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The Effect of Investment Opportunity Set, Company Growth, and Debt Covenant on Accounting Conservatism in Consumer Goods Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) 2018-2021

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ABSTRACT

A business phenomena that happens in consumer products manufacturing firms like PT Kimia Farma Tbk. and other businesses due to the emergence of conflicts of interest such as cases related to overstated profits. The conflicts that occur can be reduced by applying the principles of accounting conservatism. Agency theory is supported to explain that accounting conservatism is a signal given to avoid a manager's opportunistic behavior when financial reports are presented. The purpose of this study was to determine the effect of debt covenants, business expansion, investment conservative prospects in accounting. Consumer product companies listed on the Indonesia Stock Exchange between 2018 and 2021 represent the target population of this research. which report complete financial reports. The sample selection technique is saturated sample technique. The sample that meets the criteria is 25 companies. Multiple regression analysis serves as the analytical method applied in this research. Hypothesis testing is conducted using version 25.0 of the SPSS software for Windows. Simultaneous test results show that investment opportunity set, company growth, and debt covenants influence accounting conservatism. The results of partial hypothesis testing indicate that investment opportunities yield a significance level of $0.715 > 0.050$, suggesting that such opportunities do not have a statistically significant influence on accounting conservatism, hence H1 is rejected. H2 is supported as business expansion exerts a negative impact on accounting conservatism (significant value $0.000 < 0.050$), and H3 is supported as well since debt covenants are shown to negatively affect accounting conservatism (significant value $0.000 < 0.05$).

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1. INTRODUCTION

The increasing intensity of business developments today has certainly intensified competition among companies. The existence of this business development causes a high challenge that each company must face, so that if the uncertainty in a company increases, it will cause the company to do everything possible to survive. One effective way to do this is to see how well a company is performing based on its financial statements. Financial statements are considered as one of the outputs produced by the company, because in them there is data that has been processed. By examining the financial statements of a company, it will be clear that its main purpose is to provide relevant information and a clear picture for users of financial statements, especially company management, to serve as a basis for consideration and input in formulating strategic actions, so as to support effective decision making for the company's future development [1].

Conservatism can be interpreted as an attitude of carefulness or a tendency toward prudential decision-making. Prudence in this context refers to a cautious attitude that leads to a reporting tendency known as pessimism, where the true value is not reported accurately, but deliberately sets a smaller figure [10]. Accounting conservatism refers to a risk-averse approach that prioritizes the early recognition of expenses and potential losses delays the acknowledgment of income and gains, and tends to report assets at lower values while overstating liabilities [13]. Accounting conservatism in the company is very important to be applied to deal with the emergence of uncertainty both from economic and business activities will occur. Thus, an expense or debt will be recognized immediately if a situation arises that could easily result in a loss. Meanwhile, if a situation arises that allows profits to occur, assets or revenues will be realized even though they are not immediately recorded as profits. Since overstating profits can be avoided by adhering to the accounting conservatism principle, its application can prevent managers from manipulating losses [11]. There are still benefits and drawbacks of conservatism in accounting, especially for researchers. The conservative principle is still considered a highly debated matter. The reliability of a firm's financial statements is likely to be influenced by the application of conservatism. However, in contracts that use financial statements as a contractual medium, accounting conservatism helps prevent managers from acting opportunistically [7]. This theory is still used because it can be used to counter managers' overly optimistic views by applying pessimism, which reduces the tendency to inflate earnings in financial reporting.

The adoption of conservatism by companies is very important as it helps protect and support their growth. Research on accounting conservatism shows that conservatism is still significant in financial reporting even after accounting practices have evolved. Before choosing to use a conservative approach, managers consider a number of aspects. The low degree of accounting conservatism used by businesses while compiling their financial statements is demonstrated by the occurrence that arises in Indonesian consumer product manufacturing companies products industry sector. For example, in the case of PT Kimia Farma, the company manipulated its financial reports by overstating annual net income from Rp 99.594 billion to Rp 132 billion, when it should have been only Rp 32.668 billion. The instance demonstrates how the corporation failed to implement accounting conservatism policies or principles. Due to a number of serious mistakes in the financial accounts, the Ministry of SOEs and Bapepam believed that the exaggerated profit included aspects of manipulation.

Some factors that affect conservatism in accounting include investment opportunity set, company growth, and debt covenant. One of the manufacturing companies, namely from the consumer goods business sector, is used in this study. This is because consumer goods industry companies are basic needs to ensure the sustainability of daily life. So that based on the research background above, the researchers are interested in conducting research with the research title "The Effect of Investment Opportunity Set, Company Growth, and Debt Covenant on Accounting Conservatism in Consumer Goods Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) in 2018-2021". The purpose of this study was to investigate how accounting conservatism is affected by debt covenant,

company growth, and investment opportunity set in consumer goods manufacturing companies that are listed on the Indonesia Stock Exchange (IDX).

2. METHOD

2.1 Research Approach and Type

The approach of this study employs both quantitative and descriptive methods. This study falls under the category of ex post facto design, namely research that utilizes data obtained from past events or conditions that have already taken place.

2.2 Population and Research Sample

Consumer product companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2021 are the population observed in this study, totaling 25 companies. By using the saturated sample technique, the sampling in this study aims to obtain a sample that matches the criteria or requirements of the researcher. In this study, the criteria or conditions used by researchers are 1) Companies that sell consumer goods and are listed on the Indonesia Stock Exchange (IDX) in succession between 2018 and 2021, 2) Businesses that were delisted between 2018 and 2021, 3) Companies that were suspended in 2018-2021, 4) Businesses that don't release financial reports in a row from 2018 to 2021, 5) Businesses that experienced losses in 2018-2021, and 6) businesses that lack comprehensive data for studies.

Table 2. Suitable Sample Requirement (Source: Treated by Author's, 2024)

No	Sample Requirements	Total
1	Consumer goods companies that are listed consecutively on the Indonesia Stock Exchange (IDX) in 2018-2021	75
2	Companies that experienced delisting in 2018-2021	(1)
3	Companies that were suspended in 2018-2021	(1)
4	Companies that did not publish financial reports consecutively in 2018-2021	(28)
5	Companies that experienced losses in 2018-2021	(15)
6	Companies that do not have complete data for research	(5)
	Total	25
	Number of observations (years)	4
	Total data	100

2.3 Data Collection Techniques

The financial statements of consumer product companies listed on the Indonesia Stock Exchange (IDX) served as the study's secondary source of data during the 2018-2021 period. For company financial reports accessed at IDN Financials and the Indonesian Stock Exchange (IDX) throughout the research. Data is also gathered through document review methods, specifically through gathering, documenting, and examining secondary data from consumer goods companies' financial reports that were released by the Indonesia Stock Exchange (IDX) between 2018 and 2021.

2.4 Operational Definition of Variables and Their Measurement

2.4.1 Accounting Conservatism (Y)

Accounting conservatism is the study's dependent variable. Financial statements based on the principle of conservatism will provide good benefits for all users of financial statements. Conservatism when applied appropriately will provide rational guidance. This study uses the market to book ratio approach in calculating conservatism based on references from Brevet and Ryan's research in Shifa's research [3]. The formula for the market to book ratio is as follows:

$$\text{Market to Book} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

2.4.2 Investment Opportunity Set (X₁)

Investment Opportunity Set can be thought of as the company's pool of investment opportunities. However, it is highly dependent on the company's spending decisions for future interests [8]. The following formula is used to determine the investment opportunity set:

$$IOS = \frac{\text{Book value of fixed assets}_t - \text{Book value of fixed assets}_{t-1}}{\text{Total Assets}}$$

2.4.3 Company Growth (X₂)

In this study, Growth of a company is gauged by the increase in sales, because the level of accruals and market value in businesses, such as inventory, receivables, and so forth, will be impacted by sales growth in terms of conservatism. The greater the sales growth rate, the more conservative the business is. [3]. The formula used to calculate company growth is the following:

$$\text{Sales Growth} = \frac{(\text{Net Sales}_t - \text{Net Sales}_{t-1})}{\text{Net Sales}_{t-1}}$$

2.4.4 Debt Covenant (X₃)

The debt agreement is represented by leverage formulas, the first is Debt to Total Assets or the debt ratio, which compares the amount of debt owed by company, the results are obtained from the proportion of total debt divided by total assets [5]. The formula for Debt to Total Assets includes:

$$\text{Debt to Total Assets} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistical Analysis Result

Descriptive statistics are used to see the distribution of data to make it clearer, easier to understand, and easier to interpret. The following are the results of data analysis with the help of SPSS 25.0 for windows and an explanation of the descriptive analysis of each variable.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	100	-4.06	.42	-1.2274	.87638
X2	100	-3.31	.35	-.7684	.60335
X3	100	-1.41	.25	-.4386	.30403
Y	100	-.11	1.34	.4511	.29169
Valid N (listwise)	100				

Source: SPSS 25.0 Output Result (2024)

Description:

- Y : Accounting Conservatism
- X₁ : Investment Opportunity Set
- X₂ : Company Growth
- X₃ : Debt Covenant

The dependent variable accounting conservatism shows an average (mean) value of 0.4511 with a standard deviation of 0.29169 data and a maximum value of 1.34 and a minimum value of -0.11. The independent variable investment opportunity set shows an average (mean) value of -1.2274 with a standard deviation of 0.87638 and a maximum value of 0.42 and a minimum value of -4.06. The

independent variable company growth shows an average (mean) value of -0.7684 with a standard deviation of 0.60335 and a maximum value of 0.35 and a minimum value of -3.31. The independent variable debt covenant shows an average (mean) value of -0.4386 with a standard deviation of 0.30403 and a maximum value of 0.25 and a minimum value of -1.41.

3.2 Classical Assumption Test

In econometric analysis, classical assumptions have their own purpose in each test. Normality test is a step used to determine whether the data collected follows a normal distribution or not [9]. Multicollinearity test aims to determine whether the regression model found a correlation between independent variables or not [15]. Heteroscedasticity test is to determine whether the residual variances in the regression model are consistent [6]. Autocorrelation test is used to determine whether the confounding error in a certain period (t) is correlated with the confounding error in the previous period (t-1) in the linear regression model. This test is conducted to determine the relationship between a series of observation data sorted by time and space [14]. The following table displays the findings of traditional assumption testing:

Table 4. Classical Assumption Test Results (Source: Treated by Author’s, 2024)

No	Classical Assumption Test	Standart	Test Result
1.	Normality Test Kolmogorov-Smirnov Method	Sig > 0,05	0,200
2.	Multicollinearity Test Tolerance, & Variance Inflation Factor (VIF)	Tolerance > 0,10	X ₁ = 0,895; X ₂ = 0,871; X ₃ = 0,910
		VIF >1 - <10	X ₁ = 1,118; X ₂ = 1,149; X ₃ = 1,099
3.	Heteroscedasticity Test Gletser Test	Sig >0,05	X ₁ = 0,508; X ₂ = 0,292; X ₃ = 0,306
4.	Autocorrelation Test Durbin Watson (DW test)	-2 ≤ D – W ≤ +2	1,112

Based on table 4, it shows that the study’s data have met the classical assumptions. There are no signs of multicollinearity, heteroscedasticity, or autocorrelation because the data is normally distributed.

3.3 Hypothesis Testing Result

3.3.1 Multiple Linear Regression Test

Table 5. Multiple Linear Regression Test Result

Model		Unstandardized Coeficiets
		B
1	(Constant)	.022
	<i>Investment Opportunity Set</i>	.006
	<i>Company Growth</i>	-.258
	<i>Debt Covenant</i>	-.545

Source: SPSS 25.0 Output (2024)

The regression equation formula is as follows:

$$\text{Log Y} = 0,022 + 0,006 \text{ Log X}_1 - 0,258 \text{ Log X}_2 - 0,545 \text{ Log X}_3$$

The following is an explanation of the multiple regression equation:

- a. Constant = 0.022 shows a positive sign, this can be interpreted if the investment opportunity set (X_1), company growth (X_2) and debt covenant (X_3) are thought to be non-constant or not worth 0.05 then accounting conservatism (Y) is 0.022.
- b. The regression coefficient for Investment Opportunity (X_1) has a positive value of 0.006, indicating that if all other independent variables remain constant or unchanged, the company's accounting conservatism will increase by 0.006 for every 1 increase in the investment opportunity set. The positive coefficient indicates that the investment opportunity set and conservatism are interconnected. That is, the higher the company's investment opportunity set indicates that the company is more conservative.
- c. The Company Growth (X_2) regression coefficient has a value with a negative direction of -0.258, indicating that every increase in company growth increases by 1, the condition of the company's accounting conservatism will decrease by 0.258. The negative coefficient indicates that company growth and conservatism contradict each other. That is, if there is a decrease in sales growth, there will be a decrease in the value of conservatism.
- d. The Debt Covenant (X_3) regression coefficient has a value with a negative direction of -0.545, indicating that there is a 1-fold increase for every increase in debt agreements, the condition of accounting conservatism in the company will decrease by 0.545. The negative coefficient indicates that debt covenant and conservatism are mutually opposite. That is, the lower the leverage ratio value of a company will indicate that the company is not conservative.

3.3.2 T-test (Partial Test)

To determine whether independent variables have a separate impact on the dependent variable, the partial t-test is a test of partial regression coefficients [2]. The t-statistical test the contribution of one independent variable in explaining the variation in the dependent variable. The way to test the t test is to see the significance value of 0.05. The following table shows the results of the partial test, or t-test:

Table 6. Partial Test Result (t test)

Variabel	Sig.	Conclusion
<i>Investment Opportunity Set</i>	0,715	H ₁ rejected
<i>Company Growth</i>	0,000	H ₂ accepted
<i>Debt Covenant</i>	0,000	H ₃ accepted

Source: Treated by Author's (2024)

Based on table 6, the hypothesis test results of investment opportunity set, company growth, and debt covenant variables are as follows:

1) Hypothesis test results 1 Investment Opportunity Set (H_1)

The results of the investment opportunity set variable with a test significance value of 0.715. Due to the significance value of $0.715 > 0.05$, H_0 is accepted and H_1 is rejected so that empirical evidence shows that investment opportunity set has no effect on accounting conservatism. This means that any decrease or increase in the value of investment opportunity set will affect the value of accounting conservatism.

The study's findings are in line with research conducted by Budiandru, Safa Putri Habsari and Safuan that found no effect between accounting conservatism and investment opportunity set. The study's findings are not in line with those conducted by Saputri who found that accounting conservatism is positively impacted by investment opportunity set. So the answer to the hypothesis is H_0 accepted and H_1 rejected which states that:

H_0 : “There is No Effect of Investment Opportunity Set on Accounting Conservatism”

2) Hypothesis test results 2 Company Growth (H_2)

The results of the company growth variable with a test significance value of 0.000. Due to the significance value of $0.000 < 0.05$, H_0 is rejected and H_2 is accepted. This indicates accounting conservatism is significantly impacted by company growth.

The study’s findings align with those of Ahmed and Duelman's research, which states that sales growth will affect conservatism through accrual size and market value. In Hans, Albert, and Easter's research, it is suggested that company growth as measured by sales growth has a positive effect on accounting conservatism. But this research is not in line with Saputri's research which suggests that company growth has no effect on accounting conservatism.

Then the answer to the hypothesis is H_0 rejected and H_2 accepted which states that:

H_2 : “There is an Effect of Company Growth on Accounting Conservatism”

3) Hypothesis test results 3 Debt Covenant (H_3)

The results of the debt covenant variable with a test significance value of 0.000. Due to the significance value of $0.000 < 0.05$, H_0 is rejected and H_3 is accepted. This means that debt covenant has a significant effect on accounting conservatism.

The study’s findings are in line with research conducted by Budiandru, Safa Putri Habsari and Safuan which states that debt covenant has a significant effect on accounting conservatism. The study’s findings are not in line with research conducted by Januar Eky Pambudi which states that it has a negative effect on accounting conservatism. Likewise, Enni Savitri's research states that debt covenants have no effect on accounting conservatism. Then the answer to the hypothesis is H_0 is rejected and H_2 is accepted which states that:

H_3 : “There is an Effect of Debt Covenant on Accounting Conservatism”

3.3.3 Simultaneous Test (F Test)

The F test aims to determine whether the independent variables together (simultaneously) affect the dependent variable [4].

Table 7. Simultaneous Test Result (F Test)

Variabel	F _{count}	F _{table}	Conclusion
Investment Opportunity Set, Company Growth, dan Debt Covenant	10,081	2,696	Affected

Source: Treated by Author's (2024)

From the F test results in the table above, the F_{count} is 10.081 and the F_{table} value is 2.696. Due to the value of F_{count} > F_{table} ($10,081 > 2,696$), the independent variables (investment opportunity set, company growth, and debt covenant) simultaneously or jointly affect the dependent variable (accounting conservatism). Besides, it can be stated that the regression model is fit.

3.3.4 Coefficient of Determination Test (R^2)

Table 8. Coefficient of Determination Test Result (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.870 ^a	.758	.750	.14580

a. Predictors: Constanta), X3, X1, X2

b. Dependent Variabel: Y

Based on the table above, the adjusted R Square (R^2) coefficient of determination is 0.750 or 75%. This shows that 75% of the variation in accounting conservatism can be explained by the investment opportunity set, company growth, and debt covenant variables. In other words, the variation in the independent variables used in the model is able to explain 75% of the variation in the dependent variable, while the remaining 25% is influenced by other variables not included in this research model such as profitability, company size, managerial ownership and so on.

3.4 Discussion

There are 4 hypotheses tested in this study, namely:

1. Investment Opportunity Set has no effect on Accounting Conservatism

Referring to the results of the hypothesis testing that has been carried out, the study's findings indicate that the investment opportunity set has no significant effect on accounting conservatism. In other words, any decrease or increase in the value of investment opportunity set will affect the value of accounting conservatism. The study's findings indicate that investment decisions in the form of a combination of owned sets and also future investments have no influence on conservative financial reporting.

Investment opportunity set has no effect on accounting conservatism, this is due to this study which indicates that the smaller the investment opportunity set, the smaller the market to book ratio as a proxy for accounting conservatism. In other words, the lower the value of the investment opportunity set, the less likely the company is to adopt conservative financial reporting practices. This finding indicates a low likelihood of the company applying the principle of accounting conservatism. Investment opportunity set also has no effect because investment opportunity set affects company value. On the other hand, companies will show good performance so that investors are interested in investing. So that the company will report good financial reports without considering the principle of conservatism.

The study's findings suggest that accounting conservatism is unaffected by company investment decisions. The study's findings are also in line with research conducted by Budiandru, Safa Putri Habsari and Safuan which states that investment opportunity set has no effect on accounting conservatism. However, The study's findings are inconsistent with research conducted by Lafond and Roychowdhury which states that investment opportunity set is associated in the relationship between asymmetric timeliness as a proxy for conservatism. Likewise, the results of Lolita Octaviana's research state that investment opportunity set has a positive effect on accounting conservatism.

2. The Effect of Company Growth on Accounting Conservatism

Referring to the results of the hypothesis testing that has been carried out, the study's findings indicate that company growth has a significant effect on accounting conservatism. This implies that any changes in company growth or sales growth variables will affect conservative attitudes.

Sales growth will affect conservatism through the level of accruals and market value in companies such as inventory, receivables, and so on, so company growth is assessed from sales growth. The study's findings indicate that company growth has a negative effect on accounting conservatism. Sales growth shows the size of the sales volume. The greater the value of sales growth, the higher the profit earned by the company. High sales growth will often increase market expectations of future cash flows so that it will affect conservatism. This can be interpreted that the higher the level of sales growth indicates that the company is not conservative. The greater the company growth, the company will ignore a conservative attitude because they believe they gained a lot of benefits, despite the higher the company's sales will have an impact on the performance of an accountant and the company should be more conservative in reporting the company's financial statements. Because companies that are in growth if they apply the principle of accounting conservatism cause them not to present financial reports in accordance with actual conditions.

The study's findings are in line or consistent with research conducted by Indrayanti, Martani and Dini, who found a negative correlation between accounting conservatism and sales growth in growing businesses. The study's findings contradict those of a study by Ahmed and Duelman which states that sales growth will affect conservatism through accrual size and market value.

3. The impact of debt covenants on conservatism in accounting

The idea of leverage is crucial, particularly for demonstrating to financial analysts how risk and profit levels are taken into account while making different kinds of financial decisions. In light of the findings of the conducted hypothesis testing, This research indicates that accounting conservatism is significantly influenced by debt covenant. This implies that any change in the debt covenant variable will affect the level of accounting conservatism. This study provides evidence that debt covenants have a negative impact on accounting conservatism.

Positive accounting theory predicts that the greater the pressure from debt covenants or the company's desire to obtain large loans through financial reporting, the less likely the company is to apply conservative accounting. This is because higher debt levels may indicate that the company is in a weak position and does not implement cautious accounting practices when preparing financial statements.

This research offers proof consistent with studies carried out by Januar Eky Pambudi, which demonstrates how accounting conservatism is negatively impacted by debt covenants. Pambudi said that the more debt or loans a business takes, the more it will be able to show strong performance.

This is what encourages companies to report their financial statements optimistically and is considered less conservative. Due to companies that present high assets and profits as well as liabilities and expenses as low as possible. This attitude aims to convince creditors or parties intending to provide financing that the company has the capacity to repay along with the applicable interest charges. Therefore, the greater the debt covenant of a company seeking external funding, the lower its tendency to apply conservative accounting practices; conversely, when debt levels are low, the more conservative the company will be in its financial statements. According to Savitri's research, accounting conservatism is negatively affected by debt covenants. This research contradicts the results of Budiandru, Safa Putri Habsari and Safuan's research which states that accounting conservatism benefits from the existence of debt covenants.

4. The influence of debt covenant factors, Company Growth, and investment opportunity sets on accounting conservatism at the Same Time

Simultaneous test results show that debt covenant, company growth, and investment opportunity factor have a significant effect toward the level of accounting conservatism both simultaneously and in combination. This means that debt covenants and corporate growth long with investment opportunities, can be used to predict the application of accounting conservatism within manufacturing firms listed on the Indonesia Stock Exchange.

The relevance between investment opportunity set, company growth, and sharia-based debt agreements is located in the verse of Surah Al-Isra 35 in this study, namely:

وَفُوا الْكَيْلَ إِذَا كَلَّمْتُمْ وَزَنُوا بِالْقِسْطِ الْمُسْتَقِيمِ ذَلِكَ خَيْرٌ وَأَحْسَنُ تَأْوِيلًا

Meaning: "And perfect the measure when you measure and weigh with a true balance. That is what is better (for you) and better for the result."

Likewise, what is contained in surah al-Baqarah verse 282, namely:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدِينٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكْتُب بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ

Meaning: "O you who believe. When you enter into debts and credits for a fixed time, you should write them down. And let a writer among you write it down correctly."

It is recommended that in recording or bookkeeping a report should write it truthfully and not allowed to commit fraud in any case. The verse also shows the Islamic concept of trust and accountability for the trust given by Allah to humans, especially in measuring or weighing, must be carried out based on

the truth and in accordance with predetermined criteria without any element of exaggeration or reduction. The correct balance sheet is a balance sheet that is made as accurately as possible. Especially when recording financial statements as an accountant, it must be in accordance with the actual situation. Therefore, in disclosing financial information, we must be more careful or conservative.

Accounting operations will encounter issues with reporting, measurement, and recognition in order for the truth principle to establish fairness in these areas. And the company should prevent or guard against causing risks in financial reporting, especially since financial reports are sensitive and must be properly maintained.

4. CONCLUSION

The Investment Opportunity Set variable does not have a significant influence on accounting conservatism. Any variation in the investment opportunity set's value is unlikely to affect the level of conservatism in financial reporting, as evidenced by the rejection of H1 due to the significant level of $0.715 > 0.050$.

Accounting conservatism is negatively impacted by the Company Growth variable, indicating that changes in company growth are less favorable. H2 is approved since the significance value of 0.000 is less than 0.050. This is because company growth can have an impact on profitability. This shows that an increase in level of sales growth reflects a tendency toward less conservative accounting practices by the company.

The debt covenant variable exhibits a negative influence on accounting conservatism, meaning that debt covenants show changes in a less favorable direction. H3 is approved, with a significance level of 0.000, which is below the 0.05 threshold. This indicates that companies increasingly trying to show good performance as a way to reduce conservative attitudes by reporting assets and profits as high as possible and expenses as low as possible so that companies get the loans they want.

Meanwhile, the independent variables (investment opportunity set, company growth, and debt covenant) all exert a positive influence on the dependent variable, namely accounting conservatism.

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