

ABSTRACT

This study investigates firms' strategies accompanied by their cost of debts affecting their accounting conservatism. This study found that the firms' diversification strategy has affected their conservatism differently. It depends upon what conservatism types that are unconditional or conditional. Besides that, firms' cost of debts did not associate with their conservatism. However, the combination of the firms' strategy and the cost of debts affected their accounting conservatism. This study found that the association between firms' strategy and their conditional conservatism that are initially positive changing to be negative when the cost of debts considered. Meanwhile, this association are reversedly for the unconditional conservatism. This study, therefore, inferred that firms' strategy themselves could not affect their accounting conservatism. Moreover, firms' cost of debts themselves could not also affect their accounting conservatism. It means that firms' CEO challenged their accounting conservatism when they should take into their policy by considering the firms' strategy and cost of debts. This study concludes that firms' diversification strategy, the cost of debts and conservatism are not mutually exclusive. It, therefore, suggested that firms choosing the diversification strategy should have taken into position to be always in the high conservatism level.

Keywords: *firms' strategy, diversification, cost of debt, conservatism, conditional and unconditional*