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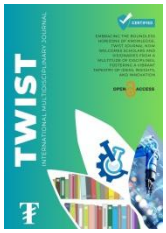

The Intersection of Opportunity and Caution: Understanding How Company Size Moderates the Relationship between Growth Opportunities and Accounting Conservatism

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Abstract
This study examines the relationship between growth opportunities and accounting conservatism, with a specific focus on the moderating role of company size. Using panel data regression on 296 firm-year observations, the analysis reveals a significant negative relationship between growth opportunities and accounting conservatism, suggesting that firms with higher growth prospects tend to apply less conservative accounting practices. Furthermore, the findings show that company size significantly moderates this relationship; larger firms are more likely to maintain accounting conservatism even when facing strong growth potential. These results are interpreted through the lens of Agency Theory and Positive Accounting Theory (PAT). From an agency perspective, reduced conservatism in high-growth firms is linked to managerial opportunism and increased information asymmetry, whereas larger firms face stronger monitoring and regulatory pressures, encouraging more conservative reporting. From the PAT perspective, smaller firms may behave opportunistically under bonus or debt covenant incentives, while larger firms adopt conservative policies to avoid political costs. The findings offer important implications for policymakers, auditors, and investors in evaluating financial reporting quality across different firm profiles.

Keywords
growth opportunities, accounting conservatism, company size, agency theory, positive accounting theory, panel data regression, moderation effect, financial reporting quality

INTRODUCTION

In today's volatile and opportunity-rich business environment, firms are increasingly expected to navigate the tension between seizing growth opportunities and maintaining prudent financial practices. One such practice is accounting conservatism, which requires companies to recognize potential losses more promptly than gains, serving as a safeguard against overstatement of financial health. While this approach mitigates risk, it may also clash with firms' pursuit of aggressive growth, particularly in environments demanding innovation, competition, and rapid scaling ((Yu, 2022);(Mohd et al., 2020);(El-Habashy, 2021);(Hejranijamil et al., 2020);(Permatasari & Yulianto, 2020))

From a practical perspective, real-world cases reflect a divergence in firms' responses to growth potential. For instance, large enterprises with diverse portfolios and robust governance mechanisms often demonstrate a higher capacity to integrate conservatism without jeopardizing innovation ((Sari & Agustina, 2021); (Khalilov & Osma, 2020)). Conversely, smaller firms, constrained by limited resources, might perceive conservatism as a barrier to capital acquisition and market expansion. This creates a *practical dilemma*: should firms lean into caution or embrace aggressive reporting for growth?

The theoretical dilemma is no less complex. Empirical studies have revealed inconsistent findings on how growth opportunities relate to accounting conservatism. Some researchers argue that high-growth firms adopt less conservative accounting to attract investors and signal future value ((Sari, 2020); (Daryaei et al., 2020)), while others find a positive association between growth opportunities and conservatism as a strategic move to counter agency problems ((Lobo et al., 2020); (Hrazdil et al., 2024);(Boulhaga et al., 2023)). Moreover, the moderating role of company size remains theoretically ambiguous. While some studies propose that large firms are better equipped to implement conservative policies without sacrificing growth ((Daryaei et al., 2020)), others suggest that size intensifies the pressure to manipulate earnings, thus weakening conservatism (Manoel & Moraes, 2022).

The purpose of this research is to bridge these gaps by exploring how company size moderates the relationship between growth opportunities and accounting conservatism. This study examines whether firm size acts as a buffer or amplifier in the trade-off between financial caution and strategic expansion. By dissecting this intersection, the study contributes to our understanding of corporate financial behavior across varied organizational contexts.

This study's novelty lies in its dual-lens approach: it not only examines the interaction between growth opportunity and conservatism but also investigates firm size as a critical moderating variable, a dimension rarely explored in tandem within previous literature. Existing models tend to treat growth and conservatism as a linear relationship, often omitting organizational structure and resource base as contingent variables. Moreover, the current study draws from cross-disciplinary sources, including strategic management, corporate governance, and behavioral finance, offering a comprehensive analytical framework.

Given the dynamic nature of economic policy, investor behavior, and regulatory shifts, this research holds urgent relevance. With the growing call for transparent financial reporting and responsible risk management, especially post-global financial crises and during economic recoveries, understanding the nuanced role of firm size can guide policymakers, auditors, and corporate strategists toward more context-sensitive regulations and governance practices.
The selected studies ((Sari, 2020); (Baloria, 2022); (Teymouri & Sadeghi, 2020)) provide both foundational theories and contemporary insights that support the framework and hypotheses of this research. They are summarized and discussed further in Table 1.

Table 1 Summary of Key Literature on Growth Opportunities, Firm Size, and Accounting Conservatism

Study	Key Findings	Limitation	Relevance to Current Study
Sari, 2020	Growth positively relates to conservatism in well-governed firms.	Ignores size as a variable.	Supports governance link to conservatism.
Wronski & Klann, 2020	Larger firms show stronger conservatism under high growth.	Managerial ownership confounds.	Suggests size as a moderator.
Rustiarini et al., 2021	Firm size and IOS affect earnings quality.	Based in emerging markets only.	Grounds firm size–conservatism link.
D'Augusta & DeAngelis, 2020	Industry and size moderate CSR impact on performance.	Focuses on CSR, not conservatism.	Provides a moderating model framework.
Ferdous et al., 2024	Firm age moderates venture growth dynamics.	Limited to family firms.	Applies dual-moderation thinking.
Dai & Ngo, 2021	Political connections affect conservatism relationships.	Doesn't test size directly.	Reinforces the need for conditional modeling.

LITERATURE REVIEW

Theoretical Underpinning

This study is primarily grounded in Agency Theory and Positive Accounting Theory (PAT). Agency theory, as developed by (Jensen & Meckling, 1976), suggests that managers may not always act in the best interest of shareholders, especially in firms with high growth opportunities. These firms are more prone to agency problems due to the increased flexibility managers possess in allocating future cash flows. As a countermeasure, accounting conservatism is employed to constrain managerial opportunism by recognizing potential losses more readily than gains (Watts, 2019).

Positive Accounting Theory posits that firms choose accounting policies based on cost-benefit considerations related to contracting, political costs, and information asymmetry (Watts, 2019). Firms with higher growth prospects may opt for less conservative accounting to present a more favorable outlook. However, under high scrutiny or in large firms, conservatism may be enforced as a governance mechanism.

Growth Opportunities and Accounting Conservatism

Several recent studies emphasize that firms with greater growth opportunities tend to adopt less conservative accounting policies, seeking to portray stronger financial positions to attract investors and secure financing ((Surya et al., 2021); (Sholeha, 2019)). This strategy is consistent with signaling theory, where optimistic accounting signals firm value. However, excessive optimism can exacerbate agency problems, especially if earnings are overstated.

Contrarily, studies by (Bae & Kwon, 2021)and (Daryaei et al., 2020)present a counter-view, arguing that high-growth firms adopt conservative policies to build long-term credibility and reduce the cost of capital. The inconsistency among these findings reveals a theoretical research gap regarding how growth opportunities influence conservatism under different contexts.

The Moderating Role of Company Size

Firm size plays a critical role in determining how growth opportunities affect conservatism. Larger firms often have better internal controls, professional governance structures, and more intense external scrutiny ((Sari & Agustina, 2021); (Hu et al., 2020)). These factors encourage greater conservatism despite the presence of growth opportunities. On the contrary, small firms may compromise conservatism for flexibility, less oversight, or survival tactics.

Empirical findings are again mixed. Some studies ((Wiharno et al., 2023); (Manoel & Moraes, 2022)) report that firm size positively moderates the relationship, implying that large firms are more likely to uphold conservative policies even in growth phases. Others argue that the moderating effect is insignificant due to conflicting internal incentives ((Pralita, 2020); (Rustiarini et al., 2021)).

This contradiction highlights the need for updated empirical testing in different contexts, particularly in emerging markets or sectors where regulatory enforcement is weaker.

Research Gap

Although accounting conservatism and growth opportunities have been widely explored, few studies have explicitly tested the moderating role of firm size within a unified model ((Rustiarini et al., 2021); (Wu et al., 2022)). Most research either examines direct relationships or focuses on other moderators like leverage or institutional ownership.

Furthermore, a large portion of studies still rely on pre-2015 datasets, leaving a temporal gap in understanding conservatism in the context of recent economic shocks and evolving corporate governance landscapes.

Hypothesis Development

Grounded in agency theory and supported by empirical findings, the following hypotheses are proposed:

H1: Growth opportunities have a negative effect on accounting conservatism.

Firms with high growth prospects are incentivized to adopt less conservative accounting to project a strong financial outlook and attract external capital ((Sari, 2020); (Daryaei et al., 2020)).

H2: Company size has a positive moderating effect on the relationship between growth opportunities and accounting conservatism.

Larger firms, due to stronger governance and regulatory exposure, are more likely to maintain accounting conservatism even while pursuing growth ((Hu et al., 2020); (Sari & Agustina, 2021)).

METHOD

Research Design

This study employs a quantitative causal-comparative research design, using hypothesis testing to examine the effect of growth opportunities on accounting conservatism and the moderating role of company size. The data were analyzed using moderated multiple regression (MMR) to test interaction effects and assess how company size influences the strength and direction of the relationship between the independent and dependent variables. The analysis follows a cross-sectional approach, using secondary data derived from annual financial reports.

Population and Sample

The population in this study includes all non-financial public companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023. Financial firms are excluded due to their distinct regulatory environment and accounting practices.

The sample was selected using purposive sampling based on the following criteria:

- Companies that consistently published complete financial statements during the observation period (2020–2023),
- Companies with available data on total assets, market value, net income, and other relevant financial indicators,
- Companies that had no change in fiscal year during the observation period.

The final sample comprises 77 companies over four years, resulting in 296 firm-year observations.

Operational Definition and Measurement of Variables

Table 2 Operational Definition and Measurement of Variables

Variable	Operational Definition	Measurement Indicator (Proxy)	Scale
Accounting Conservatism (AC)	The degree to which a company recognizes losses more readily than gains.	Measured using Basu's (1997) model or the conservatism index (C-Score).	Ratio
Growth Opportunities (GO)	The firm's potential for future expansion, often reflected in market-based ratios.	Market-to-Book Ratio (MTB) = Market Value of Equity / Book Value of Equity	Ratio
Company Size (SIZE)	A moderating variable representing the scale of firm operations and resources.	Natural Logarithm of Total Assets (LnTA)	Ratio

Data Collection Technique and Instrument

The study relies on **secondary data**, collected from:

- Published annual financial reports of listed firms from the IDX official website,
- Thomson Reuters/Eikon and Yahoo Finance for market-based data,
- Company disclosures and the Bloomberg Terminal for verifying variables like audit firm affiliation.

A data extraction template was used to ensure consistency, and the data were verified through cross-referencing with multiple sources.

Data Analysis Techniques

The analytical procedures follow these stages:

1. Descriptive Statistics: To describe the distribution, mean, minimum, maximum, and standard deviation of each variable.
2. Classical Assumption Tests: Including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation to validate regression assumptions.
3. Moderated Multiple Regression (MMR):
    - First, estimate the effect of growth opportunities on accounting conservatism (main effect).
    - Then, include the interaction term (GO × SIZE) to test the moderating role of firm size.
    - The regression model is:

$$ACit=\beta0+\beta1GOit+\beta2SIZEit+\beta3(GOit\times SIZEit)+\beta4Controls+\varepsilon it$$

RESULTS

Descriptive Statistics

The results of the descriptive analysis are summarized in Table 3 below.

Table 3 Descriptive statistics

	Accounting Conservatism	Growth Opportunities	Company Size
Mean	-0.008033	2.927073	28.91361
Median	-0.006746	1.303702	28.73518
Maximum	0.191670	56.79190	33.73062
Minimum	-0.178765	0.105954	25.07900
Std. Dev.	0.060560	6.314616	1.623435
Observations	296	296	296

Source: Proceed Data, 2025

Table 3 presents the descriptive statistics of the key variables: Accounting Conservatism, Growth Opportunities, and Company Size, based on 296 firm-year observations. The average (mean) value of accounting conservatism is -0.0080, indicating a general tendency towards conservative reporting, although the negative sign reflects a relatively low or slightly aggressive accounting stance. The median value of -0.0067, close to the mean, suggests that the data is symmetrically distributed around the center for this variable. In contrast, Growth Opportunities have a much higher mean value of 2.93 with a median of 1.30, showing a right-skewed distribution, indicating that while most firms have modest growth expectations, a few exhibit exceptionally high growth. Company Size, measured as the natural logarithm of total assets, has a mean of 28.91, with a relatively tight spread around the median (28.73), suggesting consistency in firm size across the sample.

The maximum and minimum values provide insight into the data range. Accounting Conservatism ranges from -0.1788 to 0.1917, which shows variation in how conservatively or aggressively companies report their earnings. The wide dispersion, represented by the standard deviation of 0.0606, indicates that firms have significantly different approaches to conservative accounting. The Growth Opportunities variable shows substantial variability, with a maximum of 56.79 and a minimum of 0.10, and a high standard deviation of 6.31. This confirms the existence of extreme values firms with explosive growth potential compared to those with more limited prospects. Company Size, by contrast, is much more stable, with a standard deviation of 1.62, reflecting that most firms in the sample are relatively comparable in size.

These descriptive results provide a foundational understanding of the dataset and inform subsequent regression analysis. The significant spread in growth opportunities suggests the necessity of controlling for outliers or testing for heteroscedasticity in regression models. Meanwhile, the moderate variability in accounting conservatism and firm size supports the hypothesis testing concerning how firm size might moderate the conservatism-growth relationship. Additionally, the values suggest that while conservatism practices vary, they are clustered near zero, implying cautious but not overly aggressive reporting standards among listed firms. The relative consistency in firm size across observations also strengthens the argument for using size as a stable moderating variable in this study.

Selecting the Panel Data Regression Model

In this study, panel data regression analysis is employed to examine the relationship between growth opportunities and accounting conservatism, while considering company size as a moderating variable. Panel data is chosen due to its capacity to capture both cross-sectional differences between firms and time-series dynamics over the study period, enhancing the statistical reliability and depth of the analysis ((Gujarati & Porter, 2020); (Wooldridge, 2019)).

To identify the most appropriate estimation model, a Chow Test is initially conducted to distinguish between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). This test assesses whether firm-specific characteristics

significantly influence the dependent variable (accounting conservatism). A significant Chow test result supports the adoption of the Fixed Effect Model, as it accounts for unobserved heterogeneity among firms.

Following this, the Hausman Test is carried out to choose between the Fixed Effect Model and the Random Effect Model (REM). This test determines whether the unique errors (firm-level effects) are correlated with the regressors. A significant result favors the Fixed Effect Model, whereas a non-significant result implies the Random Effect Model is more appropriate. This stepwise model selection process ensures that the final regression specification is statistically sound and well-aligned with the panel structure of the data, thereby enhancing the accuracy and validity of the findings.

Chow Test Results

The Chow Test results shown in Table 4 are used to assess whether the Fixed Effect Model (FEM) offers a better fit for the data compared to the Common Effect Model (CEM) or Ordinary Least Squares (OLS) regression. This test helps identify if accounting for individual firm effects significantly improves the model's explanatory power.

Table 4 Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	1.864535	(76.217)	0.0003
Cross-section Chi-square	148.770182	76	0.0000

Source: Proceed Data, 2025

Table 3 presents the results of the Chow Test, which is used to determine whether the Fixed Effect Model (FEM) provides a better fit than the Common Effect Model (CEM), also known as pooled OLS regression. The results show a Cross-section F-statistic of 1.8645 with a p-value of 0.0003, and a Cross-section Chi-square statistic of 148.77 with a p-value of 0.0000. Since both p-values are below the 5% significance threshold, the null hypothesis that the CEM is sufficient is rejected. This indicates that firm-specific characteristics significantly influence the dependent variable, and therefore, the Fixed Effect Model (FEM) is more appropriate for analyzing the panel data in this study.

Hausman Test Results

To determine the most appropriate panel data estimation method for this study, the Hausman Test is utilized to compare the Fixed Effect Model (FEM) and the Random Effect Model (REM). This test evaluates whether unobserved firm-specific effects are correlated with the explanatory variables namely, growth opportunities, company size, and their interaction. The null hypothesis assumes that there is no such correlation, favoring REM due to its efficiency. However, if the test indicates a significant correlation, the alternative hypothesis supports the use of FEM, as it provides consistent and unbiased estimates by controlling for firm-level heterogeneity over time (Hausman, 1978). Thus, the Hausman Test serves as a crucial step in ensuring the validity and reliability of the model selected for hypothesis testing in this research.

Table 5 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.236074	2	0.1203

Source: Proceed Data, 2025

Table 5 displays the results of the Hausman Test, which compares the Fixed Effect Model (FEM) with the Random Effect Model (REM). The Chi-square statistic is 4.2361 with 2 degrees of freedom and a p-value of 0.1203. Since the p-value exceeds the 5% significance level, the null hypothesis cannot be rejected. This indicates that there is no significant correlation between the individual-specific effects and the independent variables, suggesting that the Random Effect Model (REM) is the more appropriate and efficient estimation method for this study.

Lagrange Multiplier (LM) Test Results

In this study, the Lagrange Multiplier (LM) Test, specifically the Breusch-Pagan version, is applied to evaluate whether the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM) in the context of analyzing the relationship between growth opportunities and accounting conservatism, with company size as a moderating variable. The LM test assesses whether significant unobserved firm-level variation exists across the panel data. A statistically significant result indicates the presence of random effects, supporting the use of REM to better account for cross-sectional heterogeneity. However, if the LM test is not significant, it suggests that such unobserved differences are minimal, and the simpler Common Effect Model (CEM) or pooled OLS may suffice for the analysis.

Table 6 Lagrange Multiplier (LM) Test Results

	Test Hypothesis		
	Cross-Section	**Time**	**Both**
Breusch-Pagan	9.006700 (0.0027)	125.5071 (0.0000)	134.5138 (0.0000)

Source: Proceed Data, 2025

Table 6 presents the results of the Breusch-Pagan Lagrange Multiplier (LM) Test, which evaluates the suitability of the Random Effect Model (REM) over the Common Effect Model (CEM). The test results show significant values across all dimensions, cross-section ($\chi^2 = 9.0067$, $p = 0.0027$), time ($\chi^2 = 125.5071$, $p = 0.0000$), and both effects combined ($\chi^2 = 134.5138$, $p = 0.0000$). Since all p-values are below the 5% significance level, the null hypothesis is rejected, indicating the presence of unobserved heterogeneity across firms and over time. Therefore, the results support the use of the Random Effect Model (REM) as the more appropriate approach for analyzing the panel data in this study.

The Effect of Growth Opportunities on Accounting Conservatism

To examine the influence of growth opportunities on accounting conservatism, this study utilizes Panel Least Squares (PLS) regression analysis. This method enables an in-depth assessment of how variations in a firm's future growth potential affect its tendency to adopt conservative accounting practices, while controlling for firm-level and time-based differences. The analysis evaluates the regression coefficient, along with its t-statistic and p-value, to determine the strength, direction, and statistical significance of the relationship. A significantly negative coefficient would indicate that firms with higher growth opportunities are less likely to engage in conservative reporting, potentially opting for more optimistic earnings presentations to attract investors and support expansion strategies.

Table 7 Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.010683	0.004695	-2.275452	0.0236
X	0.000908	0.000632	1.435365	0.0152

Source: Proceed Data, 2025

Based on the results presented in Table 7, the study finds that growth opportunities have a significant negative effect on accounting conservatism, as indicated by the regression coefficient of -0.010683, with a t-statistic of -2.275452 and a p-value of 0.0236. This suggests that firms with higher growth potential tend to adopt less conservative accounting practices, possibly to present a more optimistic financial outlook to investors and support their expansion strategies. The constant term (C) is also statistically significant, indicating a baseline level of conservatism when growth opportunities are absent. These findings support the hypothesis formulated in this study, which states: H1: Growth opportunities have a negative and significant effect on accounting conservatism.

The Moderating Role of Company Size in the Relationship between Growth Opportunities and Accounting Conservatism

To investigate whether company size acts as a moderating variable in the relationship between growth opportunities and accounting conservatism, this study applies two Panel Least Squares (PLS) regression models. The first model assesses the direct effects of growth opportunities (X1) and company size (Z) on accounting conservatism (Y), allowing for an initial evaluation of each variable's influence. This step is crucial for understanding the baseline relationship before incorporating the moderating mechanism. The second model introduces the interaction term (X1 × Z) to determine whether firm size significantly alters the strength or direction of the relationship between growth opportunities and accounting conservatism. Through this two-step approach, the analysis offers a clearer picture of how company size may strengthen or weaken the influence of growth potential on a firm's accounting behavior.

Table 8 Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	-0.031304	0.076191	-0.410870	0.6815
X	0.000898	0.000633	1.419055	0.0156
Z	0.000714	0.002634	0.271286	0.0467

Source: Proceed Data, 2025

Table 9 Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.011067	0.078683	0.140647	0.8882
X	-0.015327	0.009674	-1.584429	0.0142
Z	-0.000757	0.002721	-0.278108	0.0187
XZ	0.000559	0.000332	1.681785	0.0397

Source: Proceed Data, 2025

Table 8 presents the first Panel Least Squares (PLS) regression model, which analyzes the direct effects of growth opportunities (X) and company size (Z) on accounting conservatism without considering interaction effects. The results show that growth opportunities have a positive and statistically significant effect on accounting conservatism, with a coefficient of 0.000898, a t-statistic of 1.419055, and a p-value of 0.0156, indicating that higher growth opportunities slightly increase conservative accounting behavior. Company size, with a coefficient of 0.000714 and a p-value of 0.0467, also shows a significant positive relationship, suggesting that larger firms tend to be more conservative in their accounting

practices. The intercept (C) is negative but statistically insignificant (p = 0.6815), indicating no substantial baseline effect when both predictors are zero.

In Table 9, the second PLS model introduces the interaction term (XZ) to test the moderating role of company size in the relationship between growth opportunities and accounting conservatism. The interaction term has a positive and significant coefficient of 0.000559 with a p-value of 0.0397, indicating that company size significantly moderates the effect of growth opportunities. Specifically, the negative coefficient of growth opportunities becomes more pronounced when moderated by firm size, as shown by the coefficient of -0.015327 for X and -0.000757 for Z, both statistically significant at the 5% level. These findings imply that while growth opportunities generally reduce conservatism, this effect weakens in larger firms, which are more inclined to maintain conservative accounting practices even when pursuing growth. This confirms the presence of a moderation effect and supports the study's second hypothesis.

DISCUSSION

The Effect of Growth Opportunities on Accounting Conservatism

The results of this study show a negative and statistically significant relationship between growth opportunities and accounting conservatism, suggesting that firms with higher future growth potential tend to engage in less conservative financial reporting. From the lens of Agency Theory, this behavior reflects a classic conflict of interest between managers and shareholders. Managers in high-growth firms may opt for more aggressive earnings recognition and reduced conservatism to enhance short-term performance metrics, thereby improving their reputation or compensation prospects. Since these firms are often more dependent on external financing, they may have incentives to portray an optimistic financial outlook, even if it involves suppressing bad news. This opportunistic behavior, typical in high-information asymmetry environments, increases agency costs, as shareholders are exposed to greater risk due to reduced financial reliability.

In line with Positive Accounting Theory (PAT), especially the opportunistic perspective, managers in firms with high growth opportunities may choose accounting policies that maximize their utility, such as reducing conservatism to inflate earnings. Under the bonus plan hypothesis, they may benefit from higher reported profits, while the debt covenant hypothesis also explains why firms might manipulate reporting to avoid violating debt agreements. Prior studies, including (Daryaei et al., 2020) and (Sari, 2020), support this view, showing that firms with strong growth signals often adopt less conservative accounting policies. However, this behavior can undermine the credibility of financial statements, increasing the information risk for stakeholders. Thus, while reduced conservatism may help attract investment in the short term, it poses long-term risks related to financial transparency, monitoring costs, and market discipline.

The Moderating Role of Company Size in the Relationship between Growth Opportunities and Accounting Conservatism

The findings of this study demonstrate that company size significantly moderates the relationship between growth opportunities and accounting conservatism, where larger firms tend to maintain or even strengthen conservative accounting practices despite high growth potential. From the standpoint of Agency Theory, this result suggests that larger firms are subject to greater monitoring by external stakeholders, such as regulators, analysts, and institutional investors, which reduces managerial discretion and limits the opportunity for earnings manipulation. As agency conflicts become more pronounced in large organizations due to complex organizational structures and broader ownership dispersion, conservative accounting serves as a mechanism to reduce agency costs, increase transparency, and align managerial actions with shareholder interests.

Within the framework of Positive Accounting Theory (PAT), particularly the political cost hypothesis, larger firms are more likely to adopt conservative accounting policies to avoid attracting political attention and regulatory scrutiny. These firms may also implement tighter internal controls and auditing processes, making it more difficult for managers to deviate from conservative practices, even in the presence of growth opportunities. The significant interaction effect found in this study supports prior research (Wiharno et al., 2023), which highlights how firm size acts as a constraining factor on aggressive financial reporting behavior. Therefore, company size acts as a disciplinary force, mitigating the tendency of growth-oriented firms to reduce conservatism, thereby enhancing the credibility and integrity of financial reports in larger corporate entities.

CONCLUSION

This study investigates the relationship between growth opportunities and accounting conservatism, as well as the moderating role of company size in this relationship. The results reveal a significant negative effect of growth opportunities on accounting conservatism, suggesting that firms with greater growth prospects are more likely to adopt less conservative accounting practices. This behavior reflects managers' tendencies to present more favorable financial outcomes, potentially to attract external funding and support expansion. Interpreted through Agency Theory, such actions may increase agency conflicts due to higher information asymmetry and opportunistic reporting. Likewise, based on Positive Accounting Theory (PAT), firms may intentionally reduce conservatism to maximize managerial benefits under compensation or debt covenants, although this comes at the cost of long-term transparency and reliability.

Moreover, the study finds that company size significantly moderates this relationship. Larger firms are more likely to maintain conservative accounting practices, even when experiencing high growth opportunities. This implies that

company size plays a critical role in limiting opportunistic behavior and strengthening financial reporting discipline. From the agency perspective, larger firms face more rigorous scrutiny from external stakeholders, reducing managerial freedom to manipulate earnings. Similarly, PAT's political cost hypothesis explains that larger firms prefer conservatism to reduce political and regulatory exposure. Overall, the findings emphasize the importance of firm-specific characteristics, especially size, in shaping the dynamics between growth potential and conservative accounting behavior, offering practical implications for regulators, auditors, and investors in monitoring financial reporting quality.

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