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# The Accounting Discretion Dilemma: A Conceptual Review of Efficient and Opportunistic Earnings Management for Audit Practitioners

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***Abstract:*** *Accounting discretion allows management to exercise professional judgment in preparing financial statements. The same flexibility may be used opportunistically through earnings management, and both uses operate within accounting standards, which makes them difficult for auditors to distinguish. This article examines the conceptual distinction between efficient and opportunistic earnings management, maps the factors that shape the nature of accounting discretion, and discusses the challenges auditors face in evaluating it. A structured conceptual literature review with thematic synthesis of reputable journal publications is used. The review indicates that discretion is shaped by corporate governance, ownership structure, compensation incentives, market pressure, the regulatory environment, and business complexity, while auditors face four obstacles: limited observability of motives, the absence of a universal benchmark, independence pressure, and the complexity of principle-based standards. The article proposes the Accounting Discretion Evaluation Matrix (MEDA), a two-dimensional framework (Informational Content and Agency Incentive Intensity) supplemented with indicators, a preliminary scoring rule, audit responses for each quadrant, and propositions for empirical testing. MEDA is conceptual and has not yet been tested empirically.*

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## Introduction

Financial reports are an important source of information for investors, creditors, and regulators in assessing a company's financial condition and performance. The application of accounting standards, including International Financial Reporting Standards (IFRS) and Indonesian Financial Accounting

Standards (PSAK), which adopt IFRS, provides management with flexibility to exercise professional judgment when making estimates and selecting accounting policies according to the characteristics of business transactions. This flexibility is commonly referred to as accounting discretion. From a theoretical perspective, accounting discretion can improve the relevance of financial reporting because management possesses information about the company's internal activities and economic conditions that may not be fully accessible to external parties. Consequently, appropriate accounting judgments can help financial statements represent the company's economic substance more accurately (Dechow et al., 2010; Fields et al., 2001).

However, the flexibility provided by accounting standards may also be used for opportunistic purposes. Earnings management refers to the use of managerial judgment in financial reporting and the structuring of transactions to alter financial statements, either to influence stakeholders' perceptions of a company's economic performance or to affect contractual outcomes that depend on accounting figures (Healy & Wahlen, 1999). The literature identifies two main perspectives for understanding this practice. The efficiency perspective considers accounting discretion a mechanism through which management communicates private information about the company's financial condition and future prospects. Under certain circumstances, discretionary accruals may therefore contain relevant information for investors and other stakeholders (Subramanyam, 1996; Arya et al., 2003; Tucker & Zarowin, 2006). This perspective is consistent with signaling theory, which explains how parties possessing superior information can communicate relevant signals to external parties (Spence, 1973). In contrast, the opportunistic perspective is rooted in agency theory and positive accounting theory, which explain that managers may use accounting discretion to pursue personal interests, including obtaining compensation benefits or influencing contractual provisions related to debt agreements (Jensen & Meckling, 1976; Watts & Zimmerman, 1986).

Distinguishing between efficient and opportunistic uses of accounting discretion remains a significant challenge for auditors because managerial accounting choices do not always fall into clearly separated categories of acceptable reporting practices and misleading financial reporting. Dechow and Skinner (2000) explain that accounting choices exist along a continuum, ranging from fraudulent practices that violate accounting standards to aggressive choices that remain formally within the standards, as well as more conservative accounting decisions. This continuum creates room for different interpretations among academics, practitioners, and regulators when assessing the appropriateness of particular accounting choices. In Indonesia, the regulatory environment provides an important context for this issue. Law of the Republic of Indonesia Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector reflects broader efforts to strengthen financial sector governance and oversight (Undang-Undang Republik Indonesia Nomor 4 Tahun 2023, 2023). In addition, the Financial Services Authority Regulation Number 55/POJK.04/2015 concerning the Establishment and Guidelines for the Implementation of Audit Committee Work establishes an institutional framework for strengthening audit committee oversight of financial reporting (Otoritas Jasa Keuangan, 2015). These regulations are relevant because effective oversight requires more than formal compliance with accounting standards; it also requires attention to the economic rationale and managerial incentives underlying accounting judgments. Nevertheless, stronger regulatory oversight does not eliminate the possibility that opportunistic choices may be made within the formal boundaries of accounting standards. This condition constitutes what this article refers to as the accounting discretion dilemma.

Previous studies on earnings management have primarily focused on measuring discretionary accruals and identifying factors associated with earnings management. The Jones model was introduced to estimate discretionary accruals as an indicator of potential earnings management, while subsequent developments sought to improve measurement by incorporating additional considerations, including company performance (Jones, 1991; Dechow et al., 1995; Kothari et al., 2005). Dechow et al. (2012) subsequently proposed an alternative approach to improve the detection of earnings management. These models have made important contributions to the empirical identification of abnormal accrual patterns and potential earnings management. However, their primary objective is measurement and detection, rather than evaluating the underlying informational rationale and managerial incentives associated with a specific accounting choice. In other words, identifying abnormal accruals does not automatically establish whether a particular discretionary decision reflects an effort to communicate relevant economic information or an attempt to pursue managerial self-interest. This distinction is particularly important


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for auditors, who must assess not only the numerical outcomes of accounting estimates but also the economic evidence supporting those estimates and the incentives that may influence management's judgments.

Based on this distinction, the research gap addressed in this article lies in the need for a conceptual evaluation framework that complements existing accrual-based d etection models. While previous models primarily identify abnormal accrual patterns as potential indicators of earnings management, this article proposes the Accounting Discretion Evaluation Matrix (MEDA) to assess the informational basis and agency-related incentives underlying specific accounting choices. MEDA is therefore not intended to replace existing earnings management measurement models or to determine conclusively whether earnings management has occurred. Instead, it provides an additional evaluative perspective by positioning accounting choices along two dimensions: Information Content and Agency Incentive Intensity. This approach is expected to help auditors assess whether a discretionary choice is supported by verifiable economic information, influenced by managerial incentives, or characterized by a combination of both.

Accordingly, this article aims to: (1) explain the conceptual differences between efficient and opportunistic earnings management and identify the factors that influence the nature of accounting discretion; (2) examine the challenges auditors face in distinguishing between these two forms of discretionary accounting practices; and (3) develop the Accounting Discretion Evaluation Matrix (MEDA), including its operational indicators and research propositions for future empirical testing. The contribution of this article lies in extending the discussion of earnings management beyond the identification of abnormal accrual patterns toward a more contextual evaluation of the informational content and managerial incentives underlying accounting choices. By developing MEDA within the context of existing auditing and accounting literature, this study seeks to provide a conceptual basis for auditors, audit committees, and future researchers to evaluate accounting discretion more systematically.

## Research methods

### Desain Penelitian

This study employed a structured conceptual literature review design, which aims to synthesize knowledge from various studies to build a conceptual framework, rather than to calculate quantitative effect sizes. A literature review can be used as a methodological approach to integrate findings and concepts from multiple studies, resulting in a more comprehensive understanding of a field of study (Snyder, 2019). The principle of transparency in reporting the literature search and selection process was adopted from the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 guidelines (Page et al., 2021). This study does not claim to be a full systematic literature review because it did not conduct a formal quality assessment of articles and did not perform a quantitative synthesis.

### Search Strategy and Selection Criteria

The literature search was conducted through Scopus, Web of Science, Google Scholar, EBSCO Business Source Complete, and SINTA. Google Scholar was used as a supplementary search tool, while articles used as research sources were verified through publisher pages or curated databases. The search strategy used a combination of keywords in English and Indonesian with Boolean operators. Keywords used included accounting discretion, earnings management, efficient earnings management, opportunistic earnings management, audit quality, discretionary accruals, accounting discretion, earnings management, audit quality, and discretionary accruals.

Inclusion criteria included full-text peer-reviewed journal articles in Indonesian or English that were directly related to accounting discretion, earnings management, audit quality, or discretionary accruals, in accordance with the research objectives. Proceedings, undergraduate theses, dissertations, opinion pieces, and popular articles were excluded from the synthesis. Foundational works that served as the conceptual basis for the research, including literature on agency theory and accrual models, were retained without publication year restrictions, as the Accounting Discretion Evaluation Matrix (MEDA)


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framework requires a conceptual foundation from the original source. More recent empirical evidence was used to assess the relevance of the concept in a contemporary research context.

### Analysis Techniques

The literature analysis was conducted thematically through three coding stages: open coding, axial coding, and selective coding. In the open coding stage, each article was identified based on its main concepts, including research objectives, methods, findings, theoretical perspectives, and implications for auditing. Next, axial coding was used to group related concepts into several main themes: the characteristics of efficient earnings management, the characteristics of opportunistic earnings management, factors determining the nature of discretion, and auditors' challenges in evaluating accounting discretion. The final stage was selective coding, which integrated these themes into the conceptual framework of the Accounting Discretion Evaluation Matrix (MEDA). This synthetic approach is interpretive, so the results may be influenced by the selection and interpretation process of the literature used. These limitations are discussed further in the conclusion.

## Results and Discussion

### Accounting Discretion Continuum

Efficient and opportunistic earnings management are better understood as two ends of a continuum rather than as two entirely separate categories. On the efficient side, accounting discretion can serve as an information-delivery mechanism that helps reduce information asymmetry between management and external parties. Empirical evidence suggests that income smoothing, under certain conditions, can increase the informativeness of earnings relative to future earnings, allowing earnings changes to provide relevant information about the company's performance in subsequent periods (Tucker & Zarowin, 2006). This view is also supported by the argument that unmanaged earnings do not always provide more useful information to shareholders, as the use of certain discretions can help management convey private information about the company's condition (Arya et al., 2003). For example, management assigning a longer useful life to a newly constructed network asset because operational data indicates that the asset remains productive may produce estimates that are economically sound and informative, even though these estimates result in increased earnings.

On the opportunistic side, accounting discretion is used primarily to meet performance targets or contractual requirements, rather than to convey information about the company's economic condition. Research shows a tendency for earnings distribution to be concentrated slightly above zero and above certain expectations, indicating the practice of earnings management to exceed performance thresholds (Burgstahler & Dichev, 1997; Degeorge et al., 1999). Furthermore, companies that meet or exceed earnings expectations may elicit a positive market response, creating an incentive for management to manage accounting figures when they are around a certain threshold (Bartov et al., 2002). These incentives suggest that pressure to achieve certain targets may be a factor driving the opportunistic use of accounting discretion.

Between these two extremes lies a broad gray area, as an accounting choice can have a legitimate economic basis and benefit management. Therefore, the nature of a discretionary choice cannot be inferred solely from the resulting changes in accounting numbers. The literature on accounting choices suggests that the same decision can be explained by both efficiency and opportunistic motives, so distinguishing between the two requires consideration of the decision context, company characteristics, and the evidence underlying the choice (Fields et al., 2001; Dechow et al., 2010). This situation is referred to in this article as the mixed discretionary zone. Consequently, the auditor's evaluation should not simply question whether a choice complies with accounting standards but also consider the strength of the underlying economic basis and the extent of any personal incentives that may accompany it.

### Factors Determining the Nature of Accounting Discretion

The literature synthesis identified six main factors that can determine the direction of the use of accounting discretion, namely governance quality, ownership structure, compensation incentives, market pressures and analyst expectations, regulatory and enforcement environment, and business complexity and uncertainty.


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The first factor is the quality of corporate governance. Audit committee independence is associated with lower levels of abnormal accruals, so a more independent oversight mechanism can limit the opportunistic use of accounting discretion (Klein, 2002). Furthermore, board and audit committee characteristics, including the presence of members with financial backgrounds, are associated with lower levels of discretionary accruals (Xie et al., 2003). The second factor is ownership structure. Ownership structure can influence the intensity of management oversight and the owners' interests in the financial reporting process, making the relationship between owners and managers an important context in understanding the use of accounting discretion (Jensen & Meckling, 1976).

The third factor is compensation incentives. Certain forms of compensation, particularly option-based compensation, can create incentives for managers to influence accounting figures that serve as the basis for assessing a company's performance or value. Research shows that firms with greater option compensation are associated with a higher likelihood of financial statement misstatements (Efendi et al., 2007). The fourth factor is market pressure and analyst expectations. Meeting or exceeding earnings expectations can provide certain rewards through market response, while the existence of earnings thresholds creates incentives for management to manage reported figures to achieve expected targets (Bartov et al., 2002; Degeorge et al., 1999).

The fifth factor is the regulatory and enforcement environment. Cross-country comparisons show that stronger investor protection is associated with lower levels of earnings management, demonstrating the importance of the institutional environment in limiting the opportunistic use of discretion (Leuz et al., 2003). Changes in accounting standards also do not automatically result in improved reporting quality. Empirical evidence suggests that changes in accounting quality following IFRS adoption are related to changes in reporting incentives, in addition to the standard changes themselves (Christensen et al., 2015). The sixth factor is business complexity and uncertainty. Increasingly complex business conditions can increase the need for accounting estimates while making it more difficult for external parties to verify the reasonableness of those estimates (Dechow et al., 2010). Furthermore, restrictions on one form of earnings management can encourage a shift in the use of discretion to other channels, such as a shift from accrual-based manipulation to real activities manipulation (Roychowdhury, 2006; Cohen et al., 2008). Thus, evaluating the direction of discretionary use requires considering a combination of internal company factors, external pressures, and the characteristics of the reporting environment simultaneously.

The six factors do not stand alone. Table 1 links each factor to the MEDA dimension it influences, so that the determinants can be used directly in the evaluation.

**Table 1. Relationship between determining factors and MEDA dimensions**

| Factor | Main mechanism | The dimensions that are primarily affected | Direction of influence |
|---|---|---|---|
| Quality of governance | Oversight of the estimation and reporting process | IIA | Strong governance reduces IIA |
| Ownership structure | Controlling and monitoring interests of managers | IIA | Context dependent |
| Compensation incentives | The relationship of bonuses or options to profit figures | IIA | Profit-based compensation increases IIA |
| Market pressure | Profit targets and analyst expectations | IIA | High pressure increases IIA |


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| Factor | Main mechanism | The dimensions that are primarily affected | Direction of influence |
|---|---|---|---|
| Regulatory environment | Law enforcement and disclosure demands | IIA and KI | Strong enforcement lowers IIA; disclosure of assumptions increases verifiable IIA |
| Business complexity | Estimates are difficult for outside parties to verify. | KI (verifiability) | High complexity reduces IP verifiability and expands the grey zone. |

**Four Layers of Auditor Challenges**

Auditors face four interacting layers of challenges in distinguishing between efficient and opportunistic uses of accounting discretion: observability, benchmarking, independence, and the complexity of principles-based standards.

The first layer is observability. Unlike fraud, which involves violations and can be traced based on specific evidence, opportunistic earnings management can be carried out through accounting choices that are within the bounds of standards, so the motives behind these decisions cannot be directly observed. Evidence obtained through interviews and experiments with auditors indicates that auditors' decisions regarding adjustments are influenced by factors such as materiality and the level of precision of standards. This condition makes accounting choices that are within the permissible limits of standards more difficult to question in an audit (Nelson et al., 2002).

The second layer is the benchmarking issue. There is no single accrual measurement model that can be used as a universal standard for identifying earnings management. Different models have different characteristics and potential measurement errors, so identification results can vary depending on the model used (Dechow et al., 1995). Subsequent model development also showed that discretionary accrual measurement has certain limitations and can produce different estimates for companies with different performance characteristics (Kothari et al., 2005). Alternative approaches were subsequently developed to improve detection capabilities, but measurement issues remain a key element in interpreting research findings on earnings management (Dechow et al., 2012). Thus, the same model may yield different conclusions when applied to companies with different performance levels, operational characteristics, or complexity.

The third layer is auditor independence. The auditor's economic dependence on the client can be a factor influencing the auditor's willingness to overrule the client's reporting preferences. DeAngelo (1981) explains that audit firm size is related to incentives to maintain reputation and audit quality, while research on non-audit service relationships and earnings management shows evidence of a link between non-audit service fees and certain earnings reporting patterns (Frankel et al., 2002). However, other evidence does not find a positive relationship between client economic interests and abnormal accruals, so the relationship between client dependence and reporting behavior needs to be interpreted with caution (Chung & Kallapur, 2003). In general, higher audit quality is associated with lower levels of discretionary accruals, indicating the importance of auditor characteristics in limiting the use of potentially opportunistic accounting discretion (Becker et al., 1998; Francis, 2004; DeFond & Zhang, 2014). Therefore, independence issues are more appropriately assessed at the level of audit engagement and engagement conditions rather than assumed uniformly.

The fourth layer is the complexity of principles-based standards. Analysis of the tightening of accounting standards indicates that restrictions on accrual-based earnings management can create incentives for companies to shift earnings management practices to real activities (Ewert & Wagenhofer, 2005). Standards that provide ample scope for the use of estimates therefore require auditors to evaluate


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the assumptions and judgments underlying the estimates, rather than simply verifying compliance with formal procedures. ISA 540 (Revised) emphasizes the auditor's responsibility to assess the risks of material misstatement related to accounting estimates and related disclosures, including risks arising from potential management bias (International Auditing and Assurance Standards Board [IAASB], 2018). Meanwhile, ISA 315 (Revised 2019) emphasizes the importance of the auditor's understanding of the entity and its environment as a basis for identifying and assessing the risks of material misstatement (IAASB, 2019).

These four layers create blind spots that cannot be fully addressed by simply adding technical audit procedures. Issues of motive observability, limitations of measurement models, potential independence conflicts, and the complexity of standards require auditors to approach areas that require greater attention and professional skepticism. Therefore, an evaluative framework is needed to guide the allocation of professional skepticism in assessing accounting discretion, which was further developed through the Accounting Discretion Evaluation Matrix (MEDA).

**Accounting Discretion Evaluation Matrix (MEDA)**

**1. Dimensions and Indicators**

The Accounting Discretion Evaluation Matrix (MEDA) places each specific accounting choice or estimate on two main dimensions. The first dimension is Information Content (KI), which is used to assess the extent to which an accounting choice is able to communicate valid and verifiable private information about the company's condition and prospects. Accrual quality relates to the ability of accruals to more reliably represent the company's economic performance, especially when estimation errors can be minimized (Dechow & Dichev, 2002). Furthermore, information quality and the use of discretion need to be understood in the context of the economic characteristics underlying accounting decisions (Dechow et al., 2010). The second dimension is Agency Incentive Intensity (IIA), which is used to assess the extent to which an accounting choice aligns with the manager's personal interests, potentially conflicting with the interests of other stakeholders. The unit of analysis in MEDA is a single accounting choice or estimate in a given period, not the company as a whole.

Table 2 presents the initial indicators used to operationalize these two dimensions. The Information Content (KI) indicator is derived from the literature on accrual quality, accounting information quality, and the need to evaluate the reasonableness and basis of accounting estimates (Dechow & Dichev, 2002; Dechow et al., 2010; IAASB, 2018). Meanwhile, the Agency Incentive Intensity (IIA) indicator was developed based on the literature on earnings management to achieve certain thresholds, compensation incentives, and market pressure to achieve earnings expectations (Burgstahler & Dichev, 1997; Efendi et al., 2007; Bartov et al., 2002). The use of these two dimensions allows MEDA to integrate informational and incentive aspects in evaluating the nature of discretionary accounting choices.

**Table 2. MEDA dimension indicators (scale 1 = low, 2 = medium, 3 = high)**

| Code | Indicator | Examples of evidence that auditors examine |
|---|---|---|
| KI1 | Operational or market data support for estimated assumptions | Traceable asset usage data, contracts, claims history, market data |
| KI2 | Consistency with prior period estimates and with industry comparators | Comparison with previous periods and similar entities |
| KI3 | Results of a retrospective review of previous estimates | Difference between previous estimates and actual results |
| KI4 | Clarity of disclosure of assumptions and sensitivities | Notes on financial statements and communications to the audit committee |


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| Code | Indicator | Examples of evidence that auditors examine |
|---|---|---|
| IIA1 | Proximity of results to thresholds (zero profit, last year's profit, analyst target, debt covenant limit) | Profit position before and after estimation against threshold |
| IIA2 | The relationship of compensation or management options to the numbers affected | Bonus scheme, option exercise schedule |
| IIA3 | External pressures (analyst expectations, funding needs, covenants) | Analyst consensus, debt or stock issuance plans |
| IIA4 | Weaknesses in oversight of the estimation process (governance and audit committee) | Audit committee competence, internal control quality |
| IIA5 | Direction and pattern of change in estimates (in the direction of increasing profits, near the end of the period) | Pattern of changes in estimates across periods |

Dimension scores are calculated as the average of the indicators within that dimension. In this initial version, an average equal to or above 2.0 is categorized as high, and below 2.0 as low. These thresholds are preliminary and require calibration through expert panels and empirical testing. Indicator weights are assumed to be equal until an empirical basis exists for different weights.

## 2. Audit Quadrants and Responses

The combination of KI and IIA scores results in four quadrants (Figure 1). Table 3 details the significance and audit responses for each quadrant. Priorities are assigned ordinally and are not expressed as percentages, as there is no empirical basis for assigning audit effort to specific numbers.

**Figure 1. Accounting Discretion Evaluation Matrix (MEDA)**

| | | |
|---|---|---|
| **high KI** | Quadrant II: Pure Signal<br>High KI, low IIA | Quadrant I: Critical Ambiguity<br>High KI, high IIA |
| **low KI** | Quadrant III: Neutral<br>Low KI, low IIA | Quadrant IV: Isolated Opportunism<br>Low KI, high IIA |
| | **low IIA** | **High IIA** |

*KI = Information Content; IIA = Agency Incentive Intensity*

**Table 3. MEDA quadrants, interpretations, and audit responses**

| Quadrant | Interpretation | Suggested audit responses | Priority |
|---|---|---|---|
| I. Critical Ambiguity (high KI, high IIA) | The economic basis is legitimate, but managers benefit; opportunism is easy to hide | Test assumptions independently or with experts; retrospective review of past estimates; indicators of management bias in accordance with ISA 540; discussion with the audit committee; sensitivity to thresholds | Highest |
| IV. Isolated Opportunism (low KI, high IIA) | Strong incentives without informational support; most easily recognized analytically | Consider the risk of fraud (ISA 240); request adjustments; extend substantive testing; evaluate the impact on the opinion | Tall |
| II. Pure Signal (high KI, low IIA) | The ideal form of efficient earnings management | Verification of evidential support and adequacy of disclosure; standard procedure | Currently |


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| Quadrant | Interpretation | Suggested audit responses | Priority |
|---|---|---|---|
| III. Neutral (low KI, low IIA) | Routine discretion without significant implications | Analytical procedures and routine testing | Low |

Table 3 still requires minimum procedures across all quadrants. Quadrant I receives the highest priority because it is where the auditor's professional judgment and skepticism are most crucial to audit quality.

### 3. Illustration of Implementation

The following four hypothetical illustrations show how MEDA might be used. These illustrations are for explanatory purposes only and do not refer to any specific company.

A. The company extends the useful life of new network assets based on documented operational data and disclosed assumptions, with no bonuses directly tied to profits. The KI is high and the IIA is low, so it falls into Quadrant II.
B. The company extended the useful life of assets late in the year when earnings were near the debt covenant limit and bonuses were profit-dependent, with only partially supporting operational data. The KI was high (data available, but partial) and the IIA was high, placing it in Quadrant I and requiring the most in-depth testing of assumptions.
C. The company delayed recognizing an impairment loss without supporting operational evidence when earnings were just above analyst targets. The KI was low and the IIA was high, placing it in Quadrant IV.
D. The company consistently updates its product warranty estimates annually, and the value is small. Its KI and IIA are low, placing it in Quadrant III.

### 4. Research Proposition

In order for MEDA to be tested, this article formulates the following propositions.

A. P1: Estimate options with high IIA reverse more frequently in the next period than options with low IIA, at the same level of KI.
B. P2: The estimation option with high KI has a smaller difference between the estimate and the realization than the option with low KI.
C. P3: Stronger governance reduces the proportion of discretionary choices falling into Quadrants I and IV.
D. P4: Auditors who use MEDA identify more misstatements or estimation biases in Quadrant I than auditors who do not use it.

Propositions P1 and P2 can be tested with archival data, while P3 and P4 can be tested with both archival data and experiments. Machine learning-based testing can complement these approaches, as it has been shown to improve the detection of misleading reporting compared to traditional models.

### Implications for Practice and Regulation

For Public Accounting Firms (KAP), the Accounting Discretion Evaluation Matrix (MEDA) can be used as a tool to assess risks related to accounting estimates from the audit planning stage and as a basis for documenting the application of professional skepticism. The structured use of professional skepticism requires clear indicators and measures so that the auditor's evaluation process can be carried out consistently and documented (Hurtt, 2010; Nelson, 2009). Thus, MEDA can help auditors identify estimation options that require greater attention and link the results of these assessments to relevant audit procedures.

For regulators and standard setters, the results of this literature synthesis provide a basis for considering more concrete implementation guidance on critical accounting estimates, strengthening disclosures regarding management assumptions, and developing audit standards that consider the nature of accounting discretion as a continuum. For audit committees, the Agency Incentive Intensity (IIA)


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indicator can be used as a basis for focusing oversight on accounting estimates that are related to management incentives. This approach allows oversight to focus not only on formal compliance with standards but also on the economic context and incentives underlying the use of accounting discretion.

## Conclusion

This article concludes with four points. First, efficient and opportunistic earnings management form a continuum with a mixed discretionary zone, necessitating a shift in audit evaluation from compliance to economic substance. Second, the nature of discretion is influenced by six factors, operating primarily through two dimensions: information content and agency incentive intensity. Third, auditors face four layers of challenges: observability, benchmarking, independence, and standard complexity. Fourth, MEDA provides an evaluative framework with operational indicators, initial scoring rules, audit responses per quadrant, and testable propositions.

This article has limitations. Its approach is a structured, interpretive conceptual review, without a formal assessment of article quality, so selection bias cannot be completely eliminated. MEDA has not been empirically tested, and the indicators, score thresholds, and weights are still preliminary. Further research is needed to calibrate the indicators through an expert panel, test P1 to P4 on issuer data on the Indonesia Stock Exchange, and test MEDA's usefulness in auditor decisions through experiments or field studies.

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