THE LINKAGE BETWEEN CONSERVATIVE ACCOUNTING AND FINANCIAL ADEQUACY AND THE MODERATING ROLE OF CORPORATE GOVERNANCE

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Abstract: The current study aims to verify the influence of the practices of conservative accounting on financial adequacy measured by four measures, namely the return on assets (ROA), return on equity (ROE), earnings per share (EPS) and Tobin's Q expressed by price to book value (P-BV). The study model was adapted to include corporate governance variables as moderating variables on the relationship between accounting conservatism and financial adequacy; four governance mechanisms were engaged. The study is distinguished by its incorporation of conservative accounting into corporate governance. Data was collected about Jordanian-listed industrial companies from 2012-2020. The methodology employed statistical methods such as correlation and multiple regression tests in order to convey assumed correlations. The results of the study provided conclusive empirical evidence for the positive statistical impact of accounting conservatism on return on assets, return on equity and earnings per share, while the results failed to ascertain any effect of accounting conservatism on the market value measured by price to book value. The results of the study also did not advocate any evidence for the moderating role of corporate governance on the relationship between conservative accounting and financial adequacy.

Key words: Conservative Accounting, financial adequacy, Tobin's Q, Financial Leverage, Corporate Governance

DOI: 10.17512/pjms.2024.29.1.01

Article history:
Received February 24, 2024; *Revised* March 20, 2024*; Accepted* April 12, 2024

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Introduction

Accounting reports, especially financial statements, are seen as a vital source of financial information published to provide diversified financial information that serves users of financial statements from inside and outside the entity. Preceding the issuance of the Accounting Conceptual Framework, this financial information was promised greater flexibility in preparation in line with the objectives of the companies. Still, many criticisms were directed at the traits of this information, such as irrelevancy, inappropriateness and unreliability. But, after 1989, when the conceptual framework was issued, more raggedness was imposed on these qualities to became more useful to users and sustained the main objective of the preparers of the financial statements, which was to provide all users with high-quality information and avoid harnessing these statements for the benefit of management.

Parallel to the issuance of the conceptual framework, the concept of accounting conservatism did not appear until the end of the last century. It was brought to the surface, especially after the fall of many worldwide companies, due to the misuse of flexibility in accounting measurement that resulted in exaggeration and inflating assets and revenues. Regardless of the claim of management and accountants that the adoption of non-conservative accounting measures achieves better information quality that mirrors the real economic substance of enterprise, there were some hidden intentions for management or those who prepare the financial statements to achieve special interests and benefits on the interest of company and owners.

However, in order to avoid any opportunistic behaviour of management, conservative accounting is regarded as the best tool to prohibit management from falsifying financial reports. This encouragement for the conservatism concept has been considered one of the most important recent controversial issues in the accounting theory between supporters and opponents of it. However, it is still one of the essential accounting practices that enable investors to protect their wealth and enables investors to prevent or at least reduce discretionary accounting and earnings management that might be experienced by many management establishments. The recent establishment of governance mechanisms will obviously contribute to the prohibition of harmful administrative and financial bad intentions of managers; thus, in most entities, the responsibility and number of board of directors has been increased, audit committees established, and more independence for some tasks is given such as the internal auditing (Watt, 2003).

The originality of this study stems from the fact that it is one of the few studies that varied in the methods of accounting measurement for financial performance; moreover, the study will investigate the effect of new variables such as governance. It is also expected that this study will have several contributions, such as measuring the influence of accountancy conservativeness on financial performance by several measures; this provides more generalizability for the study results. Furthermore, the study is likely to supplement new information in the accounting literature on conservative accounting, financial performance and corporate governance; correspondingly, the outcomes are likely to be beneficial for a variety of interested groups such as accountants, auditors, financial analysts, boards of directors, governance committees, decision-makers, financial and accounting policymakers.

Literature Review

Conservative accounting can be seen as an approach based on procedures aimed at presenting accounting information with values free from overestimating assets or revenues and reducing liabilities and losses (Fouad, 2016). Accounting conservatism can also be viewed as the practical adoption of alternative accounting standards measures through which assets are reduced and liabilities are raised when preparing accounting reports Givoly and Hyan (2000). A considerable amount of studies considered conservatism as the accounting trend in making sure not to show inflation of assets from book values while doing so with obligations in order to avoid any risk from uncertainty and thus raising the accounting prudence in financial reports (Shahwan et al., 2022; Al-Madbouly, 2017). Accounting conservatism practice releases the accountants from the intent for overstating assets and income and understating obligations and losses; hence, some scholars affirmed that conservatism is the rational recognition, measurement and disclosure of financial statements elements (Etale et al., 2022).

In the same vein, several academics suggested that accounting conservatism is the process of continuous marking down of accounting estimates for assets and income and marking up the estimates for obligations and expenses in order to avoid unrealistic future bad news (Thomas et al., 2020; Shahwan, and Almubaydeen, 2020; Al-Ramahi et al., 2021; Abdul Majid and Mohammad, 2018). The implication found in the conservative accounting literature, we conclude that most researchers supported the notion of accounting conservatism that liberates accounting reports from situations of uncertainty and doubt (Al-Ramahi et al., 2021; Al-Theibeh et al., 2018; Sana'a, 2016; Affes and Sardouk, 2016; García Lara et al., 2009; Ramadan, 2015).

Data obtained from several studies related to conservatism accounting have found a positive relationship between accounting conservatism and financial performance. A study by Purnama (2019) showed an important positive relationship between accounting conservatism and return on assets (ROA) rather than return on equity (ROE) or intellectual capital. The same result was established by Li (2015), who conveyed that conservatism has a constructive impact on cash flow that is reflected in profitability ratios such as ROA, ROE and EPS. Equal results were exposed by the researchers (Aladwan et al., 2021; Ahmed and Duellman, 2011), who provided empirical evidence for the association amongst conservatism practices and cash flows, financial performance and market value. Based on such stated results, the first main hypothesis is:

H1: There is no substantial linkage between conservative accounting and financial adequacy.

It has been conclusively shown that conservative accounting affects performance. For example, the results of the study carried out by Chan (2006) showed a negative relationship between accounting conservatism and profitability for return on equity. Also, the results of the Wang (2013) study supported the negative results of conservatism on financial performance. Similarly (Sana'a, 2016; Aladwan and Shatnawi, 2018), after exploring the effect of conservatism on financial performance for Jordanian companies, the previous research found a positive correlation between conservatism and financial performance metrics, namely, ROA, EPS and market value. Ramadan (2015) also supported this finding by revealing a positive impact for conservative accounting and ROA, leverage (DR). Other related results, such as Chiraz and Anis (2013) in the French context, found a positive correlation between conservatism accounting and financial performance measures such as ROA, MV, and EPS; hence, the study's four sub-hypotheses generated from the main hypothesis are as follows:

H1-1: There is no substantial linkage between conservative accounting and financial adequacy estimated by ROA.

H1-2: There is no substantial linkage between conservative accounting and financial adequacy estimated by ROE.

H1-3: There is no substantial linkage between conservative accounting and financial adequacy estimated by EPS.

H1-4: There is no substantial linkage between conservative accounting and financial adequacy estimated by P-BV.

In order to accurately estimate the influence of conservative accounting on financial metrics, many studies have inserted control variables into the proposed model to sustain the accuracy of the created estimates; from the control variables that have been used is the size of the company expressed in total assets (TA), gross profit (GP), financial leverage (DR), size of the firm, a capital structure such as (see, Ramalingegowda and Yu, 2018; Ademola and Moses, 2017; Aminu and Hassan, 2017; Al-Zahra, 2017; Maswadeh, 2016).

Starting the new millennium and beyond the emergence of the concept of governance and internal control systems, the problem of the agency shrank, and the conflict between management and owners was also reduced. The procedures and instructions of governance have restricted management and forced it to adopt conservative accounting policies to not overvalue assets and revenues or reduce liabilities and expenses that are likely to harm the entity. These possible positive advantages of corporate governance over conservatism raise the possibility of the link between corporate governance traits and conservatism and financial performance. Studies (Johnson and Mitton, 2003; Udayasankar and Das, 2007) have considered the relationship between governance and performance to be vital for company success, especially the Board of Directors that provides financial and non-financial resources to the management and follow up their efficient use of these resources.

According to the agency's theory, there must be a positive correlation between governance and accounting conservatism because governance sustains greater control and scrutiny of all financial decisions (Watts, 2003; LaFond and Roychowdhury, 2008; Larcker et al., 2007). Chen and James (2019) revealed that many governance elements, such as the size of the board of directors and the size of the audit committee, raise the level of knowledge for exterior auditors and provide better supervision of managers; similarly, Kalbers and Fogarty (1998) pointed out that the larger the size of the board of directors and the larger number of the audit committee, the greater the authority over the management behaviour. Grounding on these studies' results and in order to investigate the moderating role of governance mechanisms on the relationship between conservatism and financial performance, the second main hypothesis is framed as follows:

H2: There is no significant moderating effect of corporate governance mechanisms on the relationship between accounting conservatism and financial adequacy

The study's preassumed model includes *financial adequacy* as a dependent variable expressing the company's financial position and ability to achieve profits from its existing resources. There are several methods for estimating financial performance, such as *Return on assets (ROE)* that represents the ratio of net profits to total assets, and this measure reflects the efficiency of the company in exploiting its assets to collect returns. *Return on equity (ROE):* The main goal of the owners is to maximize the return on their invested rights. *Earnings per share (EPS) is* a measure denoted by the amount of income distributed to each share. The higher the profitability, the greater the return to shareholders. *Tobin's Q (TQ)* value denotes the market value of the share price likened to its book value, and it is one of the best methods to estimate financial performance, as it states the amount of the company's market value.

According to Givoly and Hayn (2000), conservatism can be projected by the accrual model that exposes the commitment of management to the conservatism concept. The accrual model is a formula that begins by determining earnings before income and tax (EBIT). Then depreciation is added, operating cash flow is deducted, and the result is divided into total assets; equation 1 presents this model.

$$Accruals = \frac{EBIT+DEP-OCF}{TA} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

According to the model assumed by Givoly and Hayn (2000), financial performance is not only affected by accounting conservatism but also by other variables that may contribute to the result of financial performance; thus, in order to determine the real explanatory power of accounting conservatism on financial performance, three control variables namely; financial leverage (DR), gross profit (GP) and size of the company (TA) will be added to the model.

The proposed framework of the study includes the expansion of the Givoly and Hayn model (2000), in which researchers will investigate the effect of corporate governance mechanisms as moderating variables on the relationship between accounting conservatism and financial performance. Four corporate governance variables are selected to be included in the study framework: the size of the board of directors (BS), the number of members of the audit committee size (ACS), the percentage of female participation in the board of directors (FD) and the extent of independence for the members of the board of directors (BI). It is anticipated that these factors are likely to influence the relationship between accounting conservatism and financial performance. The final presumed framework of the study is exhibited in Figure 1.

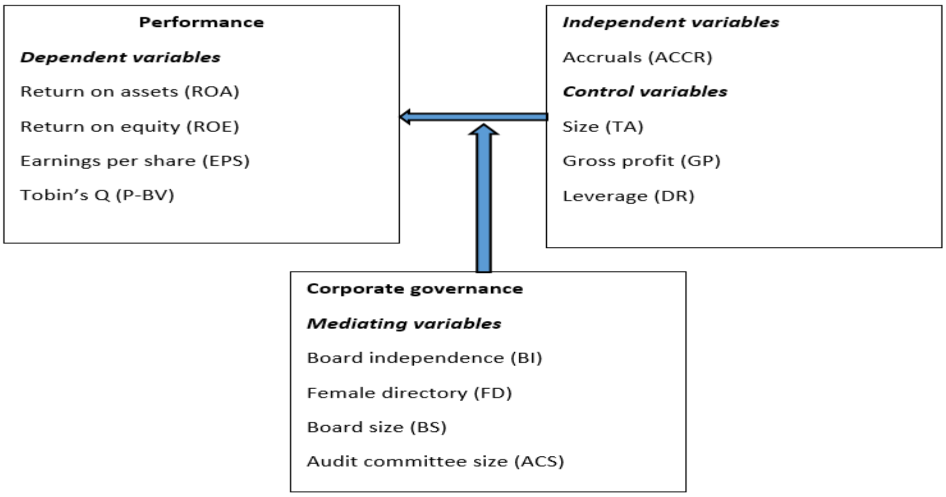

Figure 1: Framework of the study
Source: Own elaboration

Research Methodology

The current study follows a quantitative analytical approach by using panel data. After a comprehensive assessment of the information concerning the study published in industrial company's annual reports and in the company's guide issued yearly by the Amman stock exchange, the community of the study consisted of 45 industrial publically traded companies that met the requirements of the study for a period of 12 years, from 2012 to 2024 with a total of 540 observations.
According to the study framework presented in Figure 1, the following are the hypothetical study models for hypothesis examination:
Model 1-A: Measures the effect of conservatism on financial adequacy measured by ROA

$$ROA_{it} = \beta_0 + \beta_1 ACCR_{it} + \beta_2 \log. TA_{it} + \beta_3 \log. GP_{it} + \beta_4 DR_{it} + E_{it} \ldots\ldots (2)$$

Model 2-A: Measures the effect of conservatism on financial adequacy measured by ROE

$$ROE_{it} = \beta_0 + \beta_1 ACCR_{it} + \beta_2 \log. TA_{it} + \beta_3 \log. GP_{it} + \beta_4 DR_{it} + E_{it} \ldots\ldots (3)$$

Model 3-A: Measures the effect of conservatism on financial adequacy measured by EPS

$$EPS_{it} = \beta_0 + \beta_1 ACCR_{it} + \beta_2 \log. TA_{it} + \beta_3 \log. GP_{it} + \beta_4 DR_{it} + E_{it} \ldots \quad (4)$$

Model 4-A: Measures the effect of conservatism on financial adequacy, as measured by Tobin's Q (P-BV).

$$P\text{-}BV_{it} = \beta_0 + \beta_1 ACCR_{it} + \beta_2 \log. TA_{it} + \beta_3 \log. GP_{it} + \beta_4 DR_{it} + E_{it} \ldots \quad (5)$$

All of the previous models will be regressed again After including the moderating variable of corporate governance that is represented by $\beta_5 BI_{it} + \beta_6 FD_{it} + \beta_7 BS_{it} + \beta_8 ACS_{it}$.
Where; ROE, return on assets; ROE, return on equity; EPS, earnings per share; P-BV, price to book value; TA, total assets; GP, gross profit; DR, debt ratio; BI, board independence; FD, female directory; BS, board size; ACS, audit committee size.

Research Results and Discussion

The descriptive statistics of the study variables for the value of accounting conservatism ranged between -1.186 and 0.446, with a mean of -0.003, indicating a large difference between companies that follow accounting conservatism. Similarly, all performance indicators displayed high volatility between minimum and maximum values among companies. ROA ranged between -0.1953 and 0.429; ROE ranged between -0.173 and 0.1231; EPS ranged between -2.550 and 2.386. As for the moderating variables of corporate governance, the results regarding the four mechanisms showed more stability. Other statistics on control variables also did not show high explosiveness in values except for the debt ratio that ranged between 0.004 and 1.278, with a mean of 0.36.
Reviewing correlation results (Table 1), it is observed that there is a significant positive correlation between accounting conservatism and all measures of financial performance. This outcome provides introductory evidence for the effect of accounting conservatism on the financial performance of companies under study.

Table 1. Correlation matrix

	ROA	ROE	EPS	P-BV	ACCR	log. TA	log.GP	DR	BS	FD	BI	ACS
ROA	1.000											
ROE	0.799**	1.000										
EPS	0.813**	0.836**	1.000									
P-BV	0.309**	0.417**	0.347**	1.000								
ACCR	0.370**	0.341**	0.409**	0.134**	1.000							
log. TA	0.201**	0.128**	0.234**	0.108*	0.111*	1.000						
log.GP	0.452**	0.480**	0.577**	0.354**	0.266**	0.648**	1.000					
DR	-0.332**	-0.314**	-0.436**	0.073	-0.122*	0.083	-0.153**	1.000				
BS	0.043	-0.004	0.093	-0.132**	0.066	0.169**	0.198**	-0.088	1.000			
FD	0.043	0.040	0.124*	0.042	0.050	0.030	0.037	-0.211**	0.054	1.000		
BI	-0.055	-0.042	-0.054	-0.016	0.040	-0.221**	-0.303**	-0.010	-0.132**	-0.019	1.000	
ACS	0.107*	0.122*	0.089	0.023	0.010	0.268**	0.169**	0.098*	0.151**	0.045	-0.012	1.000

The correlation results showed several significant correlations amongst the independent, control and moderating variables. Thus, to liberate the multiple regression from the problem of Multicollinearity, we conducted the Variance Inflation Factor (VIF) diagnostic for all variables. The results of VIF for Multicollinearity for all variables are found below 10 (VIF < 10) and (Tolerance = 1/VIF > 0.1). This indicates that there is no Multicollinearity between variables. To verify the influence of conservative accounting on financial performance measured (ROA) and to ensure the moderating role of governance on this by Return on Assets relationship, the multiple regression test was performed twice, the first time without the presence of governance variables and the second time after the inclusion of governance variables to the model. Table 2 shows the results of the two tests. In the first model 1-A, we find that the value of R^2 was 0.266, meaning that the four independent variables explained about 27% of the change in the return on assets, and it also appears that the accounting conservatism (ACCR) has a significant positive relationship on financial performance, the value of the conservatism coefficient (ACCR) was 0.590 with t-value of 8.769, the conservatism coefficient appeared with the highest value among coefficients. As for the validity of the model, the results in Table 5 validated its suitability for model 1-A. The F-value scored 36.168, which is statistically significant. The results of Model 1-B in Table 2 symbolize the second run for multiple regression after the inclusion of the governance mechanism; the results were in line with model 1-A. The conservatism accounting and size of the company continued with a significant positive impact on ROA despite the inclusion of governance variables; also, the DR sustained its negative impact on ROA and the log. GP has the same result but no effect on financial performance. As for the governance variable, the only impact revealed was the effect of the female directory on financial performance. This influence was significantly negative. The coefficient value was -0.190 with t-value of -1.664. The board size, board independence and number of audit committees failed to prove any impact on ROA. The value of R^2 was up warded with a slight percentage while the fitness of the model decreased by about 50%, from F-value of 36.16 to 18.58, but it remained significant. These results suggest that corporate governance partially affects the relationship between conservatism accounting and financial performance; only one out of four governance variables approved its effect. Thus, it can be concluded that there is no significant moderating impact of corporate governance on the relationship between conservatism accounting and financial performance; consequently, Based on these results for models 1 & 2, the first sub-hypotheses are rejected for the non-linkage between conservative accounting and financial performance measured by (ROA). Conversely, the study accepts the second main null hypothesis and approves the alternative one: corporate governance does not affect the relationship between conservatism accounting and financial performance measured by return on assets.

Table 2. Regression Results for Model 1-A & Model 1-B

Model 1-A				Model 1-B (after including corporate governance)		
	Coef	T-value	Sig.	Coef	T-value	Sig.
ACCR	0.590	8.769	0.000	0.593	8.780	0.000
log. TA	0.041	1.962	0.010	0.042	1.917	0.023
log.GP	0.023	1.501	0.134	0.023	1.454	0.389
DR	-0.111	-3.036	0.003	-0.124	-3.334	0.001
BS	----	---	---	-0.004	-.911	0.363
FD	----	---	---	-0.190	-1.664	0.019
BI	----	---	---	-0.016	-0.705	0.481
ACS	----	---	---	0.002	0.341	0.733
Constant	-0.376	-3.682	0.000	-0.348	-3.300	0.001
R2	0.266			0.273		
F	36.168			18.584		
sig	0.000			0.000		
N	540			540		
DEP. Var	ROA			ROA		

The results in Table 3 show the regression results for the impact of conservatism accounting on financial performance measured by ROE, model 2-A, and the results for moderating impact of corporate governance model 2-B. Screening results in the second model 2-A, we find that the value of R^2 was 0.247, meaning that the four independent variables explained about 25% of the change in the return on equity, the

accounting conservatism (ACCR) has confirmed its positive significance on financial performance measured by (ROE), the value of the conservatism coefficient was 0.354 with t-value of 2.122, model 2-A was validated, where F-value scored 6.488.
The values of Model 2-B in Table 3 after the insertion for governance mechanisms show that conservatism accounting (ACCR) gross profit (log. GP) sustained its significant positive impact on ROE regardless of the inclusion of governance variables as moderating variables; the DR sustained its negative impact on ROE and log. TA was also the same but had no impact on performance. As for the governance variable, the only impact witnessed was the board size (BS) on financial performance. This influence was significantly negative, and the coefficient value was -0. 024 with t-value of -2.417. The value of R^2 in the second run of regression increased by 10%, while the fitness of the model decreased by about 40%. The F-value declined from 6.5 to 4.09 but persisted in its significance. The results for model 2-B, similar to model 1-B, suggest that corporate governance has only partially impacted the relationship between conservatism accounting and financial performance; only one mechanism of governance approved its influence. Thus, it can be recognized that there is no significant moderating impact of corporate governance on the relationship between conservatism accounting and financial performance measured by (ROE). Consequently, the study rejects the second null sub-hypothesis and validates the alternative that there is a linkage between conservatism accounting and financial performance measured by Return on Equity. Conversely, we approve the second main null hypothesis for the absence of the effect of corporate governance on the linkage between conservative accounting and financial performance measured by (ROE).

Table 3. Regression Results for Model 2-A & Model 2-B

Model 2-A				Model 2-B (after including corporate governance)		
	Coef	T-value	Sig.	Coef	T-value	Sig.
ACCR	0.354	2.122	0.034	0.367	2.200	0.028
log. TA	-0.016	-0.318	0.751	-0.006	-0.116	0.908
log.GP	0.075	1.966	0.040	0.085	2.206	0.028
DR	-0.229	-2.538	0.012	-0.251	-2.736	0.006
BS	----	---	---	-0.024	-2.417	0.016
FD	----	---	---	-0.012	-0.041	0.967
BI	----	---	---	0.041	0.742	0.459
ACS	----	---	---	0.007	0.379	0.705
constant	-0.268	-1.060	0.290	-0.254	-0.974	0.331
R2	0.247			0.276		
F	6.488			4.092		
sig	0.000			0.000		
N	540			540		
DEP. Var	ROE			ROE		

The results for the influence of conservative accounting on financial performance measured by earnings per share (EPS) are exhibited in the third model 3-A, table 4. The results show that the value of R^2 was 0.403, meaning that the four independent variables explained about 40% of the change in the earnings per share is referred to the selected four independent variables. The (ACCR) confirmed its significant positive linkage with financial performance measured by (EPS), the value of the (ACCR) coefficient was 0.612 with t-value of 5.102, and the conservatism coefficient appeared with the highest value among other coefficients. Other results in the table approved the fitness for model 3-A. The F-value scored 67.640, which is statistically significant.
Results for Model 3-B in Table 4 for multiple regression after governance mechanisms insertion; the results of conservatism accounting (ACCR), gross profit (log. GP) and (log. TA) sustained its significant positive impact on EPS regardless of the presence of governance variables; as for governance variable the only impact that viewed is for the board size (BS) on financial performance this influence was significantly negative, the coefficient value was -0.024 with t-value of -2.417. The explanatory power for all variables (R^2) was raised by only 3%, while the fitness of the model decreased by approximately about 50%; the F-value declined from 67.64 to 34.67 but persevered its significance. These reviewed results offer more evidence for the linkage between conservative accounting and financial performance but do not recognise comprehensive evidence for the moderating role of governance in this linkage. Therefore, this study rejects the third null sub-hypothesis and accepts the alternate one that there is a linkage between conservatism accounting and financial performance measured by Earnings Per Share (EPS). Also, it accepts the second main null hypothesis by opposing the existence of the moderating effect of governance factors.

Table 4. Regression Results for Model 3-A & Model 3-B

Model 3-A				Model 3-B (after including corporate governance)		
	Coef	T-value	Sig.	Coef	T-value	Sig.
ACCR	0.612	5.102	0.000	0.602	5.017	0.000
log. TA	0.100	2.724	0.007	0.094	2.430	0.016
log.GP	0.130	4.760	0.000	0.127	4.614	0.000
DR	-0.526	-8.105	0.000	-0.500	-7.583	0.000
BS	----	---	---	0.015	2.135	0.033
FD	----	---	---	0.205	1.013	0.311
BI	----	---	---	0.010	0.246	0.806
ACS	----	---	---	-0.007	-0.544	0.587
constant	-1.289	-7.092	0.000	-1.335	-7.121	0.000
R2	0.403			0.412		
F	67.640			34.677		
sig	0.000			0.000		

N	540	540
DEP. Var	EPS	EPS

Table 5 results for models 4-A & B did not offer any evidence for the linkage between conservative accounting and financial performance measured by Tobin's Q (P-BV). Both models A & B were not significant; the value of R^2 in model A was 0.199, meaning that the four independent variables explained about 20% of the change in the market value (P-BV) referred to the selected four independent variables (ACCR, log. TA, log. GP and DR), in this model conservatism was insignificant to P-BV while log. TA, log. GP is the only two variables that explain the change in P-BV. The leverage (DR) results were also insignificant in terms of market value. Other results in the table approved the validity of model 4-A, where, F-value scored 4.136 and was statistically significant.

The results of Model 4-B, which denotes the re-test for multiple regression after governance mechanisms enclosure, the same results were also achieved; conservatism accounting was insignificant to financial performance, and only gross profit (log. GP) and (log. TA) sustained its positive significant impact on P-BV regardless for the presence of governance variables; also the DR sustained its insignificant impact on P-BV and log. In the results for governance variables, the only impact seen is that the board independence (BI) was significantly positive to financial performance. Therefore, the aforementioned results agree with the fourth null sub-hypothesis and the second main null hypothesis; thus, the study accepts the two null hypotheses.

Table 5. Regression Results for Model 4-A & Model 4-B

Model 4-A				Model 4-B (after including corporate governance)		
	Coef	T-value	Sig.	Coef	T-value	Sig.
ACCR	-0.078	-0.128	0.899	-0.117	-0.191	0.849
log. TA	-0.384	-2.049	0.041	-0.347	-1.751	0.081
log.GP	0.527	3.783	0.000	0.570	4.053	0.000
DR	0.324	0.981	0.327	0.387	1.153	0.249
BS	----	---	---	-0.017	-0.479	0.632
FD	----	---	---	0.567	0.549	0.583
BI	----	---	---	0.420	2.054	0.041
ACS	----	---	---	-0.049	-0.775	0.439
constant	0.544	0.588	0.557	0.145	.152	0.879
R2	0.199			0.228		
F	4.136			2.722		
sig	0.003			0.006		
N	540			540		
DEP. Var	P-BV			P-BV		

Reviewing previously discussed results, the researchers found the present study results are similar to prior results (Al-Ramahi et al., 2021; Al-Theibeh et al., 2018; Sana'a, 2016; Affes and Sardouk, 2016; García Lara et al., 2009; Ramadan, 2015), that conservative accounting liberates accounting reports from situations of uncertainty and doubt by its impact on financial adequacy; moreover we find partial effect for governance mechanisms on accounting conservatism as suggested by (Watts, 2003; LaFond and Roychowdhury, 2008; Larcker et al., 2007).

Implications of the study

This study's results propose several implications. Firstly, it emphasizes the importance of commitment to accounting conservatism practices as they achieve the objectives of the conceptual framework of accounting in terms of relevance, reliability, and comparability. Secondly, companies can deviate from the principle of accounting conservatism and report financial information using market values only at necessary times with prudence and appropriate disclosures for any revaluations of assets and gains or overstating obligations and expenses. Thirdly, it emphasizes the role of auditors in preventing companies from exaggerating accounting estimates and adhering to accounting policies. Fourthly, it highlights the importance of using profitability, indebtedness, and company size measures to study the real financial conditions of companies. Fifthly, due to the importance of governance requirements in controlling the suspicious financial practices of management, companies should increase the size of the Board of Directors and the Audit Committee and provide complete independence for the Audit Committee and the Internal Auditor.

Conclusion

The current study investigated the impact of conservative accounting practice on financial performance measured by the return on assets (ROA), return on equity (ROE), earnings per share (EPS) and Tobin's Q expressed by price to book value (P-BV). The study followed Givoly and Hayn's model (2000) for accruals and expanded the model to include corporate governance variables as moderating variables on the relationship between accounting conservatism and financial performance; four governance mechanisms were used: the board directors size (BS), board independence (BI), Feminine directory (FD) and audit committee size (ACS). The study provided empirical evidence for the positive statistical impact of accounting conservatism on financial performance measured by three measures out of four: return on assets (ROA), return on equity (ROE) and earnings per share (EPS); the results failed to prove any effect for accounting conservatism on the fourth financial measure that is the market value measured price to book value (P-BV). Moreover, the results confirmed in three models the positive impact of company size and gross profit on financial performance. Concerning the moderating role of corporate governance mechanisms on the relationship between conservative accounting and financial performance, the results of the study failed to establish any conclusive evidence for such a role.

Limitations and future research

There is no study devoid of determinants that may reduce the possibility of generalizability of results; thus, similar to other studies, some limitations were confronted by this study. One of the limitations of this study is the study community and sample. This study steered only to one economic sector, which is the industrial sector, and the study results might differ if the study included other sectors. The study also was challenged by the problem of obtaining data for all companies, but due to the lack of data for many companies, the number of companies is limited to 45 companies with a sample of 540 observations, which is about 30% less than the planned sample. Another limitation is the lack of complete information on the elements of corporate governance. Only four determinants of governance were found with complete information. Furthermore, a limitation of the study was related to the type of environment in which the study was conducted, and the environment was a developing country. The results may be similar to other studies from similar environments or countries but may differ in a developed market. The final limitation concerns selecting the study variables; the study employed certain variables to measure financial performance and adopted a specific model to calculate conservatism, although other performance measures and other models could be used to measure conservatism.

Future research on this topic may follow other methodologies in measuring accounting conservatism and might also use other models that have proven successful in measuring such linkage between conservatism and financial performance. The researchers may also apply the study to other sectors or include more economic sectors to increase the ability to generalise results. Furthermore, scientists may expand the sample to cover more developing markets and compare the results with those of more developed markets. Financial performance measures similarly might be improved or replaced to reach more universal and comprehensive results.

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POWIĄZANIE MIĘDZY KONSERWATYWNĄ RACHUNKOWOŚCIĄ A ADEKWATNOŚCIĄ FINANSOWĄ ORAZ MODERUJĄCA ROLA ŁADU KORPORACYJNEGO

Streszczenie: Niniejsze badanie ma na celu weryfikację wpływu praktyk konserwatywnej rachunkowości na adekwatność finansową mierzoną czterema miarami, a mianowicie zwrotem z aktywów (ROA), zwrotem z kapitału własnego (ROE), zyskiem na akcję (EPS) i Q Tobina wyrażonym przez cenę do wartości księgowej (P-BV). Model badania został dostosowany do uwzględnienia zmiennych ładu korporacyjnego jako zmiennych moderujących związek między konserwatyzmem rachunkowości a adekwatnością finansową; zaangażowano cztery mechanizmy zarządzania. Badanie wyróżnia się włączeniem konserwatywnej rachunkowości do ładu korporacyjnego. Dane dotyczyły jordańskich spółek przemysłowych notowanych na giełdzie w latach 2012-2020. W metodologii zastosowano metody statystyczne, takie jak testy korelacji i regresji wielokrotnej, w celu przedstawienia założonych korelacji. Wyniki badania dostarczyły jednoznacznych empirycznych dowodów na pozytywny statystyczny wpływ konserwatyzmu rachunkowego na zwrot z aktywów, zwrot z kapitału własnego i zysk na akcję, jednocześnie nie potwierdziły żadnego wpływu konserwatyzmu rachunkowego na wartość rynkową mierzona stosunkiem ceny do wartości księgowej. Wyniki badania nie dostarczyły również żadnych dowodów na moderującą rolę ładu korporacyjnego na związek między konserwatywną rachunkowością a adekwatnością finansową.

Słowa kluczowe: konserwatywna rachunkowość, wystarczalność finansowa, wskaźnik Tobina, dźwignia finansowa, ład korporacyjny