The Role of Risk Perception and Accounting Information in Moderating Effect of Financial Literacy on Investment Decisions Based on Islamic Values (an Evidence in Indonesia and Malaysia)

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In 2024 National Financial Literacy and Inclusion findings showed that Indonesia citizens' financial literacy index was at 65.43 %. Indonesia's financial literacy index has significantly improved from 49.68% in 2022. For novice investors, company information is very useful for decision-making. Signaling theory, which incorporates the concept of asymmetric information into models of decision-making. This research focus on the moderating efect of Risk Perception and Accounting Information to Financial Literacy on Investment Decision. The final analysis comprised 45 usable questionnaires from respondents across Indonesia. The results of testing the research hypothesis show that Risk Perception and Accounting Information moderate the effect of Financial Literacy on Investment Decision. The investors who have a rational understanding will limit the amount of funds to invest in several investment instruments that have high risk. Investors who have high financial literacy will be strengthened by the risk perception and accounting information of an investment instrument will influence their investment decision making.

1. Introduction

Introduce the research topic, explaining its importance and relevance to the field. Provide an overview of the background and context. Conclude with the research objectives or hypotheses.

1.1 Background

The low level of financial literacy is the biggest problem in Indonesia [1]. OECD/INFE International Survey Indonesia's adult financial literacy score is 57%. This is below the OECD average of 60. Compared to several developed countries especially Malaysia, Indonesia's score is significantly lower than Malaysia. Malaysia citizens' financial literation score at 75% [1]. On the other hand, the 2024 National Financial Literacy and Inclusion findings showed that Indonesia citizens' financial literacy index was at 65.43 %. Indonesia's financial literacy index has significantly improved from 49.68% in 2022. The substantial rise indicates effective efforts in promoting financial literacy over the two-year period. Additionally, the Indonesia Stock Exchange (IDX) reported that the number of capital market investors exceeded 13 million SIDs by June 2024, up from 12.33 million in January 2024. The growth in financial literacy and the rising number of capital market investors are positive signs, but the country's financial literacy level compared to developed nations still lags behind. This indicates that some investors risk financial losses due to their limited financial literacy [1]. As a result, investors lose capital that has been invested and suffered losses [2]. Some investors not fully understand the complexities of the financial markets or the nature of various investment products. Conversely, novice investors might be more susceptible to market volatility and impulsive decisions (Elisa et al., 2023). Some novice investors sometimes need more financial literacy (mainly regarding investment products) [1].

Financial literacy enables investors to make informed decisions. Financial literacy can assist them in making intelligent investment decisions, managing their finances wisely, and planning a stable financial future [4]. Individuals can manage their income well, even in demanding situations (Fujiki, 2022; Siregar et al., 2023; Yuesti, A., et al., 2020). A solid grasp of financial literacy allows investors to effectively interpret accounting information. Accounting information is information about the company's financial reports [8]. Accounting information must exhibit fundamental attributes. Essentially, accounting information should provide useful insights that help investors and stakeholders predict the performance or value of a company's stocks or securities in the market. The quality of accounting information refers to the accuracy / precision of the information contained in financial statements [9]. If accounting numbers are value-relevant, they play a role in decision-making and reflect the company's true market valuation. The concept of value relevance cannot be separated from relevant criteria, if the amounts presented can reflect information that is relevant to the assessment of a company [10].

For novice investors, company information is very useful for decision-making [2]. Wendy (2024) investigate the nexus between financial literacy, risk perception and investment decisions: Evidence from Indonesian investors. The results show that financial literacy has a positive and significant impact on investment decisions, which means that it could be used to improve the quality of investment decisions. financial literacy across three dimensions (knowledge, skills, and attitude) plays an important role in investors allocating more funds to investment instruments. Research by Oktasari (2023) proves that financial literacy and risk perception has not had a significant effect on investment decisions. Research by Asri et al. (2024), investigates the roles of financial literacy, risk perception, and investment experience in shaping investment decisions. The results reveal that higher financial literacy and investment experience are positively associated with better investment decisions, while higher risk perception is negatively associated with investment outcomes.

Syahfi (2022) investigate the reason some young investors in Indonesia integrate sustainable investment in their portfolio. The results show a strong positive influence on investor's financial literacy with their sustainability information and the usage of negative screening strategy towards their sustainable investment (SI) decision. Research by Sigalingging (2023) investigate the effect of behavioral motivation and accounting information on stock investment decision making. The results show that accounting information, self-image/firm, social relevance, advocate recommendations and personal financial needs had a significant positive effect on stock investment decisions. This means that the higher the level of self-confidence, self/firm image, social relevance, Advocate recommendations and one's personal financial needs, the higher that person is in making stock investment decisions. According to Aeni et al., (2022) book value per share (BVPS) and environmental performance influence investment decisions. Specifically, an investor who receives BVPS information is improved, and positive environmental performance tends to consider higher investment decisions than investors who receive decreased BVPS information and negative environmental performance [14].

1.2 Problem Statement

This study aimed to extend previous studies concerning the financial literacy, risk perception, accounting information and investment decision making: evidence of investors in Indonesia and Malaysia. Specifically, the study examines how financial literacy and risk perception and accounting information contributes to better decision-making. It seeks to determine whether increased financial literacy can improve investment strategies, assess how risk perception affects decision-making, and analyze the role of accounting information in evaluating company performance. This research intends to provide insights into improving financial education and informed investment behavior.

1.3 Objectives and Scope

This paper objectives is determine whether increased financial literacy can improve investment strategies, assess how risk perception affects decision-making, and analyze the role of accounting information in evaluating company performance. This research intends to provide insights into improving financial education and informed investment behavior. This paper limitation assess to Indonesian and Malaysian citizens'.

2. Literature Review

Spence's (1973) seminal work in labor economics laid the foundation for signaling theory, which incorporates the concept of asymmetric information into models of decision-making [15]. This framework offers a particularly valuable lens for analyzing corporate narratives in brand research, as it emphasizes the strategic communication of positive information to signal an organization's otherwise unobservable attributes [16]. Management's perception of future growth prospects influences investor behavior, underscoring the importance of effective signaling. Annual reports, in this context, serve as significant signals to external stakeholders, particularly investors.

Signaling theory elucidates how firms convey both positive and negative signals to shareholders [17]. The inherent information asymmetry—firms possessing superior knowledge of their future performance compared to external stakeholders such as investors and creditors—motivates external financial disclosure. Effective investment decisions lead to optimal performance, generating positive signals that can enhance stock prices and firm valuation. The theory suggests that investments act as signals of future growth, thereby increasing stock prices and serving as indicators of firm value [18].

According to Ross [19], capital structure itself can function as a managerial signal. Confident managers may utilize increased debt, for example, to signal positive prospects and increase stock prices, thereby enhancing the credibility of their signals.

Moreover, signaling theory suggests that firms can communicate their commitment to sustainability and corporate social responsibility. Innovative firms face unique challenges, as the complex nature of innovation processes often makes it difficult for investors to assess firm stability and investment viability. Given the inherent uncertainty surrounding radical innovations [20], firms pursuing open innovation strategies may face heightened scrutiny, necessitating clearer signaling of their sustainability practices.

2.1 Related Work

Effective financial management is crucial, not only for professionals in investment and banking but also for individuals navigating personal financial decisions [21]. This capability is encapsulated by the concept of financial literacy [21]. which encompasses the knowledge and skills required for effective financial management and improved personal well-being. Financial decisions at the individual level have significant societal, national, and global economic implications [21].

Financial literacy involves understanding financial services, institutions, and products, thereby improving individual welfare by shaping financial attitudes and behaviors [22]. The acquisition of financial literacy empowers individuals to make informed financial choices, leading to positive outcomes. A strong understanding of financial literacy and capital markets is a key driver of investment decisions in financial markets [19].

A substantial body of literature examines the relationship between financial literacy and investment decisions, including risk perception. Low-income individuals and less experienced investors tend to exhibit a more pessimistic risk outlook when making investment choices [14]. Investment decisions as choices made to accumulate returns from an asset to generate future profits [23]. An investment decision involves combining existing assets with future investment options, resulting in a positive net present value.

Investment decisions as allocating capital to specific areas or assets to enhance firm value. Sound investment decisions attract investors, while poor decisions lead to capital withdrawal [24]. In this study, investment decisions are presented as return on investment (ROI).

Several empirical studies have demonstrated a significant influence of financial literacy on investment decisions [25]. The dual-process theory and the life-cycle hypothesis provide frameworks for understanding this phenomenon. The dual-process theory posits that individual behavior is determined by two systems: intuition and cognition. Stanovich and West (2000) characterize intuition as a System 1 process—instantaneous, rapid, and unconscious—in contrast to System 2 (cognition), which is slow, controlled, and conscious [20]. Cognitive processing enables the rational thought and analysis necessary for effective financial investment strategies.

The life-cycle hypothesis generally explains human consumption and saving behavior across the lifespan. Modigliani (1966) developed this theory based on several assumptions regarding human behavior: a future-oriented perspective regarding lifespan; the ability to estimate lifetime financial resources; an understanding of resource needs at each life stage; and prudent spending habits [26]. The hypothesis suggests that individuals adopt a future-oriented approach to resource allocation across different life stages, essentially utilizing financial resources to transfer wealth across time.

Investment decisions play a critical role in corporate financial performance [26]. Firm value is heavily dependent on investment decisions. Therefore, maximizing firm prosperity necessitates sound investment strategies. Investments can take various forms, both online and offline, and are tailored to different risk tolerances (low, moderate, or high risk). Investment aims to achieve predetermined objectives and can mitigate the effects of persistent inflation.

Investors can make more optimal decisions by understanding investment product types, risk factors, portfolio diversification, and market dynamics [22]. Financial knowledge serves as a benchmark for assessing individual comprehension of financial products. Financial education empowers investors to make realistic assessments and informed financial decisions aligned with their understanding. Within the framework of financial literacy, financial knowledge represents an investment in human capital [1]. A lack of financial literacy can lead to suboptimal and risky financial choices for individuals and society [23]. As a key component of financial literacy, financial knowledge is crucial for achieving optimal investment returns. It establishes a benchmark for financial competency, enabling competitive advantage. Sources of financial knowledge include experience, education, training, peer and family networks, internet resources, and financial news.

Financial skills empower individuals to make more informed decisions regarding their finances and reduce the likelihood of financial mismanagement. Financial skills are defined as the ability to apply financial knowledge [1]. They posit that sound financial behavior stems from the development of skills and knowledge in decision-making. Individuals with adequate financial knowledge, skills, and behavior are better positioned to capitalize on investment opportunities, undertake capital budgeting, and analyze expenditures. So, poor financial management skills negatively impact investment outcomes.

Risk perception is defined as an investor's subjective assessment of the risk inherent in a given investment situation. This subjective evaluation significantly influences the selection of optimal investment alternatives. Researchers in psychology and finance consider risk perception a crucial determinant of choice behavior. Different risk perceptions lead individual investors to think differently about their investments, ultimately resulting in divergent decisions [1].

Risk is an intrinsic element of investment, inseparable from financial market products. Biais and Risk perception as how investors view financial asset risk based on their experiences and preferences. Fund allocation decisions are influenced by investors' risk-taking behavior. Extensive research has explored the relationship between risk perception and investment behavior. Risk perception can be managed if investors understand risk aspects and volatility. Lack of risk comprehension can lead to suboptimal investment decisions. Psychological factors, such as emotional and cognitive biases, can influence decision-making, even among professional investors. The significant impact of risk perception levels on individual investment decision-making processes [1].

Accounting information encompasses financial reports detailing a company's performance, including track records, profitability trends, share prices, and overall financial statements. This information is crucial for assessing a company's financial health and profitability, serving as a basis for investment decisions [14]. Investors frequently utilize publicly available information to gauge a company's capabilities and future prospects. Furthermore, publicly disclosed accounting information must be relevant and reliable, meeting investor needs in the capital market [14].

The quality of accounting information plays a vital role in mitigating the negative impact of dividends on corporate investment decisions. Higher-quality accounting information provides more valuable insights into future cash flows and investment projects. This reduces information asymmetry between managers and investors, lessening the likelihood of investors overpaying for securities and minimizing detrimental selection costs when issuing additional securities. High-quality accounting information enhances investor control, thereby mitigating moral hazard by facilitating contract agreements between investors and managers.

Firms with high-quality accounting information have lower debt and equity costs. This implies that such firms can access external funding or raise capital at lower costs. High-quality accounting information provides investors with a comprehensive understanding of a firm's fundamentals and operations, aiding in better capital management by strengthening valuation and management functions, thereby improving investment decisions [14]. Consequently, high-quality accounting information is considered a moderating factor, enhancing the negative correlation between dividends and investment decisions.

2.2 Research Gap

Research by Oktasari (2023) proves that financial literacy and risk perception has not had a significant effect on investment decisions. Research by Asri et al. (2024), investigates the roles of financial literacy, risk perception, and investment experience in shaping investment decisions. The results reveal that higher financial literacy and investment experience are positively associated with better investment decisions, while higher risk perception is negatively associated with investment outcomes.

Based on existing findings, a relationship exists between financial literacy, risk perception, investment decisions, and accounting information. Rational investors strive to make informed investment choices. However, even investors with adequate knowledge and skills are not entirely immune to making irrational investment decisions driven by affective and emotional factors. Investment behavior is shaped by attitudes and risk perceptions. Therefore, further research into the crucial role of financial literacy, encompassing knowledge, skills, and attitudes, is essential. Financial perception can be viewed as an investor's evaluation of their investment decisions.

This research aims to investigate the relationships among financial literacy, risk perception, and investment decisions. The following hypotheses are proposed:

H1: Financial Literacy significantly influences investment decision-making.

H2: Risk perception moderates the effect of financial literacy on investment decision-making.

H3: Accounting Information moderates the effect of financial literacy on investment decision-making.

3. Methodology

This study employed a survey design targeting Indonesian undergraduate students majoring in

Indonesian language and Indonesian capital market investors. These groups were selected for their higher likelihood of participation, potentially yielding a superior response rate and more robust results. The study also incorporated financial literacy training as a control variable, recognizing its established positive correlation with individual financial literacy.

3.1 Data Collection

A total of 150 questionnaires were distributed, with 100 returned (66,67% response rate). Five of these 100 returned questionnaires did not meet the sampling criteria and were therefore excluded from the analysis. Consequently, the final analysis comprised 90 usable questionnaires from respondents across Indonesia. This nationwide survey was conducted with support from a network of researchers, universities, and Indonesian financial communities and investors.

The questionnaire was developed based on a comprehensive literature review and prior research findings. Thirty-eight indicators were utilized to analyze the five primary variables under investigation: respondent demographics (age, gender, marital status, education level, income level, and participation in financial literacy training); financial knowledge, financial skills, and financial attitudes (measured using a 1-7 Likert scale, following [1]); investment decisions; and risk perception (also measured using a 1-7 Likert scale, following [1].

3.2 Analysis Techniques

Multiple linear regression analysis was employed with SPSS to assess the role of risk perception in explaining the impact of financial literacy on investment decisions. Six regression models were tested:

Model 1: The effect of Financial Literacy (FL) on Investment Decisions (ID).
Model 2: The effect of Risk Perception (RP) on Investment Decisions (ID).
Model 3: The interactive effect of Financial Literacy (FL) and Risk Perception (RP) on Investment Decisions (ID).
Model 4: The effect of Accounting Information (AI) on Investment Decisions (ID).
Model 5: The interactive effect of Accounting Information (AI) and Financial Literacy (FL) on Investment Decisions (ID).
Model 6: The interactive effect of Financial Literacy (FL), Accounting Information (AI), and Risk Perception (RP) on Investment Decisions (ID).

Accounting information (AI) encompassed the following variables: Profit, Liquidity, Dividends, Financial Ratios, Total Assets, Cash Flow, and Audited Financial Statements. The econometric equations for these models will be presented subsequently:

$$KI = \alpha + bLK + \varepsilon \quad (1)$$
$$KI = \alpha + bPR + \varepsilon \quad (2)$$
$$KI = \alpha + bLK*bPR + \varepsilon \quad (3)$$
$$KI = \alpha + bIA + \varepsilon \quad (4)$$
$$KI = \alpha + bIA*bLK + \varepsilon \quad (5)$$
$$KI = \alpha + bLK*bIA*bLK + \varepsilon \quad (6)$$

3.3 Validation

This study make realiability and validity test.

Table 1 Data Validity and Reliability Test

Financial Knowledge (FK)		**Financial Skill (FS)**		**Financial Attitude (FA)**		**Risk Perception (RP)**		**Accounting Information (AI)**		**Invesment Decision (ID)**	
Cronbach Alpha = 0,726		**Cronbach Alpha = 0,983**		**Cronbach Alpha = 0,977**		**Cronbach Alpha = 0,985**		**Cronbach alpha = 0,986**		**Cronbach alpha = 0,674**	
Item	**r-Value**	**Item**	**r-Value**	**Item**	**r-Value**	**Item**	**r-Value**	**Item**	**r-Value**	**Item**	**r-Value**
FK1	0,999	FS1	0,999	FA1	0,999	RP1	0,999	AI1	0,999	ID1	0,999
FK2	0,999	FS2	0,999	FA2	0,999	RP2	0,999	AI2	0,999	ID2	0,999
FK3	0,999	FS3	0,999	FA3	0,999	RP3	0,999	AI3	0,999	ID3	0,999
FK4	0,997	FS4	0,999	FA4	0,999	RP4	0,999	AI4	0,999	ID4	0,999
FK5	0,782	FS5	0,999	FA5	0,999	RP5	0,999	AI5	0,999	ID6	0,999
FK6	0,995					RP6	0,999	AI6	0,999	ID7	0,999
FK7	0,999							AI7	0,999	ID8	0,999
FK8	0,999									ID9	0,999
FK9	0,999									ID11	0,999
FK10	0,715									ID12	0,999
FK11	0,999										
FK12	0,705										

Table 1 shows the results of the reliability and validity tests of the research data. All research variables have met the validity and reliability tests. A total of 2 indicators forming the Investment Decision were excluded, because the test results were found to be invalid. The rest, other indicators are worth > 0.6. A variable can be said to be reliable if it provides a Cronbach alpha (α) value > 0.6 [27].

4. Results and Discussion

4.1 Key Findings

The characteristics of the respondents will be explained in Table 2. The total number of respondents that can be processed is 90 respondents. In terms of general, consisting of 20 respondents aged <21 years, 32 respondents aged 21-30 years, 32 respondents aged 31-40 years and 6 respondents aged 41-50 years. In terms of gender, male respondents totaled 54 respondents and female respondents totaled 36 respondents. In terms of marital status, there were 34 respondents who were single and 56 respondents who were married. In terms of education, there were 20 respondents with a high school education, 42 respondents with a Bachelor's degree and 28 respondents with a Master's degree. In terms of monthly income, there are 20 respondents who earn 0-1.99 million rupiah, there are 26 respondents who earn 2-3.99 million rupiah, there are 34 respondents who earn 4-5.99 million rupiah and there are 10 respondents who earn 6-7.99 million rupiah.

Table 2 Respondent Characteristics

Demographic information	Kategori	N	Relative Value (%)
Age	<21	20	22,22%
	21-30	32	35,56%
	31-40	32	35,56%
	41-50	6	6,67%
Gender	Male	54	60,00%
	Female	36	40,00%
Marital Status	Single	34	37,78%
	Married	56	62,22%
Education	High school	20	22,22%
	Bachelor	42	46,67%
	Master	28	31,11%
Monthly Income	0-1,99 million	20	22,22%
	2-3,99 million	26	28,89%
	4-5,99 million	34	37,78%
	6-7,99 million	10	11,11%

The results of testing the research hypothesis show that Risk Perception and Accounting Information moderate the effect of Financial Literacy on Investment Decision Making. The resulting moderation is a type of Full Moderation or Pure Moderation.

Table 3 Model Results of the Effect of Financial Literation on Investment Decision

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.334	1.654		2.016	.050
	FL	.235	.015	.921	15.461	.000

Table 3 shows that the direct effect of Financial Literacy on Investment Decision Making is 0.235 and significant < 0.05. This shows that the moderation requirements have been met with the significant direct effect (Ghozali, 2001).

Table 4 Pure Moderation Model Results Risk Perception and Financial Literacy on Investment Decision

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.003	4.353		5.515	.000
	FL	-.095	.067	-.373	-1.414	.165
	FLRP	.005	.001	1.315	4.986	.000

Table 4 shows that the interaction variable between financial literacy and risk perception is 0.005 and significant at 0.000. These results indicate that the Risk Perception variable moderates in Pure Moderation the effect of Financial Literacy on Investment Decision Making.

Table 5 Pure Moderation Model Results Accounting Information and Financial Literacy on Investment Decision

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.886	3.569		6.413	.000
	FL	-.073	.054	-.287	-1.359	.181
	FLAI	.004	.001	1.236	5.844	.000

Table 5 shows that the interaction variable between financial literacy and accounting information is 0.004 and significant at 0.000. These results indicate that the Accounting Information variable moderates Pure Moderation the effect of Financial Literacy on Investment Decision Making.

4.2 Interpretation of Results

This research indicate Financial Literacy significant effect on Investment Decision Making. Also, Accounting Information and Risk Perception increase effect of Financial Literacy significant on Investment Decision Making.

5. Discussion

5.1 Comparison with Prior Research

The results showed that the effect of Financial Literacy on Investment Decision Making was moderated by Risk Perception and Accounting Information. Signaling theory incorporates the concept of “asymmetric information” into the decision-making model [1]. So that this concept will affect investors' risk perception of an investment instrument. A lot of news circulating that some investment instruments have a very high risk, for example: stocks, cryptocurrencies, and forex. So that investors who have a rational understanding will limit the amount of funds to invest in several investment instruments that have high risk. Investors who have high financial literacy will be strengthened by the risk perception of an investment instrument will influence their investment decision making.

Accounting information also has an important role in strengthening the influence of financial literacy on investment decision making. Investors will consider accounting information before making their investment decisions, especially in bond and stock instruments [14]. Accounting information will be a very useful signal for investors to forecast the price of financial instruments in the future. In this research, it is known that more investors invest in stocks and bonds compared to other investment instruments between Indonesian’s and Malaysian’s Investor. So that accounting information plays a very important role in strengthening the influence of financial literacy on investment decision making.

5.2 Limitations

The limitation on this research is responden from Malaysia is very small. I have to increase the responden but its' not work. So, I can make a small amount of responden from Mlaysian's.

5.3 Future Research

Future research can increase the amount of responden from the other country with other effective method.

6. Conclusion

This study shows that the effect of financial literacy on investment decision making is strengthened by risk perception and accounting information. The test results confirm hypothesis 1 that financial literacy has a significant direct effect on investment decision making. In addition, the results also confirm hypothesis 2 that risk perception is also a moderating influence of financial literacy on investment decision making. And confirm Hypothesis 3 which states that accounting information moderates the effect of financial literacy on investment decision making. The limitation of this study is that respondents are not spread across all ages, education, and total monthly income. So, the results are considered to still need to be developed by fulfilling the criteria for respondents in terms of age, education, and amount of income each month.

7. Recommendation

Investors must be focus on accounting information and risk perception to invested in capital market between Indonesia and Malaysia Stock Exchange.

Appendix

Demographic Information:
Age
Gender
Marital Status
Education Level
Monthly Income
Financial Literacy Training Participation
Financial Literacy (Likert scale 1–7):
Financial Knowledge: FK1–FK12
Financial Skills: FS1–FS5
Financial Attitude: FA1–FA5
Risk Perception:
RP1–RP6 (Subjective evaluation of investment risks)
Accounting Information Awareness:
AI1–AI7 (Understanding profit, liquidity, dividend, financial ratios, total assets, cash flow, audited statements)

Investment Decision:
ID1–ID12 (Decision-making behaviors, investment allocation, return perception)

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