
Accounting Conservatism from the Perspective of Firm Characteristics and Corporate Governance: Evidence from the Consumer Non-Cyclicals Sector

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ABSTRACT: Accounting conservatism reflects prudence in financial reporting by limiting the overstatement of assets and earnings and enhancing information reliability. This study examines the effects of firm size, Return on Assets (ROA), and the proportion of the board of commissioners (PBC) on accounting conservatism in manufacturing companies in the Consumer Non-Cyclicals sector. Using purposive sampling, the study selected 34 companies listed on the Indonesia Stock Exchange during 2019–2023. The results show that firm size and ROA have no significant effect on accounting conservatism, whereas PBC has a negative and significant effect at the 10% significance level. These findings indicate that firm size and profitability are not primary determinants of accounting conservatism, while corporate governance mechanisms play a more relevant role. The findings provide partial support for Agency Theory and highlight the importance of effective oversight mechanisms in promoting conservative financial reporting practices.

KEYWORDS: Accounting Conservatism; Firm Size; Profitability; Corporate Governance; Board of Commissioners.

I. INTRODUCTION

Accounting conservatism reflects the principle of prudence in financial reporting, aiming to prevent the overstatement of assets, revenues, and earnings and thereby enhance the reliability of financial information for stakeholders. However, its implementation in practice continues to face challenges, as illustrated by the case of PT Tiga Pilar Sejahtera Food Tbk (AISA), a company operating in the Consumer Non-Cyclicals sector. ¹ reported that a fact-based investigation conducted by Ernst & Young (EY) identified alleged overstatements of approximately IDR 4 trillion in trade receivables, inventories, and fixed assets, as well as alleged inflation of sales by IDR 662 billion and EBITDA by IDR 329 billion in the food segment. The investigation also revealed suspected fund transfers amounting to IDR 1.78 trillion to parties allegedly affiliated with the company's former management. This phenomenon indicates that the company's financial statements did not fully reflect the principle of prudence and potentially provided misleading information to investors, creditors, and other stakeholders. Therefore, the case underscores the relevance of examining accounting conservatism among manufacturing companies in the Consumer Non-Cyclicals sector, particularly to identify the factors influencing its implementation and to support improvements in the quality and reliability of financial reporting.

Extensive research has examined accounting conservatism; however, prior studies have reported inconsistent findings. Firm size has been found to significantly affect accounting conservatism by ^{2,3}, whereas ^{4,5} found no significant effect. Similar inconsistencies have been observed for profitability, as measured by Return on Assets (ROA). ^{6,7} reported a significant effect, while ^{8,9} found no significant relationship. Furthermore, the proportion of the board of commissioners has also produced mixed results. ^{10,11} found a significant relationship with accounting conservatism, whereas ^{12,13} reported otherwise. These divergent findings indicate that the relationships between firm characteristics, profitability, corporate governance mechanisms, and accounting conservatism remain inconclusive. Accordingly, further empirical investigation is warranted to re-examine the effects of firm size, ROA, and the proportion of the board of commissioners on accounting conservatism, thereby providing stronger empirical evidence and contributing to the existing literature.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency Theory explains the contractual relationship between company owners (principals) and managers (agents), whose interests and access to information may not always be aligned¹⁴. Divergent interests and information asymmetry may encourage managers to engage in opportunistic behavior in financial reporting, including selecting accounting policies that affect the recognition and presentation of earnings and assets^{15,16}. Under such circumstances, accounting conservatism can serve as a mechanism to constrain managerial opportunism by applying prudence in the recognition of assets, earnings, liabilities, and losses¹⁷.

Firm characteristics and corporate governance mechanisms may influence the extent to which accounting conservatism is implemented^{2,3}. Firm size and profitability, as reflected by Return on Assets (ROA), may affect managerial incentives and pressures in reporting corporate performance, while the proportion of the board of commissioners is associated with the effectiveness of oversight over managerial actions^{6,7,10,11}. Accordingly, Agency Theory provides a theoretical foundation for viewing accounting conservatism as a control mechanism that can mitigate agency conflicts and information asymmetry while enhancing the quality and reliability of financial information presented in financial statements.

Hypothesis Development

The Effect of Firm Size on Accounting Conservatism

From the perspective of Agency Theory, divergent interests between company owners as principals and managers as agents may give rise to agency problems, particularly because managers generally possess greater access to information about the company's financial condition¹⁴. These problems may become more pronounced in larger firms with extensive operations and complex organizational structures. The greater scale of operations allows managers to oversee more diverse information and business activities, potentially increasing information asymmetry between management and shareholders. Such conditions may provide managers with greater discretion to exercise accounting judgment opportunistically in determining the amount of earnings and assets reported in the financial statements^{15,16}. Accordingly, firm size represents an important organizational characteristic that may influence the need for more prudent financial reporting policies.

Accounting conservatism can serve as a control mechanism to constrain overly optimistic financial reporting by management. Under a conservative reporting approach, firms tend to exercise greater caution in recognizing assets and revenues while recognizing liabilities and losses more promptly, thereby enhancing the credibility of financial information provided to principals¹⁷. Larger firms are also generally subject to greater scrutiny from investors, creditors, regulators, and the public. Such external pressure may encourage management to adopt more prudent accounting practices to reduce information risk and mitigate agency conflicts. Therefore, as firm size increases, the need for financial reporting mechanisms that can constrain information asymmetry and managerial opportunism may also become greater. This argument is supported by^{2,3}, who found that firm size has a significant effect on accounting conservatism. Based on the theoretical arguments and empirical evidence above, the following hypothesis is proposed:

H₁: Firm size has a significant effect on accounting conservatism.

The Effect of Return on Assets (ROA) on Accounting Conservatism

Agency Theory suggests that divergent objectives between principals and agents may give rise to conflicts of interest, particularly when managers possess greater information about the company's financial condition and performance than its owners¹⁴. In this context, profitability, as measured by Return on Assets (ROA), may influence managerial behavior in determining financial reporting policies. A higher ROA indicates the firm's ability to generate earnings from its available resources; however, it may also increase managerial incentives to maintain or demonstrate strong performance to shareholders and external stakeholders. Such conditions may create incentives for managers to adopt accounting policies that result in more favorable presentations of earnings and assets, particularly when maintaining a positive perception of firm performance is important^{15,16}.

Under these circumstances, accounting conservatism can function as a control mechanism to constrain managerial tendencies toward overly optimistic financial reporting. The application of conservatism encourages firms to exercise greater caution in recognizing revenues and assets while recognizing potential losses and liabilities in a timely manner, thereby enhancing the reliability of information provided to principals¹⁷. Accordingly, profitability may influence both the need and incentives for firms to adopt accounting conservatism as part of an agency control mechanism. Firms with different levels of ROA may face different incentives to apply conservative accounting practices, depending on managerial interests and the firm's financial condition. This

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argument is consistent with the findings of ^{6,7}, who reported that ROA significantly affects accounting conservatism. Based on the theoretical arguments and empirical evidence above, the following hypothesis is proposed:

H₂: Return on Assets (ROA) has a significant effect on accounting conservatism.

The Effect of the Proportion of the Board of Commissioners on Accounting Conservatism

Agency Theory suggests that conflicts between principals and agents may arise from divergent interests and information asymmetry between owners and management ¹⁴. In this context, the board of commissioners constitutes an important component of the corporate governance mechanism, particularly through its oversight of managerial policies and actions. A higher proportion of board commissioners may strengthen the monitoring capacity of the board, particularly in overseeing the financial reporting process and constraining opportunities for managerial opportunism. More effective oversight is expected to encourage management to provide more transparent and reliable financial information while reducing the likelihood of financial manipulation or overly favorable performance reporting.

Accounting conservatism can complement this oversight function by encouraging firms to apply prudence in the recognition of assets, earnings, liabilities, and losses ¹⁷. Stronger monitoring by the board of commissioners may reduce managerial incentives to adopt overly optimistic accounting policies and encourage more prudent financial reporting practices. Therefore, a higher proportion of board commissioners may theoretically enhance the effectiveness of managerial monitoring while promoting accounting conservatism as a mechanism for mitigating agency conflicts. This argument is consistent with the findings of ^{10,11}, who found a significant relationship between the proportion of board commissioners and accounting conservatism. Based on the theoretical arguments and empirical evidence above, the following hypothesis is proposed:

H₃: The proportion of the board of commissioners has a significant effect on accounting conservatism.

III. RESEARCH METHODOLOGY

Research Design

This study employs a quantitative research approach to examine the effects of firm size, profitability, and the proportion of independent commissioners on accounting conservatism. The study uses secondary data obtained from the annual reports and financial statements of companies listed on the Indonesia Stock Exchange (IDX). The observation period covers 2019–2023, resulting in a five-year observation period. The unit of analysis is the firm-year observation. Based on the sample selection criteria, 34 companies were included in the final sample, resulting in a balanced panel dataset comprising 170 firm-year observations (34 companies × 5 years). The empirical model is estimated using multiple linear regression. Given the presence of heteroskedasticity identified in the diagnostic tests, the main statistical inference employs heteroskedasticity-consistent HC3 standard errors. Additional sensitivity analysis using firm-clustered standard errors and the exclusion of an influential observation is conducted to assess the robustness of the findings.

Population and Sample

The population of this study comprises companies listed on the Indonesia Stock Exchange (IDX) that are classified in the Consumer Non-Cyclicals sector during the 2019–2023 observation period. The sample was selected using a purposive sampling technique based on specific criteria relevant to the research objectives. The criteria include companies that were listed consecutively throughout the 2019–2023 period, published complete annual reports and financial statements for each year of observation, provided complete data required to measure all research variables, and presented their financial statements in Indonesian Rupiah. Based on these criteria, the final sample consists of 34 companies, resulting in 170 firm-year observations over the five-year observation period. The resulting dataset forms a balanced panel, in which each sampled company is observed consistently from 2019 to 2023.

Data Sources and Data Collection

This study uses secondary data obtained from publicly available annual reports and financial statements. The data were collected from company annual reports and financial statements published through the Indonesia Stock Exchange and the respective company websites. The financial data required to measure accounting conservatism, firm size, and return on assets were obtained from the statement of financial position, statement of profit or loss, and statement of cash flows. Information concerning the composition of the board of commissioners, particularly the number of independent commissioners and total commissioners, was obtained from the corporate governance section of the annual reports. The data were subsequently organized into a balanced panel dataset consisting of 34 companies observed over five consecutive years.

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Operational Definitions and Measurement of Variables

The study consists of one dependent variable and three independent variables. The dependent variable is accounting conservatism, while the independent variables are firm size, return on assets, and the proportion of independent commissioners.

Accounting Conservatism (CONACC)

Accounting conservatism is the dependent variable in this study. It is measured using the accrual-based measure proposed in prior accounting conservatism literature:

$$Cit = \frac{(NI_{it} - CFO_{it}) \times (-1)}{TA_{it}}$$

where NI represents net income, CFO represents cash flow from operating activities, and TA represents total assets. The measure captures the extent to which accounting accruals reflect conservative reporting. A higher value of CONACC indicates a greater degree of accounting conservatism under this measurement approach.

Firm Size (SIZE)

Firm size represents the scale of a company's economic resources. It is measured using the natural logarithm of total assets:

$$SIZE = \ln(\text{Total Asset})$$

The natural logarithm is applied to total assets to reduce the potential effect of substantial differences in firm scale and to produce a more comparable measure across firms.

Return on Assets (ROA)

Return on Assets measures the ability of a company to generate earnings from its total assets. ROA is calculated as follows:

$$ROA = \frac{\text{Income after tax}}{\text{Total Assets}} \times 100\%$$

For descriptive presentation, ROA may be expressed as a percentage by multiplying the ratio by 100. However, for regression estimation, the variable is retained in its decimal form. A higher ROA indicates greater profitability and more efficient utilization of the company's assets.

Proportion of Independent Commissioners (PBC)

The proportion of independent commissioners reflects the representation of independent members within the company's board of commissioners. It is measured as:

$$PBC_{it} = \frac{IC_{it}}{BC_{it}}$$

where IC is the number of independent commissioners and BC is the total number of commissioners. For example, a value of 0.3333 indicates that approximately 33.33% of the board of commissioners consists of independent commissioners. For regression analysis, PBC is retained as a proportion, rather than multiplied by 100. This treatment is consistent with the descriptive statistics reported in the empirical analysis, where PBC ranges from 0.2500 to 0.8333.

Empirical Model

To examine the relationship between the independent variables and accounting conservatism, the following multiple regression model is estimated:

$$CONACC_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 ROA_{it} + \beta_3 PBC_{it} + \epsilon_{it}$$

where:

- $CONACC_{it}$ = accounting conservatism of firm i in year t ;
- α = constant;
- $SIZE_{it}$ = firm size;
- ROA_{it} = return on assets;
- PBC_{it} = proportion of independent commissioners;
- $\beta_1, \beta_2, \beta_3$ = regression coefficients; and
- ϵ_{it} = error term.

The estimated coefficients indicate the direction and magnitude of the relationship between each explanatory variable and accounting conservatism, holding the other variables constant.

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Data Analysis Techniques

The analysis is conducted in several stages. First, descriptive statistics are used to summarize the characteristics and distribution of the research variables. Second, diagnostic tests are performed to assess potential violations of the assumptions underlying the regression model. Third, multiple linear regression is estimated to test the proposed hypotheses.

Because the dataset consists of repeated observations for the same firms over five years, the panel structure of the data is taken into consideration when interpreting the diagnostic results. The primary regression specification uses heteroskedasticity-consistent HC3 standard errors because the diagnostic tests indicate the presence of heteroskedasticity.

In addition, firm-clustered standard errors are used as a sensitivity specification to account for potential within-firm dependence across observations.

Descriptive Statistics

Descriptive statistics are used to summarize the characteristics and distribution of the research variables. The analysis includes the minimum, maximum, mean, median, and standard deviation, providing an overview of the central tendency and variability of the data prior to regression analysis.

Classical Assumption and Diagnostic Tests

Normality Test

The normality of the regression residuals is assessed using the Shapiro–Wilk and Jarque–Bera tests, complemented by visual inspection of the histogram and Q-Q plot. The null hypothesis states that the residuals are normally distributed. A p-value greater than 0.05 indicates that the null hypothesis cannot be rejected. Because statistical inference in regression with a relatively large number of observations does not depend exclusively on exact residual normality, deviations from normality are evaluated together with the graphical diagnostics and the presence of influential observations.

Multicollinearity Test

Multicollinearity is assessed using the Variance Inflation Factor (VIF) and tolerance values. A VIF value below 10 and a tolerance value above 0.10 indicate that there is no serious multicollinearity among the explanatory variables. This test is important because high correlation among independent variables can inflate standard errors and make it difficult to identify their individual effects on accounting conservatism.

Heteroskedasticity Test

Heteroskedasticity is assessed using the Breusch–Pagan and White tests. The null hypothesis assumes that the variance of the residuals is constant. A p-value below 0.05 indicates the presence of heteroskedasticity. If heteroskedasticity is detected, the study does not modify or delete observations solely to satisfy the assumption. Instead, HC3 heteroskedasticity-consistent standard errors are employed to obtain more reliable statistical inference.

Autocorrelation and Within-Firm Dependence

Residual dependence is initially assessed using the Durbin–Watson and Breusch–Godfrey tests. However, because the dataset consists of repeated observations of the same firms over time, these tests are interpreted cautiously. The potential dependence among observations belonging to the same firm is further addressed through firm-clustered standard errors as a sensitivity analysis. This approach is particularly relevant for panel data because observations from the same firm may exhibit correlated disturbances across years.

Treatment of Influential Observations

The study also examines whether individual observations exert disproportionate influence on the regression estimates. Cook's Distance and leverage statistics are used to identify influential observations. An observation with an unusually high influence statistic is not automatically removed from the sample. Instead, the underlying financial information is first examined to determine whether the observation represents a data-entry error or a legitimate economic observation. In the present analysis, the observation for AALI in 2019 exhibits a particularly high Cook's Distance. Because there is no established evidence that the observation represents an error, it is retained in the main analysis. A supplementary regression excluding the observation is subsequently conducted to evaluate whether the main findings are sensitive to its presence.

Robustness and Sensitivity Analysis

Two sensitivity procedures are employed. First, the main OLS model is estimated using HC3 robust standard errors to address heteroskedasticity without altering the underlying observations or coefficient estimates. Second, the model is re-estimated using firm-clustered standard errors to account for potential within-firm correlation. Third, a sensitivity analysis is performed by excluding the highly influential AALI 2019 observation. The purpose of this analysis is not to improve statistical significance but

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to determine whether the substantive conclusions are robust to influential observations. A finding is considered robust when the direction and statistical inference remain reasonably stable across alternative specifications.

Hypothesis Testing

Partial Significance Test

The t-test is used to examine whether each independent variable has a statistically significant partial effect on accounting conservatism. The hypotheses are evaluated at the 10% significance level ($\alpha = 0.10$).

The decision rule is:

- $p < 0.10$: statistically significant;
- $p \geq 0.10$: statistically insignificant.

The sign of the estimated coefficient is also considered when evaluating whether the empirical result is consistent with the predicted direction.

Simultaneous Significance Test

The F-test is used to determine whether SIZE, ROA, and PBC jointly explain variation in accounting conservatism.

The null hypothesis states that all slope coefficients are jointly equal to zero:

$$H_0: \beta_1 = \beta_2 = \beta_3 = 0$$

The alternative hypothesis is:

$$H_a: \text{at least one } \beta_j \neq 0$$

The model is considered statistically significant when the p-value of the F-statistic is below 0.05. Importantly, the F-test is used to evaluate the explanatory power of the model and is not used as a criterion for modifying observations or model specifications solely to obtain statistical significance.

Coefficient of Determination

The coefficient of determination (R^2) is used to evaluate the proportion of variation in accounting conservatism explained by the independent variables included in the model. The adjusted R^2 is also reported because it takes into account the number of explanatory variables relative to the number of observations.

IV. RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 presents the descriptive statistics for the variables included in the empirical model. The final sample consists of 170 firm-year observations from 34 firms over the 2019–2023 period, resulting in a balanced panel dataset.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Median	Std. Dev.
SIZE	170	-0.0515	4.3130	0.2777	0.2251	0.3532
ROA	170	-0.0137	0.6072	0.0977	0.0727	0.0934
PBC	170	0.2500	0.8333	0.4075	0.3333	0.1065
CONACC	170	0.0307	0.9100	0.2577	0.2150	0.1825

The mean value of ROA is 0.0977, indicating that the sampled firms generated an average return on assets of approximately 9.77%. The mean proportion of board commissioners (PBC) is 0.4075, suggesting that commissioners represented approximately 40.75% of the relevant board composition on average. Meanwhile, CONACC has a mean value of 0.2577, with a standard deviation of 0.1825, indicating considerable variation in accounting conservatism across firms and years. The relatively large differences between the minimum and maximum values of several variables suggest substantial cross-sectional heterogeneity among the sampled firms. In particular, SIZE exhibits relatively wide dispersion, which warrants further examination through diagnostic and influence analyses. Before publication, the definition of SIZE should be verified. The current analysis treats the variable labelled as SIZE. If SIZE is intended to represent firm size based on total assets, the conventional measurement is generally $\ln(\text{total assets})$. Therefore, the reported SIZE statistics should be confirmed against the original dataset and variable definition.

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Diagnostic Tests

Prior to estimating the regression model, a series of diagnostic tests was conducted to assess the reliability of the regression estimates.

Table 2. Diagnostic Tests

Diagnostic test	Statistic / p-value	Interpretation
Shapiro–Wilk	$p = 0.000004$	Evidence of non-normal residuals
Jarque–Bera	$p = 0.1487$	Normality not rejected
Breusch–Pagan	$p = 5.902 \times 10^{-24}$	Heteroskedasticity detected
White test	$p = 5.756 \times 10^{-21}$	Heteroskedasticity detected
Durbin–Watson	0.204	Positive residual dependence indicated
Breusch–Godfrey	$p = 1.579 \times 10^{-29}$	Residual dependence detected
VIF	1.0183–1.2757	No multicollinearity

The multicollinearity diagnostics indicate that there is no serious multicollinearity among the explanatory variables. The variance inflation factors (VIFs) range from 1.0183 to 1.2757, well below the commonly used threshold of 10, while tolerance values range from 0.7839 to 0.9820.

The normality tests provides mixed evidence. The Shapiro–Wilk test rejects the null hypothesis of normally distributed residuals ($p = 0.000004$), whereas the Jarque–Bera test does not reject normality ($p = 0.1487$). The Q–Q plot also indicates deviations from the theoretical normal distribution, particularly in the tails. Given the relatively large sample of 170 observations and the presence of influential observations, the analysis does not rely exclusively on the normality assumption for statistical inference. More importantly, both the Breusch–Pagan and White tests indicate significant heteroskedasticity ($p < 0.001$). Accordingly, heteroskedasticity-consistent standard errors using the HC3 estimator are employed for the main OLS inference. The low Durbin–Watson statistic (0.204) and significant Breusch–Godfrey test suggest residual dependence. However, because the observations constitute a balanced panel of 34 firms observed over five years, conventional time-series autocorrelation tests should be interpreted with caution. Therefore, firm-clustered standard errors are additionally considered as a sensitivity analysis.

Influential Observations

The influence diagnostics identify one particularly influential observation, namely AALI in 2019, with a Cook's Distance of approximately 62.19 and leverage of approximately 0.782. The observation is not automatically removed from the main sample because a high Cook's Distance does not, by itself, establish that an observation is erroneous. Instead, the observation should first be verified against the firm's original financial statements. The residual diagnostics also show that this observation has a substantial influence on the estimated regression coefficients. Therefore, an additional estimation excluding the observation is conducted as a sensitivity analysis, rather than as the primary specification. This approach avoids mechanically deleting observations solely to improve statistical significance or satisfy diagnostic criteria.

Regression Results

Table 3 reports the results of the multiple regression examining the effects of firm size (SIZE), profitability (ROA), and the proportion of board commissioners (PBC) on accounting conservatism (CONACC). The primary specification employs HC3 heteroskedasticity-consistent standard errors.

Table 3. Regression Results

Variables	Coefficient	Robust Std. Error	t-statistic	p-value	95% CI
Constant	0.2722	0.1755	1.5514	0.1227	[-0.0742; 0.6187]
SIZE	0.3013	0.5005	0.6019	0.5480	[-0.6870; 1.2895]
ROA	0.2320	0.1905	1.2178	0.2250	[-0.1441; 0.6081]
PBC	-0.2967	0.1651	-1.7973	0.0741	[-0.6227; 0.0292]
R ²	0.3776				
Adjusted R ²	0.3663				
Robust F-statistic	3.8479			0.0107	
Observations	170				

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Notes: The dependent variable is CONACC. Robust standard errors are based on the HC3 heteroskedasticity-consistent estimator. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

The regression model explains approximately 37.76% of the variation in accounting conservatism, as indicated by the R^2 of 0.3776, while the adjusted R^2 is 0.3663. The remaining 62.24% of the variation is attributable to factors outside the variables included in the model. The robust F-statistic is 3.8479 with a p-value of 0.0107, indicating that the explanatory variables are jointly significant. Thus, although the individual coefficients are not statistically significant at the 5% level, the model as a whole provides statistically significant explanatory power for CONACC.

DISCUSSION OF EFFECTS OF FIRM SIZE, PROFITABILITY, AND BOARD COMPOSITION

The Effect of Firm Size

The results indicate that firm size (SIZE) has no significant effect on accounting conservatism, with a positive regression coefficient of 0.3013 and a significance level of 0.5480. The positive coefficient suggests that, *ceteris paribus*, larger firms tend to exhibit higher levels of accounting conservatism. However, the significance level exceeding 0.05 indicates that this relationship is not statistically significant. Therefore, an increase in firm size is not consistently associated with greater adoption of accounting conservatism, and H_1 is not supported. This finding is consistent with ^{4,5}, who likewise found that firm size has no significant effect on accounting conservatism.

The insignificant effect of SIZE suggests that firm size is not necessarily a primary consideration for management when determining the extent of accounting conservatism ². Although larger firms generally have more complex operations, greater scrutiny from various stakeholders, and potentially greater agency conflicts, these conditions do not necessarily induce managers to adopt more conservative accounting policies ¹⁰. This finding suggests that firm size alone may not adequately reflect managerial preferences for prudent accounting practices, as such decisions may also be influenced by other factors, including financial conditions, managerial incentives, and the effectiveness of corporate governance mechanisms. From the perspective of Agency Theory, the adoption of accounting conservatism is more closely related to how managerial behavior and monitoring mechanisms address conflicts of interest and information asymmetry between principals and agents than to firm scale alone ¹⁸. Accordingly, firm size does not appear to be a sufficiently strong determinant of differences in accounting conservatism among the firms examined in this study.

The Effect of Return on Assets (ROA)

The results indicate that Return on Assets (ROA) has no significant effect on accounting conservatism, with a positive regression coefficient of 0.2320 and a significance level of 0.2250. The positive coefficient suggests that, *ceteris paribus*, firms with higher profitability tend to exhibit higher levels of accounting conservatism. However, the significance level exceeding 0.05 indicates that this relationship is not statistically significant. Therefore, profitability, as measured by ROA, cannot be empirically established as a determinant of the extent to which firms adopt accounting conservatism, and H_2 is not supported. This finding is consistent with ^{8,9}, who also found that ROA has no significant effect on accounting conservatism.

The insignificant effect of ROA suggests that a firm's profitability does not directly determine management's choice to adopt conservative accounting practices. Firms with relatively high or low profitability may exhibit similar levels of accounting conservatism because the adoption of conservative reporting practices may be influenced more by reporting considerations, firm-specific conditions, and the effectiveness of monitoring mechanisms ^{19,20}. From the perspective of Agency Theory, although profitability may create incentives for managers to present favorable performance to principals, such incentives do not necessarily translate into changes in the level of accounting conservatism. Managers may employ other mechanisms to maintain favorable perceptions of firm performance, while the application of conservatism remains guided by established accounting policies and internal control mechanisms. Accordingly, ROA does not appear to be a sufficiently strong factor for explaining variations in accounting conservatism among the firms examined in this study.

The Effect of the Proportion of the Board of Commissioners

The results indicate that the proportion of the board of commissioners (PBC) has a negative and significant effect on accounting conservatism at the 10% significance level, with a regression coefficient of -0.2967 and a significance level of 0.0741. The negative coefficient indicates that an increase in the proportion of board commissioners is associated with a decrease in the level of accounting conservatism, *ceteris paribus*. This finding suggests that the presence of a larger proportion of board commissioners does not necessarily encourage firms to adopt more conservative accounting practices. Instead, stronger board representation may reflect an oversight mechanism that enables management to provide more optimized financial reporting without necessarily relying on a high degree of accounting conservatism. Accordingly, H_3 is supported at the 10% significance

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level. This finding is consistent with ^{10,11}, who reported a significant relationship between the proportion of board commissioners and accounting conservatism.

From the perspective of Agency Theory, the board of commissioners serves as a monitoring mechanism designed to mitigate conflicts of interest and information asymmetry between principals and agents ¹⁴. However, a higher proportion of board commissioners does not necessarily ensure more effective oversight. The effectiveness of monitoring may also depend on the board's competence, independence, experience, and the quality with which its oversight responsibilities are performed. Consequently, a larger proportion of board commissioners may result in different monitoring dynamics in the financial reporting process and, under certain circumstances, reduce management's reliance on accounting conservatism as a control mechanism. Accounting conservatism represents a prudent approach to the recognition of assets, earnings, liabilities, and losses ¹⁷. Therefore, the negative relationship identified in this study indicates that an increase in the proportion of board commissioners does not necessarily lead to greater accounting conservatism. Rather, the effectiveness of corporate oversight appears to depend more on the quality and effectiveness of the board's monitoring function than on its numerical proportion alone.

CONCLUSIONS

This study examines the effects of firm size (SIZE), Return on Assets (ROA), and the proportion of the board of commissioners (PBC) on accounting conservatism among manufacturing companies in the *Consumer Non-Cyclicals* sector. The empirical results indicate that SIZE and ROA have no significant effects on accounting conservatism, whereas PBC has a negative and significant effect at the 10% significance level. These findings suggest that firm size and profitability are not significant determinants of accounting conservatism, while corporate governance mechanisms, particularly the proportion of the board of commissioners, are more closely associated with conservative financial reporting practices. The findings provide empirical evidence that accounting conservatism among Consumer Non-Cyclicals firms is not determined solely by internal firm characteristics but is also associated with the governance and monitoring mechanisms implemented within the organization.

From a theoretical perspective, the findings provide partial support for Agency Theory, particularly in explaining the role of monitoring mechanisms in mitigating agency conflicts and information asymmetry. The insignificant effects of SIZE and ROA indicate that neither firm scale nor profitability automatically induces management to adopt more conservative accounting practices. Meanwhile, the negative effect of PBC suggests that a higher proportion of board commissioners does not necessarily lead to greater accounting conservatism. The effectiveness of oversight may depend more on the board's quality, competence, independence, experience, and effectiveness in performing its monitoring responsibilities than on its numerical proportion alone. Accordingly, the findings highlight the importance of considering the quality of corporate governance mechanisms when examining the determinants of accounting conservatism and provide additional evidence regarding the inconsistent findings reported in prior research.

This study has several limitations that should be considered when interpreting the findings. First, the research model incorporates only firm size, ROA, and the proportion of the board of commissioners as determinants of accounting conservatism. Other potentially relevant factors may therefore remain unexplored. Second, the measurement of the board of commissioners is primarily quantitative and may not fully capture the effectiveness of its oversight function, including members' competence, experience, independence, and monitoring quality. Future research could extend the model by incorporating additional variables, such as institutional ownership, leverage, audit quality, and audit committee characteristics. Future studies could also develop more comprehensive measures of board oversight effectiveness, particularly with respect to independent commissioners, by considering their competence, experience, independence, and monitoring effectiveness. Such approaches may provide a more comprehensive understanding of how corporate governance contributes to the implementation of accounting conservatism.

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