The Accounting Conservatism and Its Effect on the Quality of Financial Reporting and Supply Chain of Organization in the Financial Market

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***Abstract*- Accounting conservatism is one of the well-established accounting policies that is used in the field of accounting. In the past, it has been highly praised because conservatism increases the credibility and reliability of financial statements and helps to protect the stakeholders. The sound application of accounting conservatism leads to improve the quality of financial reporting through confessing and disclosing, in the appropriate time, the unwanted news that might face the company. But the company management can have an influence on practicing financial conservatism by intervening in the measurement and disclosure processes of the company results and its financial position, which aims to mislead financial statements users. Although accounting conservatism has been criticized severely due to its contradiction with certain qualitative standards of accounting information, it does not attract local (Iraqi) attention in which it has an important role to enhance financial reporting in the Iraqi environment. Because Iraq tries to attract foreign companies to work and invest in the country, which requires to provide sufficient information to helps them take sound decisions. The study aims to shed light on the relationship between accounting conservatism and the improvement of the quality of financial statements, and the effect of this relationship on the supply chain of the organization in the financial market. Conservatism can be used by the company management as a way of accounting alternatives in an opportunistic and practical way through some accounting policies that the companies apply. In order to reach the study goals, the necessary data and information have been gathered to test the study hypotheses. The study achieves statistically important indicators about the level of accounting conservatism in the financial statements issued by the joint- stock companies in Iraq stock exchange.**

Keywords: *Accounting Conservatism, Financial Statements, Supply Chain of Organization, Financial Market.*

1. Introduction

Financial statements have a crucial role in providing useful information to the investors and the interested parties. The significance of the accounting information increases as a basic method and an active tool in taking economic decisions. Several interested parties depend on the quality of financial information disclosure and the financial reports due to its profound impact in their economic decisions. The employment of accounting conservatism principle is only part of the measures taken to ensure the quality and transparency of financial reports. Through its significant role, the use of accounting conservatism effects on the information quality in which it imposes limitations on the accountants' abilities to measure and introduce information.

Accounting conservatism varies according to the change in the alternatives and the accounting applications of the economic units or accounting practices that are reflected on the results of the financial statements, which are the basic source of information. So, this issue needs to be studied to investigate Iraqi joint- stock companies practices of accounting conservatism when they disclose and measure the company's results, financial position and the nature of the practice to enhance the quality of financial notification and sound economic decisions.

2. First Section: The Study Methodology

2.1. First: The Study Problem:

The financial statements have a vital role in providing accounting information for investors and lenders. Accounting conservatism, if applied appropriately, is considered an important factor to strengthen the quality of financial statements through acknowledgement the expected losses and postponing the expected earnings especially in unstable environment. Moreover, the supply chain of organization can use conservatism as a way to choose from accounting alternatives in an opportunistic way through some accounting policies employed by the organization. In such a way the researcher can crystalize the study problem by the following questions:

1- How do the joint- stock companies listed in Iraq stock exchange practice accounting conservatism at disclosure and measurement of the activity results and financial position? What is the variance at the level of accounting conservatism among Iraqi economic sectors?
2- What are the repercussions of practicing accounting conservatism on the quality of the

supply chain of the organizations' financial reports?

2.2. Second: The aims of the study

1- To find out how the joint- stock companies in Iraq stock exchange practice accounting conservatism, and what are the variances at the level of accounting conservatism among economic sectors and justify this variation.
2- To show the influence of accounting conservatism on the quality of financial reports issued by these companies and the economic decisions of the financial statements users.

2.3. Third: The study Hypotheses

1- Joint- stock companies of Iraq stock exchange practice accounting conservatism when measure and disclose their activity results.
2- There are variances at the level of accounting conservatism among different economic sectors of Iraqi joint- stock companies.

2.4. Fourth: The importance of the study

The present study contributes to identify and recognize the level of accounting conservatism of joint- stock companies in Iraq stock exchange, accounting standard-setters and responsible management in these companies in addition to the change of accounting conservatism over time and its influence on the quality of financial reports. Moreover, the need of Iraqi environment for accounting conservatism and its effect on compatibility of accounting information with published financial reports.

2.5. Fifth: The study methodology:

The study employs theoretical and applied methods. Through theoretical aspect, the literature review discusses accounting conservatism and the models used to measure the level of that conservatism. Then, identify the appropriate model to measure accounting conservatism of joint- stock companies in Iraq stock exchange. The applied part of the study will apply the model identified in the theoretical part to measure the level of accounting conservatism, and the factors that affect it in the annual financial reports during the period 2012-2016. The information is accessible through the companies' websites.

3. Second Section: Conceptual Framework of Accounting conservatism

3.1. First: The concept of accounting conservatism:

The concept has caused controversy for a long time among the standard- setters, auditors and academic institutions. The pioneers of accounting used to employ the concept of prudence instead of accounting conservatism in the financial statements. Prudence means anticipating and acknowledge losses in the financial statements before they are being verified even if the basis is uncertain at the same time revenues are not acknowledged before they gained though the basis is there. [1] explains that the concept of accounting conservatism emerges as a result of uncertainty the accountants face during several situations of their work. It means to show the least value out of several probable values of assets and revenues, and show the highest value out of several values of liabilities and expenses.

[2] defined accounting conservatism as choosing the accounting methods and evaluations that keep the book values of net assets reasonably low. [3] defined accounting conservatism as selecting a specific accounting method out of certain acceptable methods that leads to (slower recognition of sale revenues, faster recognition of cost, Evaluation of assets less than real values and Evaluation of liabilities greater than real values). In spite of the opposition to accounting conservatism, it becomes, in the present time, a basic demand of investors, relevant standard- setters and auditors especially after several meltdowns of some world giant companies in the early twenty-first century. The results are heavy toll due to some opportunistic practices of those companies management especially practices of profits management.

As it can be seen from the above, accounting conservatism includes two concepts. The first is the accounting constraints when providing useful accounting information and the business environment is uncertain. Or there is doubt about the estimation of the funds received or paid where the least estimation is selected. The second concept represents the company's consistent policy by using conservative accounting method that leads to continuous decrease in the company assets in comparison to the market value to avoid any risk the company may face in the future. Accounting conservatism can be interpreted as the accountant tendency to verify higher recognition of earnings than that is required to recognize losses. It does not mean to minimize the real assets and revenues of the company or it is used in all conditions and situations. But it is used in uncertain, hard and ambiguous situations only.

3.2. Second: Types of accounting conservatism:

1- **Conditional conservatism:** it is called accounting conservatism of income statement. It can be defined as asymmetric timeliness in the recognition of unrealized losses vs. gains. It is the timing that bad news is recognized more quickly than good news in earnings. It is a kind of acceleration of economic losses that is related to financial news and events or as called conservatism after the event. Examples of conditional conservatism are lower-of-cost-or-market rule when evaluating long- term tangible and intangible stocks. Based on this concept of accounting conservatism, bad news is recognized faster than the good one and sometimes it is called earnings conservatism.
2- **Unconditional conservatism**: it is called accounting conservatism of financial statement position. It can be defined as "the declining of

book value of shareholders less than the market value". Examples of unconditional conservatism include selecting a method of fixed assets depreciation as accelerated rather than economic depreciation of these assets, historical cost accounting for positive net present value projects and immediate expensing of the costs of most internally developed intangibles that are shown as fixed assets in the financial position.

The researcher thinks that the concept of unconditional conservatism reflects the company's fixed policy to handle its net assets. Conditional conservatism is a method of facing uncertain situations when the conditions are unstable so the accountant has to be cautious that is necessary for judging the accounting estimations under ambiguous circumstances, in the sense that one cannot overstate income and assets and understate costs and liabilities. The researcher favours conditional conservatism because unconditional conservatism can give bias information that does not conform to the qualitative characteristics of accounting information in which it does not take into consideration newly received news, but it uses the initial information at the beginning of assets acquisition.

3.3. Third: Motives and explanations of accounting conservatism:

In order to reach for a better understanding of accounting conservatism justifications, it is important to distinguish between management behavior, accountant, auditor and the concerned professional institutions that are responsible of setting up accounting standards. Management is going to adopt aggressive strategy when acknowledgement earnings and reporting good news before the bad one. Accounting conservatism has important economic functions since it can be applied in the contractual relationships, litigations, organizational motives and relate them to the effects of financial reports and tax policies. There are certain motives and justifications for accounting conservatism as:

1- Contractual explanation:

It focuses on the legal and formal contracts between the concerned parties of the economic unit like debt and reward contracts. The conditions of earnings allocation stipulated in the debt contracts are examples of accounting conservatism in which the creditors attempt to prevent over- allocation of earnings to maintain minimum value of net assets to protect their loans. Contractual motive is the earliest explanation of accounting conservatism. In light of these contracts, accounting conservatism appears in a natural way as a vital tool to conclude these contracts. Because they require stricter verification criteria for earnings than losses. The differences of verification criteria of earnings than losses lead to deferment of acknowledging earnings rather than losses. The result is lowering the possibility of emerging net assets and accumulated dividends in a larger value than its real one in any minute. Consequently, it leads to decrease the probability of any existing dividends that may breach contracts or decrease the company's value.

2- Litigation Explanation:

Litigation and its cost have a direct impact on the auditor and the management as well. It is considered as one of the reasons that makes management adopt accounting conservatism in different degree. Due to different levels of practicing conservatism and its effects on the financial reports, the possibility of expecting litigation and its risks will increase overvaluation of assets, which represents the minimum level of conservatism in comparison of decrease level of assets evaluation that represents a higher level of adopting accounting conservatism. Litigation risks are vary from country to another depending on the quality and strength of litigation systems.

One of the reasons that makes the management employs conservatism is to minimize the risks of litigation where the decrease of the value of assets may lead to minimize the risks of litigation and vice versa. Based on this fact, the management has the motive to announce the earnings and assets conservatively.

3- Tax explanation:

Income tax is in direct proportion to the announced earnings of the economic unit. Therefore, these units resort to announce less earnings to avoid taxes, which in turn influence on the tax amount. Some tax regulations contribute to increase or decrease accounting conservatism. Due to this kind of relationship, tax will become a motive to practice conservatism. Based on taxation reasons, the economic institutions will apply unconditional conservatism because it minimizes taxable income and eventually decreases company's taxes.

4- Explanation of accounting in supply chain of organization:

The techniques of accounting in supply chain of organization is one of the reasons that lead to the increase of conservatism. The issuance of accounting standards has an active effect on accounting conservatism whether it is an increase or decrease. Therefore, conservatism is utilized by the standard-setters and organizers as a way to put an end to the risks that are resulted from their overvaluation of the company or the income [19]. The special regulations of financial reporting are one of the motives of accounting conservatism. Watts refers to the losses from overvalued assets and overstated income have more effect on directing organizational process than the gains due to undervalued assets or understated income. This issue gives motives for the regulators setters to use accounting conservatism. Accounting conservatism is one of the most important mechanisms of financial reporting that stands against the aggressive need that is followed by management. At the same time, it increases the value of the company and protects investors against management opportunistic behaviours. The increase of the company value when adopting conservative policies can be attributed to several reasons: delaying the recognition of revenues, which means there is additional future value, and the current growth in the company's revenues can compensate any loss in the value because of conservatism.

3.4. Fourth: The effect of accounting conservatism on financial statements:

1- The effect of conservatism on the statement of financial position:

The statements of financial position are highly influenced by using accounting conservatism. It influences on assets and liabilities and some elements of the financial statement position but other elements are less influenced:

- Debtors: Accounts receivable are the most influenced elements by conservatism. Conservatism is used when the value of doubtful debts and bad debts are identified.
- Merchandise inventory: Also, it is influenced by conservatism because of the use of special techniques of merchandise flow to evaluate inventories. Using FIFO (first in first out) leads to decrease in the value of inventories where replacement value of inventories increases, which leads to minimization of the real inventory value and decrease of total value of assets.
- Immovable assets: the economic life of immovable assets is identified by the expert. So, asset economic life is a wide field of practicing conservatism. Institutions tend to employ conservatism to decrease the estimated economic life of assets. It means to distribute the value of that asset on smaller number of years, and this leads to increase depreciation installment, consequently, the decrease of the book value of assets.
- Intangible assets: they are one of the domains of practicing accounting conservatism by assessing the economic life of assets. The decrease of assets economic life leads to increase the value of amortized cost, which minimizes the book value of assets.
- Short term liabilities: generally speaking, liabilities is an appropriate place to practice conservatism in which accountants tend to acknowledge the liabilities depending on the future expectations on the contrary to the assets that are not acknowledged till they are fulfilled.
- Long term liabilities: they are employed in conservatism to calculate the current value of these assets based on the market prevailing discount, which diverse depending on the market situation and the least discount is chosen. This situation is a type of practicing conservatism.
- Property rights: the value of property rights decreases due to practice accounting conservatism, which adopts the necessity of losses, expenses and deferment of revenues acknowledgement till they are confirmed.

2- The effect of accounting conservatism on income statement:

The main objective of preparing income statement is to show the outcome of the company through its net earnings or losses. Some elements of income statement influenced by accounting conservatism as:

- **Revenues**:

Revenues are one of the major domains of practicing conservatism in which conservatism is practiced in two ways:

A- Practicing conservatism through using accounting methods to minimize the revenues value to the lowest one.

B- Practicing conservatism through deferring acknowledgment of revenues for a longer period of time till it is confirmed.

- **Expenses**:

Practicing conservatism through using accounting methods to maximize the expenses and acknowledge these expenses one they are verified.

3.5. Fifth: Accounting conservatism measurement:

In field of financial market, contemporary accounting studies depend on models and approaches to measure conservatism of financial statements. We will tackle the most common and widely used models:

1- Measuring accounting conservatism according to income statement approach:

Basu scale depends on the differential timeliness with which bad and good news are reported in contemporaneous earnings in which conservatism is practiced empirically. Basu has introduced regression equation includes accounting earnings as a dependent variable, shares earnings as an independent variable, and shares positive returns as an alternative for good news and the negative ones for bad news. As the variance degree of acknowledgement increases, the net value of assets decrease.

Basu has statistically explained the issue in the following points:

- Market revenues is the independent variable.
- Accounting earnings is the dependent variable.
- Negative returns means that there is bad news reported in the market and it handled simultaneously before drafting profits report. Positive returns means that the news is good in the market.
- Basu's model differentiates between good and bad news. He uses market returns through binary variable of the value (1) when the return is negative or (zero) when the return is not negative and as the following:

$$Xit / Pit-1 = a0 + \beta 1 DRit + \beta 0 Rit + \beta 1 (Rit^* DRit) + Eit$$

Where

Xit = earnings per share reported by firm i in year t,

Pit-1 = price per share for firm i at the end of year t-1,

Rit = stock return for firm i in year t minus equally-weighted market return for year t,

DRit= 1 if Rit < 0, which represents bad news, and =0 otherwise.

2- Accounting conservatism scales according to financial position approach:

A- Book value to market value scale:

This model depends on the accumulative effect of accounting conservatism. It is clearly manifested when market value of property right increases more than book value to integer one. If the market value increases more than book value, it means an increase of accounting conservatism and vice versa. Since conservatism minimizes the value of assets then book value of property rights while market value of efficient market hypothesis is not influenced by conservatism policies so this scale is considered the simplest one used in applied accounting studies. If the difference is significant between low book value and high market value, it will indicate a high degree of accounting conservatism. The scale can be used to compare the degree of accounting conservatism among companies.

B- score index:

Both [4] introduced another scale called Checkerboard score, which measures the effect of accounting conservatism on the statement of financial position through the level of the ratio of hidden reserves to net operating assets. Therefore, C-Score index seeks to overcome the problem of the companies' variations of results when measuring conditional conservatism for long periods of time.

Cit=ERit/ Noait

Where

ERit= estimated hidden reserves created by accounting conservatism. (i) indicates firms and (t) denotes financial position statement dates.

Noait= net operating assets (i) indicates firms (t) denotes financial position statement dates. The book value of operating assets minus operating liabilities, excluding financial assets and liabilities. Since these items are evaluated in the statement of financial position according to market value, the accounting conservatism will not influence these financial items because they affect all operating assets and liabilities. So, operating liabilities are excluded from operating assets to measure net investments in operational processes [5].

3- Scale of Accruals Approach:

Accounting conservatism means that earnings tend to be continual more than losses because the financial statements do not acknowledge the increases that are not earned in net assets at its specific time. But they acknowledge them in the future when cash flows are realized to generate increases. The company of positive revenues or changes has acknowledgeable earnings and the increases tend to be more continuous. Both (Ball and Shivakumar) introduced the asymmetric timeliness of earnings of cash flows that measure conservatism in the financial statements. The idea of this approach is if the relationship between earnings and positive cash flows is a negative relationship while the relationship between earnings and negative cash flows is a positive one. The reason is the asymmetrical accounting treatment of losses and economic gains (accounting conservatism). Economic losses are acknowledged, immediately, as accrued losses but unearned ones while economic earnings are acknowledged only when they are earned, consequently, they are treated on cash basis. To test this relationship between gains and cash flows, the regression equation clarifies that:

$ACCit = \beta0 + \beta1DCFOit + \beta2CFOit + \beta3DCFOit \cdot CFOit + Eit$

Where

ACCit: Accruals of operating processes.

- DCFOit: Dummy variable that is set to 0 if $CFOit \geq 0$, and is set to 1 if $CFOit < 0$.
- CFOit: Cash-flow for period t, deflated by beginning total book assets.
- $\beta2$: expected to be negative, reflected the expected negative relationship between accruals and cash flow.
- $\beta3$: the AACF measure of accounting conservatism during bad news.

Similarly, Givoly and Hayn introduced another scale for accounting conservatism based on the accumulative accruals over time. The long- term accumulative net income before depreciation and amortization will cover operating cash flows. The difference between net income and operating cash flow is the accruals which can be employed a scale for accounting conservatism.

Givoly and Hayn have distinguished between two types of accruals; operating accruals and non- operating accruals. The operating accruals include the basic company activities as in the following equation:

Total accruals (before depreciation) = (net income + depreciation) - operating cash flows.

Operating accruals= change in accounts receivable + change in inventories + change in prepaid expenses - change in accounts payable - change in taxes payable.

Non- operating accruals= total accruals- operating accruals.

Non- operating accruals include losses of bad debts, restructuring, changes of assets gains and losses and the decrease of assets value. The scale can be used to identify accounting conservatism in a specific company. The strengths of this scale is that it can be applied easily and does not require much data in addition that it is not a market- based scale. SO, it can be applied on companies listed in stock exchange. The researcher is going to adopt Basu scale to test the study hypothesis because of the availability of information. Moreover, the previous studies that employed this scale have found satisfied theoretical results, and this increases their trust in this scale. The economic changes do not influence Basu scale to measure conservatism because the changes of shares prices (revenues) are the results of economic situation where there is change in earnings as a positive relationship between the two:

$$Xit/ Pit-1=a0+\beta1DRit+\beta0Rit+\beta1 (Rit* DRit) +Eit$$

4. Section three: Applied Study

This part of the study will apply the study hypothesis using the published information of Iraqi joint stock companies listed in Iraq stock exchange to identify the

relationship between accounting conservatism and accounting value and its effect on the quality of financial reporting of financial statements [6].

1- The Study Sample:

The population study includes (20) joint companies listed in Iraq stock exchange for the period 2012- 2016. The investigated companies are taken from four sectors; banks, agriculture, insurance and industry sectors as shown in the table below:

Table (1) Distribution of study population of joint companies listed in Iraq stock exchange according to economic sectors

No.	sector	No. of companies	percentage
1	banks	6	%30
2	agriculture	6	%30
3	insurance	4	%20
4	industry	4	%20
Total		20	%100

Five of the companies have been excluded due to unpublished information and financial statements on the website of securities commission and Iraq stock exchange during the study period. Moreover, there is no information about the prices of these companies during the study period. (15) companies have been selected of different sectors:

Table (2) the investigated joint companies according to economic sectors

No.	sector	No. of sample companies	percentage
1	banks	6	%40
2	agriculture	4	%26
3	insurance	2	%14
4	industry	3	%20
Total		15	%100

The following table shows the names of the investigated joint companies according to economic sectors

Table (3) the names of the studied joint companies according to economic sectors

sector	Company name
banks	1- Al-Mansour investment bank 2- investment bank of Iraq 3- Al-Khalij trade bank 4- Iraq trade bank 5- Baghdad bank 6- Babil bank
agriculture	1- Al-Ahlya for agricultural production 2- Al-Iraqi for producing and marketing meat and agricultural products 3- Al-Sharq Al-awsat for agricultural and animal production 4- Al-haditha for agricultural and animal production
insurance	1- Darelsalam for insurance 2- Al-Ameen for insurance
industry	1- Al- Mansour Pharmaceutical industries 2- Baghdad for carbonated beverages 3- Al-Hilal industries

2- Scales used in the study:

The researcher adopts Basu model to test the sample companies when they practice accounting conservatism and disclose their financial position and economic activities in addition to some other processes like arithmetical mean, standard deviation and deviation error. Also, variance analysis is used to diagnose the level of variance in accounting conservatism among different economic sectors. Basu's model is formulated according the regression equation:

Xit /Pit-1=a0+β1Rit+β2 DRit+β3 (Rit* DRit) +Eit
Where
Xit: Earnings per share for company i for the period t.
Pit-1: The share prices of company i at the beginning of the period t.
β1: measures earnings response to positive revenues.
β2: measures the degree of accounting conservatism regardless of news (bad or good).
β3: measures earnings response to negative revenues.
Rit: The market yield of the company i for the period t.
DRit: An imaginary variable equal to 1 if Rit is less than zero and equal to 0 if Rit is greater than zero.
(The purpose of dividing earnings per share in the beginning of the period/ the price of shares in the end of the period is to avoid the influence of share price difference due to par value for each share. As par value of each share of the joint companies listed in Iraq stock exchange equals one dinar, the researcher depends on earning per share as a variable of application [7].
First: testing the first primary hypothesis of the study: Based on Basu model, the researcher investigates the extent the Iraqi joint companies' practice accounting conservatism and preparing their financial statements and disclosing other related information. The following table shows some general statistics as arithmetical mean, standard deviation, deviation error, confidence interval %95, minimal and maximum values for the years under investigation:

Table (4) descriptive statistics of model variables

		N	Mean	Std. deviation	Std. Error	%95 confidence interval of mean		Min.	Max.
						Upper bound	Lower bound		
Earnings per share	2012	15	4.6997	10.23561	2.64282	-.9686-	10.3680	.08	37.95
	2013	15	2.8798	4.88193	1.26051	.1763	5.5834	.08	18.56
	2014	15	5.9730	10.46778	2.70277	.1761	11.7699	.03	30.70
	2015	15	11.8465	26.66598	6.88513	-2.9206-	26.6137	.04	103.12
	2016	15	4.8639	7.50661	1.93820	.7069	9.0210	.24	23.64
	Total	75	6.0526	14.13337	1.63198	2.8008	9.3044	.03	103.12
Returns on share	2012	15	.5973	1.50108	.38758	-.2339	1.4286	-.86	5.00
	2013	15	4.0787	13.18395	3.40408	-3.2224	11.3797	-1.05	51.41
	2014	15	-2.8567	9.13690	2.35914	-7.9165	2.2032	-34.41	3.25
	2015	15	2.7847	10.66243	2.75303	-3.1200	8.6893	-3.50	41.00
	2016	15	-4.3340	14.21107	3.66928	-12.2038	3.5358	-55.50	.69
	Total	75	.0540	10.92225	1.26119	-2.4590	2.5670	-55.50	51.41

The table results show that there is compatibility between eps and returns on share variables for all years except 2013 and 2016. It means that there is asymmetrical response of earnings to returns during these years in addition to the different types of received news (bad) when the earnings sign is negative and (good) news if the sign is positive [8].

Correlation and effect hypothesis

The researcher uses null hypothesis to test the strength and direction of the relationship between the returns on share and returns response to negative earnings and eps on share price:
H0: there is no significant correlation between returns on share and earnings response to negative returns and eps on share price.
H1: there is significant correlation between returns on share and earnings response to negative returns and eps on share price.

Table (5) descriptive statistics of model variables

Correlations					
		Eps on share price	Rt	DRt	Rt*DRt
Eps on share price	Pearson Correlation	1	.316**	-.190-	.060
	Sig. (2-tailed)		.006	.103	.608
	N	75	75	75	75
Rt	Pearson Correlation	.316**	1	-.307-**	.724**
	Sig. (2-tailed)	.006		.007	.000
	N	75	75	75	75
DRt	Pearson Correlation	-.190-	-.307-**	1	-.210-
	Sig. (2-tailed)	.103	.007		.070
	N	75	75	75	75
Rt*DRt	Pearson Correlation	.060	.724**	-.210-	1
	Sig. (2-tailed)	.608	.000	.070	
	N	75	75	75	75
**. Correlation is significant at the 0.01 level (2-tailed).					

The above shows that there is a significant correlation between the variables of returns on share and response of earnings of negative returns to eps. But there is correlation with other variables. It means to refuse null hypothesis H0 and accept the alternative one H1 [9].

Moreover, the researcher extracted the variables related to Basu model of impact analysis in the investigated companies as shown in the table below:

Table (6) variables related to Basu model of impact analysis in the investigated companies.

Basu model variables	Variable value	T- test value	Test significance value	F- test value	Test significance value	R^2 value	Durbin-Watson value
β_0	1.969	3.365	.001	4.776	0.004	0.17	1.9 No problem auto correlation
β_1	0.177	3.350	.001				
β_2	-0.694	-.858-	.394				
β_3	-0.167	-2.239-	.028				

The researcher uses the following null hypothesis to test the impact of returns on share and the response of earning to negative returns and eps:

H0: there is no significant effect of return on share and the response of earnings of negative returns on eps and share price.

H1: there is no significant effect of return on share and the response of earnings of negative returns on eps and share price.

The above table shows that F- test value is 4.776 and significant value 0.004 that is less than %5 of significance level. It indicates that the model of variables has a significant effect on response variable and %17 r^2 level. This percentage indicates that %17 is explained through using this model. Moreover, there is a significant impact of return on share variable on shares where r^2 is 0.177, t- test value is 3.35 with significance level by 0.001and this is less than %5 of significance level. It means that the increase of return on share value by one unit leads to increase of eps and share price by %18. There is a significant impact on the earnings response to bad news or expected losses in which r^2 is-0.167, t- test value equals to -2.239 and significance value by 0.028 and it is less than %5 of significance level. It means that the increase of the earnings response to bad news by one unit leads to decrease the value of eps on share price by %17. It is clear that the earnings response to good news is slightly higher than earnings response to bad news by (0.177/ 0.167). In addition, the impact strength for the bad news periods (2014 and 2016) and good news periods (2012, 2013 and 2015) [10]. The following table shows the general statistics of bad news:

Table (7) descriptive statistics of the bad news sample

	N	Mean	Std. deviation	Std. Error	%95 confidence interval mean		Min.	Max.
					Lower bound	Upper bound		
EPS	30	5.4185	8.96767	1.63727	2.0699	8.7670	.03	30.70
Return on share	30	-3.5953	11.76273	2.14757	-7.9876	.7969	-55.50	3.25

The next table is for good news:

Table (8) descriptive statistics of the good news sample

	N	Mean	Std. deviation	Std. Error	%95 confidence interval mean		Min.	Max.
					Lower bound	Upper bound		
EPS	45	6.4754	16.80733	2.50549	1.4259	11.5248	.04	103.12
Return on share	45	2.4869	9.71116	1.44765	-.4307	5.4044	-3.50	51.41

Also, the researcher has deduced r^2 and table of variance analysis related to Basu model of impact analysis for the investigated companies (bad news):

Table (9) r^2 for bad news sample

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.316[a]	.100	.087	3.41532

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	94.244	1	94.244	8.080	.006[b]
	Residual	851.503	73	11.664		
	Total	945.747	74			

Similarly, r^2 and table of variance analysis related to Basu model of impact analysis for the investigated companies (good news):

Table (10) r^2 for good news sample

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.060[a]	.004	-.010-	3.59286

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.419	1	3.419	.265	.608[b]
	Residual	942.328	73	12.909		
	Total	945.747	74			

Through previously mentioned results, the value of r^2 of bad news is 0.10, F- test value is 8.08 and significance value of the test is 0.006 which is less than %5 of significance level. This value of r^2 is higher than the value of good news 0.004, F- test value is 0.265, test significance is 0.608, which is higher than the significance level %5, and this refers to its insignificance.

The results of applying Basu model on conservatism refer to the following:

1- The results demonstrate the first study hypothesis, which refers to the ability of Iraq joint stock companies to practice accounting when measuring and disclosing their activities and financial position. The earnings response coefficient of bad news is higher than that of good news. Moreover, the explanatory power of the earnings response coefficient for negative returns is higher than the explanatory power of the earnings response coefficient for positive returns. It means that the companies require strict standards to acknowledge expected earnings in comparison to expected losses. The financial reports of companies in Iraq stock exchange have accounting conservatism [11].
2- The joint- stock companies take into consideration Iraqi accounting rule No (6) about disclosing financial information and policies and the necessity to regard accounting conservatism when preparing and disclosing financial information.

Second: testing the second hypothesis of the study: There is variance in the level of accounting conservatism among different economic sectors of Iraqi joint- stock companies. The table below shows the descriptive statistics of model variables on the level of economic sectors:

Table (11) descriptive statistics of model variables on the level of economic sectors

		N	Mean	Std. deviation	Std. Error	%95 confidence interval of mean		Min.	Max.
						Upper bound	Lower bound		
Earnings per share	banks	35	1.8295	3.49574	.59089	.6287	3.0304	.03	18.56
	agriculture	20	9.1576	10.87651	2.43206	4.0673	14.2480	.05	30.70
	insurance	10	2.4623	3.43250	1.08545	.0069	4.9178	.08	11.56
	industry	10	18.2134	32.63892	10.32133	-5.1350-	41.5619	.05	103.12
	Total	75	6.0526	14.13337	1.63198	2.8008	9.3044	.03	103.12
Returns on share	banks	35	-.0811	.47492	.08028	-.2443	.0820	-1.68	1.69
	agriculture	20	.0615	3.38159	.75615	-1.5211	1.6441	-9.50	5.50
	insurance	10	.0630	1.11754	.35340	-.7364	.8624	-1.20	2.70
	industry	10	.5030	30.89235	9.76902	-21.5961	22.6021	-55.50	51.41
	Total	75	.0540	10.92225	1.26119	-2.4590	2.5670	-55.50	51.41

The table shows that there is compatibility between eps and return on share among all sectors except banks sector.

ANOVA test:

To recognize the variance of eps and return on share among the four sectors, ANOVA is used for this purpose. The table below clarifies the results:

Table (12) variance analysis among sectors

ANOVA						
		Sum of Squares	Df	Mean Square	F	Sig.
EPS	Between Groups	2424.780	3	808.260	4.644	.005
	Within Groups	12356.888	71	174.041		
	Total	14781.668	74			
Return on share	Between Groups	2.657	3	.886	.007	.999
	Within Groups	8825.210	71	124.299		
	Total	8827.867	74			

The above table shows that there is variance related to eps only among these sectors, and the result depends on F- test value and its significance. To identify the other sectors with different results, LSD test is used as shown in the table:

Table (13) mean of eps for banks, insurance and services sectors

Dependent Variable	Sector I	Sector J	Mean Difference (I-J)	Std. Error	Sig.
EPS	Services	banks	16.38389*	4.73040	.001
		insurance	15.75109*	5.89984	.009

The table refers to a significant difference between industry sector and banks and insurance regarding eps. Earnings per share of services sector is higher than eps of banks and insurance sectors [12].

Banks sector:

The researcher finds out the coefficients related to Basu impact analysis of banks sector as clarified in the table below:

Table (14) the coefficients earnings response to negative and positive returns and r^2 for banks sector

Coefficients of Basu model	Coefficient value	T- test value	Test significance value	F- test value	Test significance value	R^2	Durbin and Watson value
β_0	3.220	2.425	.021	0.365	0.779	0.03	1.6 No problem in autocorrelation
β_1	-1.030-	-.362-	.719				
β_2	-1.231-	-.659-	.515				
β_3	2.217	.562	.578				

The F- test value is 0.365 of significance value 0.779, which is less than significance level %5. It indicates that the variables model used here has a significant effect on the response variable and the value of r^2 by %3. This percentage means that %3 of the model has been explained. Also, there is no significant effect of return on share, earnings response to bad/ good news or expected losses [13].

Agriculture sector:

The researcher finds out the coefficients related to Basu impact analysis of agriculture sector as clarified in the table below:

Table (15) the coefficients earnings response to negative and positive returns and r^2 for agriculture sector

Coefficients of Basu model	Coefficient value	T- test value	Test significance value	F- test value	Test significance value	R^2	Durbin and Watson value
β_0	.877	1.336	.200	0.517	0.677	0.09	1.8 No problem in autocorrelation
β_1	.185	.831	.418				
β_2	.001	.002	.999				
β_3	-.158-	-.605-	.554				

The table shows that F- test value is 0.517 of significance value 0.677, which is less than significance level %5. It indicates that the variables model used has a significant effect on the response variable and the value of r^2 equals %9. This percentage means that %9 of the model has been explained. Also, there is no significant effect of return on share, earnings response to bad/ good news or expected losses.

Insurance sector:

The researcher refers to the coefficients related to Basu impact analysis of insurance sector as clarified in the table below:

Table (16) the coefficients earnings response to negative and positive returns and r^2 for insurance sector

Coefficients of Basu model	Coefficient value	T- test value	Test significance value	F- test value	Test significance value	R^2	Durbin and Watson value
β_0	2.690	2.233	.067	0.791	0.542	0.28	2.1 No problem in autocorrelation
β_1	-1.189-	-1.421-	.205				
β_2	-1.588-	-.944-	.382				
β_3	1.574	.846	.430				

The table shows that F- test value is 0.791 of significance value 0.542, which is less than significance level %5. It indicates that the variables model used has a significant effect on the response variable and the value of r^2 equals %28. This percentage means that %28 of the model has been explained. Also, there is no significant effect of return on share, earnings response to bad/ good news or expected losses [14].

Industry sector:

The researcher shows the coefficients related to Basu impact analysis of services sector as clarified in the following table:

Table (17) the coefficients earnings response to negative and positive returns and r^2 for services sector

Coefficients of Basu model	Coefficient value	T- test value	Test significance value	F- test value	Test significance value	R^2	Durbin and Watson value
β_0	1.510	1.133	.300	5.302	0.04	0.73	2.1 No problem in autocorrelation
β_1	.195	3.631	.011				
β_2	-.912-	-.290-	.782				
β_3	-.202-	-2.183-	.072				

The table shows that F- test value is 5.302 of significance value 0.04, which is less than significance level %5. It indicates that the variables model used has a significant effect on the response variable and the value of r^2 equals %73. This percentage means that %73 of the model has been explained. Also, there is a significant effect of return on share by 0.195 and T- test value equals to 3. 631 and value significance 0.011, which means less than %5. It indicates that the value of return on share increases by one unit which increases eps by %20. S, the earnings response to bad news is slightly higher than the response to good news by (0.195/0.202). Through probing the results of applying Basu model on the level of economic sectors and using R^2, industry sector is the most conservative sector in which its R^2 is 0.73, insurance 0.28, agriculture 0.09 and banks sector is the least one to practice accounting conservatism 0.03. These results confirm the study second hypothesis which refers to the existence of variance of accounting conservatism among economic sectors of Iraqi joint stock companies.

5. Conclusions and recommendations

5.1. First: Conclusions

1- Accounting conservatism represents one of the accounting information traits that adds more credibility and validity to financial reports, which faces opposition by some professional associations. They claim that conservatism violates impartiality and true representation after the emergence of the concepts of fair value.

2- The reasons of practicing accounting conservatism are attributed to uncertainty surrounding business environment, which should be taken into consideration when measuring and disclosing the results of the activities and financial position of the economic unit. They have direct effects on the decisions taken and information in the financial statements.

3- There are certain motives behind practicing conservatism as contracting, taxes, litigation and accounting in supply chain of organization. Conservatism is one of the active mechanisms to organize company contracts with other partners whether from inside or outside the company. Moreover, to avoid litigation risks in case of financial exaggeration of performance and tax decrease of the company [20].

4- Through sound practice of accounting conservatism, users' decisions of financial statements can rationalize their decisions by improving the quality of earnings because it imposes strict requirement to acknowledge earnings compared to recognize expenses. Also, rapid recognition and disclosure of expected losses than expected earnings.

5- The users of financial reports tend to use accounting conservatism due to increase cases of manipulation and fraud that lead to bankruptcy of companies.

6- Statistical analysis of the field study finds the following:

A- Most of joint- stock companies of Iraq stock exchange practice accounting conservatism when measuring and disclosing their activities and financial position. Through applying [15] model, regression coefficient of earnings on negative returns is higher than regression coefficient of earnings on positive returns. The explanatory power of r^2 for negative returns (bad news) is higher than the explanatory power of r^2 for positive returns (good news).

B- There is variance among economic sectors in practicing conservatism. The highest conservative sector is industry in which R2 is 0.73, insurance 0.28, agriculture 0.09 and banks sector is the least one to practice accounting conservatism 0.03. These results confirm the study second hypothesis which refers to the existence of variance of accounting conservatism among economic sectors of Iraqi joint stock companies. The reason is that conservatism is one of the active

mechanisms to organize company contracts with other partners whether from inside or outside the company. Moreover, to avoid litigation risks in case of financial exaggeration of performance and tax decrease of the company [16], [17].

C- There is a direct correlation between accounting conservatism and the establishment value. It means that there is an impact of using conservatism on the establishment value because practicing strict conservatism may limit the management ability to manage opportunistic earnings. This technique maintains the shares prices of fluctuations and minimize bankruptcy risks but increases the establishment dependence [18].

6. Recommendations

1- Iraq stock exchange has to oblige companies to practice accounting conservatism and makes it a condition of listing companies in the stock exchange. The idea is to enhance companies' commitment to practice conservatism when preparing financial statements to ensure a higher level of conservatism. As a result, these procedures will improve the quality of financial reporting in the financial statements.

2- Never abandon applying conservative accounting policies on budget. Budget application makes accounting information more appropriate to take decision so the exaggeration of application may harm the company. The shareholders may think that they invest their capitals in unsuccessful company and this make them decrease the value of their shares; to take a decision against their interest or what is called adverse selection.

3- Enact legislations and laws that contribute to monitor applying accounting conservatism when measuring and disclosing the activities and financial position due to its importance in improving the quality of earnings and transparency of financial disclosure, which improve the investors' abilities to take economic decisions.

4- Activate legal and judicial regulations to protect investors and lenders rights from opportunistic practices and financial penalties imposed on companies.

5- Attract companies' management attention to the risks of unsound use of conservatism as inadequate information among stakeholders or litigation in case of exaggeration of financial performance.

6- Developing an index to measure the level of accounting conservatism in the published financial reports, which improves the transparency of the reports and rationalizes the users' decisions.

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