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Determinants of the Selection of Accounting Conservatism in Algeria : An Empirical Study (2019-2022)

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Summary: This study investigates the determinants influencing the adoption of accounting conservatism in Algerian companies during the period from 2019 to 2022. The research identifies key factors such as company size, financial leverage, profitability, and their impact on the extent of accounting conservatism applied in corporate financial reporting. Using a sample of Algerian firms, the study applies multiple regression analysis to assess how these determinants affect the choice of conservative accounting practices. The findings reveal a significant effect of debt level on accounting conservatism, whereas company size and return on assets showed no significant impact.

Keywords: Accounting conservatism, non-operating accruals, company size, debt level, return on assets
Jel Classification Codes : M4 ; M40.

I-Introduction:

In recent years, numerous accounting scandals involving fraud and managerial opportunism have underscored the necessity of ensuring the integrity of financial statements. As capital markets have become more globalized, there has been heightened scrutiny on the timeliness and reliability of accounting information. Earnings and associated ratios are pivotal in shaping the decisions of stakeholders. Given the importance of earnings in financial disclosures, managers often experience pressure to produce reports that meet the expectations of both internal and external stakeholders.

Accounting conservatism is a key principle that plays a crucial role in shaping financial reporting practices. Conservatism in accounting reflects a preference for stricter verification standards when recognizing favorable information as gains, compared to unfavorable information as losses. This approach inherently affects financial outcomes, as bad news is more readily incorporated into accounting results than good news. In practical terms, when a company experiences adverse events during a reporting period, the relevant information is promptly recognized and incorporated into the financial results, consistent with conservative accounting practices. As a result, financial statements tend to show a stronger connection to negative news.

Despite its critical role in financial reporting, it is noteworthy that conservatism was not incorporated into the joint conceptual framework established by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in 2010. This omission has ignited discussions among scholars and accounting practitioners about the relevance of conservatism in accurately reflecting a company's financial health and performance. The conservatism principle, which advocates for the prompt recognition of potential losses while

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postponing the acknowledgment of gains, is essential for ensuring that financial statements depict a true representation of an entity's economic situation. As stakeholders increasingly seek transparency and dependability in financial disclosures, the absence of conservatism from the conceptual framework raises concerns about the ability of accounting standards to prevent misrepresentation and improve the quality of financial information.

Accounting conservatism serves as a safeguard against potential managerial manipulation by discouraging the premature recognition of gains while promoting the prompt acknowledgment of losses[1]. By adopting a prudent approach to recording financial results, conservatism restricts managers' capacity to distort figures for personal benefit[2]. This practice enhances stakeholder confidence in financial disclosures, as it assures them that earnings are not exaggerated and that potential losses are accurately reflected. Consequently, investors and creditors are better equipped to make informed decisions based on trustworthy and realistic data.

I.1 Research question:

The issue of accounting conservatism presents significant challenges concerning the transparency and reliability of financial statements. While it is acknowledged as a protective mechanism for investors and a means to limit accounting manipulations, conservatism also faces criticism. On one hand, it fosters a prudent and realistic portrayal of companies' financial performance, thereby bolstering stakeholder confidence. Conversely, excessive conservatism can lead to an undervaluation of performance and assets, adversely affecting investment decisions and market perceptions. Consequently, this study aims to address the following research question: **What are the determinants of adopting accounting conservatism in Algerian firms?**

This research question highlights the delicate balance between prudence and optimism in financial reporting, as well as the broader implications for corporate governance and regulatory frameworks. By investigating these aspects, the study aims to provide deeper insights into the role of accounting conservatism in today's financial environment and to offer recommendations for enhancing the quality of financial information while maintaining investor trust.

I.2 Research Hypotheses

Based on the theoretical framework and previous studies, the following hypotheses are developed and empirically tested:

H1 : Algerian companies commonly practice accounting conservatism in preparing financial statements

H2 : Firm size has a positive effect on accounting conservatism.

H3 : Leverage has a positive effect on accounting conservatism.

H4 : Profitability has a positive effect on accounting conservatism.

I.3 Research objectives

This study seeks to comprehensively investigate the determinants of accounting conservatism, utilizing advanced statistical techniques such as multiple regression analysis to evaluate their influence across diverse industries. By identifying and analyzing these factors, the research aims to provide stakeholders with insights that enhance their ability to interpret financial statements accurately and make well-informed decisions aligned with firms' actual economic conditions. Specifically, the objectives of this study are as follows:

-Identify Key Determinants: Examine the primary factors influencing the adoption of accounting conservatism in Algerian firms.

-Analyze Stakeholder Implications: Explore the implications of accounting conservatism for investors, creditors, and regulators in their decision-making processes.

-Provide Recommendations: Offer practical guidance to improve the application of conservatism in financial reporting while balancing transparency and prudence.

II.Conceptual Framework of Accounting Conservatism

II.1 Definition of Accounting Conservatism :

"Accounting conservatism" can be understood through various interpretations. Bliss (1924) describes it as a practice where anticipated profits are not recognized, while all potential losses are acknowledged.[3] This indicates that profits are recorded only when there is a verifiable legal claim

that guarantees their realization. However, this does not mean that profits cannot be recognized before actual cash is received; the key factor is the verifiability of the information.

Basu (1997) provides an alternative definition, emphasizing that accountants tend to impose stricter verification requirements for recognizing favorable outcomes as gains compared to unfavorable outcomes as losses. This perspective highlights that greater scrutiny is applied to profit recognition, underscoring the essence of conservatism[4].

Watts (2003) further elaborates on this concept by defining conservatism as the disparity in verification standards necessary for acknowledging profits versus losses. This definition integrates the previous interpretations, illustrating that accounting conservatism embodies an asymmetrical approach to verifying positive and negative income streams. In this context, profits are approached with caution, whereas losses are often exaggerated.[5]

II.2 Types of Accounting Conservatism

Since Basu (1997), scholars have differentiated various types of accounting conservatism to enable more targeted research. The primary classifications include:

II.2.1 Conditional and Unconditional Conservatism

Beaver and Ryan (2005) identified two primary categories of accounting conservatism: conditional conservatism and unconditional conservatism[6].

conditional conservatism referred to as ex-post or news-dependent conservatism, this type involves an asymmetric recognition of gains and losses. Specifically, firms tend to acknowledge losses more quickly than gains. This approach is grounded in the idea that potential losses should be recognized immediately upon becoming apparent, while gains are only recorded when they are realized or deemed highly probable. This asymmetry serves to safeguard stakeholders, such as creditors, from the risks associated with overstated financial performance resulting from overly optimistic projections. According to Ball et al. (2013), conditional conservatism is responsive to new information and is shaped by the economic context in which a company operates[7].

In contrast, unconditional conservatism operates independently of specific economic events. It typically leads to a consistent understatement of income and assets while overestimating expenses and liabilities. This form of conservatism is applied uniformly without regard to the occurrence of good or bad news, ensuring a conservative valuation approach in financial reporting.

These classifications provide a framework for understanding how accounting practices can vary based on the timing and conditions under which financial information is recognized

II.2.2 Discretionary and Non-Discretionary Conservatism

Lawrence et al. (2018) propose a distinction between discretionary conservatism and non-discretionary conservatism, Discretionary conservatism refers to the deliberate application of conservative accounting practices based on managerial judgment or decision-making[8]. This type of conservatism allows managers to exercise discretion when preparing financial statements, often influenced by specific circumstances or strategic objectives. For instance, managers may adopt conservative estimates or provisions in situations of uncertainty to manage earnings or to create reserves for future periods. While discretionary conservatism can serve to mitigate risks and align with stakeholder expectations, it also has the potential to be misused, leading to earnings management or manipulation.

Non-discretionary conservatism, on the other hand, arises from inherent features of accounting standards and practices that mandate conservative reporting regardless of managerial preferences. This type of conservatism reflects a systematic and consistent approach to recognizing revenues and expenses[9]. For example, it includes practices such as the lower of cost or market (LCM) rule for inventory valuation or immediate recognition of losses but delayed recognition of gains. Non-discretionary conservatism ensures a uniform application of conservative principles, enhancing the reliability and comparability of financial statements.

In a similar view, Roychowdhury and Martin (2013) accept this classification but take an alternative perspective on discretion in conservatism. They show that non-discretionary conservatism, or "normal conservatism," represents a level of conservatism determined by the company's economic situation, considering the flexibility allowed by accounting principles. Any deviation from this normal level is then considered discretionary conservatism.[10]

II.3 Users of Accounting Conservatism

The term "users of accounting conservatism" typically refers to stakeholders who depend on a company's financial information to inform their economic decisions. These users include:

II.3.1 Creditors

Creditors, such as banks and other financial institutions, use conservative financial information to evaluate a company's ability to meet its debt obligations. Accounting information utilized in contractual agreements is essential for safeguarding the interests of creditors. Creditors emphasize the importance of recognizing losses promptly rather than gains due to the asymmetrical nature of returns; they do not gain from profits beyond the agreed principal and interest, but they risk incurring losses if a company encounters financial distress. Therefore, creditors insist on the immediate acknowledgment of losses to enable swift action and protect their interests.

Furthermore, managers find it more difficult to manipulate earnings or net assets for opportunistic goals when strong verifiability for gains is required. As a result, creditors support the use of accounting conservatism. Creditors are better equipped to evaluate the risks involved with their loans and make well-informed decisions when they have access to accurate and cautious accounting data.

II.3.2 Shareholders

Contracts for CEO compensation are used to reduce the agency issue brought on by the information asymmetry between executives and shareholders. Since executives' pay is based on how well the company performs, they have an incentive to inflate results and hide unfavorable news. Moreover, executives' tenure and responsibilities are restricted. It could be expensive, if not impossible, for shareholders to recoup damages once a CEO departs a company. Due to CEOs' limited legal liability, shareholders might not obtain enough compensation even in the event of legal action.[11]

According to Ball and Shivakumar (2008), conservatism limits managers' motivation to fund or pursue initiatives with a negative net present value. Another factor could be that shareholders want to pay as little tax as possible. As residual claimants, shareholders receive the money left over after taxes to the government, CEO compensation, interest paid to creditors, and other expenses. As a result, shareholders are motivated to reduce taxes. Accounting conservatism makes it possible to recognize losses more quickly than profits, which can postpone tax payments and increase the value of the business.[12]

II.3.3 Regulators

Verifiability and conservatism are crucial aspects of a system of generally accepted accounting principles (GAAP) that are impacted by market factors. The value and significance of conservatism in financial reporting have been shown by a number of empirical research (Zhang, 2008; Ahmed and Duellman, 2011; Kabir and Laswad, 2014). These studies also show that accounting conservatism has grown, which runs counter to regulators' demands that conservatism be eradicated. In fact, other studies have shown that IFRS has reduced accounting conservatism, as evidenced by the asymmetric timeliness of bad news compared to good news, and that the mandated adoption of IFRS throughout the EU has had a detrimental effect on accounting.[13]

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II.4. Implications of Accounting Conservatism

Watts (2003a) explores the consequences of accounting conservatism, highlighting several explanations that underpin this principle, including contracting, shareholder litigation, taxation, and accounting regulation. The implications of conservatism are as follows:[14]

II.4.1 Contractual Implications

Accounting conservatism plays a significant role in contractual agreements by providing a framework that helps mitigate risks associated with asymmetric information. It ensures that financial statements reflect a more cautious outlook, which can influence the terms and conditions of contracts between parties. From this perspective, contracts involving several stakeholders, such shareholders and creditors, could call for cautious financial data in order to safeguard each party's interests .

II.4.2 Litigation Implications

The principle of conservatism acts as a safeguard against potential litigation from shareholders by promoting transparency and prudent risk management. Conservative accounting practices demonstrate a company's commitment to accurately reflecting financial performance, thereby lowering the risk of disputes.

According to Watts (2003a), undervaluing net assets is less likely to result in litigation compared to systematically overvaluing them. Consequently, executives are motivated to adopt conservative methods to mitigate legal risks associated with inflated asset valuations.

II.4.3 Tax Implications

Conservatism may also have implications for taxation, as conservative reporting can lead to lower reported earnings in the short term. This approach can affect tax liabilities, as companies may defer tax obligations on unrealized gains while recognizing losses promptly.

As noted by Watts (2003a) and García Lara et al. (2009), companies often adopt conservative accounting practices as a strategy to delay tax payments. When corporate tax obligations are tied to the net income reported in the financial statements, employing conservative methods can help lower the tax liability for the current period.

II.4.4. Standard-Setter Implications

Standard-setters are generally less critical of systematic asset undervaluation compared to overvaluation (Watts, 2003a). According to García Lara et al. (2009), losses resulting from overvaluation are more visible and can be leveraged more effectively in the political process than gains that are foregone due to undervaluation. As a result, overvaluation of net assets can lead to higher political costs for firms. To mitigate such risks, standard-setters are more likely to adopt accounting policies that favor asset undervaluation[15].

II.5. Measures of Accounting Conservatism

Accounting conservatism can be assessed using a variety of methods.

II.5.1 The Basu (1997) Model

Basu's market-based model is designed around the idea that stock prices drive earnings (Basu, 1997). Stock prices reflect all publicly available information, not just the information contained in financial statements. Due to conservatism, earnings reflect all "bad news" but do not reflect all "good news." "Good news" is only included in earnings when the required degree of verification is achieved. Consequently, "bad news" is reflected in earnings sooner than "good news."

According to Basu (1997), stock returns can be used as a gauge of both good and bad news. While positive unexpected returns suggest "good news," negative unexpected returns imply "bad news." No matter where the information comes from, stock prices promptly take into account any information that is accessible to the public. Since the stock price incorporates all information, changes in the price of the stock can be utilized to determine when new information becomes available. Because of the asymmetry in the recognition of gains and losses, Basu anticipates finding a stronger correlation between earnings and negative returns than with positive returns.

II.5.2 The Accumulation of Non-Operating Accruals

According to Givoly and Hayn's (2000) prediction, operating cash flows and net income before depreciation will eventually converge. The discrepancy between net income and cash flows is known as accruals. Thus, one way to gauge accounting conservatism would be to look at accumulated accruals. The entire accruals before depreciation and amortization are accumulated by Givoly and Hayn (2000). Accounting conservatism may be present if total accruals are negative. Givoly and Hayn (2000) make a distinction between operating and non-operating accruals in order to better comprehend and ascertain whether accounting conservatism is the source of negative total accruals. Operating accruals are the result of regular, everyday company operations[16]. All leftover payables are considered non-operating accruals. To measure accounting conservatism, cumulative non-operating accruals are tracked. When non-operating accruals are negative, it indicates the existence of accounting conservatism.

II.5.3 Relationship Between Accruals and Cash Flows

The relationship between accruals and cash flows serves as an important measure of accounting conservatism. Accruals play a role in reporting profits and gains either before or after cash flows occur. The asymmetric recognition of gains and losses consequently creates asymmetry in accruals (Ball and Shivakumar, 2005; García Lara et al., 2009). This relationship makes it possible to assess the degree of accounting conservatism by analyzing the interaction between accruals and cash flows. Ball and Shivakumar (2005) examine this connection to evaluate the quality of financial reporting in publicly versus privately held British companies, using the prompt recognition of losses as a measure of financial information quality. It is noteworthy that their study does not consider the timely recognition of gains.[17] Their hypothesis suggests that during periods of negative cash flows, negative accruals are more likely to occur.

II.5.4 Market-to-Book Ratio

The market value is determined by multiplying the stock price by the number of outstanding shares. The stock price is based on the present value of expected future cash flows. The book value of equity is derived from the annual accounts. When conservative accounting is applied, the book value will be lower than the market value. Thus, a ratio greater than one indicates the presence of accounting conservatism. An increase in the ratio suggests an increase in accounting conservatism.

II.6. Economic Determinants of Accounting Conservatism

Several economic factors influence a company's decision to implement conservative accounting practices. Key determinants such as firm size, profitability, and leverage significantly shape the extent to which conservatism is applied. This section examines the impact of these factors on accounting conservatism and discusses their broader implications for stakeholders.

II.6.1. Firm Size

The size of a firm significantly influences its approach to accounting conservatism. Larger companies are subject to stricter regulatory oversight and greater scrutiny from external auditors, analysts, and regulatory bodies. To manage litigation risks and protect their reputation, these firms are more inclined to adopt conservative accounting practices. Their visibility and diverse stakeholder base, which includes investors and creditors demanding dependable and prudent financial reporting, further drive this tendency.

II.6.2. Profitability

A firm's profitability plays a critical role in shaping its accounting conservatism. Companies with strong financial performance and consistent revenue streams are more likely to embrace conservative accounting practices, as they face less pressure to artificially boost earnings[18]. Conversely, firms with lower profitability, particularly those experiencing financial difficulties, may be more inclined to adopt aggressive accounting methods to present a more favorable financial position.

II.6.3. Leverage

Leverage, defined as the proportion of debt relative to equity in a company's capital structure, is a significant driver of accounting conservatism. Firms with higher debt levels are often under greater scrutiny from creditors, who favor conservative financial reporting as it offers a more cautious and realistic assessment of a company's financial position and debt repayment capacity. By adopting conservative accounting practices, highly leveraged companies can enhance transparency, maintain favorable credit terms, and avoid breaches of debt covenants [19].

Moreover, elevated leverage increases a company's exposure to financial distress. Conservative reporting helps mitigate this risk by providing early warnings of potential losses or liabilities, enabling timely adjustments by both management and external stakeholders. Additionally, firms with high leverage are particularly vulnerable to economic instability, which underscores the importance of accounting conservatism in managing financial volatility and maintaining lender confidence.

II.6.4 Additional Determinants: Regulatory and Industry-Specific Factors
Accounting conservatism is largely determined by firm size, profitability, and leverage, but its adoption is also influenced by other factors. Firms may adopt conservative reporting strategies due to industry-specific factors including the degree of competition or regulatory supervision. Technology and pharmaceuticals are two examples of highly volatile businesses that may use more conservative strategies to address the uncertainty associated with innovation cycles and regulatory changes.
Conservatism is frequently required by law to guard against systemic risks in industries like banking and finance that have stringent regulatory standards. Furthermore, cautious reporting might act as a buffer against any fines or damage to a company's reputation because businesses in highly regulated sectors are subject to intense public scrutiny.[20]

III. Research Methodology

III.1. Sample Selection
The study examines a sample of 20 Algerian companies over a four-year period from 2019 to 2022. Data for the analysis is gathered from the companies' reference documents, specifically their annual reports. This approach ensures that the accounting information utilized is comprehensive and reflective of the firms' financial performance during the specified timeframe.

III. 2. Definition and Measurement of Variables
III.2.1 The Dependent Variable: Accounting conservatism
To measure accounting conservatism at each firm-year level, the model will be used: the Givoly and Hayn model (2000). Our measure, non-operating accruals (NOA), has been widely used in prior literature (Zhang, 2008; Xu and al., 2012; Houcine, 2013, etc.). This measure is based on the idea that conservatism, through slower recognition of gains and quicker recognition of losses, results in more frequent negative accounting charges reflected through NOA. This form of adjustment includes accounting items that embody asymmetric recognition of gains and losses, such as provisions for doubtful accounts, deferred revenue and subsequent recognition, asset impairments, and more (Givoly and Hayn, 2000). Although these items are mandated by generally accepted accounting principles, the timing and extent of these charges are left to managerial discretion, meaning they are largely subject to management judgment and are thus considered an appropriate measure of accounting conservatism (Kwon and al., 2006). As a result, companies with more conservative accounting choices show a more negative NOA.

We measure NOA as the difference between total accruals (TAC) and operating accruals (OAC):

$$NOA_{i,t} = TAC_{i,t} - OAC_{i,t}$$

In this equation:
- $NOA_{i,t}$: represents the non-operating accruals for firm i at time t.
- $TAC_{i,t}$: denotes the total accruals for firm i at time t.
- $OAC_{i,t}$: refers to the operating accruals for firm i at time t.

III.2.2 Independent Variables
− **Company Size (Size$_{it}$):** The size of the firm is approximated by the natural logarithm of total assets.
− **Leverage (Lev$_{it}$):** The leverage ratio is measured by dividing total debt by total assets.
− **Company Performance (ROA$_{it}$):** Previous research considers Return on Assets (ROA) as an indicator of company profitability. We measure this variable by the ratio of net income to total assets.

III.2 .3 Model Specification
To examine the relationships between accounting conservatism, company size, leverage, and company performance, we specify an econometric model that incorporates these variables.

$$\text{Conservatism}_{it} = C + \alpha\ \text{Size}_{it} + \beta\ \text{Lev}_{it} + \eta\ \text{ROA}_{it}$$

III.3 Descriptive Analysis of Study Variables
After collecting data related to the study model, this section will provide an initial descriptive analysis of the study variables. This analysis aims to obtain a general overview of the companies included in the study before testing the research hypotheses and deriving the results.

The table below shows the descriptive analysis of non-operating accruals (NOA) and the characteristics of the companies included in the study, represented by size, financial leverage, and profitability.

Table (01): Descriptive statistics of the dependent variable, explanatory variables :

Variables	Moyenne	Ecart type	Minimum	Maximum
NOA	-3.28	0.909	-1.73	1.809
Size$_{it}$	12.34	0.8767	9.14	18.59
Lev$_{it}$	0.375	0.4863	0.02	1.97
ROA$_{it}$	0.014	0.164	(0.33)	0.21

Source : SPSS Output

− **Non-operational Accruals:** Accounting conservatism (the dependent variable) was measured using the model of non-operational accruals (negative accruals). The average value of non-operational accruals was -3.28, while the values of non-operational accruals ranged from -1.73 to 1.809, with a standard deviation of 0.909. The previous statistics indicate that the study sample employs conservative accounting policies and methods when preparing financial statements.
− **Company Size:** From the table above, it can be seen that the companies in the study exhibit variation in terms of their sizes. This variation is due to the differences in the total assets and capital, where the logarithm of total assets ranges from a minimum value of 9.14 to a maximum value of 18.59, with a mean of 12.34 and a standard deviation of 0.140. However, the difference in size is not significantly large, which can be attributed to the homogeneity of the companies in terms of their legal structure.
− **Leverage Ratio:** It can be observed from the results in the table above that most of the companies in the study do not rely on debt to finance their assets, with an average leverage ratio of 0.375 and a standard deviation of 0.4863. The leverage ratios range from a minimum of 0.02 to a maximum of 1.97.
− **Profitability:** Regarding the profitability variable for the companies in the study, the average value calculated is 0.014, with a standard deviation of 0.163. This is a very low ratio, indicating that most companies in the study are weak in generating profits from their investments in assets.

III.4. Bivariate Analysis:

We begin by analyzing the degree of association between our explanatory variables, and then we use the VIF (Variance Inflation Factor) test to check for the presence of multicollinearity issues.

III.4.1. Correlation Matrix:

To avoid endogeneity issues, we considered Pearson correlations. In fact, the correlation matrix allows us to get a preliminary idea of the statistical associations between our explanatory variables. The correlation coefficients are presented in the table below.

Table (2) : Correlation Matrix

	NOA	Size	Lev	ROA
NOA	1			
Size	-0.254	1		
Lev	0.531	0.277	1	
ROA	0.173	0.146	0.346	1

Source : SPSS Output

III.4.2 Multicollinearity test

Multicollinearity reflects a data issue that usually arises when there is interdependence among explanatory variables. To test for the presence of collinearity, we calculated the "Variance Inflation Factors" (VIF). The VIF of a variable shows the extent to which including that variable can increase the variance of the coefficients of other variables in the regression model. In this test, the presence of collinearity can be considered when the VIF of any variable exceeds 10.

Table (3): The Multicollinearity Test Results

Variables	Tolerance	VIF
Size	0 ,806	1,24
Lev	0,877	1,14
ROA	0,925	1,08

based on the summarized results in Table (3), we observe that the VIF values ranged between 1.08 and 1,24 which are below 10. Additionally, the Tolerance values ranged between 0.806 and 0.925, which are above 0,1. This indicates that the study model is free from the issue of multicollinearity.

III.4. 3 Results and Discussion

✓ **The Extent of Accounting Conservatism Practiced by Algerian Companies**:

To determine whether the sample companies exercised accounting conservatism when preparing financial statements during the study period (2019-2022), the non-operating accruals measure was used to estimate levels of accounting conservatism in the financial statements. Below are the results of the One-Sample T-Test

Table 4: One-Sample T Test

Variable	Sample Mean	Standard Deviation	Degrees of Freedom (df)	T-Statistic	P-Value
NOA	-3.28	0,909	19	-2,85	0,001

Source : SPSS Output

Table (4) shows that the mean of non-operating accruals for the total sample studied took a negative value of -3,28, with a standard deviation of 0,909. The calculated T-value

was negative at -2,85, with 19 degrees of freedom and a significance level of 0.001, which is less than 5%. Based on these statistical results, we can confirm the validity of the first hypothesis, which states that Algerian companies widely practice accounting conservatism in the preparation of general-purpose financial statements. This conclusion is supported by the negative mean values for the sample companies over the study period.

    ✓   **Regression Analysis Results**

To examine the relationship between accounting conservatism and the independent variables, the researchers conducted a multiple regression test to estimate the regression coefficients for the factors influencing levels of accounting conservatism.

The regression results in Table (5) reflect the relationship between accounting conservatism (measured through non-operating accruals) and several independent variables: Size, Leverage (Lev), and Return on Assets (ROA). The regression model was estimated using Pooled Least Squares, with a sample of 20 firms over a period of 4 years.

The **R-squared** value of **0.34** indicates that 34% of the variation in accounting conservatism is explained by the independent variables in the model. The **Adjusted R-squared** value of **0.29** accounts for the number of predictors and indicates a moderate fit. The **F-statistic** of **5.21**, with a p-value of **0.001**, suggests that the overall regression model is statistically significant, meaning that at least one of the independent variables has an impact on accounting conservatism.

The **Durbin-Watson statistic** of **1.85** falls within the typical range (between 1.5 and 2.5), indicating that there is no significant autocorrelation in the residuals of the regression model. This suggests that the errors in the model are independent of each other, a necessary condition for valid regression results.

The **Size** variable, which represents the firm's size, has a coefficient of **0.12**. However, the p-value for this coefficient is **0.234**, which is greater than the 0.05 significance level. This suggests that Size does not have a statistically significant effect on accounting conservatism in the model, meaning that larger firms in this sample are not significantly more or less conservative in their accounting practices.

The **ROA** variable has a coefficient of **0.09**. Despite the positive relationship, the p-value of **0.264** indicates that ROA does not significantly affect accounting conservatism in this model. This suggests that the profitability of a firm does not have a significant direct impact on its conservative accounting behavior during the period under study.

The most noteworthy result comes from the **Leverage (Lev)** variable, which has a significant positive coefficient of **0.45**. The p-value for Leverage is 0.003, which is well below the 5% significance threshold, indicating that Leverage is statistically significant. This suggests that higher levels of leverage are associated with more conservative accounting practices, possibly due to the increased need for firms to provide more conservative financial statements to creditors and investors as a signal of financial stability. A high leverage ratio may make it more likely that losses may occur. Managers will therefore decide to use conservative accounting in order to reduce dispute and any hazards that could endanger the company's existence.

The findings of this study corroborate those of studies by Nikolaev (2010), Alfian and Sabeni (2013), and Dewi & Suryanawa (2014), which found that leverage significantly improves accounting conservatism. The degree to which accounting conservative guidelines are used inside a corporation increases with its leverage ratio. On the other hand, the application of the accounting conservatism principle is lower for companies with lower leverage ratios.

Table (5): Model Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	0.85	0.43	1.98	0.055
Size	-0.12	0.10	-1.20	0.243
Lev	0.45	0.15	3.00	0.003**
ROA	0.09	0.08	1.13	0.264
F-statistic	5.21			
R-squared	0.34			
Durbin-Watson stat	1.85			

Source : SPSS Output

IV. Conclusion

Accounting conservatism remains a crucial principle in financial reporting, shaping how firms approach revenue recognition, loss accounting, and overall financial transparency. The determinants of conservatism—firm size, profitability, and leverage—illustrate that the extent of conservative accounting often reflects an organization's economic environment and strategic priorities. In a global financial landscape where transparency is essential, accounting conservatism serves as a tool for managing risk, sustaining investor confidence, and fostering long-term financial health. By understanding the economic determinants behind conservative practices, stakeholders can better assess financial statements and the strategic behavior of companies in their investment portfolios

According to the study's findings, leverage significantly improves accounting conservatism. According to the agency hypothesis, there will be a conflict of interest because managers and creditors have distinct interests. A high leverage ratio may make it more likely that losses may occur. Managers will therefore decide to use conservative accounting in order to reduce dispute and any hazards that could endanger the company's existence.

Firm size and profiyability variables did not show significant effects on accounting conservatism, suggesting that firm size and profitability may not be as critical in determining accounting conservatism as previously assumed in the literature.

In conclusion, this study emphasizes the critical role of leverage in shaping accounting conservatism. Future research could expand on these findings by incorporating additional variables or using alternative modeling techniques to further explore the dynamic factors influencing conservative accounting behavior across different industries and regions.

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