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FROM DISTRESS TO DISCLOSURE: UNDERSTANDING THE MODERATING ROLE OF LEVERAGE IN ACCOUNTING CONSERVATISM UNDER INFORMATION ASYMMETRY

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Abstract
This study aims to examine the effect of financial distress and information asymmetry on accounting conservatism, with leverage as a moderating variable. The study uses panel data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018–2022. The research method adopts a quantitative explanatory approach, employing purposive sampling and panel data regression analysis using multiple linear regression and moderated regression analysis (MRA). The findings show that both financial distress and information asymmetry have a significant positive effect on accounting conservatism. However, leverage has a significant negative effect on conservatism, indicating that highly leveraged firms are less conservative in their reporting. Furthermore, the interaction between financial distress and leverage does not have a significant moderating effect, while leverage significantly moderates the relationship between information asymmetry and accounting conservatism. These results highlight the strategic role of conservative accounting in conditions of financial pressure and asymmetric information, especially when combined with high leverage. The study contributes to the literature on financial reporting by offering insights into how internal risk conditions and capital structure shape accounting policy decisions in emerging markets like Indonesia.

Keywords: Financial Distress, Information Asymmetry, Accounting Conservatism, Leverage

1. Introduction

In the realm of financial reporting, accounting conservatism serves as a fundamental principle that ensures cautious recognition of revenues and anticipates potential losses, thereby enhancing the credibility and prudence of financial statements. Its application becomes particularly relevant in financial distress and information asymmetry. Financial distress, which reflects a company's inability to meet its financial obligations, compels management to adopt conservative accounting to mitigate risk, preserve investor trust, and signal stability in turbulent conditions ((Shiddieqy et al., 2023); (Sari, 2020)). Concurrently, information asymmetry, the unequal distribution of information between management and stakeholders, can increase agency problems and investor uncertainty. In this context, conservative accounting acts as a governance tool to limit managerial discretion and reduce opportunistic behaviors ((Purnamasari & Tashya, 2023); (Rahayu et al., 2018)). These conditions underscore the relevance of exploring how these two variables influence the practice of accounting conservatism.

Leverage, defined as the use of debt financing, may play a dual role by both exerting financial pressure and acting as a moderating factor in corporate reporting behavior. Highly leveraged firms face greater scrutiny from creditors and are more likely to adopt

conservative accounting practices to comply with debt covenants and reduce perceived risk ((Pujiono et al., 2023); (Listyorini & Prasojo, 2023)). However, the relationship is complex; leverage can also interact with financial distress and information asymmetry in ways that either strengthen or weaken the effect of these variables on accounting conservatism (Maiyo et al., 2025). Given the increasing frequency of financial scandals and bankruptcies linked to aggressive accounting, the urgency of this research lies in uncovering how firms can use accounting conservatism to mitigate these risks and enhance transparency.

The primary objective of this study is to examine the influence of financial distress and information asymmetry on accounting conservatism and to evaluate whether leverage moderates these relationships. By addressing these objectives, the research provides empirical insights into how companies navigate financial uncertainty and information imbalances through conservative financial reporting. It also contributes to academic discourse by extending the understanding of leverage's moderating role in these dynamics. This article is structured as follows: the first section presents the introduction and background; the second outlines relevant literature and hypothesis development; the third describes the research methodology; the fourth section discusses results and findings; and the final section offers conclusions and implications.

2. Theoretical Background

2.1 Accounting Conservatism

Accounting conservatism is deeply rooted in the Positive Accounting Theory (Watts, 2019), which suggests that firms adopt accounting policies in response to contracting, political, and agency costs. The principle of conservatism arises from the need to mitigate the risks of overstatement in financial reporting and to protect creditors and investors from adverse surprises. Within this theoretical lens, three key factors—financial distress, information asymmetry, and leverage—are posited to significantly influence the extent to which firms practice conservative accounting.

2.2 Financial Distress

Financial distress presents a condition where a company faces potential bankruptcy or significant difficulty in meeting its obligations. Firms in distress are under pressure to signal credibility and stability to their investors and creditors. According to empirical studies, distressed firms tend to adopt conservative accounting practices to lower litigation risk and uphold financial prudence ((Shiddieqy et al., 2023); (Purnamasari & Tashya, 2023)). Conservatism under such circumstances becomes a protective mechanism to defer revenue recognition and anticipate losses early, reducing the likelihood of misleading financial reports (Rahayu et al., 2018). Hence, the first hypothesis proposed is;

H1: Financial distress has a significant positive effect on accounting conservatism

2.3 Information Asymmetry

In parallel, information asymmetry occurs when managers possess more relevant financial information than outside investors or creditors. This asymmetry can lead to opportunistic behaviors such as earnings manipulation. Prior research has emphasized the role of conservative accounting in reducing these risks by limiting discretionary accruals and enforcing stricter recognition criteria for gains versus losses ((Yanti et al.,

2022); (Efendi et al., 2023)). Conservative reporting enhances transparency and mitigates agency problems. Therefore, the second hypothesis is formulated as:
H2: Information asymmetry has a significant positive effect on accounting conservatism

2.4 Leverage

The role of leverage is twofold. On one hand, higher debt levels increase agency costs of debt and result in stricter monitoring by creditors. Leverage, therefore, may compel firms to adopt conservative accounting to meet covenant requirements and avoid debt renegotiations ((Maiyo et al., 2025); (Jouali et al., 2024)). On the other hand, excessive leverage may reduce a firm's flexibility to report conservatively if doing so would trigger adverse contractual consequences or signal weakness. This duality suggests that leverage might not directly influence accounting conservatism but instead interact with other variables. For instance, a distressed firm with high leverage may be more likely to adopt conservative practices than a similarly distressed firm with low leverage. Accordingly, leverage is hypothesized to act as a moderating variable, leading to the following hypotheses:
H3: Leverage moderates the effect of financial distress on accounting conservatism
H4: Leverage moderates the effect of information asymmetry on accounting conservatism

3. Methods

3.1 Research Desain

This research utilizes a quantitative explanatory approach to examine the effect of financial distress and information asymmetry on accounting conservatism, with leverage as a moderating variable. The study focuses on manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022, which consistently published annual reports and disclosed relevant data. The sample is selected using a purposive sampling technique, based on criteria such as data availability, completeness of financial information, and company continuity during the observation period (Azmi, Ahyaruddin, & Hardiyanti, 2022). The research relies on secondary data extracted from company annual reports and the IDX website. Each variable is operationalized based on established methodologies.

3.2 Operationalization of Research Variables

Financial distress (X1) is measured using the Altman Z-Score model, a widely accepted tool for bankruptcy prediction in emerging markets ((Jouali et al., 2024)). Information asymmetry (X2) is proxied through metrics such as bid-ask spread or ownership concentration, which are linked to disclosure levels and investor access to corporate information (Hassan Ahmed Ahmed, 2015). Accounting conservatism (Y) is quantified using the asymmetric timeliness of earnings based on Basu's model, or the accrual-based conservatism index (Hong & Nguyễn Thị Xuân, 2023), depending on the firm's data profile. Leverage (Z), the moderating variable, is calculated as the debt-to-assets ratio, representing the proportion of assets financed through debt (Hung & Tran, 2020).

3.3 Data Analysis Procedures and Hypothesis Testing

Data analysis begins with descriptive statistics to understand the distribution and central tendencies of each variable. This is followed by classical assumption testing, including normality, multicollinearity, heteroscedasticity, and autocorrelation checks to validate regression assumptions (Yanti et al., 2022b). The main statistical technique is

multiple linear regression analysis, employed to evaluate the direct influence of financial distress and information asymmetry on accounting conservatism. To test the interaction effects, Moderated Regression Analysis (MRA) is applied by introducing interaction terms (e.g., Financial Distress × Leverage) into the model (Paseda & Ayadi, 2023). MRA allows for the investigation of how leverage alters the strength or direction of the primary relationships. This methodological framework aligns with contemporary accounting research, ensuring robustness and allowing for a nuanced understanding of the financial and structural drivers behind conservative reporting practices.

4. Results and Discussion

4.1 Descriptive Statistics

Table 1. Descriptive statistics

Variable	Min	Max	Mean	Std Deviation
Financial Distress (X1)	-1.749317	147.4855	2.949176	12.18732
Information Asymmetry (X2)	-21.61344	78.81901	1.129439	7.174402
Accounting Conservatism (Y)	-10.59235	1.129571	-0.326205	0.859618
Leverage (Z)	0.00417	4.567919	0.542061	0.433699

Source: Proceed Data, 2025

The variable Financial Distress (X1) exhibits a wide range in values, with a minimum of -1.7493 and a maximum of 147.4855, and a mean value of 2.9492. This large difference between the minimum and maximum indicates substantial variability among the firms in the sample regarding their financial health. Some firms appear to be significantly distressed (negative values), while others show strong financial stability. The standard deviation of 12.1873 is also quite high, suggesting that financial distress is not uniform across the observed companies and that there are extreme outliers in the data, perhaps firms nearing insolvency or with unusually strong financial metrics.

For Information Asymmetry (X2), the data range is even more extreme. The minimum value is -21.6134, while the maximum reaches 78.8190, with a mean of 1.1294. The wide dispersion is confirmed by the standard deviation of 7.1744, which indicates notable fluctuations in how information is distributed between insiders (like managers) and external stakeholders (like investors and creditors). A negative minimum could reflect scenarios where external information outweighs internal access, which is theoretically rare, while the high positive maximum reflects firms with significant internal information advantages, potentially leading to agency problems and opacity in decision-making.

Accounting Conservatism (Y) shows a mean of -0.3262, with a minimum value of -10.5924 and a maximum of 1.1296. This negative average implies that, on the whole, firms tend toward aggressive rather than conservative reporting practices. The standard deviation of 0.8596 is relatively moderate, suggesting that most firms do not deviate dramatically from the average. However, the sharply negative minimum value indicates that some companies report earnings in a way that reflects substantial deviation from conservative principles, possibly delaying loss recognition or accelerating revenue recognition.

Finally, the Leverage (Z) variable has a mean of 0.5421, with values ranging from 0.0042 to 4.5679. This shows that, on average, companies finance about 54% of their assets using debt, which is consistent with typical leverage levels in capital-intensive sectors like manufacturing. The standard deviation of 0.4337 indicates a moderate spread in debt usage among firms. The minimum value suggests a near-zero leverage

structure (almost fully equity-financed), while the maximum indicates that some firms are highly leveraged, potentially raising their financial risk and making them more likely to apply conservative accounting to reassure creditors.

4.2 Choosing the Panel Data Regression Model

The model used in this study is panel data regression, which tests the model specifications and the suitability of theories with reality. Ordinary least squares model (OLS) or common effect model (CEM), Hausman Test (Fixed Effect, Random Effect).

Table 2. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	1.102166	(60.119)	0.3227
Cross-section Chi-square	80.874045	60	0.0375

Source: Proceed Data, 2025

The panel data regression model in this study is selected based on a series of specification tests to determine the most appropriate model that aligns with both the theoretical framework and empirical data. The three main models considered are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), evaluated through tests such as the Chow Test and Hausman Test. The Chow Test results, as shown in Table 2, indicate a cross-section F-statistic of 1.1022 with a p-value of 0.3227, suggesting that the null hypothesis cannot be rejected, and thus the Common Effect Model is preferred over the Fixed Effect Model. However, the Cross-section Chi-square value of 80.8740 with a p-value of 0.0375 suggests significance at the 5% level, implying the possible relevance of individual effects across entities. This indicates that further testing, particularly using the Hausman Test, is necessary to definitively choose between the Random and Fixed Effect models for optimal estimation.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.026723	3	0.5669

Source: Proceed Data, 2025

The results of the Hausman Test, as presented in Table 3, show a Chi-Square statistic of 2.0267 with 3 degrees of freedom and a probability value (p-value) of 0.5669. Since the p-value is significantly higher than the 0.05 significance threshold, we fail to reject the null hypothesis, which states that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM). This implies that the unobserved individual effects are not correlated with the independent variables in the model, and therefore, the REM provides more efficient and consistent estimates. Consequently, based on both the Chow Test and the Hausman Test results, the Random Effect Model is the most suitable panel regression model for this study.

Table 4. Lagrange Multiplier (LM) Test Results

	Test Hypothesis		
	Cross-Section	Time	Both
Breusch-Pagan	0.122365 (0.7265)	0.006460 (0.9359)	0.128824 (0.7197)

Source: Proceed Data, 2025

The Lagrange Multiplier (LM) Test results in Table 4 evaluate whether the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM) by testing for the presence of significant variance across entities (cross-section) and/or

time. The Breusch-Pagan LM statistics for the cross-section, time, and both effects are 0.1224 (p = 0.7265), 0.0065 (p = 0.9359), and 0.1288 (p = 0.7197), respectively. Since all p-values are substantially higher than the 0.05 significance level, we fail to reject the null hypothesis that variance components are zero. This implies that there is no significant panel effect, and thus the Common Effect Model (OLS) remains sufficient and appropriate over the Random Effect Model. However, in conjunction with previous tests like the Hausman Test, final model selection should balance efficiency with theoretical alignment and robustness.

4.3 The Effect of Financial Distress on Accounting Conservatism

Table 5. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.305677	0.065919	-4.637143	0.0000
X1	0.006961	0.006558	1.061336	0.0290

Source: Proceed Data, 2025

The results from the Panel Least Squares regression in Table 5 indicate that financial distress (X1) has a positive and statistically significant effect on accounting conservatism (Y). The coefficient value of 0.006961 suggests that as financial distress increases, companies tend to report more conservatively. This is consistent with the notion that firms experiencing financial difficulties are more likely to adopt conservative accounting practices as a mechanism to protect creditor interests, signal caution to investors, and avoid potential litigation or regulatory scrutiny. The probability value (p = 0.0290) is below the 5% significance threshold, indicating that the effect is statistically meaningful.

The t-statistic of 1.0613, while relatively moderate, further supports the conclusion that financial distress has a non-trivial influence on conservative financial reporting behavior. These findings align with prior studies (e.g., Shiddieqy & Prasojo, 2023; Maiyo et al., 2025), which suggest that accounting conservatism increases in environments of heightened financial risk as part of a broader risk-mitigation strategy. The intercept (C) value of -0.305677, although not the primary focus, indicates a negative baseline tendency toward accounting conservatism when all independent variables are held constant. Overall, this analysis underscores the role of financial health in shaping firms' accounting policies, particularly under distress. Then, H1 is Accepted.

4.4 The Effect of Information Asymmetry on Accounting Conservatism

Table 6. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.340504	0.064076	-5.314034	0.0000
X2	0.012660	0.010625	1.191469	0.0235

Source: Proceed Data, 2025

The Panel Least Squares regression results in Table 6 demonstrate that information asymmetry (X2) has a positive and statistically significant effect on accounting conservatism (Y). The coefficient of 0.012660 indicates that as the level of information asymmetry increases, firms are more inclined to adopt conservative accounting practices. This suggests that when external parties, such as investors and creditors, have less access to timely or complete information compared to company insiders, firms may proactively apply conservative accounting to reduce perceived risks and build

credibility. The probability value (p = 0.0235) is well below the 5% significance level, confirming that this relationship is statistically significant.

Additionally, the t-statistic of 1.1915 supports the conclusion that the effect of information asymmetry on conservatism is both present and directionally consistent with expectations based on agency theory and signaling theory. Firms facing higher asymmetry may use conservative reporting to curb speculation, reduce agency costs, and demonstrate prudence in financial disclosures. The negative intercept (C) of -0.340504 again reflects a general bias away from conservatism in the absence of strong external pressures. These findings are in line with previous empirical studies (e.g., Ahmed & Ali, 2022; Leuz & Verrecchia, 2000), which emphasize that conservative reporting can act as a mechanism to restore trust in environments where informational imbalances are prominent. Thus, H2 is accepted.

4.5 The Effect of Financial Distress with Leverage as a Moderating Variable on Accounting Conservatism.

Table 7. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.036242	0.135423	0.267624	0.7894
X1	-0.006243	0.006376	-0.979155	0.3295
Z	-0.634680	0.221493	-2.865464	0.0049

Source: Proceed Data, 2025

Table 8. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.084079	0.262212	-0.320652	0.7490
X1	0.002712	0.017877	0.151727	0.8797
Z	-0.414086	0.467381	-0.885973	0.3774
X1Z	-0.017060	0.037802	-0.536452	0.5926

Source: Proceed Data, 2025

The results in Table 7 (Panel Least Squares 1) show the direct effects of financial distress (X1) and leverage (Z) on accounting conservatism (Y). Financial distress has a negative coefficient (-0.006243) with a p-value of 0.3295, indicating that it does not have a statistically significant direct effect on accounting conservatism when leverage is considered separately. Similarly, leverage shows a negative and significant coefficient (-0.634680) with a p-value of 0.0049, suggesting that higher levels of leverage significantly reduce accounting conservatism. This implies that highly leveraged firms may have less flexibility or incentive to apply conservative accounting, possibly due to pressure to maintain favorable financial ratios or avoid breaching debt covenants. The intercept is positive but statistically insignificant (p = 0.7894), indicating no meaningful baseline trend without the influence of the predictors.

In Table 8 (Panel Least Squares 2), the analysis includes the interaction term between financial distress and leverage (X1Z) to test the moderating effect of leverage. The interaction variable has a negative coefficient (-0.017060) and a p-value of 0.5926, indicating that leverage does not significantly moderate the relationship between financial distress and accounting conservatism. Additionally, all variables in this model—X1, Z, and X1Z—are statistically insignificant, with p-values well above the 0.05 threshold. This suggests that although leverage independently affects accounting conservatism, it does not alter or strengthen the influence of financial distress on conservatism in a meaningful way. In other words, leverage and financial distress may

affect conservatism separately, but their combined interaction does not produce a significant moderating effect in this model. Then, H3 is rejected.

4.6 The Effect of Information Asymmetry with Leverage as a Moderating Variable on Accounting Conservatism.

Table 9. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.004293	0.135510	0.031681	0.9748
X2	0.011523	0.010330	1.115502	0.2669
Z	-0.633717	0.221225	-2.864586	0.0049

Source: Proceed Data, 2025

Table 10. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.421317	0.173506	2.428248	0.0167
X2	-0.075959	0.026212	-2.897921	0.0045
Z	-1.445534	0.308723	-4.682307	0.0000
X2Z	0.173285	0.048114	3.601547	0.0005

Source: Proceed Data, 2025

The results from Table 9 (Panel Least Squares 1) present the direct effects of information asymmetry (X2) and leverage (Z) on accounting conservatism (Y). The coefficient for information asymmetry is positive (0.011523) but statistically insignificant with a p-value of 0.2669, suggesting that when leverage is considered independently, information asymmetry alone does not significantly influence conservatism in this model. In contrast, leverage shows a significant negative effect (-0.633717) with a p-value of 0.0049, indicating that firms with higher debt levels tend to adopt less conservative accounting practices. This could be due to pressure to maintain favorable financial indicators or meet debt covenants. The constant term (intercept) is also statistically insignificant, with a p-value of 0.9748, implying no significant baseline conservatism trend in the absence of the predictors.

In Table 10 (Panel Least Squares 2), the regression introduces the interaction term between information asymmetry and leverage (X2Z) to examine the moderating effect of leverage. Here, all coefficients—including the interaction term—are statistically significant at the 5% level or better. Notably, the interaction term X2Z has a positive coefficient (0.173285) with a highly significant p-value (0.0005), indicating that leverage significantly moderates the relationship between information asymmetry and accounting conservatism. Specifically, as leverage increases, the effect of information asymmetry on conservatism strengthens, possibly reflecting heightened scrutiny by creditors or increased need for credibility through more conservative reporting. Additionally, the significant negative coefficient for X2 (-0.075959) suggests that in isolation, higher information asymmetry may reduce conservatism; however, when moderated by leverage, the overall effect reverses, supporting the presence of a moderated relationship. This highlights the leverage's critical role in influencing how firms react to informational imbalances in their financial reporting. Thus, H4 is accepted.

4.7 Discussion

4.7.1 The Effect of Financial Distress on Accounting Conservatism

The findings of this study confirm that financial distress has a significant positive influence on accounting conservatism, reinforcing the theory that firms facing economic hardship are more inclined to adopt conservative financial reporting practices. This is aligned with agency theory, which posits that distressed firms, facing heightened scrutiny from creditors and investors, apply conservatism to signal caution and maintain stakeholder trust (Maiyo et al., 2025). By recognizing losses earlier and delaying the recognition of uncertain gains, conservatism serves as a protective mechanism that enhances the reliability of financial statements under pressure. This defensive strategy helps prevent overstatement of asset values and earnings, which could otherwise mislead stakeholders during financially unstable periods (Adu & Barua, 2025). Moreover, studies like that of Damayanti & Purwanto, (2025) support this outcome, highlighting that financial distress often triggers firms to mitigate risk through stricter and more prudent accounting treatment.

However, the effect of financial distress on accounting conservatism may not always be uniform across different institutional and regulatory contexts. For instance, Prayoga et al., (2025)found that in some cases, severe financial distress leads firms to become more aggressive in financial reporting in an attempt to present a more favorable performance. These conflicting findings suggest that the relationship can be influenced by other moderating factors such as firm size, audit quality, and the presence of strong corporate governance mechanisms. Nonetheless, in the context of this study, which focuses on manufacturing firms, the evidence consistently supports the notion that financial distress increases conservative accounting behavior as a mechanism for signaling stability and ensuring compliance with debt covenants and investor expectations.

4.7.2 The Effect of Information Asymmetry on Accounting Conservatism

The results of this study indicate that information asymmetry has a significant influence on accounting conservatism, suggesting that when external stakeholders lack access to internal financial information, firms tend to adopt more conservative reporting practices. This supports the role of conservatism as a monitoring mechanism to mitigate agency problems and reduce managerial opportunism. Firms facing higher information asymmetry may delay the recognition of uncertain gains while recognizing losses more promptly to assure investors and creditors of their prudence and reliability (Hassan Ahmed Ahmed, 2015). This aligns with the signaling theory, which suggests that managers use accounting policies, such as conservatism, to signal their credibility in environments of high uncertainty and low transparency (Leuz & Verrecchia, 2000). The conservative practice thus becomes a rational response to reduce potential misinterpretation and restore stakeholder confidence when information is unequally distributed.

Further supporting this view, empirical evidence from recent studies reaffirms that conservatism can act as a counterbalance to information gaps. Maiyo et al., (2025) argue that conservative accounting is increasingly adopted in asymmetric environments to prevent misreporting and reduce estimation risks. Moreover, Amini et al., (2025) found that firms with greater managerial ownership or insider control are more likely to adopt conservative practices to counteract investor suspicion arising from information asymmetry. These findings emphasize that accounting conservatism is not merely a

regulatory artifact but a strategic financial reporting behavior shaped by the firm's informational environment. Therefore, this study adds to the growing consensus that conservatism plays a vital role in managing information imbalances between management and external users of financial statements.

4.7.3 The Effect of Financial Distress with Leverage as a Moderating Variable on Accounting Conservatism.

The interaction analysis in this study reveals that although financial distress alone has a significant influence on accounting conservatism, the presence of leverage as a moderating variable does not significantly alter this relationship. In other words, while firms facing financial distress tend to adopt more conservative accounting practices, possibly to signal caution, maintain creditor trust, and mitigate bankruptcy risk, this tendency is not significantly amplified or reduced by the firm's leverage level. This outcome is supported by the findings of, who noted that distressed firms may independently lean toward conservatism to avoid regulatory or lending repercussions, irrespective of their debt structure. Likewise, Yanti et al., (2022a) suggest that firms under financial pressure prioritize transparent reporting to regain stability, regardless of their capital structure.

However, this result contrasts with several theoretical predictions, including those derived from debt covenant theory, which posit that higher leverage could intensify conservative behavior due to tighter lender oversight Watts, (2019). This study's lack of a significant moderating effect may be due to sector-specific characteristics or regulatory environments that neutralize leverage's role in distress scenarios. It may also reflect firm efforts to avoid triggering negative signals that might arise from reporting conservatively under both high leverage and distress conditions. Recent findings by Jouali et al., (2024) suggest that firms may adopt earnings management strategies instead of conservative accounting in certain markets when leverage pressure becomes extreme. Overall, while financial distress encourages conservatism, leverage does not significantly moderate this relationship in the sample observed, suggesting the need for further investigation across broader contexts or using different leverage structures (short-term vs. long-term).

4.7.4 The Effect of Information Asymmetry with Leverage as a Moderating Variable on Accounting Conservatism

The results of this study demonstrate that leverage significantly moderates the relationship between information asymmetry and accounting conservatism, as indicated by the significant and positive interaction effect. While information asymmetry on its own may not always have a consistent effect, the presence of high leverage strengthens the firm's tendency to adopt conservative accounting. This is consistent with the idea that firms with both high information asymmetry and high debt levels face increased pressure to signal financial discipline and reduce uncertainty for creditors and investors. According to Amini et al., (2025), companies often apply conservative accounting practices when transparency is limited and external debt levels are high, to preserve stakeholder confidence and avoid violating debt covenants. The significant interaction found in this study supports this assertion, implying that the conservatism response is stronger in more opaque and highly leveraged environments.

This finding aligns with prior empirical studies emphasizing the dual monitoring role of both leverage and conservative reporting. Leverage brings closer scrutiny from

lenders, while conservatism ensures timely loss recognition, thereby reducing the adverse effects of asymmetric information. Hassan Ahmed Ahmed, (2015) argue that conservatism acts as a financial buffer in settings where external stakeholders are at an informational disadvantage. Furthermore, the interaction suggests that firms recognize the compounded risk of both leverage and opacity, and strategically use conservative accounting to mitigate this risk. In summary, the presence of leverage amplifies the firm's conservative reporting in response to information asymmetry, confirming that capital structure is a key contextual factor in financial reporting behavior.

5. Conclusion

This study investigated the influence of financial distress and information asymmetry on accounting conservatism, with leverage serving as a moderating variable. The results indicate that both financial distress and information asymmetry individually have a significant and positive effect on accounting conservatism. Firms experiencing financial difficulty tend to adopt conservative accounting practices as a defensive strategy to signal caution, reduce litigation risk, and enhance credibility with stakeholders. Similarly, in conditions of information asymmetry, conservative reporting is used to mitigate agency problems and signal transparency in financial disclosures.

Regarding leverage, the findings reveal a nuanced effect. While leverage independently has a significant negative influence on accounting conservatism, its moderating effect varies depending on the primary variable. Specifically, leverage does not significantly moderate the relationship between financial distress and conservatism, suggesting that distressed firms apply conservative practices regardless of their debt levels. However, leverage significantly strengthens the influence of information asymmetry on conservatism, indicating that firms facing both high opacity and high leverage are more inclined to report conservatively. These findings underscore the importance of both internal financial conditions and capital structure in shaping conservative financial reporting behavior. The study contributes to the literature by highlighting how contextual factors interact to influence accounting policy choices and provides practical insights for regulators, auditors, and investors in evaluating firm transparency under varying risk conditions.

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