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The Impact of Investment Opportunity Set and Profitability on Accounting Conservatism in ASEAN Countries

Susi Susanti
Accounting Department, School of Accounting
Master of Accounting, Bina Nusantara University, Jakarta, Indonesia 11480
corresponding author: susi.susanti001@binus.ac.id

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ABSTRACT

Financial statements deliver critical insights into a company's financial position, adhering to Generally Accepted Accounting Principles (GAAP) and emphasizing conservatism. This principle prioritizes prudence by recognizing costs promptly while delaying revenue acknowledgment, which can potentially distort a company's true financial health. This research aims to analyze the influence of financial attributes on accounting conservatism, focusing on the investment opportunity set (IOS), leverage, profitability, and firm size in ASEAN's industrial sector. The research comprises a total of 2,968 firm-years, consisting of 424 companies from six ASEAN countries during the period from 2017 to 2023. The data used is sourced from the Refinitiv database obtained from the company's annual reports and employs panel data regression analysis. The research shows that the major independent variable, IOS has no effect on accounting conservatism. Conversely, the independent variable profitability has a positive impact on accounting conservatism. Additionally, two other variables, namely leverage and firm size, have statistically significant impacts on accounting conservatism. This study indicates that an increase in company size correlates with a heightened application of accounting conservatism, whereas greater profitability tends to diminish the application of accounting conservatism within manufacturing firms. The study finds that investment opportunity set does not significantly affect accounting conservatism; profitability, leverage, and firm size influence it differently. It recommends a broader focus and additional variables for comprehensive results.

Keywords: Investment Opportunity Set, Profitability, Accounting Conservatism, Leverage, Firm Size

INTRODUCTION

Financial statements provide diverse and accurate information about everything related to the financial position of the Statement of Financial Accounting Standards, which refers to Generally Accepted Accounting Principles (GAAP), used when preparing financial statements. Biehl, Bleibtreu, & Stefani, (2024) state that GAAP, is used when preparing financial statements. Conservatism in financial statement preparation emphasizes prudence, with companies recognizing costs that may occur immediately, but recognizing potential revenues or profits later on. While conservatism is seen as valuable for anticipating future uncertainties, it is also debated due to its potential to distort a company's actual financial state, thus impacting the report's quality (Biehl et al., 2024; Hejranijamil, Hejranijamil, & Shekarkhah, 2020; Tamur, 2021; Watts and Zimmerman, 2018).

Based on the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Concepts (SFAC No. 2), conservatism is an appropriate reaction to uncertainty that guarantees that risks and uncertainties in a company have been taken into account (Orthaus, Pelger, & Kuhner, 2023). Accounting conservatism represents a principled approach to addressing future uncertainty. It involves lowering asset valuations, accelerating expense recognition, delaying revenue recognition, and increasing debt valuations to mitigate excessive optimism from management and business owners (Zou & Othman, 2024). The concept of conservatism in accounting is a principle that recognizes reductions in revenue and recognition of previous costs and subsequent income and sales to avoid overstatements or excessive recognition that can mislead stakeholders about the company's financial condition. When conservatism is perceived as a responsible policy, it can be used to manipulate public perception of a company's finances. This is evident in cases involving PT Asuransi Jiwasraya, 1MDB (1Malaysia Development Berhad),

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Research Article

Philippine Airlines (PAL), where conservatism not only failed to protect investors but also conceal the actual financial facts.

Investment opportunity set (IOS) and profitability are two key elements that affect accounting conservatism (Huang & Kang, 2018). IOS is a high IOS that provides companies with opportunities for aggressive investments, which can influence the level of accounting conservatism (Firmansyah et al., 2022). Higher profitability is often associated with increased conservatism, as profitable firms aim to manage stakeholder expectations and maintain financial stability. The level of conservatism in accounting is also affected by the company's size and leverage. A study conducted by Bui, Nguyen, & Pham, (2023) managers often boost profits to make the financial situation appear better to creditors because companies with high leverage typically have bad financial conditions. In addition, larger companies may exhibit different levels of conservatism due to their more complex operations and greater scrutiny from regulators and investors.

The importance of conservative accounting information in assessing company value and reducing business failure risk cannot be overstated. The application of accounting conservatism significantly impacts the quality of financial statements, thereby influencing investment decisions and corporate management. The principle of conservatism yields reliable profits by preventing companies from overstating their earnings (Zadeh, Askarany, & Asl, 2022). Additionally, this principle aids financial statement users by accurately presenting profits and assets without exaggeration (Amirkhani, Brown, & Gramlich, 2024). Therefore, this research is crucial to ensure that companies can make informed decisions based on accurate and transparent information. Companies also need efficient fund management to achieve higher future profits, necessitating the inclusion of other factors such as profitability and leverage. High profitability, as indicated by the company's Return on Assets (ROA), is essential for company growth. Arhinful & Radmehr, (2023) states that leverage policies involve using borrowed capital to finance company operations. Consequently, this study aims to examine the influence of financial attributes on accounting conservatism, including the IOS, leverage, profitability, and firm size within the industrial sector of ASEAN countries.

LITERATURE REVIEW

Al-Faryan, (2024), define agency theory as a relationship that occurs when one or more individuals (principals) engage another individual (agent) to perform a service on their behalf, thereby delegating decision-making authority to the agent. Eisenhardt, (1989), agency theory focuses on solving problems that arise in agency relationships, such as (1) conflicts that arise due to differences in objectives between shareholders (principal) and company management (agent) and (2) the difficulty of shareholders (principal) in verifying the actions of company management (agent). These problems arise because shareholders (principals) cannot precisely verify the behavior of company management (agents), and there are differences in attitudes towards risk and steps taken due to different risk preferences. The agency theory aims to explain how contracts are designed to minimize costs due to asymmetric information (Matinheikki, Kauppi, Brandon–Jones, & van Raaij, 2022).

Conservatism in financial statements seeks to acknowledge, quantify, and present diminished asset values and income, alongside elevated liabilities and expenses (Zou & Othman, 2024). This principle results in low profit and asset figures and high debt levels, which causes financial statements to show an understatement of profits. Conservatism slows down revenue recognition and speeds up expense recognition. Applying this principle implies selecting accounting methods that report lower profits and assets or higher debt (Biehl et al., 2024). Prudence in financial reporting is emphasized by the accounting conservatism principle, which often leads to the understatement of assets and earnings.

IOS represents an opportunity for future investment, characterized by a range of potential avenues for capital allocation that are significantly influenced by the company's expenditure decisions regarding future interests (Nguyen & Nguyen, 2025). According to Firmansyah et al., (2022) the IOS is an investment decision in company assets; the investment is in the form of tangible or intangible assets that show the company's opportunity to grow. A suitable investment can increase company value and shareholder welfare. Companies with high growth opportunities can expand their performance. The IOS is quantified by the ratio of market value to book value of assets (MVABVA), indicating the influx of supplementary cash for investment and growth prospects of the organization. A higher IOS indicates superior potential and growth chances for the company (Das & Dhole, 2025). An IOS comprises a selection of prospective investment options, enabling the organization to deploy cash appropriately. This refers to if the company experiences a decrease in the company's assets, fixed assets are not recognized, and thus, the conservatism

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Research Article

level is low. This aligns with the principle of accounting conservatism that recognizes losses and liabilities as soon as they are discovered but allows recognition of profits only when they have been realized (Kim, Lee, Meng, & Paik, 2023). According to Phuong Hong & Tra My, (2024) the IOS has an impact on accounting conservatism. Besides, Anindita, Kusbandiyah, Fakhruddin, & Mudjiyanti, (2024) discovered that the IOS does not influence accounting conservatism. Therefore, the hypothesis H1 in this study is as follows:

H1: There is a positive effect of the Investment Opportunity Set on accounting conservatism.

Profitable companies adopt conservative accounting practices to smooth out earnings and avoid the volatility of high profits. According to Harinurdin, (2023), the company's profitability is indicated by a ratio that reflects its capacity to generate profits using its various capabilities and resources, including asset utilization, sales activities, and capital deployment. Corporate profitability is often used as a positive signal that indicates good performance and potential for future growth Gunanto, (2023), research shows that profitability significantly influences the application of accounting conservatism. Companies that achieve greater profitability often employ the principle of accounting conservatism, thereby presenting a more precise and dependable representation of their financial performance. This helps reduce earnings management practices and provides more transparent information to investors. By applying the principle of conservatism, companies can give positive signals to investors that they have prudent accounting policies and produce quality earnings. Profitability serves as an indicator of a company's ability to effectively utilize its resources for profit generation and business operations. A high profitability value indicates a greater income tax obligation (Laux & Ray, 2020). Consequently, numerous company managers endeavor to strategize meticulously in order to minimize their tax liabilities through tax avoidance methods that remain within the bounds of legal regulations. The objective of the company is profit maximization, attainable through the application of profitability ratios (Pando, San-José, & Sicilia, 2019). Profitability is a metric employed to assess the efficacy of a company's management (Arbelo, Arbelo-Pérez, & Pérez-Gómez, 2020). Besides, Shuvo kumar mallik, (2024), profitability exerts a substantial negative influence on accounting conservatism. The hypothesis H2 in this study is stated as follows

H2 : There is a positive effect of Profitability on accounting conservatism.

Leverage, or using borrowed funds, plays a vital role in accounting conservatism. Firms with high leverage are more inclined to implement conservative accounting practices to mitigate the risks linked to elevated debt levels. This conservatism is a fortress of protection, ensuring the firm can meet its debt obligations even under adverse conditions or become a wall obstructing. Leverage refers to a business's ability to meet its obligations, including timely debt repayments consistently. Companies with high leverage may use accounting conservatism to send positive signals to investors about their financial stability. By recognizing losses sooner and revenues later, companies show prudence, which can increase investor confidence (Georgiou, 2024). Companies exhibiting elevated leverage levels often adopt a conservative approach in financial reporting to mitigate the risk of overstating their financial condition and to align with creditors' expectations. The ratio indicates the degree to which a firm depends on debt for operational funding or the proportion of debt utilized to finance its assets (Amin & Cek, 2023). This metric is utilized to assess a company's capacity to meet its current and future obligations in the context of liquidation. The relationship between a company's debt and its assets is essential. A high leverage level signifies that the company possesses greater liabilities compared to its assets (Hendayana, Arief Ramdhany, Pranowo, Abdul Halim Rachmat, & Herdiana, 2024). Furthermore, Phuong Hong & Tra My, (2024) and Hidayanto, Erasashanti, Winarti, & Wahyuningsih, (2021) contend that financial leverage does not influence accounting conservatism. Consequently, the hypothesis H8 in this study is as follows:

H3 : There is a positive effect of Leverage on accounting conservatism.

Firm size also affects its accounting practices. Larger companies tend to be more conservative in accounting due to increased scrutiny from regulators and investors. Research by Islam, Bose, Ying, & Shams, (2025) firm size measures a company's size. You can look at total assets, sales, or market capitalization. Measuring company size by total assets is usually more stable than by sales because sales can vary a lot from year to year, while total assets tend to be more consistent. In signal theory, companies tend to use accounting conservatism to send positive signals to the market about their stability, credibility, and scrutiny from investors and regulators, so they are more careful in financial reporting to avoid reputational risk (Lu, Shin, & Zhang, 2023).

H4 : There is a positive effect of Firm Size on accounting conservatism.

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Research Article

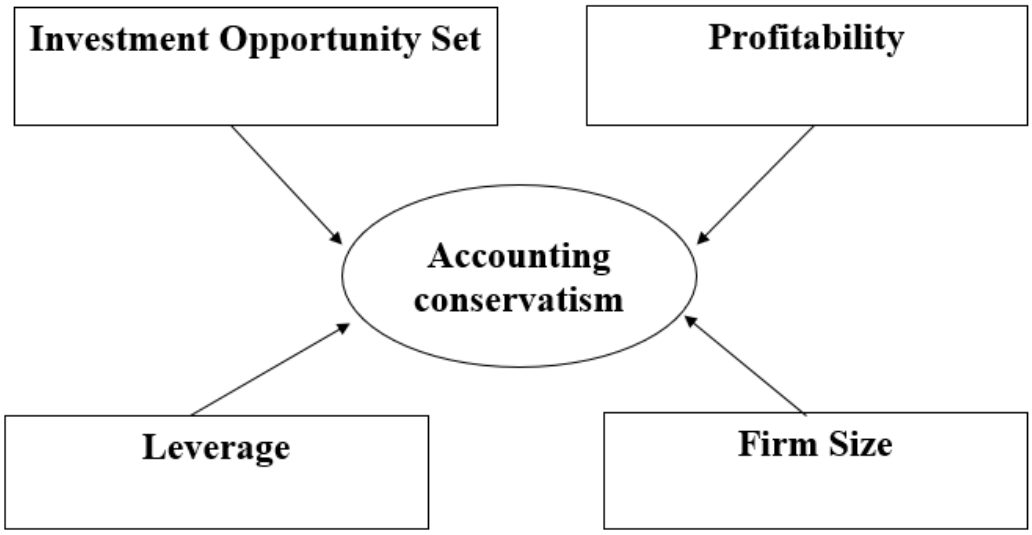

Figure 1. Research framework

METHODS

This type of research uses quantitative methods and secondary data from the Refinitiv database. The independent variables in this study are IOS and profitability. The dependent variable is accounting conservatism with variable control, leverage, and firm size. This study used the population of companies in the industry sector for the 2017-2023 period as the population in this study. In selecting samples, some criteria are set: industrial sector companies have a financial report for 2017-2023, and the company presents financial statements related to dependent, independent, and control variables.

Table 1 Detail Observations

	Asean country							
Country	Indonesia	Laos	Malaysia	Philippines	Singapore	Thailand	Vietnam	Total Country
Company industrial sector	157	1	278	26	164	160	452	1238
Companies that don't fulfill the criteria	148	1	171	14	99	110	271	814
companies that fulfill the criteria	9	0	107	12	65	50	181	424
Total Observation 2017 -2023								2968

Empirical Model

In this study, a multiple linear regression model was used. The research model is used as follows:

$$KAi,t = \alpha + \beta 1IOSi,t + \beta 2PROi,t + \beta 3LEVE,t + \beta 3FS,t + \varepsilon \quad (i)$$

Information :

α : Constant

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Research Article

ε : Error
β : Regression Coefficient X1, X2, X3
Kai,t : Accounting Conservatism for the for the i-th unit at time t.
IOSi,t : IOD for the i-th unit at time t.
PROi,t : Profitability for the i-th unit at time t.
LEVEi,t : Leverage for the i-th unit at time t.
FSi,t : Firm Size for the i-th unit at time t.

Table 2 Operationalization Variable

Variable	Formula		Reference
Dependent Variable: Accounting Conservatism	*NI= β0 + β1 NEG + β2 RET + β3 RET* NEG + e	(ii)	(Salehi & Sehat, 2019)
Independent Variable : IOS	MVABVA= $\frac{\text{Total Asset} - \text{Total Equity} + (\text{Number of outstanding shares x Market price})}{Total\ Asset}$	(iii)	(Firmansyah et al., 2022)
Profitability	Return On Aset = $\frac{Net\ Profit}{Total\ Aset}$	(iv)	(Firmansyah et al., 2022)
Variable Control : Leverage	$Leverage = \frac{Total\ Debt}{Total\ Aset}$	(v)	(Firmansyah et al., 2022)
Firm Size	Firm Size = Ln (Total Aset)	(vi)	(Firmansyah et al., 2022)

*Description:
NI = Earnings per share i year t
RET = Stock return i year t
NEG = dummy variable where (1) if the return is negative, (0) if the return is positive.
β1 - β2 = Regression Slope
β3 = Proxy for conservatism, if it is positive it indicates that the company applies conservative accounting.

RESULTS

A total of 2968 firm years are derived from 424 companies were selected for analysis over a period spanning seven years, from 2017 to 2023. The results of the descriptive statistics are presented in Table 3. The study's variable descriptions include the mean value, minimum value, maximum value, and standard deviation.

Table 3 Descriptive Statistics Result

Variable	Obs	Mean	Standar Deviasi	Min	Max
KA	2968	-0.0236	0.1082	-0.4679	0.3502
IOS	2968	1.3623	2.4568	0.1290	61.6904
PROFITABILITY	2968	0.0252	0.1291	-1.4614	3.6944
LEVERAGE	2968	0.1033	0.8420	-0.8600	26.8119
FIRM SIZE	2968	18.1750	1.9120	12.6520	24.3315

Source : Stata 15

Based on Table 3, the statistical results show that the data used is 2,968, 424 companies in the ASEAN industrial sector for 7 years from 2017 - 2023. The accounting conservatism variable has an average value of -0.0236, a minimum value of -0.4679, a maximum value of 0.3502, and a standard deviation value of 0.1082. The findings on

Journal of Information Systems Engineering and Management
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Research Article

the accounting conservatism variable indicate the degree of accounting conservatism in industrial goods, industrial & commercial services, transportation companies is considered low due to the average value that is negative or below 0 and the standard deviation value is greater than the average value which means that the data distribution is uniform, exhibiting minimal variance between individual data points. The negative mean and median values associated with accounting conservatism imply that most firms in the sample are inclined to use non-conservative (aggressive) accounting methods, recognizing positive developments faster than negative ones. This observation indicates that firms in the industrial goods, industrial and commercial services, and transportation sectors typically eschew conservative reporting, likely due to managerial motivations to showcase a more favorable financial outlook. Consistent with agency theory, managers might engage in less conservative approaches to mitigate the appearance of diminished earnings and convey stronger short-term performance, even though this compromises the prudence and reliability of the earnings reported.

The variable representing the IOS has an average value of 1.3623, with a minimum of 0.1290, a maximum of 61.6904, and a standard deviation of 2.4568. The results of the IOS variable indicate that a high level of IOS indicates the existence of various investment opportunity options. The standard deviation exceeds the mean, indicating that the data distribution is uniform and there is minimal variance among the data points. The average IOS value of 1.3623 signifies that, on average, companies within the sample have a moderate level of investment prospects, indicating their potential for future growth. Because the mean is greater than 1, it implies that most firms still have avenues to expand and invest in lucrative projects rather than being completely developed. However, the comparatively large standard deviation in relation to the mean points to significant variation among firms, with a handful of companies presenting very high growth opportunities, while others show more constrained options.

The profitability variable has an average value of 0.0252, a minimum value of -1.4614, a maximum value of 3.6944, a standard deviation value of 0.1291. The results of the profitability variable show that the company is still in the improvement or recovery phase. The standard deviation exceeds the mean, indicating that the data distribution is uniform and there is minimal variance among the data points.

The leverage variable which has an average value of 0.1033, a minimum value of -0.8600, a maximum value of 26.8119, a standard deviation value of 0.8420. The findings regarding the leverage variable indicate that the standard deviation exceeds the mean, suggesting that the data distribution is uniform and there are minimal disparities between individual data points.

The firm size variable which has an average value of 18.1750, a minimum value of 12.6520, a maximum value of 24.3315, a standard deviation value of 1.9120. The findings regarding the firm size variable indicate that the standard deviation is less than the mean, suggesting an uneven data distribution with significant disparities among the data points.

Tabel 4 Pearson Correlation Analysis Results

	KA	IOS	PROFITABILITY	LEVERAGE	FIRMSIZE
KA	1.0000				
IOS	0.0326*	1.0000			
	(0.761)				
PROFITABILITY	-0.0904*	0.1431*	1.0000		
	(0.000)	(0.000)			
LEVERAGE	0.1461*	0.4397*	-0.1736*	1.0000	
	(0.000)	(0.000)	(0.000)		
FIRMSIZE	-0.0441	-0.0577*	-0.0044*	-0.0329*	1.0000
	(0.163)	(0.017)	(0.000)	(0.729)	

*p-value <=10%
Source : Stata 15

Pearson correlation testing to test the correlation between each variable. The evaluation involves examining the multicollinearity test, ensuring it does not exceed 0.8 for pooled least squares (PLS). The findings presented in Table 2 indicate that the absence of multicollinearity remains below 0.8 for all variables. The analysis indicates that multicollinearity is absent. The Pearson correlation test was performed to explore the relationship between each

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Research Article

variable and accounting conservatism (KA). The findings presented in Table 2 indicate that the independent variables, IOS and profitability, show significant correlations with accounting conservatism, suggesting that growth opportunities and firm performance are crucial in influencing the level of conservatism. Furthermore, the control variables leverage and firm size also exhibited significant correlations with accounting conservatism, implying that firm scale influences the adoption of conservative accounting practices. Pearson correlation only assesses the direction and strength of linear relationships.

When conducting panel data regression testing, there are three different types of procedures that are utilized. These methods are the common effect model (OLS), the fixed effect model (FE), and the random effect model (RE).

Table 5 Panel Data Regression Testing Result

Variable	*Pooled Least Square*	Fixed Effect	Random Effect
IOS	-0.0108***	-0.0114***	-0.0108***
	(0.238)	(0.217)	(0.238)
PROFITABILITY	-0.5187**	-0.5251***	-0.5187***
	(0.001)	(0.001)	(0.001)
LEVERAGE	0.1860**	0.1862**	0.1860**
	(0.000)	(0.000)	(0.000)
FIRMSIZE	-0.0232***	-0.0232***	-0.0232***
	(0.024)	(0.024)	(0.204)
CONS	0.1946	0.1947	0.1946
	(0.302)	(0.302)	(0.302)
Observtions	2968	2968	2968
Year	7	7	7
Company	424	424	424
R-Squared	0.0277	0.0277	0.0277
Chow Test		0.6671	
Hausman Test			0.6743
Breush Pagan	1.000		

p-value *** <0,1; **<0,5
Source : Stata 15

The chow test is implemented to ascertain the most suitable regression model, which is either the FEM or the PLS. The common effect model is chosen if the *p*-value is greater than 0.05, and the fixed effect model is chosen if the *p*-value is less than 0.05. The CEM is the appropriate regression model to use, as the p-value is 0.6671, which is greater than 0.05, as indicated by the test results in table 4.5.

The Hausman test is implemented to ascertain the most suitable regression model relative to the REM and the FEM. The fixed effect model will be selected if the p-value is less than 0.05, while the random effect model will be selected if the p-value is greater than 0.05. The REM is the appropriate regression model to use, as the p-value of 0.6743 is greater than 0.05, as indicated by the test results in table 4.5.

The LM test is used to ascertain the suitable regression model between the PLS and the REM. According to the chow test results, the appropriate model is PLS, whilst the Hausman test indicates that the suitable model is the REM. Following these two tests, the subsequent step is to conduct the LM test. Table 4.5 indicates that the p-value is 1.000, which is greater than 0.05. Consequently, the appropriate regression model is used.

Simultaneous hypothesis test (f)

Based on the OLS results, it is evident that the prob value (F-statistic) is 0.0000, which is less than 0.05. Consequently, it can be inferred that the combined effect of all variables on accounting conservatism is substantial.

Coefficient of Determination (R^2)

The independent variables and control variables can explain the dependent variable by 2.77%, as indicated by the R-squared value of 0.0277 or 2.77%. The remaining variance is accounted for by variables outside the study.

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Research Article

DISCUSSION

IOS and accounting conservatism

The first hypothesis of this study is that there is a positive influence of the IOS on accounting conservatism. In the previous hypothesis testing results table, the IOS variable has a coefficient value of -0.0108 with a *p*-value of 0.238, indicating that the investment opportunity set variable does not significantly affect the dependent variable of accounting conservatism. This is consistent with previous studies by Laux & Ray, (2020), and Zou & Othman, (2024), which suggest that a company's failure to achieve future investment targets does not affect accounting conservatism. The IOS refers to expenditures aimed at securing stock returns or potential future profits from investments intended to create value in the future. The Agency Theory, which explains the relationship between a company's owner and management, assumes potential conflicts of interest that can affect accounting policies. If the IOS does not affect accounting conservatism, managers may focus more on existing investment opportunities as a risk control mechanism or to reduce conflicts with the company's owners. Similarly, the signaling theory suggests that managers may focus on signals indicating potential growth and existing investment opportunities if the IOD does not affect accounting conservatism. Thus, companies with a high IOS tend to be more focused on innovation and growth, and less conservative in their financial reporting. Conversely, companies with a low IOS may be more conservative to reduce future uncertainty and risk.

Profitability and accounting conservatism

The research indicates that profitability has a negative impact on accounting conservatism, and the second hypothesis is accepted. Higher profitability levels lead to more conservative accounting practices, as managers smooth out profits to appear stable and not too volatile. The measurement of profitability ratios is done using Return on Equity (ROE), which measures income available to company owners based on capital invested. Higher profitability levels indicate good management skills, as investors or owners assess the company's performance in utilizing equity to generate profit (Pangestuti, Muktiyanto, Geraldina, & Darmawan, 2022). The Agency Theory explains the relationship between the owner and management, with potential conflicts of interest affecting accounting policies (Ala-Heikkilä & Järvenpää, 2023). Managers in more profitable companies may choose not to be too conservative in financial reporting to present higher profits and meet shareholder expectations. The signaling theory suggests that managers use financial reports as a tool to send positive signals to stakeholders, including investors (Oncioiu et al., 2020). Companies with higher profitability levels may be less conservative in their financial reporting to demonstrate good financial performance and meet shareholder expectations. In conclusion, companies with higher profitability levels may be more able to face risks of less conservative reporting due to their greater resources to handle potential financial issues in the future.

Leverage and accounting conservatism

The research indicates that leverage has a positive effect on accounting conservatism, aligning with (Hidayanto et al., 2021) findings. High company debt levels encourage managers to apply prudence in decision-making and present conservative financial statements. The Agency Theory explains the relationship between company owners and management. Companies with high leverage levels have significant debt, leading to more conservative financial reporting to reduce risk (Jadiyappa & Emily Hickman, 2025). Accounting conservatism allows managers to report lower assets and profits, reducing creditor expectations and maintaining financial stability. The signaling theory suggests that managers use financial statements to communicate their cautious approach to stakeholders, including creditors and investors (Agustia, Muhammad, & Permatasari, 2020). Companies with high leverage choose accounting conservatism to maintain financial stability and avoid excessive risks (Phuong Hong & Tra My, 2024). This approach allows companies to report financial information more cautiously, reducing the likelihood of negative surprises in the future.

Firm Size and accounting conservatism

The research indicates that firm size has a negative impact on accounting conservatism, supporting the control variable hypothesis. The Agency Theory explains the relationship between the owner and management, with larger firms having more professional and experienced managers. These managers are less conservative due to their focus on growth and expansion strategies and better access to resources and capital markets. They do not need to report their finances conservatively (Hejranijamil et al., 2020). The signaling theory suggests that managers use financial statements to send positive signals to stakeholders, and larger firms can increase investor confidence and attract

more investment by displaying higher profits. Therefore, an increase in firm size leads to less conservative financial reporting due to economies of scale and better access to capital markets. This allows companies to take greater risks and have more oversight from analysts, reducing the need for overly conservative financial reporting.

CONCLUSSION

The study reveals that the investment opportunity set (IOS) does not significantly influence accounting conservatism. A corporation with a strong IOS has greater potential for investment in numerous projects, leading to more flexible financial reporting. Companies with high investment opportunities seek to convey optimism to investors to mitigate conservatism. Regression results show that profitability has a detrimental influence on accounting conservatism. Managers prefer to diminish conservatism when profitability is high to enhance the company's image. Signaling Theory suggests that more prosperous organizations tend to employ conservatism in their financial reporting to present a robust performance. Leverage positively influences conservative accounting, as companies with significant leverage experience pressure from creditors and adopt conservative practices to demonstrate effective financial control. Firm size negatively influences accounting conservatism, as larger companies tend to employ managers more professionally oriented towards growth and expansion, resulting in insufficient application of conservatism.
The study has limitations, including its narrow focus on the industrial sector of ASEAN countries and its inability to generalize results to other sectors. It only considers variables like investment, profitability, leverage, and firm size, without considering external factors influencing accounting conservatism. Recommendations include expanding the study's scope and incorporating variables like ownership structure and order management companies for more comprehensive results.

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