years are used.

**Table 1.** Sample Selection Criteria

No	Criteria	Total
1	Manufacturing companies listed on the IDX during 2018 to 2020	208
2	Manufacturing companies operating in the Automotive, Cigarette, Pharmaceutical, Cosmetic, Cement, Ceramic, Pulp and Paper, and Cable sectors	-118
3	Manufacturing companies that did not publish complete financial reports for 2018 to 2020	-30
4	Manufacturing companies that did not publish annual reports for 2018 to 2020	-29
5	Manufacturing companies that did not publish financial reports in IDR currency	0
6	Manufacturing companies with a Market-to-Book Ratio of less than one	0
<b>Number of company samples</b>		<b>31</b>
<b>Observation period</b>		<b>3 years</b>
<b>Total observations</b>		<b>93</b>

Source: Data processed by researchers



The population of this study consists of all manufacturing companies listed on the IDX during 2018 to 2020. Sample selection follows a purposive sampling technique, which determines samples based on specific criteria relevant to the research objectives (Sugiyono, 2018). The sample selection criteria and results are presented in Table 1.

Based on these criteria, 31 companies qualified as samples, yielding a total of 93 observations across the three-year period. Secondary data were obtained through documentation, namely financial reports and annual reports published by the sample companies on the IDX database.

**Table 2.** Operational Definition of Variables

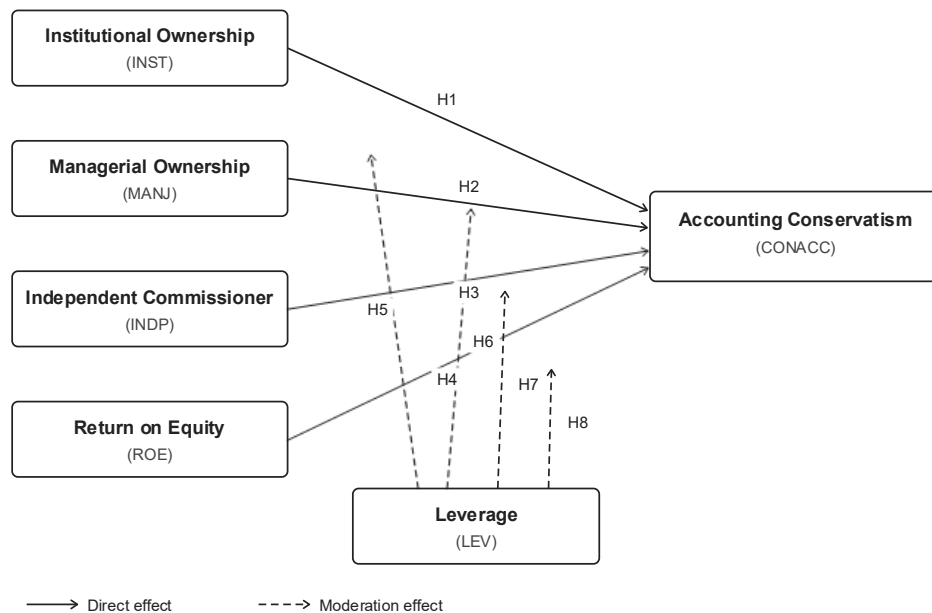
Variable	Operational Definition	Measurement	Scale
Institutional Ownership (INST) (X1)	Percentage of shares held by institutional investors (Yuniarsih and Permatasari, 2021)	INST = Shares held by institutions / Total shares outstanding (Ivone and Dewi, 2021)	Ratio
Managerial Ownership (MANJ) (X2)	Percentage of shares held by management and directors (Yuniarsih and Permatasari, 2021)	MANJ = Shares held by management / Total shares outstanding (Ivone and Dewi, 2021)	Ratio
Independent Commissioner (INDP) (X3)	Party with no business or kinship relationship with the company (Achyani et al., 2021)	INDP = Number of independent commissioners / Total commissioners (Ivone and Dewi, 2021)	Ratio
Return on Equity (ROE) (X4)	Net profit relative to total equity (Setiawan and Sugiyanto, 2021)	ROE = (Net profit / Total equity) x 100 (Tumonggor et al., 2017)	Ratio
Accounting Conservatism (CONACC) (Y)	Accounting approach that understates net book value relative to net economic value (Ridho and Arianto, 2022)	CONACC = Total accruals minus operating accruals	Ratio
Leverage (LEV) (Z)	Proportion of company assets financed by debt (Mareta et al., 2021)	LEV = Total debt / Total assets (Badruddien et al., 2017)	Ratio

Source: Data processed by researchers

Accounting conservatism (CONACC) is the dependent variable. Ridho and Arianto (2022) define accounting conservatism as an approach in accounting that causes the net book value to trend below the net economic value over time, reflecting the tendency to understate assets and overstate liabilities. This study measures accounting conservatism using Non-Operating Accruals, calculated as total accruals minus operating accruals, following Watts (2003). Institutional ownership (INST) is the first independent variable, measured as the ratio of shares held by institutional investors to the total number of shares outstanding (Ivone and Dewi, 2021). Institutional investors include insurance companies, banks, and investment companies. Managerial ownership (MANJ) is the second independent variable, measured as the ratio of shares held by management and directors to the total number of shares outstanding (Ivone and Dewi, 2021). Information on managerial shareholding is obtained from the shareholder section of each company's annual report. Independent commissioner (INDP) is

the third independent variable, measured as the ratio of independent commissioners to the total number of commissioners on the board (Ivone and Dewi, 2021), following Achyani et al. (2021). Return on Equity (ROE) is the fourth independent variable and serves as the proxy for profitability, calculated by dividing net profit by total equity and multiplying by 100 (Tumonggor et al., 2017; Setiawan and Sugiyanto, 2021). Leverage (LEV) is the moderating variable, measured as the ratio of total debt to total assets (Badruddien et al., 2017; Mareta et al., 2021).

The conceptual framework of this study is presented in Figure 1. This framework illustrates the relationship between the four independent variables, namely institutional ownership (INST), managerial ownership (MANJ), independent commissioner (INDP), and return on equity (ROE), and the dependent variable, accounting conservatism (CONACC). Leverage (LEV) is positioned as the moderating variable that strengthens or weakens the direct effect of each independent variable on accounting conservatism, as represented by hypotheses H5 through H8.



**Figure 1.** Conceptual Framework

Based on Figure 1, hypotheses H1 through H4 represent the direct effects of each independent variable on accounting conservatism, while hypotheses H5 through H8 represent the moderating effects of leverage on each of those relationships.

Hypothesis testing in this study uses Moderated Regression Analysis (MRA) with the absolute difference method, processed using SPSS version 26. According to Ghazali (2018), regression analysis measures the strength and direction of the relationship between two or more variables. The regression model used in this study is as follows:

$$CONACC = \alpha + \beta_1INST + \beta_2MANJ + \beta_3INDP + \beta_4ROE + \beta_5LEV + \beta_6(INST \times LEV) + \beta_7(MANJ \times LEV) + \beta_8(INDP \times LEV) + \beta_9(ROE \times LEV) + \varepsilon$$

Where CONACC is accounting conservatism, INST is institutional ownership, MANJ is managerial ownership, INDP is the proportion of independent commissioners, ROE is return on equity, LEV is leverage, and  $\varepsilon$  is the error term. The significance level applied in hypothesis testing is 5 percent. H0 is rejected when the significance value is below 0.05, indicating that the hypothesis is supported.

Prior to hypothesis testing, classical assumption tests are conducted to ensure the validity of the regression model. These include the normality test using the Kolmogorov-Smirnov test, the multicollinearity test using the Variance Inflation Factor (VIF) with a threshold of 10, the heteroscedasticity test, and the autocorrelation test.

## RESULTS AND DISCUSSION

Table 3 presents the descriptive statistics for all variables used in this study, based on data from 93 observations drawn from 31 manufacturing companies listed on the Indonesia Stock Exchange for the period 2018 to 2020.

**Table 3.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
INST	93	0.215	0.990	0.720	0.195
MANJ	93	0.100	0.695	0.227	0.227
INDP	93	0.167	0.800	0.507	0.150
ROE	93	-0.150	1.450	0.157	0.257
CONACC	93	0.630	22.470	6.824	4.800
LEV	93	0.0003	2.294	0.438	0.307
INST_LEV	93	0.390	15.570	5.007	4.019
MANJ_LEV	93	0.00005	0.397	0.090	0.083
INDP_LEV	93	0.00019	0.765	0.222	0.151
ROE_LEV	93	-0.093	1.102	0.080	0.191
Valid N	93				

Source: Data processed with SPSS 26.

The mean value of institutional ownership (INST) is 0.720, indicating that on average 72 percent of shares in the sample companies are held by institutional investors, which reflects the dominance of institutional ownership in Indonesian manufacturing companies. Managerial ownership (MANJ) has a mean of 0.227, suggesting that managerial parties hold a relatively modest stake. The mean proportion of independent commissioners (INDP) is 0.507, which meets the minimum requirement of 30 percent set by the Financial Services Authority. The mean ROE of 0.157 indicates moderate profitability across the sample, while the mean leverage ratio (LEV) of 0.438 suggests that on average 43.8 percent of company assets are financed by debt.

Prior to hypothesis testing, classical assumption tests were conducted to ensure the validity of the regression model. The normality test using the Kolmogorov-Smirnov test produced an Asymp. Sig. (two-tailed) value of 0.346, which exceeds 0.05, indicating that the residuals are normally distributed. The multicollinearity test showed that all independent

variables had VIF values below 10 and tolerance values above 0.10, confirming the absence of multicollinearity among the independent variables (Ghozali, 2018). The heteroscedasticity and autocorrelation tests further confirmed that the data meet the classical assumptions required for regression analysis.

The adjusted R-squared value of the regression model is 0.971, indicating that 97.1 percent of the variation in accounting conservatism is explained jointly by institutional ownership, managerial ownership, independent commissioners, return on equity, and leverage as a moderating variable. The remaining 2.9 percent is attributable to other variables not examined in this study. The Standard Error of the Estimate (SEE) of 0.822 reflects a high level of model accuracy in predicting the dependent variable.

Partial hypothesis testing was conducted using the t-test at a significance level of 5 percent. H0 is rejected when the significance value is below 0.05, indicating support for the hypothesis. The t-test for institutional ownership (INST) produced a significance value of 0.000, which is below 0.05. H1 is therefore supported. Institutional ownership has a significant positive effect on accounting conservatism. This result indicates that higher institutional ownership encourages more conservative accounting practices in Indonesian manufacturing companies. Institutional investors, by virtue of their significant capital market stakes, have both the incentive and the capacity to monitor management behavior more effectively than individual shareholders (Pasaribu et al., 2018). This monitoring function reduces information asymmetry and discourages opportunistic earnings reporting, thereby promoting the application of conservatism in financial statements. Based on positive accounting theory, institutional investors also prefer stable dividend income, which motivates management to adopt conservative reporting practices that sustain long-term profitability. These findings are consistent with Ain et al. (2020), Yuniarsih (2021), and Ivone (2021), who report that institutional ownership has a positive effect on accounting conservatism.

The t-test for managerial ownership (MANJ) produced a significance value of 0.370, which exceeds 0.05. H2 is therefore not supported. Managerial ownership does not have a significant positive effect on accounting conservatism. The descriptive statistics show that the mean managerial ownership in the sample is 0.227, reflecting that manufacturing companies in Indonesia are predominantly owned by parties other than management. When managerial ownership is low relative to total shares, managers may not bear sufficient personal risk from financial outcomes to motivate conservative reporting. Based on agency theory, managers with small ownership stakes may prioritize short-term bonus maximization over conservative profit reporting, thereby weakening the expected positive relationship. These findings are consistent with Ursula et al. (2018), Helena et al. (2018), and Adhriatik and Ismangil (2019), who find that managerial ownership has no significant effect on accounting conservatism.

The t-test for independent commissioners (INDP) produced a significance value of 0.127, which exceeds 0.05. H3 is therefore not supported. The proportion of independent commissioners does not significantly affect accounting conservatism. Although the mean proportion of independent commissioners in the sample meets the regulatory minimum, the

mere fulfillment of the formal requirement does not guarantee effective oversight. Independent commissioners may face limitations in exercising substantive monitoring when they lack sufficient information or authority relative to the controlling shareholders. This finding is consistent with Adhriatik and Ismangil (2019) and Ivone and Dewi (2021), who report that independent commissioners do not significantly influence accounting conservatism.

The t-test for return on equity (ROE) produced a significance value of 0.126, which exceeds 0.05. H4 is therefore not supported. Profitability does not have a significant positive effect on accounting conservatism in this sample. The mean ROE of 0.157 suggests that profitability among the sample companies is moderate and relatively stable across the observation period, which may limit variation in the incentive to adopt conservative reporting. When profitability is consistently moderate, the motivation to build hidden reserves through conservatism is less pronounced. These findings are consistent with El-Haq et al. (2019) and Kholifah (2021), who find no significant relationship between profitability and accounting conservatism.

The t-test for the interaction term INST\_LEV produced a significance value of 0.000, which is below 0.05. H5 is therefore supported. Leverage significantly strengthens the positive effect of institutional ownership on accounting conservatism. This result indicates that when companies carry higher levels of debt, the monitoring function of institutional ownership is reinforced by the additional oversight of creditors. Creditors have a direct interest in ensuring that companies manage their assets prudently, as high leverage increases the financial risk borne by both parties (Yuniarsih, 2021). The combined monitoring pressure from institutional investors and creditors creates an environment in which management finds it more difficult to deviate from conservative reporting practices. These findings support the theoretical argument that leverage and institutional ownership interact to promote accounting conservatism.

The t-test for the interaction term MANJ\_LEV produced a significance value of 0.416, which exceeds 0.05. H6 is therefore not supported. Leverage does not significantly moderate the relationship between managerial ownership and accounting conservatism. Even when leverage is high and creditor monitoring intensifies, the low level of managerial ownership in the sample means that managers have limited personal financial exposure to the consequences of risky reporting behavior. As a result, creditor oversight does not sufficiently complement the already weak monitoring effect of managerial ownership to produce a significant moderating influence. These findings are consistent with the argument that leverage moderation is contingent on the baseline strength of the ownership mechanism it moderates.

The t-test for the interaction term INDP\_LEV produced a significance value of 0.157, which exceeds 0.05. H7 is therefore not supported. Leverage does not significantly moderate the relationship between independent commissioners and accounting conservatism. Although creditor monitoring adds an external layer of oversight when leverage is high, this additional pressure does not meaningfully amplify the effect of independent commissioners on conservative reporting when the board-level oversight mechanism itself is not statistically significant. The formal presence of independent commissioners without corresponding substantive influence limits the potential for leverage to enhance their governance effect.

The t-test for the interaction term ROE\_LEV produced a significance value of 0.157, which exceeds 0.05. H8 is therefore not supported. Leverage does not significantly moderate

the relationship between profitability and accounting conservatism. When profitability is moderate and relatively stable, companies may not respond to creditor monitoring by adjusting their degree of accounting conservatism, as the financial pressure imposed by leverage does not translate into a meaningful change in reporting incentives. These findings suggest that the moderating effect of leverage is selective, operating through institutional ownership but not through the other variables examined in this study.

**Table 4.** Summary of Hypothesis Testing Results

Hypothesis	Variable Relationship	Sig.	Decision
H1	INST → CONACC	0.000	Supported
H2	MANJ → CONACC	0.370	Not supported
H3	INDP → CONACC	0.127	Not supported
H4	ROE → CONACC	0.126	Not supported
H5	INST x LEV → CONACC	0.000	Supported
H6	MANJ x LEV → CONACC	0.416	Not supported
H7	INDP x LEV → CONACC	0.157	Not supported
H8	ROE x LEV → CONACC	0.157	Not supported

Source: Data processed with SPSS 26.

## CONCLUSION

This study examines the effect of institutional ownership, managerial ownership, independent commissioners, and profitability on accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020, with leverage as a moderating variable. The results show that institutional ownership has a significant positive effect on accounting conservatism, while managerial ownership, independent commissioners, and profitability do not produce significant effects. With respect to the moderating role of leverage, the results show that leverage significantly strengthens the positive effect of institutional ownership on accounting conservatism, but does not significantly moderate the effects of managerial ownership, independent commissioners, or profitability on accounting conservatism.

These findings suggest that the effectiveness of corporate governance mechanisms in promoting accounting conservatism depends not only on their formal presence but on the degree to which they generate substantive oversight of managerial behavior. Leverage operates selectively as a moderating variable, reinforcing only those governance mechanisms that already demonstrate a direct monitoring effect.

This study is limited to a three-year observation period and a single sector. Future research may extend the observation period, incorporate additional governance variables, or apply alternative proxies for accounting conservatism to obtain more comprehensive findings.

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