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Accounting Conservatism and Financial Performance: Evidence from a Period of Monetary Tightening

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Abstract. *This study aims to examine the effect of accounting conservatism on financial performance (ROA and ROE) in property and real estate companies on the Indonesia Stock Exchange for the 2022-2024 period, which was a period of interest rate tightening. The analysis technique used is panel data regression using EViews 13 software, where the REM model was selected for ROA testing and the FEM model for ROE. The results show that partially, accounting conservatism has no significant effect on either ROA or ROE at the 5% significance level. However, simultaneously, the conservatism variable along with control variables (firm size, gross profit, and leverage) significantly affected financial performance. These findings indicate management's efforts to balance prudence principles with the need to maintain debt contracts amidst macroeconomic pressures.*

Abstrak. Penelitian ini bertujuan untuk menguji pengaruh akuntansi konservatisme terhadap kinerja keuangan (ROA dan ROE) pada perusahaan properti dan *real estate* di Bursa Efek Indonesia periode 2022-2024, yang merupakan masa pengetatan suku bunga. Teknik analisis yang digunakan adalah regresi data panel dengan bantuan software EViews 13, di mana model REM dipilih untuk pengujian ROA dan model FEM untuk ROE. Hasil pengujian menunjukkan bahwa secara parsial, akuntansi konservatisme tidak berpengaruh signifikan terhadap ROA maupun ROE pada tingkat signifikansi 5%. Namun, secara simultan, variabel konservatisme bersama variabel kontrol (ukuran perusahaan, laba kotor, dan leverage) berpengaruh signifikan terhadap kinerja keuangan. Temuan ini mengindikasikan adanya upaya manajemen dalam menyeimbangkan prinsip kehati-hatian dengan kebutuhan menjaga kontrak utang di tengah tekanan makroekonomi.

Keywords:
Accounting Conservatism;
Financial Performance;
Monetary Thightening

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Introduction

The post-Covid-19 global economic recovery is facing new financial stability challenges due to inflationary pressures and heightened geopolitical risks. In response to the spillover effects of aggressive monetary policy from global central banks, Bank Indonesia (BI) has consistently raised its benchmark interest rate (BI Rate) since mid-2022, reaching a level of 6.5% in the third quarter of 2024 (Bank Indonesia, 2025). This monetary tightening has been a crucial instrument for maintaining exchange rate stability (Mishkin, 2011, p. 546), but on the other hand, it has placed significant pressure on interest rate-sensitive sectors, such as the property and real estate sectors (Nityakanti, 2024).

The property and real estate sector is a capital-intensive industry with a very high reliance on external financing, both for developers' operational funding and for Home Ownership Loans (KPR) schemes for consumers. It is noted that around 75.8% of home purchases in Indonesia are made through credit schemes (Prakoso, 2024), meaning that interest rate rises have a direct impact on a decline in public purchasing power and potential obstacles to residential sales. For developers, this situation creates a higher cost of funds, which risks eroding the company's profit margins (Buntulabi et al., 2026). The urgency of this research is reinforced by the rise in Non-Performing Loans (NPLs) in the mortgage sector since 2023, which signals an increase in systemic financial risk within this industry (Hanifah, 2024).

Amid such macroeconomic uncertainty, the application of the accounting principle of conservatism or prudence is of crucial importance to stakeholders (Suwarno, 2025). Theoretically, conservative accounting serves as a protective mechanism to avoid overstatement of assets and revenue by recognising expenses and liabilities as soon as possible, even where there is uncertainty regarding the outcome, whilst only recognising revenue and assets when it is certain they will be received (E. Savitri, 2016, pp. 21–24).

Viewed from the perspective of agency theory, this policy serves to mitigate conflicts of interest between management (the agent), which tends to report performance opportunistically, and shareholders (the principal), who require realistic information (Suwarno et al., 2022). Furthermore, based on positive accounting theory, managers in the property sector with significant debt burdens often face pressure to balance the principle of prudence with the need to maintain profit figures to meet debt covenants (Riahi-Belkaoui, 2007, p. 187). Research into the impact of conservatism on financial performance has been extensive, yet the results remain mixed. A number of previous studies have indicated a positive correlation between accounting conservatism and a company's financial performance, particularly in terms of the Return on Assets (ROA) metric. For example, Aladwan et al. (2024) revealed that the application of the principle of conservatism is capable of boosting ROA through the optimisation of operational efficiency and profit quality. In line with these findings, Widati et al. (2025) also emphasised that conservatism plays a significant role in minimising opportunistic reporting, which ultimately has a positive impact on financial performance. However, research by Suhartono et al. (2025) suggests that conservative accounting has no effect on ROA. This implies that the application of conservative accounting does not automatically improve profitability or operational efficiency within a company.

Similar to the findings in studies on accounting conservatism and Return on Assets (ROA), research examining the impact of accounting conservatism on Return on Equity (ROE) also reveals a wide range of results. Studies conducted by Aladwan et al. (2024) and Widati et al. (2025) found that companies that consistently apply conservatism have more stable and sustainable equity returns. These results are consistent with the findings of Al-Fasfus et al. (2022) and Akan and Temile (2024),

where accounting conservatism has a positive influence on ROE through returns on equity for shareholders. However, a different perspective emerges from the findings of Putri and Febryanti (2024), which show that Return on Equity has no significant influence on accounting conservatism. This is because the level of return on capital for shareholders, whether high or low, does not alter the degree of conservatism in financial statements.

This study incorporates firm size, gross profit, and leverage as control variables to ensure a robust analytical model. The significant impact of leverage on financial performance observed in this study aligns with Christian and Angelin (2026), who demonstrated that financial structure serves as the most potent predictor of a firm's financial health, particularly during periods of economic transition. Concurrently, the inclusion of gross profit as a control variable is essential to maintain consistency when explaining variations in financial adequacy indicators. This is grounded in the rationale that a higher gross margin directly drives overall profitability, in fact, Faizah et al. (2024) state that a sound industry average standard is at least 30 percent, below which a firm risks financial distress due to margins being too thin to cover operating costs. Lastly, firm size is factored into the model based on the premise that large-scale corporations navigate funding avenues much more easily than micro-enterprises, given their direct access to capital markets, established operational track records for collateral, and capacity to leverage market excess supply (Heller et al., 2025).

The novelty of this study lies in its observation of a specific period of aggressive interest rate tightening (2022–2024) in Indonesia. Unlike previous studies, which generally used annual data, this study utilises quarterly financial statement data to capture performance changes in a more real-time manner and to respond to monthly fluctuations in monetary policy. Furthermore, sample homogeneity is maintained by limiting the scope to companies listed on the main board of the Indonesia Stock Exchange to ensure consistency in asset scale and internal control systems.

The main focus of this research is to assess the extent to which the implementation of conservative accounting practices influences the financial performance of property companies amidst rising interest rates. The measurement of financial performance is formulated into two focal points: its impact on asset management efficiency, proxied by Return on Assets (ROA), and its impact on equity returns, measured through Return on Equity (ROE). The analysis is conducted by including control variables such as firm size, gross profit, and leverage to ensure the internal validity of the regression model. This study employs an explanatory quantitative approach by testing two main hypotheses:

(H1) Accounting conservatism has a positive effect on financial performance measured by Return on Assets (ROA)

(H2) Accounting conservatism has a positive effect on financial performance measured by Return on Equity (ROE)

The ultimate objective of this research is to determine whether prudent accounting policies remain relevant as a risk mitigation tool or, conversely, act as an additional burden on the profitability of property companies during periods of monetary contraction. The findings of this study are expected to provide practical insights for management in formulating balanced accounting policies, as well as for investors as a basis for more accurate decision-making when assessing the quality of earnings in a sector sensitive to economic changes.

Research Methods

This study employs an explanatory quantitative approach to examine the relationship between variables. The research subjects are companies in the property

and real estate sector listed on the main board of the Indonesia Stock Exchange for the period 2022–2024. The study utilised purposive sampling, selecting 16 companies that met the criteria, resulting in a total of 192 quarterly financial statement observations.

The main independent variable is accounting conservatism (AC), measured using the accrual model by Givoly and Hayn (2000). The dependent variable of financial performance is proxied by Return on Assets (ROA) and Return on Equity (ROE). This study also includes control variables in the form of firm size, proxied by the natural logarithm of firm size; gross profit, proxied by the natural logarithm of gross profit; and leverage, measured by the debt-to-equity ratio (Aladwan et al., 2024). Data analysis was conducted using panel data regression, with the best model selected via the Chow test, the Hausman test, and the Lagrange Multiplier test (C. Savitri et al., 2021, pp. 95–97).

Prior to conducting the hypothesis testing analysis, classical assumption tests will be carried out to ensure that the linear regression model (based on OLS) is truly accurate, unbiased and consistent. The classical assumption tests conducted in this study include tests for normality, multicollinearity, heteroscedasticity and autocorrelation. Hypothesis testing uses multiple linear regression to examine the effect of conservative accounting on financial performance using the following model:

- Regression Model 1

$Y_{1\,it} = \alpha + \beta_1 AC_{it} + \beta_2 FS_{it} + \beta_3 LV_{it} + \beta_4 GP_{it} + \epsilon_{it}$

- Regression Model 2

$Y_{2\,it} = \alpha + \beta_1 AC_{it} + \beta_2 FS_{it} + \beta_3 LV_{it} + \beta_4 GP_{it} + \epsilon_{it}$

Notes:

Y1 : Financial performance proxied by ROA
Y2 : Financial performance proxied by ROE
AC : Accounting conservatism
FS : Firm size
LV : Leverage
GP : Gross profit

Hypothesis testing was carried out using the t-test, F-test and coefficient of determination. The hypothesis was accepted if the significance level was below 0.05. The F-test was used to test the simultaneous effect of all variables, whilst the coefficient of determination (R^2) indicates the extent to which the variation in financial performance is explained by the independent variables.

Results and Discussion

Based on the results of data analysis for the sample companies for the period 2022–2024, the descriptive statistics for each research variable are as follows:

Table 1. Descriptive Analysis

	ROA	ROE	AC	FS	GP	LV
Mean	0.031725	0.052036	0.075849	30.53333	26.85058	0.810840
Median	0.019800	0.034150	0.068050	30.64750	27.45325	0.743750
Maximum	0.371800	0.820000	0.358800	31.96210	29.80760	3.451200
Minimum	-0.046700	-0.121600	-0.026800	25.90950	1.095200	0.105400
Std. Dev.	0.052083	0.093546	0.065803	0.869435	3.958300	0.512303

Source: Output Eviews 13 (2026)

Accounting Conservatism (Independent Variable) The accounting conservatism (AC) variable, measured using the Givoly and Hayn (2000) model, shows an average value of 0.075849. This positive average value indicates that, in general, the sample

companies tend to have a low or moderate level of conservatism in their accrual reporting. The minimum value of -0.026800 indicates the highest level of conservatism (the strictest prudent principle), whilst the maximum value of 0.358800 indicates the lowest level of conservatism. The standard deviation of 0.068503 reflects consistency in the application of accounting policies across companies, with a data distribution that is skewed to the right (skewness 1.113890).

Financial performance, treated as the dependent variable, is measured by Return on Assets (ROA). The results of the statistical analysis indicate that the average ability of companies to generate profit from their assets is 3.17% (mean 0.031725). There is a considerable variation in profitability, with values ranging from -4.67% (net loss) to 37.18% (highly efficient performance).

In the second model, namely financial performance based on equity returns measured by Return on Equity (ROE), the average ROE was recorded at 5.20% (0.052036). This variable indicates significant fluctuations in returns to shareholders, as evidenced by the wide range of values from -12.16% to 82.00% and a standard deviation of 0.093546.

Statistical results for the control variables, comprising firm size, gross profit and leverage. The firm size (FS) variable exhibits homogeneity, with a mean of 30.53333 and a low standard deviation (0.869435), indicating that firms are relatively similar in terms of total assets. The gross profit (GP) variable, however, shows a different pattern to firm size. Gross profit shows more dynamic fluctuations with an average of 26.85058 and a standard deviation of 3.958300. The striking difference between the minimum value (1.0952) and the maximum value (29.8076) indicates a significant gap in profitability between the samples. Meanwhile, the leverage (LV) variable indicates that the capital structure of the sample companies shows an average debt ratio of 81.08%. There is a highly significant difference in capital structure policy, with the lowest leverage value at 0.1054 and the highest reaching 3.4512.

Model Test Selection

Table 2. Chow Test

Regression Model	Chi-Square Value for Cross-Sectional Analysis	Decision
Regression Model 1	0.0000	The selected FEM model was chosen and the Hausman test was then conducted
Regression Model 2	0.0000	The selected FEM model was chosen and the Hausman test was then conducted

Source: Output Eviews 13 (2026)

Selection of the model Based on Table 1, which shows a cross-sectional chi-square value of 0.0000, the selection of the two regression models will proceed to the Hausman test.

Table 3. Hausman Test

Regression Model	Probability Value of the Random Cross-Section	Decision
Regression Model 1	0.0534	The REM model was selected, followed by an LM test
Regression Model 2	0.0017	The FEM model has been selected and there is no need to proceed with the LM test

Source: Output Eviews 13 (2026)

In regression model 1, the probability value is 0.0534 therefore, this regression model will proceed to the LM test to confirm whether the REM model is indeed appropriate for this regression model, whereas in regression model 2, the probability value is 0.0017, so the FEM model is selected for this regression model.

Table 4. Lagrange Multiplier Test

Regression Model	Breusch-Pagan Cross-Section Value	Decision
Regression Model 1	0.0000	The selected model is REM
Regression Model 2	-	No testing was carried out as the FEM model had already been selected

Source: Output Eviews 13 (2026)

Based on the results of the Lagrange multiplier test (LM Test), the Brusch-Pagan probability value for regression model 1 was 0.0000, which is <0.05; therefore, the Random Effects Model was selected. No LM test was conducted for regression model 2, as the FEM model had already been selected following the Chow and Hausman tests.

Classical Assumsion Test

Table 5. Normality Test

Regression Model	Jarque Bera Value	Kurtosis Value	Skewer Value	Probability
Regression Model 1	155.4496	6.0865499	1.059377	0.000000
Regression Model 2	706.0682	12.03937	1.279486	0.000000

Source: Output Eviews 13 (2026)

The Jarque-Bera test yielded a p-value of 0.000000, indicating that the data are not normally distributed. Nevertheless, this deviation can be disregarded as the sample size (192) exceeds 50 and approaches the threshold of 200 samples, in accordance with the criteria set out by Hair et al. (2019). In line with this, referring to Gujarati (2015), the OLS estimator remains a BLUE (Best Linear Unbiased Estimator) and is asymptotically normally distributed in large samples, so that the t-test and F-test remain valid.

Table 6. Multicollinearity Test

Variabel	Regression Model 1	Regression Model 2
AC	1.037978	1.175134
FS	1.530839	3.3800533
GP	1.051655	1.064001
LV	1.523272	3.367566

Source: Output Eviews 13 (2026)

Based on the table above, the multicollinearity test using VIF shows that neither of the two regression models has a VIF value greater than 10. It can therefore be concluded that neither of the two regression models suffers from multicollinearity.

Table 7. Heteroscedasticity Test

Variabel	Regression Model 1	Regression Model 2	Regression Model 1 Post-White Robust	Regression Model 2 Post-White Robust
AC	0.0000	0.0000	0.0031	0.0104
FS	0.1437	0.4373	0.2173	0.6301
GP	0.4199	0.4366	0.0623	0.0960
LV	0.9760	0.8543	0.9816	0.9150

Source: Output Eviews 13 (2026)

The Glejser test indicates the presence of heteroscedasticity in the AC variable (p-value < 0.05), whilst the FS, GP and LV variables do not exhibit this issue. To maintain the model's efficiency without altering the consistency of the OLS estimator, a correction procedure was carried out using the White Robust Standard Error method (White period/cross-section cluster). This adjustment ensures that the AC variable in both regression models is now free from heteroscedasticity.

Table 8 AutocorrelationTest

Regression Model	DW Value	DW Value Post-White Robust
Regression Model 1	1.125170	1.125170
Regression Model 2	1.090743	1.090743

Source: Output Eviews 13 (2026)

Based on the test results, Model 1 yielded a DW value of 1.125170, whilst Model 2 yielded a value of 1.090743. Both values are below the lower threshold (dl) of 1.7215, indicating the presence of positive autocorrelation in both regression models. This study employs the White Period Standard Error & Covariance correction method to address this assumption. The use of this robust standard error procedure aims to adjust the standard error values so that the statistical test results remain accurate, reliable, and asymptotically unbiased without altering the original regression coefficients. Consequently, the results of the hypothesis testing in this study are deemed valid despite the presence of time-series autocorrelation in the panel data.

Hypothesis Testing

Table 9. t Test

Variabel	Regression Model 1	Regression Model 2
AC	0.0575	0.0758
FS	0.9214	0.8653
GP	0.6926	0.4989
LV	0.0011	0.0371

Source: Output Eviews 13 (2026)

Based on the results of the tests conducted at a 5% (0.05) significance level, it was found that the main independent variable, Accounting Conservatism (AC), had no significant effect on financial performance, as proxied by either Return on Assets (ROA) or Return on Equity (ROE). The same findings also apply to the control variables Firm Size (FS) and Gross Profit (GP), which did not show a significant influence on ROA and ROE. Conversely, the control variable Leverage (LV) was found to have a significant influence on both of these financial performance proxies. This indicates that in this regression model, a firm's debt structure is a factor that significantly influences profitability levels compared to other variables.

Table 10. F Test

Regression Model	Prob Value F(Statistic)
Regression Model 1	0.000000
Regression Model 2	0.000000

Source: Output Eviews 13 (2026)

Based on the table above, it was found that in regression model 1, the independent variable (AC), together with all control variables (FS, GP, LV), had a significant simultaneous effect on the dependent variable (ROA). Meanwhile, in regression model 2, the independent variable (AC), together with the control variables (FS, GP, LV), also had a significant simultaneous effect on the dependent variable (ROE).

Table 11. Coefficient of Determination

Regression Model	Adjusted R-Square Value
Regression Model 1	0.458106
Regression Model 2	0.548965

Source: Output Eviews 13 (2026)

The test results show an Adjusted R-Square value of 0.4581 for Model 1 (ROA) and 0.5489 for Model 2 (ROE). This indicates that the combination of independent variables (AC) and control variables (FS, GP, and LV) explains 45.81% and 54.89% of the variation in financial performance, respectively. Meanwhile, the remainder is explained by other factors outside the scope of this study.

Dicussion

This study focuses on the dynamics of the property and real estate sector during the period of aggressive monetary tightening by Bank Indonesia (2022–2024). The use of quarterly financial statements in this study proved crucial for capturing managerial responses to interest rate fluctuations in real time. The results of the descriptive analysis indicate that the level of accounting conservatism (AC) among the sample companies is low to moderate, suggesting that the majority of listed companies have not yet fully adopted strict prudential principles in their accrual-based reporting. In terms of performance, a wide disparity in performance was found among industry players, as evidenced by the highly variable ranges of ROA and ROE values.

Based on the regression analyses incorporating firm size, gross profit, and leverage as control variables, this study demonstrates that accounting conservatism has no significant effect on asset management efficiency (ROA) or return on equity (ROE). This finding aligns with Suhartono et al. (2025) and Putri and Febryanti (2024), who argued that the principle of prudence does not automatically guarantee enhanced profitability or stable returns on equity for shareholders. In terms of the control variables, leverage exhibits a significant impact on financial performance, corroborating the study by Christian and Angelin (2026) which identified financial structure as the most robust predictor of a firm's financial condition, particularly during economic transitions. Conversely, gross profit was found to have no significant impact on ROA or ROE during this monetary tightening period. This contrasts with Gulo and Sembiring (2024), who suggested that gross profit margin is a substantial predictor of profit growth due to its role in operational efficiency. Although statistically insignificant, the difference between the threshold value and the probability value is quite small. This suggests that the application of conservative

accounting may be a strategic option for companies in the face of economic uncertainty, as it encourages a more prudent approach to recognising expenses and profits. Nevertheless, this policy was not the sole factor capable of significantly altering the direction of asset performance during the study period.

While these results offer a different perspective from the positive effects detected by Aladwan et al. (2024) and Widati et al. (2025), they also introduce nuanced insights regarding structural and strategic factors. For instance, the inclusion of firm size as a control variable aligns with Nasihin et al. (2025), who noted that larger firms generally possess superior financial stability and easier access to external funding, which typically enhances overall firm value. Furthermore, although the effect of accounting conservatism is not statistically significant in this model, the narrow margin between its probability value and the significance threshold indicates its underlying relevance. This suggests that conservatism remains a vital strategic choice for companies navigating economic uncertainty, as it encourages a more prudent and risk-aversive recognition of expenses and revenues.

Based on Agency Theory, conservatism continues to function as a control mechanism to reduce information asymmetry. Under the pressure of high interest rates, a prudent stance limits opportunistic actions by managers who might attempt to conceal the risk of losses in order to maintain the company's image. Meanwhile, according to Positive Accounting Theory particularly as it relates to the debt contract hypothesis the property sector, which is highly dependent on external financing (significant leverage), faces a dilemma. Managers tend to balance the principle of prudence with the need to continue reporting sufficient profits to avoid breaching debt contracts. This motive to avoid the risk of default ultimately dampens the direct impact of conservatism on current-year financial performance.

This model's limited ability to explain variations in ROA and ROE suggests the presence of other dominant factors beyond the research variables. Referring to previous studies, factors such as corporate governance mechanisms (Elmashtawy et al., 2024), investment opportunities (Phuong Hong & Tra My, 2024), ownership structure (Widati et al., 2025) and market signals (Herghiligiu et al., 2024) play an equally important role in determining a company's performance during periods of monetary tightening.

Conclusions and Recommendations

The study concluded that during the period of interest rate tightening between 2022 and 2024, conservative accounting practices had no significant partial effect on asset management efficiency or equity returns in the property and real estate sector. Nevertheless, an interesting trend emerged, indicating a very slight influence on ROA, reflecting management's increasingly cautious approach to recognising expenses and profits, whilst simultaneous testing demonstrated that the combination of accounting policies alongside control variables such as firm size, gross profit, and leverage remains a crucial determinant of a firm's overall financial performance.

In terms of implications, these findings make a theoretical contribution to Agency Theory as a mechanism for managing information asymmetry and support the Positive Theory of Accounting, particularly regarding the efforts of highly indebted companies to balance the principle of prudence with the need to maintain profitability figures in order to avoid the risk of default. In practical terms, the use of quarterly financial statements has proven to be crucial for investors and stakeholders in capturing the response of accounting policies to fluctuations in monetary policy in a dynamic and real-time manner, rather than relying solely on annual reports.

Regardless of these findings, this study has limitations as its scope is restricted to the property sector on the main board, which exhibits unique characteristics regarding interest rate sensitivity. Furthermore, the model's limited ability to explain variations in financial performance suggests the presence of dominant external factors such as macroeconomic conditions, corporate governance, or internal control systems, which were not evaluated in this study, compounded by the observation period's restriction to a specific phase of monetary tightening.

For future research, it is hoped that future researchers will expand the scope of variables by incorporating macroeconomic factors such as inflation and exchange rates, or internal governance variables, and conduct comparative studies across sectors such as manufacturing or consumption. Companies are still advised to maintain the principle of prudence in order to safeguard transparency and long-term market confidence, whilst investors are strongly advised to continue monitoring the indicators in quarterly financial reports as a basis for decision-making that is more responsive to changes in global economic conditions.

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