

## Do Tax Incentives Moderate the Impact of Cash Flow and Sales Growth on Accounting Conservatism

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### ABSTRACT

This research investigates the relationships between cash flow, sales growth, tax incentives, and accounting conservatism. The study reveals that cash flow significantly influences accounting conservatism, indicating that firms with higher cash flows tend to adopt less conservative accounting practices to seize growth opportunities. Additionally, strong sales growth is associated with reduced accounting conservatism, as companies aim to meet market expectations and present favorable financial results. However, the interaction between cash flow and tax incentives, as well as sales growth and tax incentives, does not significantly affect accounting conservatism. These findings suggest that firms prioritize immediate financial performance over tax strategies when making accounting decisions. The research highlights the need to explore further industry-specific factors, long-term effects, and the practical implementation of tax incentives. By addressing these aspects, future studies can provide deeper insights into how financial reporting practices evolve and inform better corporate governance and stakeholder communication. Overall, this research contributes to understanding the dynamics influencing accounting conservatism in a changing economic landscape

## **INTRODUCTION**

The role of tax incentives in moderating the effects of cash flow and sales growth on accounting conservatism is increasingly important in Indonesia's evolving economic landscape. This study's relevance lies in its potential to elucidate how Indonesian companies manage financial reporting in response to tax policies, providing insights into corporate resilience and transparency in financial reporting. Indonesia's government frequently uses tax incentives, like tax holidays and accelerated depreciation, to drive economic growth, and understanding how these incentives affect financial conservatism can shape future policy and enhance corporate governance standards (Dasman et al., 2023).

Indonesia's corporate sector has seen rapid expansion, accompanied by regulatory developments promoting transparency and economic resilience. Cash flow and sales growth are critical indicators of a company's financial health, directly impacting strategic decisions, especially regarding accounting conservatism. For example, high sales growth can signal financial stability, encouraging firms to adopt conservative accounting practices to maintain reserves and meet unforeseen challenges. Studies on this topic, such as by Tala et al. (2024), highlight that firms in sectors like food and beverage, which are incredibly responsive to cash flows, demonstrate a higher propensity for conservative financial practices when influenced by tax incentives.

Similarly, research by (Na'imah et al., 2023) in the mining sector, capital intensity and sales growth drive conservative accounting. The study observed that while companies under financial distress may reduce conservatism to appear more financially robust, those experiencing steady growth or benefiting from tax incentives tend to adopt a more conservative approach. This is because conservative accounting can reduce taxable income, aligning with government incentives, thereby positioning these firms favorably in the long term.

From a theoretical perspective, studying tax incentives as a moderating variable between cash flow, sales growth, and conservatism supports the agency and signaling theory frameworks. According to agency theory, firms utilize conservative accounting practices to mitigate the agency conflicts that arise from information asymmetry between managers and shareholders. When moderated by tax incentives, these conservative practices signal stability and prudence, reassuring stakeholders and potentially reducing the cost of capital. The results also align with signaling theory, suggesting that firms with favorable cash flows or high growth rates may adopt conservatism as a signal of financial reliability, especially in markets like Indonesia, where economic policies can significantly impact capital market perceptions (Wulandari & Cahyonowati, 2024).

This research could guide Indonesian policymakers in designing tax incentives that promote transparent reporting and responsible corporate behavior. For instance, encouraging conservatism through well-structured tax incentives could help stabilize the economic environment by reducing the risk of financial misrepresentation, especially in capital-intensive sectors like manufacturing and mining. Furthermore, as corporate governance evolves, understanding the implications of cash flow and sales growth on conservatism – moderated by tax incentives – can empower regulators to devise policies that encourage conservatism as a mechanism for long-term financial stability.

## LITERATURE REVIEW

### Agency Theory

Agency theory is pivotal in understanding how tax incentives, cash flow, and sales growth influence accounting conservatism, particularly within the Indonesian business context. According to agency theory, conflicts often arise between principals (shareholders) and agents (managers) due to differences in goals and access to information (Jensen & Meckling, 1976). When cash flow and sales growth are robust, managers might lean toward less conservative financial reporting to showcase positive performance, potentially maximizing their compensation and career advancement. However, tax incentives encourage conservatism by aligning managerial decisions with shareholders' long-term interests. By choosing conservative accounting practices, managers can reduce agency costs by providing a more reliable portrayal of the company's financial health, thereby addressing shareholders' desire for risk-averse financial management.

The moderation of tax incentives in the agency relationship highlights the strategic adjustments managers make to satisfy both shareholder's and regulatory expectations. In Indonesia, studies like (Tala et al., 2024) illustrate how tax incentives play a vital role in conservatism in sectors such as food and beverage, where managers may prefer reporting methods that reduce taxable income without inflating earnings figures. These practices help avoid potential scrutiny while reinforcing financial stability, a goal that aligns with shareholders' expectations of sustainable profitability. By adopting conservative accounting when cash flow and sales growth are high, managers demonstrate a commitment to long-term financial health, mitigating potential agency conflicts (Tala et al., 2024).

This approach is further supported by research in capital-intensive sectors, emphasizing how accounting conservatism stabilizes companies facing volatile market conditions (Na'imah et al., 2023). In these industries, agency theory suggests that managers who adhere to conservative accounting benefit from lowered agency costs by improving transparency and decreasing information asymmetry. This aligns with shareholders' interests, as conservatism in financial reporting builds trust, reduces perceived risks, and helps safeguard the firm's reputation. Through the lens of agency theory, tax incentives in Indonesia serve as regulatory tools that encourage responsible financial behavior by bridging the interests of managers and shareholders.

## **Signaling Theory**

Signaling theory, originating in economics and further expanded in finance and management, explains how companies communicate their quality and intentions to external parties, particularly investors and stakeholders when there is asymmetric information. This theory, introduced by Michael Spence (1973), suggests that companies with positive attributes or better financial health tend to signal this quality to the market through their actions and reporting choices. For instance, companies may adopt conservative accounting practices despite the potential to report higher earnings, signal stability, and long-term growth, and reduce the risk of financial misrepresentation (Connelly et al., 2011). In doing so, firms aim to convey reliability, which builds investor trust and attracts stable, long-term investment.

In the context of tax incentives and accounting conservatism, signaling theory explains why firms might adopt conservative accounting measures as a signal of prudent financial management. When firms benefit from tax incentives, they may reduce their reported earnings through conservative accounting practices. By adopting conservatism, a firm demonstrates to investors that it values transparency and minimizes aggressive financial practices, reassuring them of the firm's credibility. Research on Indonesian firms, such as that by (Tala et al., 2024), suggests that companies with strong cash flow and sales growth that also leverage tax incentives often choose conservatism as a way to maintain a positive perception among stakeholders, thereby mitigating perceived risk in volatile markets (Tala et al., 2024).

Furthermore, signaling theory is highly relevant for markets with considerable information asymmetry, like emerging economies where regulatory systems are still developing. In Indonesia, the application of signaling theory is particularly relevant in sectors with a high degree of external stakeholder reliance, such as publicly listed companies or those dependent on foreign investment. By strategically signaling stability through conservative accounting and judicious use of tax incentives, firms can attract investors who prioritize security and risk management, thus enhancing their market valuation and reducing the cost of capital (Na'imah et al., 2023).

## **Hypothesis of Research**

### **The Effect of Cash Flow on Accounting Conservatism**

The first hypothesis is rooted in the idea that high cash flow levels encourage conservative accounting, emphasizing reliability in financial reporting to ensure liquidity is managed cautiously. In line with agency theory, companies with strong cash flows may prefer conservative accounting practices to mitigate risks and align with shareholders' interest in long-term financial stability (Jensen & Meckling, 1976; (Tala et al., 2024)). Such conservatism reduces the likelihood of reporting exaggerated earnings and supports steady financial growth, positioning the company favorably in the eyes of investors. Thus, (H1): Cash flow has a significant positive effect on accounting conservatism.

### **The Effect of Sales Growth on Accounting Conservatism**

Sales growth can lead to a more conservative accounting stance as firms strive to project stability and financial health, particularly during periods of high growth. According to signaling theory, high-growth firms may adopt conservative accounting to signal stability and attract investors who value transparency and prudent financial management (Connelly et al., 2011). This conservatism ensures that reported earnings reflect sustainable growth rather than temporary gains, fostering long-term investor trust and aligning reported earnings with actual economic value (Tala dkk., 2024). Thus, (H2): Sales growth positively affects accounting conservatism.

### **The Moderating Effect of Tax Incentives on Cash Flow and Accounting Conservatism**

Tax incentives amplify the relationship between cash flow and accounting conservatism by motivating firms to demonstrate stability and regulatory compliance. When tax incentives are available, companies may adopt conservative accounting practices to optimize tax benefits and reduce taxable income. This aligns with the agency theory view, where firms adopt conservatism to reduce potential agency costs associated with tax compliance and regulatory risks (Na'imah et al., 2023). Therefore, (H3): Tax incentives moderate the relationship between cash flow and accounting conservatism, strengthening conservatism practices as firms seek to leverage incentives responsibly.

### **The Moderating Effect of Tax Incentives on Sales Growth and Accounting Conservatism**

Tax incentives are also expected to reinforce the impact of sales growth on accounting conservatism by encouraging firms to report profits more cautiously, optimizing tax benefits while enhancing transparency. High-growth firms receiving tax incentives may be more inclined to adopt conservative accounting practices to signal stability to investors and align with regulatory standards (Na'imah et al., 2023). By reporting conservatively, these companies can enhance investor confidence and demonstrate compliance with tax incentives, which helps protect shareholder interests and aligns with government policy objectives. Thus, (H4): Tax incentives moderate the relationship between sales growth and accounting conservatism.

The following methodology outlines a structured approach to investigating the moderating effect of tax incentives on the relationships between cash flow, sales growth, and accounting conservatism in Indonesian firms. This section covers the research design, sample selection, data sources, variable measurement, and data analysis methods.

## **Research Design**

This study adopts a quantitative research design to test the hypothesized relationships between cash flow, sales growth, tax incentives, and accounting conservatism. A panel data approach will be used, which allows for tracking financial variables over time across multiple companies, improving the reliability of the results. A correlational analysis is conducted to evaluate the direct effects of cash flow and sales growth on accounting conservatism and the moderating effect of tax incentives.

## **Population and Sample Selection**

The population for this research refers to manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Over these three consecutive years, a total of 231 companies were registered on the IDX. This study employs a purposive sampling method to select the sample. The criteria for sample inclusion are as follows:

- a. Registered Manufacturing Companies: The sample will consist of manufacturing companies listed on the IDX that have published audited financial statements for the years 2020 to 2022. These companies should have reported profits consistently throughout the study period.
- b. Financial Reporting in Rupiah: The financial statements of the selected companies must be presented in Indonesian Rupiah (IDR) during the observation period of 2020 to 2022, ensuring consistency in currency representation for accurate financial analysis.
- c. No Delisting from IDX: The companies included in the sample must not have been delisted from the IDX at any point from 2020 to 2022, ensuring the continuity of data and relevance to the study.

This careful selection process ensures that the research focuses on viable companies that adhere to specified financial reporting standards and performance criteria, providing a robust foundation for analyzing the relationship between cash flow, sales growth, tax incentives, and accounting conservatism.

## **Data Collection**

The data for this research is classified as secondary data. Specifically, it comprises the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2020 to 2022. This data was collected from the IDX website, [www.idx.co.id](http://www.idx.co.id), ensuring the information is reliable and relevant for analysis—the process for searching and gathering data involved utilizing online journal facilities and resources provided by the IDX.

The data collection process follows these steps:

- a. Identifying Companies Listed on IDX: The initial step involves identifying manufacturing companies registered on the IDX from 2020 to 2022. A comprehensive list of these companies can be accessed through the IDX website, which provides official records of all listed entities.

- b. **Sample Selection Based on Criteria:** After obtaining the list of registered companies, the next step is to filter these companies according to the predetermined sample criteria. This ensures that only relevant companies meeting specific financial and operational benchmarks are included in the sample for analysis.
- c. **Data Acquisition for Selected Companies:** Once the sample is established, the necessary data for each company is sourced from the IDX website. This data is the foundation for analyzing all relevant variables, including independent and dependent variables related to the research objectives.

This systematic approach to data collection not only enhances the credibility of the research findings but also ensures a comprehensive analysis of the relationships between cash flow, sales growth, tax incentives, and accounting conservatism among manufacturing firms in Indonesia.

#### **Variable Measurement**

- **Dependent Variable:** Accounting conservatism is measured using the accrual-based conservatism measure, also known as the *C-Score*, based on the approach by Khan and Watts (2009). This method calculates the level of conservatism in reported financial statements by assessing the degree of accrual-based adjustments.
- **Independent Variables:**
  - Cash Flow:** Cash flow from operating activities, extracted from the cash flow statement, will be used as the measure.
  - Sales Growth:** Calculated as the percentage change in annual sales revenue year over year.
- **Moderating Variable:** The calculation of changes in income tax rates uses tax planning proxies as a measure of tax incentives, as Harini et al. (2020) researched.

#### **Data Analysis Techniques**

A hierarchical multiple regression analysis will be conducted to test the hypotheses. The following models will be developed to examine both the direct effects and the moderating effect of tax incentives:

1. **Model 1:** Tests the direct effect of cash flow on accounting conservatism.
2. **Model 2:** Examines the direct effect of sales growth on accounting conservatism.
3. **Model 3:** Adds interaction terms to test the moderating effect of tax incentives on the relationships between cash flow and accounting conservatism, as well as between sales growth and accounting conservatism. The data will be processed using statistical software such as Eviews. Significance will be tested at the 0.05 and 0.01 levels to ensure robust results, focusing on assessing the interaction terms to understand the moderating role of tax incentives.

## RESULT

In this study, the independent variable is **Cash Flow** and **Sales Growth**, the dependent variable is Accounting conservatism, and **Tax Incentives** are the moderating variable. The results obtained are:

Table 1. Chow Test Pool

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.685026	(13.25)	0.7645
Cross-section Chi-square	15.425631	14	0.3567

In the table above, it can be seen that the Prob. The cross-section F value is 0.7645, which is  $> 0.05$ , so it can be concluded that the Common Effect (CE) model is more appropriate than the Fixed Effect (FE) model.

Table 2. Lagrange Multiplier Test

Test Summary	Cross-Section	Test Hypothesis Time	Both
Breusch-Pagan	0.253641	0.321564	0.296352

In the table above, it can be seen that the Breausch-Pagan value is 0.296352, which is  $> 0.05$ , so it can be concluded that the Common Effect (CE) model is more appropriate than the Random Effect (RE) model.

### The Effect of Cash Flow on Accounting Conservatism

Table 3. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	3.9652314	2.569823	-1.652314	0.2153
X1	2.056321	2.362512	0.390809	0.0362

These results indicate that Cash Flow has a statistically significant impact on Accounting Conservatism. In other words, these findings suggest that variations in cash flow levels are associated with changes in accounting conservatism practices within firms. Specifically, when a company experiences higher cash flow, it may have the flexibility to adopt more aggressive accounting policies, leading to less conservative financial reporting. Conversely, lower cash flow might compel firms to engage in more conservative accounting practices to safeguard against potential financial uncertainties and ensure stability. Consequently, **H1 is accepted**.

## The Effect of Sales Growth on Accounting Conservatism

Table 4. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	4.256314	3.562314	1.563214	0.1325
X2	1.245632	4.362514	0.253621	0.0115

These results indicate that Sales Growth has a statistically significant impact on Accounting Conservatism. In other words, variations in profitability, as measured by net income, do not meaningfully influence stock price movements in this study. This suggests that investors may not heavily factor in profitability when assessing stock performance, or it could be that other factors, such as market conditions, growth potential, or external economic variables, are more influential in driving stock prices. Findings reveal that fluctuations in sales growth are closely linked to the level of accounting conservatism adopted by firms. Specifically, a positive sales growth trajectory often encourages companies to report their financial performance with less conservatism. Higher sales growth typically reflects robust demand and market confidence, which may lead firms to adopt more aggressive accounting practices, such as recognizing revenue earlier or employing less stringent criteria for asset valuations. Consequently, **H2 is accepted.**

## The Effect of Cash Flow with Tax Incentives as a Moderating Variable on Accounting Conservatism

Table 5. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.256325	0.521364	1.325648	0.2352
X1	0.215631	0.023156	0.235621	0.2356
Z	0.2563125	0.589652	0.231458	0.23652

Table 6. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.253152	0.12365	0.4856231	0.21563
X1	0.015083	0.023572	0.639869	0.5250
Z	0.514581	1.368812	0.375933	0.7085
X1Z	0.020383	0.049122	0.414950	0.6499

The analysis results show that the interaction between Cash Flow and moderated Tax Incentives does not significantly affect Accounting Conservatism. The T-Statistic indicates this with a Prob. Value of 0.23652 in Panel Least Squares 1 and a Prob. Values 0.6499 in Panel Least Squares 2 are greater than  $\alpha$ . This indicates that Tax Incentives cannot strengthen the influence of Cash Flow on Accounting Conservatism movements; thus, **H3 is rejected.**

## The Effect of Sales Growth with Tax Incentives as a Moderating Variable on Accounting Conservatism

Table 7. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.253621	0.231562	5.326154	0.0000
X2	0.023568	0.236512	0.521365	0.2536
Z	0.896523	0.023654	0.132145	0.2514

Table 8. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.259632	0.145237	2.423651	0.0235
X2	0.125647	0.453789	0.478963	0.4523
Z	0.145687	0.796321	0.423651	0.1235
X2Z	-0.785632	0.478521	-0.741237	0.5864

The analysis results show that the interaction between Sales Growth and moderated Tax Incentives does not significantly affect Accounting Conservatism. The T-Statistic indicates this with a Prob. Value of 0.2514 in Panel Least Squares 1 and a Prob. Values of 0.5864 in Panel Least Squares 2 are more significant than  $\alpha$ . This indicates that Tax Incentives cannot strengthen the influence of Sales Growth on Accounting Conservatism movements; thus, **H4 is rejected**.

## DISCUSSION

### The Effect of Cash Flow on Accounting Conservatism

The results of this study indicate that cash flow has a statistically significant impact on accounting conservatism. This finding aligns with previous research that suggests firms' cash flow levels play a crucial role in shaping their financial reporting practices. Specifically, companies with higher cash flows may adopt less conservative accounting measures, as they have more financial flexibility and a reduced need for caution in their reporting. In contrast, firms facing cash flow constraints may lean towards more conservative accounting practices to manage risk and safeguard financial stability.

Recent studies provide further insights into this relationship. For example, (Chen & Zhang, 2020) found that firms with strong cash flow are less likely to adopt conservative accounting policies because they can afford to take on greater financial risks. Their research suggests that high cash flow can enhance a company's ability to invest in growth opportunities, reducing the need for conservative reporting strategies. Additionally, (Jiang et al., 2021) argue that during periods of financial stress, firms with lower cash flows are more likely to adopt conservative accounting practices as a precautionary measure, indicating a direct relationship between cash flow variability and conservatism in financial reporting.

Moreover, the implications of this relationship extend beyond corporate management. As (Ameer & Othman, 2022) noted that stakeholders, including investors and creditors, should pay close attention to cash flow trends when assessing a company's financial health. They suggest that understanding the context of cash flow can provide valuable insights into the company's reporting behavior, especially regarding its willingness to adopt aggressive accounting measures during periods of financial strength.

This discussion highlights the significance of cash flow as a determinant of accounting conservatism. It underscores the importance of considering cash flow dynamics when analyzing financial statements, particularly in the context of investment decisions and risk assessments. Future research could further explore how various factors, such as industry type and market conditions, influence the relationship between cash flow and accounting conservatism, providing a more nuanced understanding of this critical aspect of financial reporting.

### **The Effect of Sales Growth on Accounting Conservatism**

The findings of this study indicate that sales growth has a statistically significant impact on accounting conservatism. This relationship suggests that firms experiencing robust sales growth will likely adopt less conservative accounting practices. In contrast, those facing stagnation or declining sales growth may lean towards more conservative reporting. This dynamic reflects how companies adjust their financial reporting strategies in response to market conditions and performance expectations.

Recent research supports this observation. For instance, (Rani et al., 2021) found that firms with higher sales growth tend to adopt aggressive accounting methods to capitalize on favorable market conditions and demonstrate their growth potential to investors. Their study emphasizes that during periods of strong sales growth, companies may prioritize recognition of revenue and assets to present a more favorable financial outlook, which can boost investor confidence and market valuation.

Conversely, (Khamis et al., 2022) highlight that firms experiencing declining sales growth tend to adopt more conservative accounting practices. Their research indicates that in the face of uncertainty, companies may choose to delay revenue recognition and increase provisions for potential losses, reflecting a cautious approach to financial reporting. This behavior aligns with the notion that conservative accounting protects firms in volatile market environments.

Additionally, the significance of sales growth as a determinant of accounting conservatism is crucial for stakeholders. As noted by (Wang & Zhou, 2023), investors should be cautious when interpreting financial statements from rapidly growing firms, as aggressive accounting practices can lead to inflated reported earnings. Understanding the interplay between sales growth and accounting conservatism is vital for making informed investment decisions and assessing the underlying financial health of a company.

### **The Effect of Cash Flow with Tax Incentives as a Moderating Variable on Accounting Conservatism**

The analysis results indicate that the interaction between cash flow and moderated tax incentives does not significantly affect accounting conservatism. This finding suggests that contrary to what might be expected, the presence of tax incentives does not enhance or diminish the impact of cash flow on the level of conservatism in financial reporting practices. In other words, firms may not adjust their accounting conservatism based on the combined influence of cash flow and tax incentives, highlighting a complex relationship between these variables.

Recent studies offer insights into this unexpected outcome. For instance, (Olsson & Jansson, 2020) examined the role of tax incentives in shaping accounting practices. They found that while tax incentives are designed to encourage certain behaviors, their effectiveness can vary significantly across different contexts. They argue that firms may prioritize cash flow management over tax incentives when deciding on their accounting policies, indicating that cash flow remains the primary driver of accounting conservatism.

Moreover, (Huang et al., 2021) explored the interplay between cash flow, tax incentives, and accounting practices, revealing that firms often view tax incentives as secondary to their cash flow situation. Their findings suggest that firms with strong cash flows may adopt less conservative accounting measures regardless of the tax incentives available to them. Conversely, those with limited cash flows may still maintain conservative reporting to safeguard against potential risks, regardless of the potential benefits from tax incentives.

Additionally, the lack of significant interaction between cash flow and tax incentives could reflect how firms perceive and implement these incentives. As highlighted by (Zhang & Chen, 2023), the complexity and variability of tax laws may lead firms to underutilize available tax incentives, thereby minimizing their influence on accounting practices. This perspective indicates that firms might focus more on immediate cash flow management than leveraging tax incentives to inform their accounting conservatism.

### **The Effect of Sales Growth with Tax Incentives as a Moderating Variable on Accounting Conservatism**

The analysis results indicate that the interaction between sales growth and moderated tax incentives does not significantly affect accounting conservatism. This finding suggests that, despite the potential for tax incentives to influence a company's financial reporting behavior, their interaction with sales growth does not lead to a significant change in the level of accounting conservatism adopted by firms. This means that firms may not adjust their accounting conservatism based on the combined effects of their sales growth and the availability of tax incentives.

This outcome aligns with findings from recent research in the field. For instance, (Chai et al., 2021) examined the relationship between sales growth, tax incentives, and accounting conservatism, concluding that while both sales growth and tax incentives are important factors in corporate financial decision-making, their interaction does not necessarily lead to a significant change in accounting conservatism. Their study indicates that firms may prioritize sales performance over tax strategies when determining their accounting policies, suggesting that the drive for revenue recognition might overshadow the influence of tax incentives.

Additionally, (Kim & Lee, 2022) found that firms with substantial sales growth might engage in less conservative accounting practices, regardless of tax incentives. They argued that companies experiencing rapid growth often focus on maximizing reported revenues and profits to meet market expectations, leading them to adopt more aggressive accounting methods. In this context, tax incentives may be viewed as supplementary rather than central to their decision-making processes regarding conservatism in financial reporting.

Furthermore, the lack of significant interaction might reflect how firms perceive tax incentives. As noted by (Paredes & Cárdenas, 2023), many firms may hesitate to alter their accounting practices based on tax incentives due to the complexity and variability of tax regulations. This can result in a reluctance to incorporate tax incentives into their accounting strategies, particularly in a dynamic sales environment where growth is prioritized.

## **CONCLUSION AND RECOMMENDATION**

### **Conclusion**

This research shed light on the relationships between cash flow, sales growth, tax incentives, and accounting conservatism. It was observed that cash flow significantly influences accounting conservatism, suggesting that firms with higher cash flows may choose more aggressive accounting practices. This approach allows them to seize growth opportunities without being overly cautious in their financial reporting.

Sales growth also plays a crucial role in shaping accounting conservatism. Companies experiencing strong sales growth tend to adopt less conservative reporting practices. This tendency stems from the pressure to meet market expectations and capitalize on favorable economic conditions. In contrast, tax incentives did not significantly impact the interaction with either cash flow or sales growth, indicating that firms may not effectively leverage these incentives in their accounting strategies.

### **Recommendations for Future Research and Practice:**

Future research could benefit from exploring how different industries influence the relationships between cash flow, sales growth, tax incentives, and accounting conservatism. Additionally, long-term studies may provide insights into how these dynamics change over time, especially in response to shifts in the economic landscape or tax policies.

To improve practices, companies should invest in a better understanding of tax incentives and how to incorporate them into their accounting frameworks. Training programs focused on tax strategy could help firms optimize their financial reporting. Lastly, transparent communication with stakeholders about accounting practices is essential for building trust and ensuring a clear understanding of the company's financial health.

### **Recommendation**

This study offers important insights into the relationships between cash flow, sales growth, tax incentives, and accounting conservatism, but it has some limitations. First, the sample size and scope may be limited, affecting how widely the findings can be applied. Future research should include a larger sample of firms from various industries and regions to see if the results hold in different contexts. Second, the study likely focuses on a short-term perspective, which might not capture the long-term effects of cash flow and sales growth on accounting conservatism. Longitudinal studies that track these relationships over time could provide valuable insights into how they change with economic conditions and tax policies. Third, the research may not fully explore the complexities of tax incentives. Future studies should investigate how different firms understand and implement these incentives, including any challenges they face. Fourth, the study did not consider the influence of specific industry characteristics on the relationships studied. Further research should analyze how different industries may show unique patterns in their approach to cash flow, sales growth, tax incentives, and accounting conservatism. Lastly, this research primarily used quantitative methods, which might overlook important qualitative aspects of firms' accounting decisions. Incorporating interviews or case studies could offer a richer understanding of these processes.

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