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# How Leverage, Profitability, Profit Persistence, Capital Intensity, and Litigation Risk Influence Accounting Conservatism

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***Abstract:***

*This study aims to examine the effect of Leverage, Profitability, Earnings Persistence, Capital Intensity, and Litigation Risk on Accounting Conservatism in technology sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The research approach used is quantitative with multiple regression analysis to determine the effect of each independent variable on the dependent variable. The results of the study indicate that Leverage, Earnings Persistence, and Capital Intensity do not affect accounting conservatism. This indicates that the level of debt, profit stability, and the size of fixed assets are not determining factors in the application of the principle of conservatism by companies. On the contrary, Profitability and Litigation Risk have a significant effect on accounting conservatism. The higher the level of profitability, the lower the company's tendency to apply conservatism. Meanwhile, the greater the risk of litigation faced, the higher the application of accounting conservatism as a form of prudence. These findings imply that external factors, such as legal risk, play a more significant role in driving corporate conservative practices than internal factors, such as financial structure and assets.*

**Keywords:** *Leverage, Profitability, Earnings Persistence, Capital Intensity, Litigation Risk, Accounting Conservatism.*

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## 1. Introduction

Corporate financial statements reflect management’s effectiveness in utilizing company resources and serve as crucial information for decision-making by both internal and external stakeholders (Andreas et al., 2017). Reliable accounting information must be disclosed accurately and comprehensively, fulfilling key qualitative traits such as faithful representation, relevance, comparability, verifiability, timeliness, and understandability. Accounting conservatism upholds information reliability by recognizing potential losses and liabilities earlier while

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recording revenues and assets only when realization is certain, thus minimizing earnings manipulation (Savitri, 2016; Setiawan & Fransysca, 2020). This prudent approach ensures realistic performance reporting and prevents profit overstatement (Soedarman, 2017). However, technology firms tend to apply lower conservatism due to their reliance on intangible assets like patents and software, which often lead to optimistic valuations and understated risks (Pertiwi et al., 2023; Rahmawati & Latif, 2024).

One notable case occurred at PT Envy Technologies Indonesia Tbk (ENVY), which was suspected of financial statement manipulation by consolidating the financial reports of its subsidiary, PT Ritel Global Solusi (RGS), despite RGS not having prepared its own financial statements in 2019. The management of ENVY informed the Indonesia Stock Exchange (IDX) that the consolidated report had been issued with the approval of the management in office at the time. Although ENVY requested clarification from its auditor and committed to resolving the issue, no response was received (Rahmawati & Latif, 2024). This case highlights the need for greater transparency, authenticity, and communication between management and auditors to ensure the integrity of financial data. Furthermore, the principle of accounting conservatism remains a subject of debate amid the dynamics of the free market economy, which pressures firms to adopt prudent financial reporting practices. Various factors influence the degree of accounting conservatism within companies; therefore, this phenomenon warrants further investigation to gain a deeper understanding of the determinants and their implications for accounting policy decisions. In this study, the factors considered to affect the application of accounting conservatism include leverage, profitability, earnings persistence, capital intensity, and litigation risk.

According to Pratiwi and Achyani (2025), the principle of accounting conservatism emphasizes delaying or deferring the recognition of potential income while accelerating the recognition of potential expenses. Assets are recorded at the lowest possible value, whereas liabilities are valued at the highest, ensuring prudence in financial reporting. Armiawan and Achyani (2024) further state that accounting conservatism enhances earnings quality by preventing firms from overstating profits and providing users with more reliable financial information. Leverage, which reflects a company's ability to meet both short- and long-term debt obligations, is often used by creditors to assess repayment capacity before granting loans (Kurniawan et al., 2022). High leverage levels typically encourage creditors to require the adoption of conservative accounting practices to ensure the security of their funds (Sulastri & Anna, 2022). Empirical findings by Halim (2023), Yuliarti and Yanto (2017), and Safitri et al. (2024) revealed a positive relationship between leverage and accounting conservatism, while studies by Diasca and Apriliawati (2022) and Neta and Ismunawan (2023) found no significant effect. Profitability, defined as a firm's ability to generate earnings over a specific period (Putra & Sari, 2020), also influences conservatism. Pratanda and Kusmuriyanto (2014) noted that highly profitable companies tend to apply conservative accounting to stabilize reported earnings. However, research on this relationship remains inconclusive Safitri et al. (2024) found a positive effect, Neta and Ismunawan (2023) reported a negative one, while Salamah et al. (2023), Safitri et al. (2024), and Diasca and Apriliawati (2022) found no significant relationship between profitability and accounting conservatism.

Earnings persistence, reflecting a firm's ability to maintain stable long-term profitability, often encourages the adoption of conservative accounting to sustain investor confidence and mitigate uncertainty (Octaviani & Suwarno, 2024; Ashma' & Rahmawati, 2019). While Haryadi et al. (2020) found a positive effect of earnings persistence on conservatism, Rahayu et al. (2023) reported no relationship. Capital intensity, measured by total assets to sales ratio, can also shape conservatism as capital-intensive firms typically large entities facing higher political costs may defer profits and attract closer investor scrutiny (Indriyanto & Cahyani, 2022; Saragih et al., 2022). Prior findings remain mixed, with Achyani & Putri (2017) reporting a positive link, Neta & Ismunawan (2023) a negative one, and Safitri et al. (2024) no effect. Litigation risk, the threat of legal action from stakeholders, further motivates conservative reporting, particularly under high exposure (Octaviani & Suwarno, 2024; Andani & Nurhayati, 2021). Studies by Widhiastuti et al. (2023), Halim (2023), Sari (2020), and Furwati et al. (2022) found a positive impact, while Nicko & Khairunnisa (2020) found none. To address these inconsistencies, this study reexamines leverage, profitability, earnings persistence, capital intensity, and litigation risk as determinants of accounting conservatism among firms from 2019–2023.

The originality of this study lies in integrating and examining variables that are rarely analyzed together within the context of accounting conservatism, particularly among technology firms listed on the Indonesia Stock Exchange (IDX) during 2019–2023. This research uniquely highlights earnings persistence as a key variable an aspect seldom explored in prior conservatism studies, especially in the technology sector. Fluctuating or unstable earnings often drive firms to adopt conservative reporting practices to mitigate uncertainty and prevent overstated profits. In this regard, accounting conservatism serves as a mechanism to manage uncertainty and present a more realistic financial condition. By using recent data from Indonesian technology firms amid rapid industry changes, this study provides new insights into how internal and external factors shape conservative accounting decisions, contributing to a deeper understanding of financial prudence in the evolving digital economy.

This study examines how leverage, profitability, earnings persistence, capital intensity, and litigation risk influence accounting conservatism. Unlike prior research largely conducted in developed countries or across varied industries, this study focuses on technology companies in Indonesia an emerging market characterized by rapid growth and evolving regulations that may shape accounting practices. By analyzing technology firms listed on the IDX from 2019 to 2023, this research offers fresh insights into how these factors affect conservative accounting behavior within a dynamic and developing economic context.

## 2. Theoretical Background

**Agency Theory:** Agency theory explains the relationship between the principal and the agent, in which the agent is entrusted to manage the principal's business and is responsible for preparing and reporting the company's financial performance. This theory highlights the separation between ownership and management, emphasizing performance measurement and appropriate compensation to encourage managers to act in ways that benefit the company as a whole. The relevance of agency theory to accounting conservatism lies in its ability to limit agents' opportunistic behavior and reduce the likelihood of financial statement manipulation. Applying accounting conservatism in financial reporting serves as a control mechanism that minimizes managerial discretion and enhances the reliability of reported financial information (Prawira & Mubarok, 2023).

**Positive Accounting Theory:** Positive accounting theory, grounded in scientific methodology, aims to explain and predict the consequences that arise when managers make specific accounting choices. The theory assumes that managers, shareholders, and regulators are rational actors seeking to maximize their utility, which is closely linked to their compensation and overall wealth. Allowing managerial flexibility in selecting accounting methods creates opportunities for opportunistic behavior, prompting shareholders and creditors to demand conservative accounting practices to prevent excessive payments to management (Suyono et al., 2022). Consequently, accounting conservatism emerges as a response to incentives related to contracting, litigation, taxation, and political costs, serving to minimize agency costs and overcompensation. It encourages the earlier recognition of losses than gains, leading to lower reported earnings in the current period (F. A. Lestari et al., 2023).

**Signal Theory:** Signaling theory explains why companies want to provide financial reporting information to external parties to reduce information asymmetry. Companies can reduce information asymmetry by providing signals to external parties in the form of reliable financial reporting, reducing uncertainty about the company's prospects. By applying the principle of conservatism, managers provide information through both financial and non-financial reports. This, in turn, leads to higher-quality earnings (Putri et al., 2022)..

**Theoretical Framework:** Accounting conservatism is a key principle requiring companies to recognize gains and losses asymmetrically, serving as a form of prudence in financial reporting amid future uncertainties (Thomas & Aryusmar, 2020; Koeswanto et al., 2023). Leverage, or solvency ratio, measures the extent to which a company's operations are financed by debt and its ability to meet obligations in the event of liquidation (Jirwanto et al., 2024; Wahyudi & Fitriah, 2021). Excessive leverage increases bankruptcy risk, thus requiring cautious management to maintain financial stability (Meldisthy et al., 2024). Profitability reflects a firm's efficiency in generating earnings from its operations and is often assessed through Return on Equity (ROE), which indicates management's effectiveness in utilizing shareholders' equity to produce profits (Febria, 2020; Setyawan et al., 2021). Earnings persistence demonstrates a company's ability to maintain consistent profitability over time, representing the reliability and quality of reported earnings used for future performance prediction (Khasanah & Jasman, 2019; Andi & Setiawan, 2019). Capital intensity ratio illustrates how efficiently firms invest in fixed assets to support operations and generate sales; greater fixed asset investment leads to higher depreciation expenses, influencing taxable income and overall profitability (P. A. S. Lestari et al., 2021; Aini & Sugiyarti, 2024). Lastly, litigation risk refers to the potential for legal disputes arising from regulatory violations, environmental issues, or misleading financial reporting, which may result in financial losses and damage to the firm's reputation (Andani & Nurhayati, 2021; Ramadhanty, 2022).

**Hypothesis Development**

**Effect of Leverage on Accounting Conservatism:** Managers of highly leveraged firms tend to disclose more financial information to creditors to reduce suspicion and enhance transparency. This tighter monitoring encourages firms to adopt more conservative financial reporting practices. In contrast, firms with lower leverage levels tend to be less conservative in their reporting (Nyale & Gultom, 2024).In positive accounting theory, leverage is associated with the debt hypothesis, which suggests that companies with high debt-to-equity ratios have an incentive to increase current earnings through earnings management to reduce the risk of covenant violations and lower borrowing costs. A lower debt-to-equity ratio signals reduced bankruptcy risk (Viola & Baihaqi, 2023). Empirical findings from Halim (2023), Yuliarti and Yanto (2017), and Safitri et al. (2024) demonstrate that leverage has a positive effect on accounting conservatism, indicating that highly leveraged firms are more likely to adopt conservative accounting practices.

***H1: Leverage has a positive effect on accounting conservatism.***

**The Effect of Profitability on Accounting Conservatism:** According to Andreas et al. (2017), firms with high profitability tend to adopt conservative accounting practices as a form of earnings management to stabilize reported income and reduce fluctuations. Similarly, Solichah and Fachrurrozie (2019) explain that the relationship between profitability and conservatism relates to political cost considerations. Highly profitable firms often face greater political costs, such as higher taxes; therefore, adopting conservative accounting helps minimize these costs. Safitri et al. (2024) also found that profitability positively influences accounting conservatism. Firms with strong profitability tend to apply conservative principles to manage earnings, reduce tax burdens, and maintain financial stability. This approach helps ensure more stable reported earnings and minimizes risk from excessive income volatility.

***H2: Profitability has a positive effect on accounting conservatism.***

**The Effect of Earnings Persistence on Accounting Conservatism:** Firms with stable (highly persistent) earnings tend to adopt conservative accounting practices to maintain the credibility of financial statements and reduce the risk of information distortion. Stable earnings reduce information asymmetry between management and external stakeholders. Conservatism acts as a mechanism to limit earnings manipulation and build stakeholder trust (Haryadi et al., 2020). Companies with high earnings persistence also apply conservatism to manage stakeholder expectations and mitigate financial risk. By being more cautious in recognizing gains and faster in recognizing losses, firms can sustain their financial reputation and avoid overly optimistic profit expectations (Rachman et al., 2022). Empirical findings by Haryadi et al. (2020) confirm that earnings persistence has a positive effect on accounting conservatism.

***H3: Earnings persistence has a positive effect on accounting conservatism.***

**The Effect of Capital Intensity on Accounting Conservatism:** Capital intensity reflects a company's efficiency in utilizing its assets to generate sales and indicates the level of capital required to produce revenue. Firms with higher capital intensity tend to adopt conservative accounting practices to reduce political costs (Halim, 2023). According to Positive Accounting Theory, capital intensity serves as an indicator under the political cost hypothesis. Companies with high capital intensity ratios typically own substantial fixed assets to support operations. Larger firms tend to face greater political costs because government scrutiny is often higher for capital-intensive entities. Consequently, managers are inclined to apply conservative accounting methods to reduce reported income and, in turn, minimize political costs (Sholikhah & Baroroh, 2021). This theory is supported by Achyani and Putri (2017), who found that capital intensity has a positive and significant effect on accounting conservatism.
***H4: Capital intensity has a positive effect on accounting conservatism.***

**The Effect of Litigation Risk on Accounting Conservatism:** Litigation risk is an external factor that influences managerial behavior, as managers must consider potential legal costs arising from disputes. Rationally, managers tend to avoid litigation losses by applying conservative accounting, since overstated earnings may increase the likelihood of lawsuits (Putri & Herawaty, 2020). According to the Capital Market Law, litigation risk encourages accounting conservatism because overstated profits and net assets are more likely to trigger legal action, which entails higher litigation costs. Therefore, both managers and auditors prefer to report lower profits and net asset values to mitigate such risks (Anita & Fanani, 2017). This argument is reinforced by empirical evidence from Widhiastuti et al. (2023), Halim (2023), Sari (2020), and Furwati et al. (2022), who all confirmed that litigation risk has a positive effect on accounting conservatism.
***H5: Litigation risk has a positive effect on accounting conservatism.***

## 3. Methodology

This study employs a quantitative approach using secondary data derived from the financial reports of technology sector companies listed on the Indonesia Stock Exchange (IDX) during 2019–2023, accessed through the official IDX website. Samples were selected using purposive sampling based on specific criteria, including companies that were consistently listed during the observation period, published complete annual and financial reports, did not experience losses, and provided comprehensive data for all research variables. Data collection was conducted through documentation and library research methods, while data analysis used multiple linear regression with SPSS. The dependent variable is accounting conservatism, representing the prudence principle in recognizing income and expenses, while the independent variables consist of leverage, profitability, earnings persistence, capital intensity, and litigation risk. Leverage indicates the company's dependence on debt, profitability reflects its ability to generate earnings, earnings persistence shows the consistency of profit generation, capital intensity measures the proportion of assets used to produce sales, and litigation risk reflects the potential for legal action due to non-compliance or misleading reporting. The analysis process includes descriptive statistics and classical assumption tests normality, multicollinearity, heteroskedasticity, and autocorrelation to ensure the reliability of the regression model. Hypothesis testing was carried out using t-tests to assess individual variable effects, F-tests to evaluate simultaneous effects, and the coefficient of determination ($R^2$) to determine the model's explanatory power.

## 4. Empirical Findings/Result

**Description of Research Object**

This study uses secondary data in the form of financial reports from technology companies listed on the Indonesia Stock Exchange (IDX) for 2019-2023, published and accessible on the official website www.idx.co.id. Table 1 summarizes the sample selection procedure in this study.

**Table 1.**
**Research Sampling Criteria**

| No. | Criteria | Amount |
|---|---|---|
| 1. | Technology companies listed on the Indonesia Stock Exchange during the 2019-2023 period | 44 |
| 2. | Technology companies that did not submit annual reports for each observation period | (26) |
| 4. | Technology companies that experienced losses during the study period | (11) |
| 5. | Technology companies that did not submit financial reports according to the required information | (0) |
| | Sample of Companies Meeting the Criteria | 7 |
| | Total research sample (7 x 5) | 35 |
| | Outliers | 3 |
| | Total until end | 32 |

Source: Data Analysis Results, 2025

Table 1 presents the sampling procedure for technology companies listed on the Indonesia Stock Exchange during 2019–2023. The initial population of 44 companies was filtered based on specific criteria. A total of 26 firms were excluded for not publishing annual reports for all observation years, and 11 firms were eliminated due to reporting losses during the study period. No firms were excluded for incomplete financial data. After screening, 7 companies met all criteria, each observed over five years, resulting in 35 total observations. Subsequently, 3 outliers were removed, leaving a final sample of 32 valid observations for analysis.

**Descriptive Statistical Analysis**

**Table 2.**
**Results of Descriptive Statistical Tests**

| Variable | N | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|---|
| KA | 32 | -0.52873 | 0.95316 | -0.0734403 | 0.23156232 |
| LEV | 32 | 0.11492 | 0.82294 | 0.4181984 | 0.17931115 |
| PROF | 32 | 0.00245 | 0.67452 | 0.1319288 | 0.12741757 |
| PL | 32 | -0.12709 | 0.10996 | -0.0061394 | 0.05846482 |
| CI | 32 | 0.15521 | 2.94153 | 0.7296737 | 0.57943563 |
| RL | 32 | 0.12984 | 4.64784 | 0.9803888 | 0.97545665 |
| Valid N (listwise) | 32 | | | | |

Source: Data Analysis Results, 2025

Based on the descriptive statistical analysis conducted using SPSS 25 with 32 observations, several insights can be drawn. The Accounting Conservatism (KA) variable shows a minimum value of -0.52873, a maximum of 0.95316, a mean of -0.07344, and a standard deviation of 0.23156, indicating that most companies tend to exhibit low or even negative accounting conservatism, with relatively small variations across firms. The Leverage (LEV) variable ranges from 0.11492 to 0.82294, with a mean of 0.41820 and a standard deviation of 0.17931, suggesting that, on average, companies finance about 41.82% of their assets through debt, with moderate variation between conservative and aggressive debt users. Profitability (PROF), measured by Return on Equity (ROE), ranges from 0.00245 to 0.67452, with a mean of 0.13193 and a standard deviation of 0.12742, indicating that most companies generate a moderate profit of around 13.19% from their equity, though variability exists between low- and high-profit firms. Earnings Persistence (PL) has a minimum of -0.12709, a maximum of 0.10996, a mean of -0.00614, and a standard deviation of 0.05846, showing that company earnings are generally inconsistent over time, with relatively minor variation between firms. Capital Intensity (CI) ranges from 0.15521 to 2.94153, with a mean of 0.72967 and a standard deviation of 0.57944, reflecting that companies typically utilize about 72.97% of their assets as fixed assets, with substantial differences in capital utilization strategies. Lastly, Litigation Risk (RL) ranges from 0.12984 to 4.64784, with a mean of 0.98039 and a standard deviation of 0.97546, indicating that, on average, firms face low to moderate litigation exposure, although some exhibit significantly higher legal risk, highlighting variations in operational and legal stability across the sample.

**Classical Assumption Test Results**

The classical assumption tests in this study include normality, multicollinearity, autocorrelation, and heteroskedasticity tests. The normality test, conducted using the One-Sample Kolmogorov–Smirnov method, produced an Asymp. Sig. (2-tailed) value of 0.058, which is greater than the 0.05 significance level. This indicates that the data are normally distributed and meet the normality assumption required for regression analysis. The multicollinearity test results show that all independent variables have tolerance values greater than 0.10 and VIF values less than 10, confirming that the regression model is free from multicollinearity issues.

Furthermore, the autocorrelation test using the Run Test yielded an Asymp. Sig. (2-tailed) value of 0.369, which exceeds 0.05, indicating that no autocorrelation problem exists in the data. The heteroskedasticity test, performed using the Glejser method, shows that all independent variables have significance values above 0.05, suggesting that heteroskedasticity is not present in the regression model. Overall, these results confirm that the data satisfy all classical assumption requirements, allowing the regression model to be considered valid and reliable for hypothesis testing.

**Hypothesis Test Results**

**Multiple linear regression test results**

**Table 3.**
**Multiple Linear Regression Analysis Test Results**

| | **Urnstandardizerd Coerfficiernts** | | **Standasrdizerd Coerfficiernt** | | |
|---|---|---|---|---|---|
| **Variable** | **B** | **Std. Errror** | **Beta** | **t** | **Sig.** |
| (Constant) | -0.073 | 0.105 | | -0.694 | 0.494 |
| LEV | -0.271 | 0.347 | -0.210 | -0.780 | 0.442 |
| PROF | -1.087 | 0.314 | -0.598 | -3.456 | 0.002 |
| PL | -0.883 | 0.529 | -0.223 | -1.668 | 0.107 |
| CI | -0.045 | 0.046 | -0.111 | -0.971 | 0.341 |
| RL | 0.289 | 0.061 | 1.217 | 4.753 | 0.000 |

Source: Data Analysis Results for 2025

The following equation model is derived from the results of previous multiple linear regression studies.: KA = – 0.073 – 0.271 LEV – 1.087 PROF – 0.883 PL – 0.045 LI + 0.289 RL + *e*.

The multiple linear regression analysis results show that the constant value of –0.073 indicates that when all independent variables (leverage, profitability, earnings persistence, capital intensity, and litigation risk) are zero, the predicted accounting conservatism level is –0.073, suggesting a slightly low degree of prudence in financial reporting. Leverage has a regression coefficient of –0.271, implying that higher leverage decreases accounting conservatism, as firms with higher debt ratios tend to be more aggressive in recognizing income and liabilities. Profitability, measured by ROE, has a coefficient of –1.087, meaning that greater profitability reduces accounting conservatism, reflecting a more optimistic reporting approach among profitable firms. Earnings persistence shows a negative coefficient of –0.883, suggesting that firms with stable earnings are less conservative in their accounting practices. Capital intensity also has a negative coefficient of –0.045, indicating that higher dependence on fixed assets slightly lowers conservatism, as such firms are more willing to recognize revenues. Conversely, litigation risk shows a positive coefficient of 0.289, meaning that as the potential for legal disputes increases, companies become more conservative in recognizing revenues and liabilities to mitigate legal risks.

**Results of the coefficient of determination (Adjusted $R^2$)**

**Table 4.**
**Results of the Determination Coefficient Test**

| Model | R | R Square | Adjusted R Square |
|---|---|---|---|
| 1 | 0.826 | 0.682 | 0.621 |

Source: Data Analysis Results for 2025

The results of the coefficient of determination ($R^2$) can be seen in table 4.8. Based on the table, the Adjusted R2 value is 0.621. This means that the composition of the variables Leverage, profitability, profit persistence, Capital Intensity, and litigation risk has an influence of 62% on accounting conservatism, while the remaining 38% is influenced by other variables not examined in this study.

**Simultaneous significance (F-statistic test)**

**Table 5.**
**Results of Simultaneous Significance Test (F Test)**

| Model | | Fcount | Sig | Description |
|---|---|---|---|---|
| 1 | Regrerssion | 11.150 | 0.000 | Significant |

Source: Results of 2025 data analysis

The results of the F-test can be seen in Table 5. The table yields a significance value of 0.000, less than 0.05. These results indicate that the five independent variables simultaneously have a significant effect on accounting conservatism. This also means that the research model can be applied.

**Parameter significance test (t-test)**

**Table 6.**
**Results of the t-test**

| Variable | Significance | Criteria | Description |
|---|---|---|---|
| LEV | 0.442 | > 0.05 | H1 Rejected |
| PROF | 0.002 | < 0.05 | H2 Accepted |
| PL | 0.107 | > 0.05 | H3 Rejected |
| CI | 0.341 | > 0.05 | H4 Rejected |
| RL | 0.000 | < 0.05 | H5 Accepted |

Source: Results of 2025 data analysis

The t-test results indicate that leverage has a significance value of 0.442, which is greater than 0.05, suggesting that leverage has no significant effect on accounting conservatism, thus rejecting H1. Profitability shows a significance value of 0.002, below 0.05, meaning that profitability significantly affects accounting conservatism, and H2 is accepted. Earnings persistence records a significance value of 0.107, exceeding 0.05, indicating no significant effect on accounting conservatism, leading to the rejection of H3. Capital intensity has a significance value of 0.341, also greater than 0.05, implying that it does not influence accounting conservatism, hence H4 is rejected. Conversely, litigation risk exhibits a significance value of 0.000, which is below 0.05, demonstrating a significant effect on accounting conservatism, thereby supporting H5.

## 5. Discussion

**Leverage on Accounting Conservatism**

The regression results show that leverage (LEV) has a coefficient of –0.271 with a significance value of 0.142, indicating a negative but statistically insignificant effect on accounting conservatism; thus, H1 is rejected. This means that although, in theory, higher leverage should reduce accounting conservatism due to increased managerial pressure from creditors (Prawira & Mubarok, 2023), such an effect is not evident in this study. The findings suggest that Indonesian technology firms tend to maintain moderate debt levels and prioritize innovation and expansion rather than conservative financial reporting in response to debt pressure. Moreover, their established risk management practices contribute to the insignificance of leverage's impact on conservatism. These results align with prior studies by Jumariah et al. (2025) and Novelinda et al. (2025), which found no significant relationship between leverage and accounting conservatism across different sectors, implying that leverage is not a dominant determinant of conservative accounting behavior. Similarly, Haryadi et al. (2020) noted that although leverage may show a positive coefficient, its influence remains insignificant due to the debt covenant hypothesis, where firms reduce conservatism to minimize contract renegotiation costs, maintaining prudence regardless of debt levels to preserve creditor confidence.

**Profitability versus Accounting Conservatism**

Profitability (PROF), measured using ROE, has a regression coefficient of -1.087 with a negative direction and a significance value of 0.031, indicating that each one-unit increase in profitability decreases accounting conservatism by 1.087, and the effect is statistically significant. This suggests that more profitable firms tend to adopt less conservative and more aggressive accounting practices in recognizing revenues and expenses. According to positive accounting theory, managers motivated to maximize reported profits often select accounting methods that enhance earnings presentation. This finding aligns with prior studies, including Hong and My (2024), who found a significant negative relationship between return on assets and accounting conservatism among Vietnamese public companies, and Setiadi et al. (2023), who reported that firms with higher profitability tend to reduce conservative practices to signal strong performance to investors. Similarly, Shiddieqy et al. (2023) found that highly profitable firms prefer immediate profit recognition rather than deferring income or accelerating expenses, reinforcing the notion that profitability negatively influences accounting conservatism.

**Earnings Persistence to Accounting Conservatism**

Earnings persistence (PL) has a regression coefficient of -0.883 with a negative direction and a significance value of 0.119. This indicates that each one-unit increase in earnings persistence reduces accounting conservatism by 0.883; however, since the significance value exceeds 0.05, the effect is statistically insignificant, leading to the rejection of H3. Although stable earnings theoretically signal financial stability to investors and management, this study finds that such stability does not significantly influence the adoption of conservative accounting policies. In practice, managers may perceive consistent earnings as reducing the need for conservative reporting, as conservatism is typically applied under conditions of uncertainty, risk, or external pressure from creditors. Investors also consider broader factors such as capital structure, governance, and macroeconomic conditions rather than earnings stability alone. These findings align with Rachman et al. (2022), who found that earnings persistence does not affect accounting conservatism because management tends to prioritize current profitability over long-term stability, and external factors like economic crises or the COVID-19 pandemic disrupt earnings consistency. Similarly, Zadeh et al. (2022) reported that the relationship between earnings persistence and accounting conservatism is inconsistent, suggesting that other factors such as corporate governance and environmental conditions play a more dominant role in shaping this relationship.

**Capital Intensity on Accounting Conservatism**

The regression results indicate that Capital Intensity (CI) has a coefficient of –0.045 with a significance value of 0.231, suggesting a negative but statistically insignificant effect on accounting conservatism ($p > 0.05$); thus, H4 is rejected. Theoretically, an increase in fixed asset utilization should reduce accounting conservatism by 0.045 units, but this relationship is not supported empirically. According to positive accounting theory, capital intensity is expected to influence managers' conservative behavior to mitigate risk; however, the findings reveal no significant impact, likely due to variations in industry characteristics and asset management strategies among Indonesian technology firms that employ diverse asset utilization approaches. This indicates that capital intensity is not a key determinant of accounting conservatism in this context. The results align with studies by Octaviani and Suwarno (2024), Prayoga et al. (2025), and Nagano and Djashan (2024), which also found that higher capital intensity does not promote conservative accounting practices, as firms with substantial fixed assets often aim to present favorable financial statements to attract investors, consistent with signaling theory. In contrast, Achyani and Putri (2021) reported a significant positive relationship, highlighting potential contextual differences across industries and periods.

**Litigation Risks to Accounting Conservatism**

The regression analysis shows that litigation risk (RL) has a positive coefficient of 0.289 with a significance value of 0.042, indicating that a one-unit increase in litigation risk leads to a 0.289 increase in accounting conservatism, and this effect is statistically significant. This finding implies that companies facing higher legal risks tend to adopt more conservative accounting practices by recognizing revenues and liabilities cautiously. Consistent with agency theory, litigation risk acts as an external control mechanism for managers, encouraging conservative reporting to reduce potential manipulation and enhance the reliability of financial information (Prawira & Mubarok, 2023). These results align with prior studies, such as those by Lestari et al. (2023), Damayanty and Masrin (2022), and Safira et al. (2024), which all found a significant positive relationship between litigation risk and accounting conservatism. Collectively, these studies confirm that the greater the threat of legal action, the stronger the managerial incentive to adopt conservative reporting policies as a preventive measure against potential legal and reputational costs.

## 6. Conclusions

This study aimed to examine the relationship between leverage, profitability, earnings persistence, capital intensity, and litigation risk on accounting conservatism among technology companies listed on the Indonesia Stock Exchange from 2019 to 2023. The results indicate that leverage, earnings persistence, and capital intensity have no significant effect on accounting conservatism, implying that the level of debt, earnings stability, and proportion of fixed assets do not influence the application of conservative accounting practices. In contrast, profitability and litigation risk significantly affect accounting conservatism, where higher profitability reduces the tendency to apply conservative accounting, while higher litigation risk increases it as a precautionary measure. However, this study has several limitations: it only focuses on selected variables, covers a limited research period, and examines a specific sector, limiting the generalizability of the findings. Future research is suggested to include additional variables such as firm size, audit quality, or corporate governance, extend the observation period to assess consistency over time, and broaden the research scope across various industries or non-public companies to enhance the comprehensiveness and generalizability of the results.

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