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Exploring the Drivers of Accounting Prudence: Financial Distress, Profitability, and Company Size

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ABSTRACT

This study investigates the impact of financial distress, profitability, and company size on accounting prudence in financial reporting. Using a regression model, the research explores the individual and collective effects of these variables on the adoption of conservative accounting practices. The results indicate a significant positive correlation between financial distress and accounting prudence, suggesting that companies experiencing financial difficulties tend to adopt more cautious financial reporting practices. Conversely, profitability exhibits a negative relationship with accounting prudence, with more profitable firms less likely to adhere strictly to conservative accounting principles. Company size, however, was found to have no significant impact on accounting prudence. Additionally, the collective influence of financial distress, profitability, and company size was found to significantly shape prudential behavior in financial reporting. The study's findings offer valuable insights for investors and corporate management, suggesting that financial distress levels should be considered when assessing financial reporting practices, while profitability plays a role in determining the level of conservatism in accounting. The study also highlights the need for further research into industry-specific factors that may influence these relationships.

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1. INTRODUCTION

Companies have the flexibility to choose accounting bases and principles that best suit their specific conditions and circumstances when preparing financial statements, provided they comply with the Financial Accounting Standards (SAK). Among the available approaches are conservatism and prudence. However, on January 1, 2012, Indonesia officially adopted the International Financial Reporting Standards (IFRS). This regulation requires publicly traded companies in Indonesia to use SAK, a set of accounting standards fully compatible with International Financial Reporting Standards (IFRS). As a result of this convergence, the conservatism principle was replaced by prudence accounting. The transition began with the adoption phase from 2008 to 2010, followed by the final preparation stage in 2011, and was fully implemented in 2012 (Zahira Yanadewi & Fatma Laela, 2024).

The principle of prudence in accounting emphasizes a cautious approach to presenting financial statements. This principle ensures that profits and asset values are not overstated, providing reliability For individuals relying on financial statements, this shift enhances the transparency,

comparability, and reliability of financial reporting. By adopting IFRS, stakeholders—including investors, creditors, and regulators—can more effectively evaluate a company's financial health and performance, leading to better-informed decisions and greater confidence in the presented information, such as investors (Zahira Yanadewi & Fatma Laela, 2024). Prudence involves careful financial reporting, where companies avoid rushing to recognize and measure asset values and profits while promptly identifying potential losses and liabilities (Usbah & Primasari, 2020). The distinction between prudence and conservatism lies in their recognition approach. Conservatism prioritizes recognizing liabilities and expenses as early as possible, while income and assets are recognized only when they are certain to occur. In essence, conservatism applies a stricter caution in recognizing revenues and assets. On the other hand, prudence allows for the recognition of asset increases or liability and expense reductions under specific circumstances, as long as the recognition criteria are satisfied. This flexibility means that prudence can recognize income earlier once the conditions for recognition are fulfilled, offering a more adaptable approach to revenue recognition (Heryadi & Agustina, 2023).

The main research gaps that this study seeks to address include inconsistencies in prior findings is the relationship between financial distress and accounting prudence has shown varying results in previous studies. Some indicate a significant positive association, while others suggest a negligible or no impact. This study aims to clarify these discrepancies. Profitability's role in prudence, the influence of profitability on accounting prudence remains unclear, with prior research showing conflicting results. The study seeks to determine whether higher profitability leads to less prudence due to increased financial stability. Impact of company size, the effect of company size on prudence is debated, with some studies showing a positive relationship while others find no significant influence. This study explores whether size inherently impacts prudence or if other factors are more decisive. Sector specific focus, limited research has analyzed the transportation sector's unique dynamics, including high operational risks and asset heavy operations, in relation to prudence practices. Practical implications for stakeholders, the study seeks to bridge the gap between theoretical insights and actionable recommendations for companies and regulators, particularly in the context of financial reporting challenges in the transportation sector.

Several factors are believed to affect the application of prudence, One of these factors is financial distress, refers to the financial challenges a company faces before entering bankruptcy. It is a condition of economic difficulty where a company has suffered consecutive losses, making it unable to meet its obligations when they become due (Sarah, Asmeri, & Anggraini, 2022). Financial distress arises when a company fails to manage and sustain its financial performance stability, leading to an inability to fulfill obligations. Prior studies have indicated Financial distress is one factor that influences the application of prudence in financial reporting (Usbah & Primasari, 2020). Previous research has consistently indicated a substantial positive association between financial distress and the application of prudent accounting principles (Heryadi & Agustina, 2023; Sarah et al., 2022). However, other studies argue that financial distress and firm risk do not significantly impact the application of prudence (Rizkiadi & Herawaty, 2020).

Profitability ratio is a financial measure employed to evaluate an entity's capacity to generate earnings. This ratio provides a quantitative assessment of a company's ability to convert its operational activities into profits (Nova Safitri, 2022). Profitability plays a crucial role in determining whether a company's performance has been efficient. For company leaders, it serves as a benchmark to measure the company's progress. Previous studies suggest that profitability positively influences the application of prudence. This is because companies with higher profitability tend to adopt the prudence principle in their financial reporting (Choirunnissa, F. Y., & Fitria, 2022).

Profitability also plays a critical role in shaping prudence. financial distress does not significantly influence accounting conservatism, profit persistence does have a significant effect, implying that stable profitability can enhance prudence in financial reporting (Haryadi, Sumiati, & Umdiana, 2020). Profitability serves as a moderating how changes in a company's sales performance can impact its likelihood of experiencing financial difficulties, suggesting that firms with higher

profitability are better equipped to manage financial challenges and maintain prudent accounting practices(Ayu Virnanda & Kartika Oktaviana, 2023). Profitability as a key factor influencing financial distress in manufacturing firms, emphasizing its importance in maintaining financial health (Susanto Salim, 2020)**.** Profitability greatly affects accounting prudence (Pratidina & Majidah, 2022; Usbah & Primasari, 2020).

Company size moderates the link between financial distress and the adoption of prudent accounting practices, suggesting that larger firms may exhibit different prudential behaviors compared to smaller firms under financial distress (Mubarok, Sunaryo, Jayanih, & Prawesti, 2022). The company size positively affects prudence, although there are conflicting findings regarding its overall impact on accounting conservatism (Idrus, Fatimah, Mukhtar, & Salam, 2022). The complexity of these relationships suggests that larger firms may have more resources to implement prudent practices, but they may also face greater scrutiny and pressure to present favorable financial result**s.**

Company size serves as an indicator of a company's scale. A higher total asset value is indicative of a company's classification as a large-sized entity, whereas a lower total asset value indicates that the company falls into the small company category. Company size positively influences accounting prudence because larger companies tend to incur higher political costs. As a result, these companies exercise greater caution in recognizing profits (Roza, 2021). Prudence significantly increases when the company is larger, indicating that the use of prudence will be greater when the company is larger (Mayangsari, 2022; Usbah & Primasari, 2020; Zahira Yanadewi & Fatma Laela, 2024).. On the other hand, company size does not affect prudence (Rohmansyah, Soenaryo, SiregarNugroho, & Gunawan, 2020).

A phenomenon highlighting the lack of prudence implementation was observed in a company within the transportation sub-sector listed on the Indonesia Stock Exchange. Reported in the source okezone.com on June 28, 2019, PT Garuda Indonesia was sanctioned by government and non-government financial institutions. The sanction was given because in 2018 PT Garuda Indonesia (GIAA) reported a net profit of 809.85 thousand US dollars/around 11.33 billion rupiah when the exchange rate assumption was Rp. 14,000/USD, On the other hand, the 2017 financial report showed that PT Garuda Indonesia experienced a deficit of around 216.5 million US dollars. The report was controversial because it was considered to have irregularities and violated financial accounting standards (PSAK). PT Garuda Indonesia was found to benefit from its partnership with PT. Mahata Aero Teknologi, has a debt to PT Garuda Indonesia related to the installation of wifi which still needs to be paid. Based on the results of the meeting with the KAP that examined the finances of PT. Garuda Indonesia and the board of directors, finally PT. Garuda Indonesia was sanctioned by the OJK, the Ministry of Finance and the Indonesia Stock Exchange. In addition to PT. Garuda, sanctions were also given to Public Accountants (AP) Kasner Sirumapea and KAP Tanubrata and colleagues as auditors of The financial statements of PT Garuda Indonesia. With one of the cases of PT. Garuda Indonesia, it can be seen that the company was not careful (prudence) in implementing management policies (Hidayati, 2019).

It is expected that with the case in the transportation sector, company management can improve the implementation of the prudence principle in preparing financial reports. Several studies have been conducted to analyze the factors that affect the implementation of prudence. The occurrence of doubt can be caused by the minimal implementation of the prudence principle within a company. Furthermore, there is inconsistency in The findings of previous studies regarding the impact of financial distress show varying results on prudence indicates the need to conduct a re-analysis. Therefore, this study aims to explore further the impact of financial distress, profitability, and company size on accounting prudence in transportation sub-sector companies listed on the Indonesia Stock Exchange.

2. RESEARCH METHOD

This study employs an associative research method to identify the causal relationship between the independent and dependent variables (Iman Supriadi, 2020). This analysis relates to quantitative data used to study the population in the form of numerical data using sampling techniques and statistical analysis (Sujarweni, 2020). This study utilizes secondary data, which is sourced from the BEI website, namely https://www.idx.co.id. The sampling method is Purpose Sampling, which aims to select samples according to certain aspects or criteria. According to the criteria for transportation sub-sector companies listed on the Indonesia Stock Exchange, that have annual report data and audited financial statements, complete, accessible during the research period from 2017 to 2018, a sample of 19 companies was obtained. The selection of the 2017–2022 period is justified by significant challenges in Indonesia's transportation sector, including global economic fluctuations, the COVID-19 pandemic, stricter enforcement of prudence-based accounting standards, and notable cases like PT Garuda Indonesia's financial reporting issues in 2018. The table below provides details on the specific criteria used to select the sample companies for this study:

Table 1. Determination of Sample Criteria

Sample Criteria Sample	Sample
Total population	29
Uncomplete companies data in the period 2017-2022	(10)
Total data for 6 years, period 2017-2022 (19x6)	114

Source: Processed Data

Table 2. Sample Company

No	Company Code	Company Name	No	Company Code	Company Name
1.	ASSA	Adi Sarana Armada Tbk	11.	MIRA	Mitra International Resources Tbk
2.	BIRD	Blue Bird Tbk	12.	SAFE	Steady Safe Tbk
3.	BLTA	Berlian Laju Tanker Tbk	13.	SAPX	Satria Antaran Prima Tbk
4.	BPTR	Batavia Prosperindo Trans Tbk	14.	SDMU	Sidomulyo Selaras Tbk
5.	CMPP	AirAsia Indonesia Tbk	15.	SMDR	Samudera Indonesia Tbk.
6.	GIAA	Garuda Indonesia (Persero) Tbk	16.	TAXI	Express Transindo Utama Tbk
7.	HELI	Jaya Trishindo Tbk	17.	TMAS	Temas Tbk
8.	IATA	Indonesia Transport & Infrastructure Tbk	18	TRUK	Guna Timur Raya Tbk
9.	KAII	PT Kereta Api Indonesia (Persero)	19	WEHA	Transportasi Indonesia Tbk.
10	LRNA	Eka Sari Lorena Transport Tbk			

Source: Processed Data

The operational function of variables to clarify the understanding of the variables studied, indicators and measurement scales understood in the study during the operationalization of variables. This study utilizes three variables as predictors to explain variations in one outcome variable. The variables are listed in the table below.

Table 3. Operationalization of Variables

Type of Variable	Indicator	Scale
Financial Distress (X1) (Mediya, 2021)	Z = 6,56 X1 + 3,26 X2 + 1,05 X3 + 6,72 X4 X1= net working capital / total assets X2= retained earnings / total assets X3= operating profit (EBIT) / total assets X4= book value of total liabilities Ratio	Ratio
Profitability (X2) (Choirunnissa, F. Y., & Fitria, 2022)	Profitability = Profit After Tax / Total Assets Ratio	Ratio
Company Size (X3) (Mayangsari, 2022)	Company Size = Ln Total Assets	Ratio

Prudence (Y) (Mubarok et al., 2022)	Total Acrual = (net income + Depreciation+Amortization)-operating cash flow X (-1) / Total Aset	Ratio

Source: Processed Data

The operational function of variables to clarify the understanding of the variables studied, indicators and measurement scales understood in the study during the operationalization of variables. This study utilizes three variables as predictors to explain variations in one outcome variable. The variables are listed in the table below.

The selection of financial distress variables, profitability and company size in their relevance to prudence is that financial distress is often used to measure the risk of corporate bankruptcy. In the context of prudence, companies facing financial distress tend to be more conservative in their accounting practices to reduce the risk of reporting errors. Accounting conservatism is a tool to protect creditors from the risk of wrong decision making. Therefore, financial distress is relevant to measure the level of prudence. so that it can be formulated a hypothesis that financial distress has a positive effect on the level of accounting prudence.

Profitability reflects the financial performance of the company. More profitable companies may tend to be less conservative because they have stronger financial buffers, while companies with low profitability may be more careful to protect their resources. Conservatism tends to be more prominent in companies facing financial pressure or having low profitability. so that it can be formulated a hypothesis that profitability has a negative effect on the level of accounting prudence.

Firm Size, affects accounting decision making. Large companies usually have better internal control systems and tighter supervision from investors and regulators, so they tend to be more conservative. Based on the political cost theory, it is stated that large companies face greater external pressure, so they tend to use conservatism to avoid negative attention from regulators and stakeholders. So it can be formulated a hypothesis that company size has a positive effect on the level of accounting prudence.

To ensure the validity and reliability of the regression results, several key assumptions must be met. These assumptions are often referred to as the "classical assumptions" (Sujarweni, 2020). These tests include normality, multicollinearity, heteroscedasticity, and autocorrelation test.

We used multiple linear regression to examine the relationship between prudence (our dependent variable) and three independent variables: financial distress, profitability, and company size. This statistical method can be represented by the following equation:

$$\boldsymbol{Y = \alpha + \beta 1 X 1 + \beta 2 X 2 + \beta 3 X 3 + e}$$

Description:
Y: Prudence
$\boldsymbol{\alpha}$: Regression constant
β1β2β3: Regression Coefficient
X1: Financial Distress
X2: Profitability
X3: Company Size
e: Regression error

T-tests was used to determine whether each independent variable had a significant impact on prudence, controlling for the other variables. F-test was used to assess the overall significance of the regression model. This test helps us determine if at least one of the independent variables is significantly related to prudence.

3. RESULTS AND DISCUSSIONS

Descriptive Statistics

Descriptive statistics is a process of collecting, presenting and summarizing data characteristics in order to obtain the data description. This descriptive analysis utilizes a dataset of 114 observations spanning the period of 2017 to 2022. Descriptive analysis in this study utilizes measures of central tendency and variability for all variables under investigation. A summary of the descriptive analysis findings is presented in Table 2.

Table 4. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std.Deviation
X1 : Z Score	114	-58.12	7.18	-2.7778	9.84997
X2: ROA	114	-58.03	59.93	-2.8011	13.61026
X3: Total Aset	114	10.69	18.09	13.4047	1.844344
Y : Prudence	114	-5.71	1.01	-3.413	.76910
Valid N (Listwise)					

Source: Processed Data

All variables have the same number of observations, which is 114, indicating that there is no missing data in this analysis (listwise deletion). the minimum value of the zscore variable is -58.12 owned by SAFE in 2017. The maximum value of 7.18 belong to by SAPX in 2021. the minimum value of the ROA variable is -58.03 owned by GIAA in 2021. The maximum value of 59.93 is recorded by GIAA in 2022. the minimum value of the TA variable is 10.59 owned by SAPX in 2017. The maximum value of 18.09 is owned by KAII in 2022. that the minimum value of the Prudence variable is -5.71 owned by TAXI in 2021. The maximum value of 1.01 is owned by GIAA in 2021.

The Z-score serves as a proxy for a company's financial risk (possibility of Financial Distress). A negative average value indicates that most companies may be in the distress zone, with a fairly large data spread (std. deviation 9.85). ROA is an indicator of a company's profitability. A negative mean value indicates that many companies in this sample are at a loss (inefficient in using their assets), while the variability of ROA is quite high. Higher values of company size indicate larger companies, with a relatively small spread of data. Prudence is a dependent variable that measures the level of accounting prudence. A negative mean value indicates that accounting practices tend to be less conservative. However, the small standard deviation value indicates that inter-firm variation in prudential practices is relatively low.

Normality Test

The normality test ensuring the reliability of the model's results. In this study, the normality test conducted using one sample Kolmogorof Smirnov test. The result shown in Table 5.

Table 5. One Sample Kolmogorof Smirnov

		Unstandardize Residual
N		106
Normal Parameters [ab]	Mean	0.000000
	Std. Deviation	.31796636
Most Extreme Difference	Absolute	.130
	Positive	.082
	Negative	-1.30
Test Statistic		1.30
Asymp. Sig (2-tailed)		0.000 c
Monte Carlo sig	Sig	0,052 d
(2-tailed)	99% confidence Interval	Lower Bound . 047
		Upper Bound .058

Source: Processed Data

Multicollinearity Test

The multicollinearity test helps ensure that the coefficients represent the independent contribution of each predictor to the dependent variable and clarifies whether predictors are providing overlapping information (Sujarweni, 2020). To detect multicollinearity, this study using Variance Inflation Factor value.

Table 6. Multicollinearity Test Results

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig	Collinearity Statistic	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-5.11	-.235		-2.174	.032		
X1 : ZScore	.023	.006	.393	4.012	.000	.846	1.182
X2 ; ROA	-0.12	.004	.336	- 3.423	.001	.843	1.186
X3 : Total Aset	.020	.020	.103	1.135	.259	.994	1.006

a. Dependent Variable Y : Prudent

Source: Processed Data

Heteroscedasticity Test

One of the key assumptions of ordinary least squares (OLS) regression is homoscedasticity (constant variance of errors) (Sujarweni, 2020). In this study, the scatterplot technique was used to determine the symptoms of heteroscedasticity.

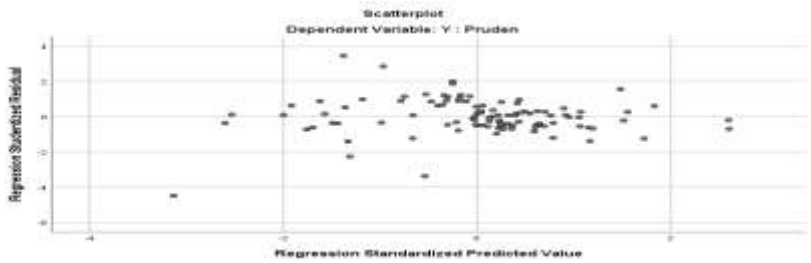

Figure 1. Scatterplot graph image

Source: Processed Data

Autocorrelation Test

In the regression model, the autocorrelation test is useful for determining whether there is a correlation between the nuisance errors in period t and period t-1. The DW value is 1.030. Therefore, there is no autocorrelation if DW is between -2 and +2 (Sujarweni, 2020).

Table 7. Autocorrelation test Results

Model Summary b

Model	R	R Square	Adjusted R Square	Std.Error Of The estimate	Durbin Watson
1	.416	.173	.148	32.261	1.030

a. Dependent Variable Y : Prudent

Source: Processed Data

Multiple Linear Regression

Table 8. Multiple Linear Regression Results

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	-5.11	-.235		-2.174	.032
X1 : ZScore	.023	.006	.393	4.012	.000

X2 ; ROA	-0.12	.004	.336	- 3.423	.001
X3 : Total Aset	.020	.020	.103	1.135	.259

a. Dependent Variable Y : Prudence

Source: Processed Data

The regression coefficient values presented in the table above can be represented by the following equation:

$$\text{Prudence} = -0.511 + 0.023\ \text{Zscore} - 0.012\ \text{ROA} + 0.020\ \text{TA} + \varepsilon$$

The regression equation can be elucidated in the following manner, incorporating nuanced interpretations of its components. The intercept term within the regression model is calculated as -0.511. This value represents the anticipated baseline of the dependent variable under the hypothetical condition where all independent variables are nullified, equating to zero. The negative sign of the constant suggests that in the absence of any contributory effects from the independent variables, the dependent variable is projected to diminish by 0.511 units. As the foundational anchor of the regression equation, this constant serves as a critical reference, facilitating the contextual understanding of the interplay among the modeled variables.

The regression coefficient associated with the Zscore variable (denoted as X1) is quantified at 0.023, signifying a direct and positive linear relationship with the dependent variable. A positive coefficient denotes that as the Zscore variable increases, it engenders a proportional elevation in the dependent variable. Specifically, for every one-unit augmentation in the Zscore variable, assuming all other independent variables remain invariant, the dependent variable is expected to escalate by 0.023 units. This coefficient thus encapsulates the magnitude and directional influence exerted by the Zscore variable, underscoring its significance within the framework of the regression model.

Turning to the ROA variable (X2), the regression coefficient is computed as -0.012, indicating an inverse association with the dependent variable. This negative relationship implies that higher values of ROA are concomitant with a decrement in the dependent variable. Quantitatively, an incremental rise of one unit in ROA, under the condition that other independent variables are held constant, is predicted to result in a reduction of the dependent variable by 0.012 units. The negative coefficient underscores the attenuating effect of ROA, suggesting its potential as a constraining factor within the modeled system.

The regression coefficient for the Total Assets variable (X3) is determined to be 0.020, highlighting a positive and direct correlation with the dependent variable. This positive coefficient implies that increments in Total Assets correspond to proportional enhancements in the dependent variable. Specifically, a one-unit increase in Total Assets, while maintaining constancy in other independent variables, is projected to yield a 0.020-unit increment in the dependent variable. This outcome accentuates the beneficial influence of Total Assets, indicating its constructive contribution to the dependent variable as articulated by the regression model.

In summation, the coefficients collectively offer profound insights into the qualitative and quantitative dynamics between the independent variables and the dependent variable. They delineate the magnitude, directionality, and relative significance of these relationships, thereby enabling a holistic comprehension of the interactions encapsulated within the regression equation. These parameters serve as instrumental tools in unraveling the underlying patterns and causal mechanisms represented by the model.

Partial Test (t-Test)

The partial test conducted in this research aimed to discern the extent to which each independent variable individually influences the dependent variable within the model. By utilizing a threshold significance level of 5% ($\alpha = 0.05$), the analysis sought to determine whether the effects of the independent variables on the dependent variable were statistically significant. Each independent variable was scrutinized to evaluate its partial contribution, with the findings elucidated as follows.

The Zscore variable (X1) yielded a significance value of 0.000, which is unequivocally below the predefined 5% error level. This outcome denotes a highly significant relationship. Furthermore, the positive coefficient associated with X1 underscores a direct and affirmative linkage between the Zscore and the dependent variable, prudence (Y). The evidence from this analysis substantiates the assertion that X1 exerts a positive and statistically significant individual effect on prudence, emphasizing its role as a pivotal determinant within the model.

In the case of the ROA variable (X2), the calculated significance value was 0.001, which similarly resides beneath the critical threshold of 0.05, affirming its statistical significance. The negative coefficient linked to X2 signifies an inverse relationship, indicating that increases in ROA are correlated with decreases in the dependent variable. This inverse association highlights a significant but counteractive influence of X2 on prudence. Thus, the findings reveal that X2 contributes a significant, albeit negative, partial effect on the dependent variable, offering insights into the nuanced interplay between these constructs.

Conversely, the Total Assets variable (X3) presented a significance value of 0.259, which exceeds the established 5% error margin. Although the coefficient associated with X3 is positive, suggesting a potential direct relationship, the statistical insignificance of this result implies that X3 does not exhibit a meaningful individual effect on prudence within the confines of this model. Therefore, while X3 may intuitively align with the dependent variable, its contribution lacks statistical robustness, rendering it non-significant in this particular analytical context.

These findings collectively illuminate the differential influences of the independent variables, revealing both significant and non-significant contributors to the dependent variable. The Zscore and ROA variables emerge as salient factors, albeit in opposing directions, whereas Total Assets appear inconsequential within the scope of this analysis. This nuanced understanding of partial effects enhances the interpretive depth of the regression model and informs further inquiry into the dynamics of these relationships.

Simultaneous Test (F Test)

This research employed the F-test as a methodological tool to examine the aggregate influence of all independent variables on the dependent variable within the regression model. The F-test serves as a robust statistical procedure to evaluate the joint explanatory power of multiple predictors, assessing whether they, in combination, contribute significantly to variations in the dependent variable. To establish the statistical validity of this assessment, the analysis adopted a significance level (α) of 5%, ensuring a stringent criterion for evaluating the model's collective efficacy.

The empirical findings from the F-test revealed a p-value of 0.000, a result that lies well below the predetermined significance threshold of 0.05. This exceedingly low p-value unequivocally indicates that the combined effect of the independent variables is not merely incidental but statistically significant. It underscores the notion that the predictors, when considered in unison, exert a meaningful and substantial impact on the dependent variable. Such a result affirms the holistic strength of the regression model, demonstrating that the independent variables collectively explain a non-negligible portion of the variance observed in the outcome measure. Consequently, the F-test outcome substantiates the overall integrity and predictive relevance of the modeled relationships, providing a foundational basis for further interpretation and application of the results within the context of the study.

Table 8. F Test Results

Anova a

Model		Unstandardized B	df	Mean Square	F	Sig
1	Regression	2.216	3	.739	7.097	.000b
	Residual	10.616	102	.104		
	Total Aset	12,832	105			

a. Dependent Variable Y : Prudence
b. Predictors : (Costant), X3 : Total Aset, X1 ; ZScore , X2 ; ROA
Source: Processed Data

Coefficient of Determination (R2)

The data delineated within the table reveals that the independent variables of financial distress, profitability, and company size collectively elucidate 14.8% of the variance observed in the prudence variable. This proportion, represented by the coefficient of determination (\(R^2 \)), signifies that these predictors jointly account for a measurable, albeit moderate, fraction of the fluctuations in prudence. In essence, 14.8% of the prudence variable's behavioral patterns within the scope of this study can be attributed to the explanatory capacity of financial distress, profitability, and company size.

This finding underscores the partial explanatory power of the model, highlighting the influence of the specified independent variables while simultaneously indicating that a substantial 85.2% of the variation in the prudence variable remains unaccounted for by these factors alone. This residual proportion suggests the probable presence of other unexamined variables or external factors contributing to prudence. Nevertheless, the 14.8% figure affirms the relevance of financial distress, profitability, and company size as meaningful, though not exhaustive, determinants within the analytical framework. These insights provide a foundational understanding of the dynamics at play and encourage further exploration to identify additional contributors to the prudence construct.

Table 9. Model Summary

Model	R	R Square	Adjusted R Square	Std Of Error Estimated
1	.416	.173	.148	,32261

a. Predictors : (Costant), X3 : Total Aset, X1 ; ZScore , X2 ; ROA

Source: Processed Data

Discussion

The outcomes derived from the preliminary testing phase reveal that the financial distress variable (X1), represented through the Zscore proxy, attained a p-value of 0.000. This exceedingly low p-value, being well below the threshold significance level of 0.05, provides robust evidence of statistical significance. Such a result validates the hypothesis that the financial distress variable exerts a measurable and non-random influence on the dependent variable, prudence. Furthermore, the positive regression coefficient associated with this variable indicates a unidirectional and constructive relationship between financial distress and prudence.

In other words, as the magnitude of financial distress increases, there is a corresponding positive increment in prudence. This relationship underscores the capacity of financial distress, as captured by the Zscore metric, to act as a determinant that enhances prudence (Rahman, 2020; Titi Wulandari & Teti Chandrayanti, 2024; Zahira Yanadewi & Fatma Laela, 2024). The findings suggest that, in contexts where financial distress levels escalate, prudence exhibits a proportional augmentation, reinforcing the notion that prudential behavior may intensify as a response mechanism to financial instability. These results not only highlight the significant partial effect of financial distress on prudence but also provide a nuanced understanding of its directional impact within the analytical framework of this study.

The findings of this study suggest that an escalation in financial distress is concomitant with an amplification of prudential practices in financial reporting. Under conditions of financial strain, managerial behavior appears to shift toward heightened conservatism, characterized by cautious estimation processes, a reduction in risk-taking tendencies, and a more judicious approach to recognizing both revenues and expenses. This adaptive behavior likely arises from the acute awareness of elevated risks, such as financial losses or potential insolvency, that accompany periods of financial adversity.

The principle of prudence, which prioritizes the early recognition of potential losses and uncertainties, serves as a guiding framework in such scenarios. By adhering more rigorously to prudential principles, management aims to portray financial conditions with greater accuracy, ensuring that the challenges posed by financial distress are transparently reflected in the financial statements. This more stringent application of prudence acts as a defensive mechanism to mitigate the risks inherent in unstable economic circumstances.

Interestingly, the results of this study underscore a positive and statistically significant relationship between financial distress and accounting prudence, a finding that diverges from prior research. Earlier studies posited either a negligible or inverse relationship, suggesting that financial distress diminishes prudence (Choirunnissa, F. Y., & Fitria, 2022; Pratidina & Majidah, 2022). In contrast, this research illuminates the potential for financial distress to act as a catalyst for heightened prudential behavior, offering new insights into the dynamic interplay between economic pressure and financial reporting practices. These results contribute to a more nuanced understanding of the role financial distress plays in shaping conservative accounting approaches. The results of this study exhibit a consonance with the findings of prior scholarly investigations, reinforcing the assertion that financial distress exerts a positive and statistically significant influence on prudential financial reporting (Heryadi & Agustina, 2023; Sarah et al., 2022; Usbah & Primasari, 2020). This alignment underscores the consistency of evidence across diverse research contexts, suggesting a robust and replicable relationship between heightened financial adversity and the adoption of more conservative accounting practices.

Specifically, the interplay between financial distress and prudence reflects an adaptive managerial response wherein decision-makers prioritize caution and foresight in the face of economic uncertainty. The corroboration of these findings across multiple studies not only validates the theoretical proposition that financial distress stimulates enhanced prudential behavior but also accentuates the universal applicability of this dynamic. It implies that regardless of variations in institutional, geographic, or temporal contexts, the principle of prudence reliably manifests as a strategic mechanism to mitigate risks associated with financial instability. This congruence with earlier research enriches the body of knowledge surrounding accounting conservatism, lending greater empirical weight to the hypothesis that prudence intensifies as a function of financial distress.

The partial test results for the profitability variable (X2), represented through the proxy of Return on Assets (ROA), yielded a p-value of 0.001, signifying a statistical significance well below the established 0.05 threshold. This result affirms the substantial role of profitability in influencing the dependent variable, prudence (Y). The negative regression coefficient associated with this variable indicates an inverse relationship, where higher levels of profitability are correlated with reduced prudential practices in financial reporting. This finding suggests that the profitability variable exerts a negative and statistically significant partial effect on accounting prudence.

The underlying rationale for this inverse relationship can be traced to the differential influence profitability exerts on a firm's approach to accounting regulations and the application of financial reporting standards. Companies with robust profitability levels often possess greater discretion and flexibility in interpreting and implementing accounting principles, potentially allowing them to adopt less conservative practices. Conversely, firms with lower profitability are more likely to encounter heightened scrutiny or adhere more rigorously to accounting standards, thereby reinforcing the principle of prudence in their financial reporting.

This outcome resonates with the findings of Pratidina and Majidah, who also identified a significant negative correlation between profitability and prudence (Pratidina & Majidah, 2022). Their work highlights a consistent trend across studies, wherein profitability acts as a mitigating factor for conservatism in financial practices. However, the findings diverge from the conclusions of Nova Safitri, whose research posited that profitability exerts no significant influence on prudence (Nova Safitri, 2022). This inconsistency in empirical results underscores the complexity and contextual variability of the relationship between profitability and accounting conservatism, inviting

further exploration into the conditions under which profitability impacts prudential behavior in financial reporting.

The partial test results for the company size variable (X3) produced a p-value of 0.259, indicating a significance level that exceeds the established threshold of 0.05. This outcome denotes the absence of a statistically significant relationship between company size and prudence (Y), even though the positive coefficient suggests a unidirectional relationship. In practical terms, this implies that the magnitude of an enterprise, whether expansive or diminutive, does not exert a compelling influence on the degree to which management adheres to the principle of prudence in financial reporting.

The results suggest that the adoption and application of prudential principles within organizations are likely influenced by factors other than size. This could include regulatory pressures, governance structures, risk profiles, or other contextual determinants that might wield greater sway over prudential behavior than sheer organizational scale. Hence, the relationship between company size and prudence appears to be more nuanced and potentially mediated by other variables that were not the focus of this particular analysis.

These findings are in congruence with previous studies that similarly concluded that company size does not exert a significant effect on accounting prudence (Heryadi & Agustina, 2023) (Rohmansyah et al., 2020). Their research supports the notion that prudence is not inherently linked to organizational scale. Conversely, this conclusion stands in contrast to the researches whose empirical work posited that company size does indeed play a significant partial role in determining prudential practices (Abbas, D. S., & Hidayat, 2022)(Roza, 2021). Such conflicting outcomes across studies underscore the complex and context-dependent nature of this relationship, pointing to a need for further exploration into how and under what conditions company size may interact with prudential behaviors in diverse business environments.

The findings from the F-test analysis provide compelling evidence that the variables of financial distress, profitability, and company size, when examined collectively, exert a statistically significant influence on accounting prudence. The p-value associated with the regression model, which quantifies the simultaneous impact of these independent variables, was determined to be 0.000. This value is markedly below the conventional significance threshold of 0.05, thereby affirming the presence of a statistically meaningful joint effect.

The results suggest that the interconnected dynamics of these variables work in tandem to shape the application of prudence within financial reporting frameworks. Financial distress likely introduces heightened caution due to perceived risks, while profitability and company size may interact in complex ways to either reinforce or moderate the adherence to prudential principles. The exceptionally low p-value underscores the robustness of this relationship, signifying that the collective influence of these factors is not the result of random variability but reflects a substantive interaction within the context of the analyzed regression model.

This conclusion enriches the broader discourse on accounting behavior by emphasizing the importance of evaluating financial, operational, and structural variables holistically rather than in isolation. It highlights the necessity of understanding how these factors coalesce to influence managerial decision-making processes, particularly in adhering to conservative accounting practices that reflect prudence. The study contributes to the growing body of literature affirming that multifactorial influences play a pivotal role in shaping the principles and methodologies underpinning financial reporting.

4. CONCLUSION

The results of the data analysis provide valuable insights into the relationships between financial distress, profitability, company size, and accounting prudence, highlighting their individual and collective impacts. The first finding reveals a significant and positive correlation between financial distress and accounting prudence. This suggests that as financial distress intensifies, firms tend to

adopt a heightened level of conservatism in their financial reporting practices. In such circumstances, managers are more inclined to employ cautious estimation techniques, mitigate risk exposure, and exercise greater diligence in the recognition of revenues and expenses. This behavior aligns with the principle of prudence, as firms facing financial adversity prioritize safeguarding against potential losses.

The second finding identifies a negative and statistically significant impact of profitability on accounting prudence. This inverse relationship implies that highly profitable companies are less likely to adhere strictly to conservative accounting principles. Instead, such firms may exhibit greater risk tolerance in recognizing revenues and making accounting decisions, reflecting their financial stability and operational confidence. This tendency contrasts with less profitable entities, which may adhere more rigorously to prudential practices to avoid financial misstatements or regulatory scrutiny.

The third finding indicates that company size does not have a statistically significant effect on accounting prudence. This suggests that the scale of an organization, whether large or small, does not inherently dictate the level of conservatism applied in financial reporting. Instead, other factors—such as profitability, financial distress, or industry-specific considerations—may exert more pronounced influences on the adoption of prudential practices.

The analysis also underscores the combined influence of financial distress, profitability, and company size on accounting prudence, as demonstrated by their collective statistical significance. This finding highlights the importance of examining these variables in tandem to fully understand their aggregate effect on prudential behavior within financial reporting frameworks.

The findings contribute to the development of the prudential principle in accounting by demonstrating that financial distress increases prudence, supporting debt contracting theory as a risk mitigation tool. Profitability negatively affects prudence, highlighting managerial discretion and reduced conservatism in profitable firms. Meanwhile, firm size positively influences prudence, aligning with political cost theory, as larger firms adopt conservatism to address scrutiny and regulatory pressures.

These results carry important implications for various stakeholders. For current and prospective investors, it is advisable to assess the financial distress levels of companies, as firms experiencing elevated distress may demonstrate greater conservatism and accuracy in their financial disclosures. For corporate management, these findings emphasize the importance of proactively addressing financial distress to minimize the risks associated with excessive conservatism in reporting. Implementing effective risk management strategies can mitigate adverse financial conditions and enhance decision-making processes.

The findings can be framed to offer practical insights for companies and regulators in the transportation sector. For Companies can prioritize Accounting prudence in financial management during distress to enhance transparency and trust, mitigate reputational risks and penalties (e.g., Garuda Indonesia case), and balance profitability with Accounting prudence for long-term stability. For Regulators can strengthen monitoring for consistent Accounting prudence application and develop industry-specific guidelines to address challenges like asset-heavy operations and revenue fluctuations.

For future research, it would be beneficial to examine the influence of industry-specific and sectoral factors on the relationships between financial distress, profitability, company size, and accounting prudence. Certain industries may exhibit unique dynamics that shape these relationships, offering a richer understanding of the contexts in which prudential behavior manifests in financial reporting

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