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RESEARCH ARTICLE

Explanatory Factors of the Accounting Choices for Investments Under IAS 27 of Listed European Union Entities

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ABSTRACT

This study aims to analyze the explanatory factors of the accounting choices for investments of entities with securities traded on regulated markets from the European Union (EU) under International Accounting Standards (IAS) 27—Separate Financial Statements (SFS). According to IAS 27, investments in their scope can be accounted for by using the cost, equity method, or fair value, which represents alternative accounting methods commonly known in the literature as accounting choices. To identify the factors that may explain the accounting choices for investments under IAS 27, a logistic regression model is used. The research covers listed entities from 19 out of the 21 EU countries where IAS 27 is required or permitted. The findings highlight that the entities' size and investment weight likely explain the adoption of the cost method, conversely to the size of the board of directors, which negatively explains its use. Accounting choices for investments under SFS are not yet explored in the literature. Moreover, this research also proposes further explanatory factors in the scope of the literature on accounting choices. This paper can potentially benefit a diverse set of stakeholders, namely the accounting standard-setters, as they can draw attention to the comparability issues from the use of accounting choices, which may mitigate the financial information usefulness for decision-making. Furthermore, auditors, supervisors, as well as investors and other users, can have a more comprehensive perspective of the reasons behind the method chosen by entities for accounting for their financial investments.

1 | Introduction

To ensure a high level of transparency and comparability of financial reporting, the International Accounting Standards Board's (IASB) standards were introduced in the European Union (EU) through Commission Regulation (EU) No 1606/2002 of the European Parliament and of the Council of July 19, 2002. Based on this Regulation, entities with securities traded on any regulated market in the EU should adopt the IASB standards as endorsed by the EU as follows: (i) mandatorily in their consolidated accounts, and (ii) optionally or mandatorily in their annual accounts.

Those IASB's standards (hereinafter referred to as IAS), namely the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), supposedly aim to minimize accounting differences and contribute to improving the quality and comparability of financial information disclosed worldwide (Cairns et al. 2011; O Cualain and Tawiah 2023). This is aligned with the objective of financial reporting of providing information that is useful for users' decision-making (IASB 2018). Its usefulness results from its relevance and faithful representation (Rodrigues and Albuquerque 2015), which are classified by the IASB conceptual framework as key qualitative characteristics, while comparability, understandability, verifiability, and timeliness are enhancing qualitative characteristics (IASB 2018). Therefore, in addition to being useful, the financial information must also be comparable, transparent, and understandable (Tarca 2020).

However, comparability is sometimes neglected, namely due to the different options provided for the accounting treatment of different matters, commonly referred to in the literature as accounting choices, which may result in different impacts on the financial position and performance of entities, mitigating the comparability of financial information (Catuogno and Allini 2011; Olante and Lassini 2022; Tarca 2020; Varma, Mancini, and Kaushik 2024; Zhang et al. 2024).

This has raised studies on several topics aiming to identify the explanatory factors of the accounting choices in different areas (e.g., Alves 2019; Pinto and Morais 2022; Stadler and Nobes 2014), as well as concerning the impacts of these options on the financial statements' comparability (Alves 2019; Jaafar and McLeay 2007; Olante and Lassini 2022; Souza et al. 2015).

Due to the IAS's flexibility, the IASB has been developing projects to standardize them to bridge the existence of different treatments for the same topic (Souza et al. 2015). However, this question remains in several IAS and IFRS, namely in the IAS 27—Separate Financial Statements (SFS), the focus of this paper, as adopted by Commission Regulation (EU) No 2023/1803, of August 13, 2023. According to this standard, financial investments in subsidiaries, associates, and joint ventures can be accounted for by the cost method, by the equity method (EM), or even following IFRS 9—Financial Instruments, which has the option for fair value through profit or loss (FVPL) or other comprehensive income (FVOCI). Consequently, and due to the measurement alternatives, entities must make accounting choices.

Therefore, this paper aims to identify the explanatory factors that potentially influence the choice of the accounting method for investments in subsidiaries, associates, and joint ventures under IAS 27. The study sample covers the constituent entities of the main capital markets indices of the EU countries that use IAS in the preparation of SFS, whether mandatorily or optionally. The SFS for the year 2021 is used. Several explanatory factors are studied under the positive accounting theory (PAT) (Watts and Zimmerman 1978, 1990), Hofstede's (1980) and Hofstede, Hofstede, and Minkov (2010) cultural dimensions, the institutional theory (Dimaggio and Powell 1983), and the agency theory (Jensen and Meckling 1976).

Despite the literature on accounting choices in different areas, a single investigation concerning equity investments in the consolidated accounts was identified, assessing the comparability level for the pre-and postadoption of IAS (Catuogno and Allini 2011). Therefore, no research was found that studied the explanatory factors that led entities to make choices regarding the accounting methods for investments in SFS provided for IAS 27. Besides, there is a greater gap in the literature on matters related to SFS, maybe because they are nonmandatory in some jurisdictions since European Regulation 1606/2002 only provided a mandatory requirement for consolidated accounts of listed entities. However, the financial information reported in these accounts may prove to be necessary and useful (Busari and Bagudo 2021; Lopes and Camões 2021; Palea 2014; Sotti 2018).

Additionally, new explanatory factors in the scope of accounting choices research were proposed, namely the analysis of the country associated with the cultural dimensions of Hofstede (1980) and Hofstede, Hofstede, and Minkov (2010). The relevance of this study is further reinforced by the market capitalization of listed domestic companies in the Euro area, which amounted to 54.4% in 2018 (The World Bank n.d).

Standard-setters can potentially benefit from this paper, as they can draw attention to the problem of accounting choices, which limits comparability. Furthermore, investors can have more comparable accounts, which increases the usefulness of those accounts for their decision-making. Finally, auditors, supervisors, and other users in general can also benefit, as they can have a more comprehensive perspective of the reasons behind the method chosen by entities for accounting for their financial investments.

The paper has four sections, in addition to this introduction. The next section presents the literature review and hypotheses development, followed by the research methodology underlying the analysis proposed. Section four presents the results and its discussion. Finally, the last section presents the conclusions, as well as the limitations and suggestions for future avenues.

2 | Literature Review and Hypotheses Development

This research uses the bonus plan, the debt covenant, and the political costs hypotheses underlying the PAT (Watts and Zimmerman 1978, 1990), which proposes the profitability, indebtedness, and size, respectively, as explanatory factors for the entities' accounting choices (e.g., Alves 2019; Queiroz and Almeida 2017; Silva, Martins, and Fávero 2022).

First, the bonus plan hypothesis is associated with profitability due to the existence of bonuses and compensations linked to the net income. In such cases, managers will lean to resort to accounting choices that advance potential positive future impacts on profits (Milne 2002; Silva, Martins, and Fávero 2022).

Several studies addressed models based on fair value with a positive predicted relationship to profitability (Conceição 2009; Santos, Floriani, and Klann 2017), although EM and fair value models also have greater volatility. This can advance not only positive but also negative outcomes, deteriorating the level of profitability in such cases. Thus, and considering the literature, the following hypothesis regarding profitability is proposed:

H 1. *The entities' profitability level negatively influences the adoption of the cost method for accounting for financial investments under IAS 27.*

Following, and regarding indebtedness, the debt covenant hypothesis indicates that entities with higher levels of indebtedness tend to adopt policies that prioritize the increase in results and assets, to improve economic and financial indicators and thus avoid restrictions on access to financing (Alves 2019; Milne 2002; Queiroz and Almeida 2017).

Therefore, the accounting methods that potentially allow for the timelier recognition of such increments correspond to EM and fair value, either through profit or loss or through OCI, notwithstanding the possibility that they also provide increased volatility in equity and asset values, which may lead to unfavorable scenarios and, consequently, deterioration of economic and financial indicators. Research shows that entities with a higher level of indebtedness usually adopt fair value (Alves 2019; Conceição 2009). As such, the following hypothesis was defined regarding indebtedness:

H 2. *The entities' indebtedness level negatively influences the adoption of the cost method for accounting for financial investments under IAS 27.*

Finally, size is also a factor influencing accounting choices under PAT according to the political cost hypothesis. Given that larger entities seek to reduce the exposure to adverse impacts through, namely, lower earnings volatility, they will tend to adopt more conservative accounting policies as a strategy to mitigate negative effects (Alves 2019; Silva, Martins, and Fávero 2022).

Therefore, larger entities are more likely to adopt the cost method because it is a more conservative model (Alves 2021), which suggests a negative association with the option for EM or fair value models, due to the greater volatility they cause in the value of assets and equity (Batista and Paulo 2020; Santos, Floriani, and Klann 2017). Thus, and regarding size, the following hypothesis was proposed:

H 3. *The entities' size positively influences the adoption of the cost method for accounting for financial investments under IAS 27.*

Besides the explanatory factor under PAT, the country is also used to explain the entities' accounting choices in the literature (Jaafar and McLeay 2007; Milne 2002; Olante and Lassini 2022; Silva, Martins, and Fávero 2022; Stadler and Nobes 2014), being associated with the institutional theory considering the relationship between entities and their external environment, such as the local regulatory framework (Dimaggio and Powell 1983; SACI 2021). Therefore, the countries' effect on the entities' accounting choices can also be captured by the countries' cultural values since those entities are potentially influenced by such relations (Gray 1988; Hofstede 1980; Hofstede, Hofstede, and Minkov 2010).

According to Gray (1988), accounting practices are explained by differences in terms of cultural values, given that the cultural diversity between countries influences the entities accounting (Gray 1988). Within Gray's (1988) framework for cultural values, the recognition and measurement of assets, liabilities, income, and expenses are related to conservatism. Consequently, this cultural value is the most relevant value for research on accounting choices (Albuquerque et al. 2023). Conservatism (versus optimism) is based on a preference for more prudent measurement criteria, which minimize risks and tend to avoid uncertainty regarding future events (Gray 1988).

Due to the nonproposition of metrics on Gray's cultural values, several studies use the cultural dimensions indices proposed by Hofstede (1980) and Hofstede, Hofstede, and Minkov (2010) (hereinafter, simplified, referred to only as Hofstede). Hofstede's cultural dimensions were developed on the basis that individuals in each country act differently, in response to social issues and the context of certain circumstances. Hofstede's cultural dimensions thus comprise the following dimensions:

- Low versus high power distance (PDI), which is demonstrated through the extent to which members of society accept the unequal distribution of power;
- weak versus strong uncertainty avoidance (UAI), which is translated into the degree to which members of society deal with the uncertainty of future events;
- individualism (IDV) versus collectivism, which reflects the level of integration of individuals into society;
- masculinity (MAS) versus femininity, which is observed through the way society assigns different social roles to genders;
- short-term versus long-term orientation (LTO), which identifies whether a society is more oriented to the past and present or the future;
- and, finally, indulgence versus restraint (IVR), which reflects the level of freedom and satisfaction of individuals.

Conservatism is directly related to UAI, in the sense that more conservative measures are consistent with the concern to adopt a more prudent approach for dealing with the uncertainty of future events (Gray 1988). Researchers have confirmed that conservative concerns influence more cautious accounting measures (e.g., Gierusz et al. 2021; Lima 2016; Salter and Niswander 1995).

Gray (1988) theorized the inverse relationship between conservatism and IDV, which has been empirically verified in several studies (e.g., Salter and Lewis 2011; Wronski and Klann 2020).

Regarding MAS, Gray (1988) proposed a negative association with conservatism, which was proven by Salter and Niswander (1995). Lima (2016), in turn, found a positive relationship between them, contradicting the idea that masculine societies emphasize financial and personal fulfillment.

On the other hand, Gray (1988) did not hypothesize any relationship between PDI and conservatism. However, Gierusz et al. (2021) and Borker (2013) stress that societies with a high PDI are more conservative. Conversely, Salter and Lewis (2011) found a negative association between this dimension and accounting conservatism, where countries with a higher level of PDI report fewer conservative approaches in their financial statements.

Although proposed later and thus not theorized by Gray (1988), several authors have investigated the relationship between conservatism and Hofstede's cultural dimensions of LTO and IVR.

Concerning LTO, it has been identified as having a positive association with the level of conservatism, as future implications and uncertainties are considered in decision-making, resulting in more prudent and cautious decisions (Borker 2013; Gierusz et al. 2021; Wronski and Klann 2020).

Finally, regarding the IVR, authors negatively relate it to conservatism, as higher levels of IVR relate to greater freedom in judgment, translating into less prudent decisions and the adoption of less conservative accounting practices (Borker 2013; Gierusz et al. 2021; Wronski and Klann 2020).

Therefore, conservative countries will take fewer risks by likely adopting a nonoptimistic accounting method (Muazu 2021; Riahi 2022; Wronski and Klann 2020), such as the cost method. Then, based on the propositions most frequently identified in the literature between the cultural value of Gray's conservatism (1988) and Hofstede's cultural dimensions, the following hypothesis was developed:

H 4. *Entities from more conservative countries have a positive influence on the adoption of the cost method for accounting for financial investments under IAS 27, which is evidenced by their lower indices of IDV, MAS, and IVR, and higher indices of UAI, PDI, and LTO.*

Under the institutional theory, the literature regarding accounting choices also presents the entities' industry as an explanatory factor (Dimaggio and Powell 1983) since entities in the same industry tend to adopt similar accounting policies (Collin et al. 2009).

Silva, Martins, and Fávero (2022) argue that industries are associated with accounting choices due to their relationship with their specific regulations. This is also supported by other authors, who stress that the industry influences both the accounting policies and the disclosure of financial information (Cairns et al. 2011; Fiechter et al. 2024; Jaafar and McLeay 2007). Thus, it is expected that entities in the same industry will use the same accounting method, as a response to their external environment. As such, the following hypothesis was defined:

H 5. *The entities' industry influences the method adopted for accounting for financial investments under IAS 27.*

The literature has also proposed the agency theory to explain the likely relationship between the entities' accounting choices and the auditing entity. The agency theory is based on the existence of the principal and the agent, with distinct interests and imbalances concerning decision-making power and asymmetric information. These imbalances may lead the management (the agent) to maximize their interests to the detriment of the shareholders (the principal) (Jensen and Meckling 1976; Mohammed, Ahmed, and Ji 2017). Therefore, to mitigate those agency costs, the literature argues that larger auditors tend to adopt mechanisms to control and limit the managers' biased and opportunistic behavior, especially through earnings management (Awuye 2022; Demir and Bahadir 2014; Gerayli, Yanesari, and Ma'atoofi 2011; Passos and Lucena 2024).

Therefore, based on the agency theory, it is expected that the auditor size will influence the adoption of accounting methods that allow for more effective monitoring and control and less possibility of earnings management (Gerayli, Yanesari, and Ma'atoofi 2011). Thus, due to the higher earnings volatility when adopting the EM and fair value models, the adoption of the cost model is expected when entities are audited by larger auditors. This is aligned with Souza et al. (2015), which stress that the probability of opting for the fair value method is reduced when the auditor is a Big Four (characterized as a larger auditing entity). Consequently, the following hypothesis was defined as follows:

H 6. *The auditing entity size positively influences the entities' adoption of the cost method for accounting for financial investments under IAS 27.*

Although not usually proposed as explanatory factors in the scope of the accounting choices literature, corporate governance variables have also been related to the adoption of more conservative accounting. Research has pointed out that the size of the board of directors negatively impacts accounting conservatism given that larger boards are associated with less effective monitoring and supervising managerial behavior (Alves 2021; Boussaid, Hamza, and Sougne 2015; Nasr and Ntim 2018; Suleiman 2014).

The different options for accounting for investments under IAS 27 show various levels of conservatism, through the volatility of the entities' financial position and performance from the use of EM and fair value models for accounting financial investments. Therefore, a negative relation is likely between the size of the board of directors and the adoption of more conservative accounting methods, such as the cost method. Thus, the following hypothesis was defined:

H 7. *The size of the entities' board of directors negatively influences the adoption of the cost method for accounting for financial investments under IAS 27.*

The board of directors integrates executive and nonexecutive members. The first defines and fulfills strategic objectives, while the latter monitors the actions and decisions of the executive members and safeguards the entities' continuity, respectively (Pass 2004).

The weight of nonexecutive directors is, thus, also inherent in agency theory, which suggests that a higher proportion of these elements increases the effectiveness of the board of directors (Amran and Manaf 2014). Therefore, it is proposed as a likely explanatory factor of the entities' accounting choices since they are characterized as external and independent members of corporate governance who ensure, through autonomous management functions, the entities' integrity and accountability (Pass 2004). This idea is further evidenced by Amran and Manaf (2014), who state that the higher the number of those members, the higher the effectiveness of the board of directors, due to the mitigation of agency costs, given that they monitor managers and protect shareholder interests.

From this perspective, several studies indicate that the greater the weight of nonexecutive members on the board, the higher the levels of conservatism (Alves 2021; El-Habashy 2019; Nguyen et al. 2023). Thus, it is expected that entities that hold a greater number of nonexecutive members over the total number of members on the board will tend to adopt more conservative accounting policies to the detriment of policies that enhance greater volatility in the entities' financial position and performance, which is observable with the adoption of EM and fair value models. Thus, the following hypothesis was proposed:

H 8. *The weight of the entities' nonexecutive members on the board of directors positively influences the adoption of the cost method for accounting for financial investments under IAS 27.*

Items with a significant weight in assets (or material relevance) in SFS have a higher risk of causing material changes in the entities' financial position (Trisandy, Prihatni, and Musyaffi 2023). Thus, it is expected that such items will be subject to greater monitoring, as they have more potential to impact financial information, especially in scenarios of uncertainty, instability, or even by revisions of the underlying accounting estimates (Altiero, Kang, and Peecher 2022).

The International Standard on Auditing (ISA) 500, issued by the International Auditing and Assurance Standards Board (IAASB) (2021), evidences this by suggesting that items can be selected for audit due to their high value. Consequently, listed entities, such as those included in this research sample, which additionally have a greater weight of investments under IAS 27 on the total assets, may tend to mitigate the likelihood of adverse impact of their exposure, considering the potential risk that those items entail. This is close to the assumption behind the entities' size hypothesis since such entities are exposed to greater public scrutiny (Alves 2019; Silva, Martins, and Fávero 2022). Consistently, entities will potentially opt for more conservative accounting policies, such as the cost method, for items with greater material relevance.

Notwithstanding, Poerwati et al. (2020) and Trisandy, Prihatni, and Musyaffi (2023) conversely consider that entities with a high ratio of specific items over assets are more likely to adopt methods that reflect, in a timelier manner, those items' fair value. As a result, it can be assumed that entities with a greater weight of financial holdings will tend to adopt EM or fair value-based models since they allow for more timely monitoring of market value or changes in their subsidiaries' net assets.

Consequently, and despite the divergences found in the literature in this regard, the following hypothesis was formulated as follows:

H 9. *The weight of the entities' investments under IAS 27 influences the adoption of the cost method for those investments.*

Finally, Regulation (EU) No. 1606/2002 defines that the rules concerning the preparation of the annual accounts of entities with securities traded on any regulated market in the EU are the duty of each Member State. Although the regulation does not directly relate the annual accounts to the SFS, this has been inferred from different literature (e.g., EFRAG 2014; Lopes and Camões 2021; Palea 2014; Sotti 2018). Therefore, each Member State determines whether it is mandatory or not to use IAS 27 in the preparation of these accounts.

Entities tend to comply with voluntary requirements for several reasons, namely, to reduce the information asymmetry, and to increase its usefulness (relevance) and comparability (Kanakriyah 2016). Given that EM and fair value models are seen as the most relevant methods, a positive association is likely expected between the optional adoption of IAS 27 in the entities' SFS and the use of those methods (Benyasrisawat et al. 2015; Garg and Hanlon 2012; Tutticci 2002). Thus, the following hypothesis is proposed:

H 10. *The voluntary adoption of IAS in the SFS by entities negatively influences their adoption of the cost method for accounting for financial investments under IAS 27.*

The next section presents the research methodology underlying this paper.

3 | Research Methodology

3.1 | Research Method Description and Dataset

This study employs a primarily quantitative approach using the archival research method. Information regarding the application of IAS in SFS across various countries was sourced from the IFRS Foundation website, namely through the answers to the question about IFRS being required or permitted in SFS of companies whose securities are traded in public markets.

The research focuses on entities listed in the main stock indices of EU countries where IAS in SFS is either required or permitted. Initially, only 21 countries were considered due to six countries where such application is not permitted (Austria, France, Germany, Hungary, Spain, and Sweden). Subsequently, the main indices of each country were identified primarily through investing.com.

The constituent entities of these indices were determined using the LSEG Eikon database, having the end of January 2023 as the reference date. As an exception, Italian entities were extracted from the Amadeus database, while Maltese entities were sourced from the stock exchange annual report for 2022.

Finally, all SFS for the year ending in 2021 were collected from the websites of sampled entities, except in those cases where the reporting date significantly deviated from the calendar year, in which case statements for 2022 were used (six cases). Exceptionally, SFS for 2020 statements were used (three cases) whenever those for 2021 were unavailable.

Seventy-two entities failing to provide reports and 10 entities lacking information on their accounting methods were excluded. Additionally, six entities were excluded due to reports being in languages other than English and/or incompatible formats with automatic translation.

Table 1 summarizes the number of excluded entities from the initial to the final sample.

TABLE 1 | Sample selection.

Initial sample	**417**
Entities that belong to more than one index	1
Entities whose SFS were not available or could not be found	72
Entities with SFS from periods before 2020	8
Entities that do not mandatorily or optionally adopt IAS in their SFS	49
Entities that have had impacts on the group's structure	1
Entities whose method of accounting for financial investments under IAS 27 has not been disclosed	10
Entities whose SFS have specific disclosures, where key elements for this analysis are not identified	3
Entities whose SFS were not in a supported format for translation	6
Final sample	**267**

Source: Own elaboration.
Abbreviations: IAS, International Accounting Standards; SFS, separate financial statements.

TABLE 2 | Distribution of entities by country.

Country	The number of entities	% of entities observed
Bulgaria	9	3%
Croatia	12	4%
Cyprus	4	1%
Czechia	9	3%
Denmark	8	3%
Estonia	14	5%
Greece	37	14%
Ireland	28	10%
Italy	27	10%
Latvia	6	2%
Lithuania	16	6%
Luxembourg	3	1%
Malta	24	9%
Poland	11	4%
Portugal	12	4%
Romania	15	6%
Slovakia	2	1%
Slovenia	8	3%
The Netherlands	22	8%
Total	**267**	**100%**

Source: Own elaboration.

Thus, after excluding all entities from Belgium and Estonia that do not meet the criteria for analysis, at the end of the selection process, 267 entities from 19 countries met the criteria, as shown in Table 2.

3.2 | Model Construction

The dependent variable is the method of accounting for financial investments in subsidiaries, associates, and joint ventures (MET), being a dichotomous variable where the value "1" is assigned when the entities exclusively adopt the cost method and "0" otherwise.

In turn, 10 independent variables were selected underlying the study hypotheses that were formulated (H1 to H10) and identified in the literature review. The hypotheses used as independent variables are those usually proposed in previous investigations as proxies of proposed explanatory factors, namely profitability, indebtedness, size, country, industry, and the auditing entity. Variables related to corporate governance were also included, namely the size of the board of directors and the weight of nonexecutive members. Considering the topic under assessment, the weight of the financial investments under IAS 27 and the type of SFS adoption (mandatory versus voluntary) by entities were also selected.

Table 3 identifies the independent variables used as proxies of the explanatory factors.

The country analysis used the indices of the cultural dimensions of the headquarters country of the parent company. The auditing entity was codified as "1" when it is a Big Four (EY, PwC, Deloitte, KPMG), and "0" in other cases. For the variable corresponding to the type of adoption (TYPE), the value "1" was assigned when the Member States required the adoption of the standards and "0" when they allowed such adoption. Finally, the industry was identified based on the classification of the Industry Classification Benchmark, being identified as six industries. Table 4 presents the industries by entity.

This research initially performed univariate descriptive statistical analyses. Then, multivariate analyses using logistic regression (as the dependent variable is categorical) were performed, which was preceded by bivariate analyses of correlation between the dependent and the independent variables. Multicollinear analyses between the independent variables were also performed using the variance inflation factor (VIF) analysis. Statistical analyses were performed with the support of IBM SPSS Statistics software.

Regarding the entities' size, the regression model uses the logarithm of TA (Ln_TA). Furthermore, as the industry is a categorical variable, it was necessary to code each of them into dichotomous variables, where the value "1" was assigned to indicate the

TABLE 3 | Explanatory factors and independent variables.

Explanatory factor	Independent variable (*proxies*)	Benchmark studies
Profitability	Net income/Equity (PROF)	Silva, Martins, and Fávero 2022
Indebtedness	Total liabilities/Total assets (TA) (DEBT)	Alves 2019; Olante and Lassini 2022; Queiroz and Almeida 2017; Silva, Martins, and Fávero 2022
Size	TA	Olante and Lassini 2022; Queiroz and Almeida 2017; Silva, Martins, and Fávero 2022
Country	UAI; IDV; MAS; PDI; LTO; and IVR	Not applicable
Industry	Main industry (INDUSTRY)	Cairns et al. 2011; Collin et al. 2009; Jaafar and McLeay 2007; SACI 2021; Stadler and Nobes 2014
External auditor	Big Four or not (AUDIT)	Demir and Bahadir 2014; Silva, Martins, and Fávero 2022
Size of the board of directors	Number of members on the board of directors (NM)	Alves 2021; Boussaid, Hamza, and Sougne 2015, Nasr and Ntim 2018; Suleiman 2014
Weight of nonexecutive members on the board of directors	Total nonexecutive members on the board of directors/NM (NEM)	Alves 2021; El-Habashy 2019; Nguyen et al. 2023
Weight of investments in subsidiaries, associates, and joint ventures on TA	Investments in subsidiaries, associates, and joint ventures/TA (WINV)	Not applicable
Type of adoption of IAS in SFS	Mandatory or optional adoption (TYPE)	Not applicable

Source: Own elaboration.

Abbreviations: IDV, individualism; IVR, indulgence versus restraint; LTO, long-term orientation; MAS, masculinity; NEM, nonexecutive member; PDI, power distance index; UAI, uncertainty avoidance index.

TABLE 4 | Distribution of entities by industry.

Industry	Code	The number of entities observed	% of entities observed
Industrials and Basic Materials	1	65	24%
Consumer Goods	2	59	22%
Energy and Utilities	3	28	10%
Financial and Insurance	4	68	25%
Telecommunications and Technology MateriTandelecommunication-sTelecommunicationsTeTeTechnologyTechnology	5	38	14%
Healthcare	6	9	3%
Total		**267**	**100%**

Source: Own elaboration.

industry under assessment, and the value "0" otherwise. Due to the inclusion of these variables, it became necessary to identify a reference dichotomous variable for exclusion. Therefore, the healthcare industry (6) was chosen for this purpose considering that was the last representative.

Then, the following model is proposed:

$$\begin{aligned} MET = {} & \beta_0 + \beta_1 PROF + \beta_2 DEBT + \beta_3 Ln\_TA + \beta_4\, UAI \\ & + \beta_5\, IDV + \beta_6\, MASC + \beta_7\, PDI + \beta_8\, LTO + \beta_9\, IVR \\ & + \beta_{10}\, INDUSTRY_1 + \beta_{11}\, INDUSTRY_2 \\ & + \beta_{12}\, INDUSTRY_3 + \beta_{13}\, INDUSTRY_4 \\ & + \beta_{14}\, INDUSTRY_5 + \beta_{15}\, AUDIT + \beta_{16}\, NM + \beta_{17}\, NEM \\ & + \beta_{18}\, WINV + \beta_{19}\, TYPE + \varepsilon \end{aligned} \tag{1}$$

The next section presents the research results and their discussion.

4 | Research Results and Discussion

4.1 | Results

Descriptive analyses begin with the presentation of the accounting methods for investments under IAS 27 by industry, as shown in Table 5.

Table 5 shows the prevalence of the cost method. The financial industry (4) is the one with the greatest diversity of methods adopted, although it does not include entities that exclusively adopt the FVOCI.

Regarding the independent variables, Table 6 shows the average, median, and standard deviation values for continuous variables, as well as the frequency for dichotomous variables.

Data present a relative consistency among the entities, except for PROF and TA, which exhibit more dispersed values around the average. As for the external auditor, most of the entities hire Big Four. Also, there is a similar breakdown between the types of IAS adoption.

Following, the correlation between the independent variables based on Pearson's correlation was performed, indicating no significant collinearity problems between them, since they present values lower than about 0.7. Additionally, the VIF was performed with no multicollinearity problems being identified among the independent variables, as no values exceeded 7.

Regarding the overall percentage of correctly classified cases for the estimated model, the figures indicate that the percentage is 86.1%, which compares to 80.1% of the initial stage, improving the overall success rate. Also, the Hosmer and Lemeshow test has a significance level of 0.504, higher than 0.05, which indicates that the model fits the data under assessment.

Table 7 presents the results of the regression model.

The result for the Omnibus test validates the existence of independent variables with explanatory power. Regarding the explanatory capacity, the results of the Cox & Snell and Nagelkerke R Square indicate that the level of adjustment is adequate, with 28.8% and 45.7%, respectively.

The three variables that present a statistically significant association with the cost method are Ln_TA and WINV (both negative), as well as NM (positive).

4.2 | Discussion

The findings from this paper indicate that both profitability (H1) and indebtedness (H2) showed no relation with the accounting method for investments in subsidiaries, associates, and joint ventures, which is consistent with prior research by Santos, Floriani, and Klann (2017). This could be attributed to the fact that accounting methods other than cost allow entities to anticipate adjustments to their SFS during periods of adverse outcomes or poor performance. Consequently, these adjustments might affect asset performance and indebtedness levels, which are financial ratios commonly used by investors in their decision-making process.

Regarding the entities' size (H3), a negative association was observed with the adoption of the cost method, conversely to the proposed hypothesis. Larger companies, where such investments are significant, may prioritize accounting that reflects their expected market value, potentially leading to the use of EM or

TABLE 5 | Accounting method, by industry and total (in number).

Exclusively cost		Other methods					
		Cost and EM	Cost and FVOCI	EM	FVPL	FVOCI	Total
INDUSTRY_1	57			7		1	8
INDUSTRY_2	49	1		8		1	10
INDUSTRY_3	23	2		2	1		5
INDUSTRY_4	51	2	1	10	4		17
INDUSTRY_5	27	3		6	1		10
INDUSTRY_6	7			3			3
Total	**214**	**8**	**1**	**36**	**6**	**2**	**53**

Source: Own elaboration.
Abbreviations: FVOCI, fair value through other comprehensive income; FVPL, fair value through profit or loss.

TABLE 6 | Descriptive statistics for independent variables.

Independent variables	Average	Median	Standard deviation
PROF	0.088	0.089	1.123
DEBT	0.471	0.439	0.404
TA[a]	13.538	938	58.319
UAI	77.360	80	25.166
IDV	54.049	59	18.352
MAS	45.127	47	19.979
PDI	53.745	56	17.864
LTO	53.073	51.889	16.399
IVR	42.439	47.545	19.852
AUDIT	0.712[b]	NA	NA
NM	7.784	7.784	3.727
NEM	0.713	0.714	0.225
WINV	0.388	0.299	0.342
TYPE	0.607[b]	NA	NA

Abbreviations: IDV, individualism; IVR, indulgence versus restraint; LTO, long-term orientation; MAS, masculinity; NA, not applicable; NEM, nonexecutive member; PDI, power distance index; UAI, uncertainty avoidance index.
[a]In million euros.
[b]Observed frequency.

fair value models. Literature on this matter presents controversial conclusions. Then, while some studies suggest that larger entities are more inclined toward fair value-based models (Alves 2019), others indicate a negative influence (Conceição 2009; Olante and Lassini 2022), or even no significant relationship (Santos, Floriani, and Klann 2017).

Concerning countries' conservatism (H4), no influence was found between the Hofstede's cultural dimensions and the accounting methods adopted by entities. Thereby, it must be considered that cultures evolve due to various factors like social, economic, and political changes, necessitating periodic reviews and updates to theoretical associations proposed by Gray (1988).

TABLE 7 | Results of the regression model.

Independent variables	*B*	Significance
PROF	−0.428	0.302
DEBT	0.363	0.592
Ln_TA	−0.257	0.015
UAI	−0.031	0.088
IDV	−0.015	0.508
MAS	0.016	0.275
PDI	0.032	0.275
LTO	−0.032	0.097
IVR	−0.015	0.270
INDUSTRY_1	0.159	0.894
INDUSTRY_2	0.750	0.536
INDUSTRY_3	−0.230	0.857
INDUSTRY_4	−0.618	0.604
INDUSTRY_5	−0.527	0.667
AUDIT	−0.293	0.590
NM	0.310	< 0.001
NEM	−0.648	0.482
WINV	−2.467	< 0.001
TYPE	0.224	0.689
Constant	9.367	< 0.001
Model Statistics		
Omnibus test significance	< 0.001	
R2 Cox and Snell	0.288	
R2 Nagelkerke	0.457	

Source: Own elaboration.
Abbreviations: IDV, individualism; IVR, indulgence versus restraint; LTO, long-term orientation; MAS, masculinity; NEM, nonexecutive member; PDI, power distance index; UAI, uncertainty avoidance index.

Moreover, industries (H5) were not found to be a characteristic that likely influenced the entities' accounting choices, contrary to the findings in the literature (Silva, Martins, and Fávero 2022; Cairns et al. 2011; Jaafar and McLeay 2007). This may be attributed to the fact that the industry-specific characteristics are better reflected in the entities' consolidated financial statements rather than their SFS.

The size of auditing entities (H6) did not emerge as a significant factor as well, contrary to previous studies associating Big Four auditors with strategies to mitigate agency costs (Demir and Bahadir 2014; Gerayli, Yanesari, and Ma'atoofi 2011). However, the prevalence of Big Four auditors within the sample might have influenced the results.

On the other hand, and contrary to the proposed hypothesis (H7), the size of the board of directors positively influenced the adoption of the cost method, contradicting prior research (Boussaid, Hamza, and Sougne 2015; Nasr and Ntim 2018; Suleiman 2014). This may indicate that larger boards are more proactive in monitoring activities, leading to the adoption of conservative accounting policies (Alves 2021).

Following, the weight of nonexecutive members on the board of directors (H8) does not influence the accounting method adopted, contrary to previous findings (Alves 2021; El-Habashy 2019; Nguyen et al. 2023). This lack of relation may stem from varying interests among nonexecutive members, some favoring conservative methods while others prefer those that are better aligned with market expectations.

Then, the weight of financial investments (H9) exhibited a negative influence on the cost method, confirming the hypothesis proposed. This suggests a relationship between the weight of such investments and the adoption of EM and fair value models, consistent with prior research (Poerwati et al. 2020; Trisandy, Prihatni, and Musyaffi 2023).

Lastly, the type of adoption of accounting standards (H10) was not significant in explaining the accounting method adopted, contrary to the assertion that entities are motivated to comply with voluntary requirements due to their perceived usefulness (Kanakriyah 2016). Furthermore, the findings do not support the trend toward EM and fair value-based models when such adoption is possible, as suggested by prior literature (Benyasrisawat et al. 2015; Garg and Hanlon 2012; Tutticci 2002).

The following section is dedicated to the conclusions.

5 | Conclusions

The study analyzed the explanatory factors of the accounting choices for investments under IAS 27 of entities with securities traded on EU-regulated markets. The findings highlight that the entity size, the weight of financial investment (both negative), and the size of the board of directors (positively) were considered to influence the adoption of the cost method by listed European entities.

Limitations of the study include the difficulty of obtaining information from the entities' reports, which is not always easily available and is subject to judgment by the researchers. Also, the sample size regarding the cost method versus others hindered a more comprehensive exploration of the different accounting methods under IAS 27. Thus, suggestions for future research include detailed analyses of the various accounting method options, potential sample extensions to other indices or markets, as well as investigations into how local legislation influences accounting method choices.

This study contributes to the literature by identifying factors influencing accounting choices for investments in subsidiaries, associates, and joint ventures in SFS, a topic previously unexplored. Also, it introduces further explanatory factors such as cultural influences and mandatory versus optional use of IAS, addressing the issues of comparability of financial information, which is a crucial matter for academia, standard-setter bodies, local regulators, investors, and other stakeholders.

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Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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