World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-16 November-2022
ISSN: 2749-3601

THE EFFECT OF ACCOUNTING CONSERVATISM ON THE ECONOMIC DECISIONS OF INVESTORS / A STUDY IN A SAMPLE OF IRAQI BANKS LISTED ON THE IRAQI STOCK EXCHANGE

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Article history:

Received: September 13th 2022
Accepted: October 13th 2022
Published: November 24th 2022

Abstract:

The aim of the current research is to analyze the intellectual and applied impact of the accounting reservation on the economic decisions of investors, by applying to 130 views (company / year) in Iraqi banks listed in the Iraq Stock Exchange for the period from 2011-2020.
The variables of this study were measured quantitatively, the accounting conservatism was measured using the receivables model, and the economic decisions of investors were measured through the volume of trading in shares. Among the most important findings of the research: that there is a direct effect between accounting conservatism and investors' decisions, and this indicates the tendency of investors towards accounting conservatism as it contributes to preserving the company's assets. The company in investor decisions.

Keywords: accounting conservatism, economic decisions for investors.

INTRODUCTION

Accounting reservation raises a lot of controversy, in terms of being an advantage for the economic unit in terms of the reliability of the accounting number or in terms of manipulating accounting numbers, and it has gained an interesting space by professional organizations in preparing accounting standards, and the issue of accounting reservation is still the focus of many contemporary research in terms of Measurement, and the level of accounting conservatism may vary in light of the varying size of the economic unit, its age, cash flows and other factors determining the stages of its life cycle. The heavy losses borne by the stakeholders in these economic units as a result of the opportunistic practices carried out by the management of those economic units, including the practices of profit management, and off-budget financing. As the investment decision is one of the most difficult and most important decisions taken by investors, the decision-making process depends on many elements and principles, so the information is very important, and when applying the accounting conservatism, this will reduce the asymmetry of For information, this helps investors in evaluating the future directions of the company in predicting investment profitability, risk and trade-off between alternatives.

THE STUDY PROBLEM

The right economic decisions of investors depend on the appropriate information for decision-making purposes, and there is no doubt that bad decisions result in a loss in the wealth of investors, as companies go through several distinct stages, and each stage of the different life cycle has different financial characteristics and requires different management skills, priorities and strategies, and this What necessitates the management of companies to exercise different levels of accounting conservatism, and the research problem can be highlighted in the following question:

- What is the effect of accounting conservatism on the economic decisions of investors?

RESEARCH IMPORTANCE

The importance of the research is due to several reasons:

1. The research represents an extension of the accounting studies in the field of accounting conservatism, by clarifying the concept of accounting conservatism, its types, motives and justifications for the demand for it, its measurement models, and its impact on the quality of financial reports and investor decisions in Iraqi banks listed in the stock market.

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2. Keeping abreast of research trends in contemporary accounting thought, as research in the field of capital markets research represents the main direction of accounting research at the present time, for companies and the impact of accounting conservatism on the validity of the lists and their suitability for investors. Same topic.

OBJECTIVES OF THE STUDY
The research seeks to achieve a set of goals, most notably the following: -
A. Motives and justifications for accounting reservation and its types.
B. Studying the intellectual and applied impact of accounting conservatism in the economic decisions of investors.

RESEARCH HYPOTHESIS
For the purpose of achieving the objectives of the research and answering the question posed in the research problem, the following hypothesis was formulated:
- There is a statistically significant effect of accounting conservatism on investors' decisions

The concept of accounting conservatism
The emergence of accounting conservatism was due to the uncertainties spread in accounting practices, and the concept of conservatism continued to be one of the influential concepts in the field of accounting. Although there were attempts by scholars and setters of accounting standards to provide a generally accepted definition of accounting conservatism, it was difficult to define a concept that could Its adoption He defined accounting conservatism as "does not expect any profits but expects all losses." This definition is constructive but very simple (Zhong, 2016:2).
And (A. Nasr&G Ntim, 2017:6) pointed out in his study that accounting conservatism is "the tendency towards using policies and methods to reduce the value of net assets in relation to their net economic value. The researcher believes that there is agreement in the content of accounting conservatism that it is very necessary to confront the surrounding uncertainty. The company, despite the differences by the pioneers in defining its concept, and it can be defined by the researcher as "the possibility of recognizing gains in the event of extreme certainty instead of recognizing losses).

Types of accounting reservation
There are many types of accounting reservation, but most studies focused on two types, namely, conditional reservation and unconditional reservation, and both of them will be clarified:

First, the conditional reservation
Conditional discretion in some studies is called news-dependent, ex post, or income-conservative. Gains from the "good news" are recognized immediately in the book value of the assets but are recognized pending realization (XUEQING, 2019: 13).
While (Banker et al, 2014: 5) sees that the conditional reservation is the highest degree of certainty that is used to recognize the good news as profits, compared to the bad news as losses with the least degree of certainty, that is, there is a difference in recognizing profits in the case of good news and unpleasant news.
Accounting conservatism benefits its use in producing more transparent information and loyalty to investors, without exaggerating optimism. The asymmetric requirement for recognizing gains and losses from practice benefits users of accounting data, and is necessary to mitigate a manager's opportunistic habits (Wronski, &Klann,2020:347).

Second: Unconditional reservation:
Unconditional conservatism, also referred to as balance sheet conservatism, embodies the idea that an asset is listed on the balance sheet at a value below its market value. The meaning of the word (unconditional) is that this reservation is not related to negative or positive news (Mora, Walker, 2015: 623). It was also defined as the reservation that occurs from the application of generally accepted accounting principles (GAAP) that results in the reduction of profits independently of current economic news, that is, without taking into account information or events (Al-Mashhadani, Hamid, 2014: 364).
It is clear from the above that both types are accounting reservation and lead to the same results in terms of a decrease in profit and the book value of the right of ownership. While the last reservation leads to an accounting bias that is not specialized in the new information, the second difference is that the reservation precedes the conditional reservation in its identification, because the unconditional reservation will be determined in the timing of the existence of assets and liabilities, while the conditional changes the costs of assets and private liabilities since the start of the activity of a company (the soldier , 2020: 65).
As for the third difference referred to by (W. Ruch, Taylor, 2015: 20) it concerns the circumstances that lead to the emergence of the conditional reservation from those of the unconditional reservation. For example, (examines the existence of an unconditional and conditional reservation in each of the four interpretations of a reservation)—contracting, litigation, taxation, and regulation—we find that a conditional reservation arises in circumstances where the costs of contracting and litigation are high, while an unconditional reservation arises in circumstances where the costs of contracting and litigation are high.

Where the costs of litigation, regulation and taxes are high.

Motives for Accounting Conservatism

The majority of studies and research agreed that there are four motives for the concept of accounting conservatism, which are the following:

1. the motives for contracts

It means contracts that take place between different parties and have conflicting interests for the company, and this motive is considered one of the oldest justifications that tried to explain the concept of accounting reservation, (Abdul-Majid, 2013: 147), and most studies focused on debt contracts and management incentives contracts:

A. Debt contracts

Debt contracts inevitably align with exposure to the risk of inability to pay, i.e. the risk of the borrowing company not being able to repay the money. Debt contracts also stipulate actions/decisions that management is allowed to impose and impose limits on the payment of dividends, take out new loans, investment policies, use of accounting standards and estimates, etc. Conservative accounting methods as these methods tend to underestimate the value of net assets and thus protect debt lenders from opportunistic valuation methods. (Wendt, 2010:20)

B. **Management incentive contracts:**

managers of economic units tend to choose accounting methods that show accounting profit in a high way in order to obtain higher incentives, as accounting standards give managers the freedom to choose and change accounting treatments in certain circumstances, as incentive contracts associated with achieving Profits (Abdul Rahman, 2021: 19), may lead to opportunistic measures by the management, so increasing the accounting conservatism can increase the efficiency of contracts by reducing those opportunistic measures that increase profits in the short term. In order to maximize its incentives and to result in these measures decreasing the value of the economic unit in the long run. (Mason, 2016: 66).

2. **The motives for litigation:**

At the beginning of this century, many major companies went bankrupt in the world due to the increase in the private indebtedness of these companies, and their attempt to inflate the value of assets and profits in order to obtain more loans. Therefore, the bankruptcy rates of these companies increased from (4.01%) to (4.09%) in 2001 and also in 2002, due to the collapse of many of those companies such as (Xerox) and (Global Enron () for many reasons, including: exaggeration in profits, tampering and fraud, accounting errors, concealment of information and misleading. What causes an increase in accounting conservatism is the emergence of litigation risks for auditors and accountants (Abu Jarad, 2015: 156) and as seen by Heijden, 2011:15) to the occurrence of litigation risks due to the overestimation of assets and business results much higher than the risks of underestimating assets and the results of Business. The reason is that when the company overestimated its assets and results and the market discovered that the company overestimated its assets and results, there would be a decrease in the market value of the company. This decrease in market value causes financial harm to shareholders. But when it is different (understatement), the firm has more market value. So shareholders are not immediately hurt. As a result, exaggeration leads to a higher risk of litigation.

3. Tax motives:

Taxes give a motive for companies to follow conservative accounting practices that defer taxes (Hussein, 2018: 25), when taxable income is linked to reported profits, the company can reduce the present value of the tax through deferred recognition of revenue and rapid recognition of costs. Or expenses, which generates an incentive for the company to apply accounting conservatism (Cheng, 2019:29).

4. Regulatory motives:

They are the motives that are in the hands of the bodies responsible for accounting regulation, they issue accounting standards as well as auditing standards, and work to monitor how to comply with the application of those standards, and these bodies are the ones who issue laws and legislation that control the accounting profession, and these aims Professional organizations to standardize accounting practices between companies at the international level, so that users of financial statements can evaluate those companies on a unified basis through which they can know the business results of these companies (Saleh, et al., 2017: 142).

TYPES OF INVESTORS

The main purpose of investors engaged in investment is both to increase their income and reduce their expenses (Islamoğlu at el, 2015:531). Investors are divided into three types:

1- Conservative investor:

He is the investor who gives priority to the element of safety and this is reflected on the investor's decision, he will become very sensitive to the element of risk, and as a result he does not enter into investments with high risks, unlike investments with low risks, as he accepts them despite the low returns of those investments (Alskaf, 2018 : 55).

2- Speculative investor:

This type of investor is sensitive to the risk element, as he gives priority to the element of return and enters into investing in financial assets with high risks and high returns, such as ordinary shares, with the aim of

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Available Online at: https://www.scholarexpress.net
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obtaining a return that is achieved as a result of the rise in stock prices in the short term and does not keep shares except for a short period extending from one week to Several months, and thus the investor achieves high profits to seize opportunities such as obtaining a return as a result of price fluctuations up or down, but small investors may be exposed to large losses and end up in bankruptcy due to the impact of their decisions on the decisions of large investors, which greatly affects the market, and speculators on two types:

A. speculators on the rise: here the investor buys securities in order to sell them again at a better price, and thus he will benefit from the difference between the two prices.
B. speculators to go down: here the speculator sells his securities, expecting their prices to drop, and after the drop he buys what was previously sold and the profit is minus the purchase expenses and purchase commission. (Al-Husni, 2016: 25).

3- The rational investor:

He is the balanced investor who cares about the return factor with the risk factor in a balance. He does not enter into an investment in which profitability at the expense of safety, and the vast majority of investors follow this case (Ali and Abdullah, 2017: 241).

Economic decisions for investors

Investment decisions are considered long-term decisions, so when choosing projects that need these decisions, managers balance as much as possible between short-term considerations such as accounting profit as well as long-term considerations, and managers are also required to take into account when making their decisions the company's goals, strategies and all cash flows (Bhimani , et al, 2015:387), and to consider investment decisions as one of the main and important decisions, managers have incentives to make investment decisions based on reliable and sufficient information (Bae, et al, 2017:19).

Investment decisions are also considered a set of financial resources that are expected or decided to be spent in order to obtain a set of desired capital resources in a time and place and to provide the possibility of exploiting them for the purpose or purposes for which they were allocated. (Ali, Abdullah, 2017: 240) as indicated (Thuhoye, 2017:11) to the decision-making process, identifying alternatives, and choosing the best alternative according to the criteria and preferences of the decision maker. This will be a practical result no less important than the final choice. Investment decisions are also defined as the process of choosing the most appropriate alternative from the available investment alternatives, and good investment decisions are based on comprehensive information about investment that investors collect from various sources such as television, the Internet and other means (Mumtaz, 2018:3). As indicated by (Brealey, et al, 2020: 2) that investment decisions include managing the current assets owned by the company and determining the appropriate time to abandon them, when they are not profitable well. Basically on the expected return and the degree of risk, which play an important and very important role in the decision-making process because investors will seek to maximize the benefit they achieve for a certain level of risk or reduce the risks to a certain level of profit.

Types of investment decisions

Investors make the decision based on the nature of the relationship between the value of the investment instrument and its price. From this point of view, investment decisions are divided into three sections:

1- Purchase decision: when the investor feels that the value of the investment instrument is represented by the present value of the cash flows expected to occur, as they are calculated within the framework of return and risk and are higher than the market price or by other clarification when the market price is less than the value of the investment instrument, as the investor looks at it, due to the formation of The incentive to buy that instrument and achieve capital gains when expecting a rise in the future market price of that instrument (Al-Farraji, 2021: 419).
2- Decision not to trade: This type of investment decision is taken when the investor has a financial asset in which the current market value is equal to the current value of the expected cash flows and not to ignore the risks that accompany these flows, and as long as there are no expected returns by the investor, he does not take any decision either It was the decision to buy or the decision to sell (Abaker, 2017: 47).
3- Selling Decision: This decision is taken when the market is going through a state of equilibrium, creating additional desires at the time to buy from a new investor, i.e. when there is an investor, that is, when the market price rises from the current value of the expected cash flows, the investor has an incentive to sell for fear of the risk of a future price drop. (Halaq, 2014: 88).

Stages of making an investment decision

The decision-making process includes a number of stages that decision-makers go through to reach the most appropriate solution, which are:

1. The stage of creating alternatives: It is considered the first stage in the decision-making process in which the investor searches for investment opportunities and then chooses the alternative from among

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the available investment alternatives in order to avoid the expected risks in the external environment (Maji, 2018: 435).
2. The stage of evaluating the alternatives: the investment alternatives available by the investor are compared based on a set of objectives and criteria, the most important of which is compatibility with the internal environment and the external environment for investment.
3. The stage of comparison between alternatives: in this stage, the best alternative for investment is chosen, where the comparison is the basis for the principle of comparison. The Investor for Return and Risk (Zwain, 2020: 64).
4. Implementation and follow-up phase: It means putting the chosen alternative into practice, following up on the implementation stages, identifying problems during the implementation process and addressing them (Farajallah, 2011: 27-28).

The effect of accounting conservatism on the economic decisions of investors

Economic activities prevail in some cases of uncertainty and risk, and accounting conservatism reflects those risks in the accounts, which gives a true and fair picture. This means that conservatism gives an adequate assessment of the investors about the risks involved in the company's activities to make their investment decision.

The effect of accounting conservatism on the economic decisions of investors by reducing information asymmetry and the cost of capital

Accounting conservatism plays an important role in reducing the cost of capital, which facilitates obtaining external sources of financing, increases cash flows from financing activities and limits misuse of funds.

(Hughes et al., 2007: 35) pointed out in his study that the cost of capital is directly related to the symmetry of information in order to increase the risks that investors may be exposed to regarding predicting the expected returns on their investments and because of the insufficient information available that prompts them to demand an additional return. Therefore, investors prefer Accounting conservatism to mitigate information asymmetry and thus reduce the cost of capital, which in turn increases the value of the company, as a study (Biddle et al., 2011:9) added that accounting conservatism mitigates information asymmetry through unpleasant news related to accounting profit The assets are at the appropriate time, and this role also enhances the reservation of cash flows, and the accounting conservatism reduces the risk of bankruptcy.

As indicated by (Chan et al, 2009: 326) that unconditional reservation provides information to investors that helps them make their investment decision, and this in turn reduces the uncertainty about future cash flows, and this is due to the postponement of current profits in favor of future profits, which makes investors able to Analyzing and evaluating its impact on current and future profits, and this will, in turn, reduce the cost of capital.

The researcher believes that accounting conservatism helps reduce the cost of capital by

1- Improving the quality of accounting profits that affect stock returns in the financial markets and thus contribute to the investment decision-making by the investor
2- Accounting conservatism reduces the asymmetry of information between management and investors, which in turn reduces the cost of funding sources and thus reduces the cost of capital indirectly.
3- Accounting reservation works by reducing information asymmetry by protecting the investor by restricting managers from exaggerating profits to obtain additional rewards and this helps in improving the quality of profits and making sound decisions by the investor.

The applied effect of accounting conservatism in the economic decisions of investors

Most of the accounting literature agree that conservative financial reports help in rationalizing the economic decisions of investors, and from the studies that confirmed the existence of a relationship between accounting conservatism and investors' decisions (Al-Rifai and others, 2023:123) by addressing the issue of the impact of accounting conservatism in light of international standards on the decisions of investors for a sample. Among the companies listed on the Egyptian Stock Exchange for 50 companies for the period between (2013-2019), where she indicated that the reservation works to recognize losses in a timely manner, and this in turn restricts the ability of managers to exaggerate profits and discourages administrative attempts that cover poor performance, benefiting from their private information to transfer wealth From investors to themselves.

The study added (Bangmek, Ratchaneeya et al, 2016, P75) by testing the relationship between the accounting conservatism on investors' decisions on a sample of companies in the Stock Exchange (Thailand) for the period from (2005-2012), where it confirmed that conservative reports help in setting a better

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standard that reflects The company's current and future performance, in addition to providing a verifiable and more accurate measurement of profits, and when combined with management's expectations of the economic events that have been disclosed, conservative reports give investors accounting information that verifies the real economic value of the company.

Also, the study of Buxbaum el at,2022: 2) that there is a significant correlation between the target prices and the conditional accounting conservatism, and it is negatively adjusted according to the investor's preferences through a sample of data of the Federal Reserve Bank for the period (1999-2018), where the study confirmed that the upward bias towards Target prices, especially in periods of inflationary stock price inflation, are characterized by their high quality, as well as achieving a high quality of profits, and this leads to the revitalization of the stock market because the quality of information has a direct impact on the stock market on which investors rely in making many decisions such as the decision to keep or the decision to dispose of papers This affects the trading volume and stimulates the movement of the stock market.

MEASURING VARIABLES

1- Accounting conservatism (independent variable)

The accounting conservatism is measured by the accruals model

accruals form

Before we review the accruals model, we must address the concept of accruals, as long as the institutions prepare their annual financial reports, according to the accrual basis, except for the statement of cash flows, which are prepared according to the cash basis. It is not spent, and revenues are also recognized regardless of whether they were received or not (Ben Sheikha, 2020: 29).

The study (Givoly and Hay, 2000:303) presented a conservative measurement model based on receivables, and this model represents the difference between operating cash flows and net profits, when receivables appear with a negative value during a period of time, and this indicates the continuation of annual flows greater than profits, with another explanation The remaining conservative accounting policies result in a reduction in the announced profits of the company, while the cash flows continued due to the presence of good profits, which were not recognized (Barbach, 2019: 42-43).

The idea of this model crystallizes that the recognition of unrealized economic losses or gains in receivables leads to a positive relationship between accruals and operating cash flows. This is because accounting conservatism requires timely recognition of economic losses, as for unrealized economic gains, accounting practice generally postpones recognition of gains until realization (Ge el at, 2019:11). The model for this scale is as follows (Pasko et al, 2021:7)):

$$\textbf{CONACC}_{i,t} = (\textbf{NIO}_{i,t} + \textbf{DEP}_{i,t} - \textbf{CFO}_{i,t}) \times (-1)$$

CONACC = indicates the degree of accounting conservatism

NIO = operating profit

DEP = depreciation of fixed assets

CFO = operating cash flow

TA = total assets at the end of the period

The negative value of the degree of accounting conservatism indicates the existence of accounting conservatism, and whenever this value increases, it indicates an increase in the application of accounting conservatism. From the financial market (Abdul-Zahra, 2017: 384).

2- Economic decisions of investors (dependent variable)

It is measured by the trading volume of shares:

The economic decisions of investors were measured by the volume of trading in shares, because it gives hints about the strength of the market through its rise and fall in the future. Before investors, this measure was adopted in the study (Zwain, 2020: 71), (Maji, 2019, 435), but those studies depended only on the total number of shares of the company, but in the current research the number of shares traded by the company was taken into account to exclude The effect of the size of the company's shares on the investors' decisions, according to the equation below

$$\textbf{Trading volume in shares} = \frac{\text{trading shares number}}{\text{company shares total}}$$

Hypothesis test results

"There is a statistically significant effect of accounting conservatism on investors' decisions."

To test this hypothesis, the following "linear regression" model was formulated:

$$\boldsymbol{ID_{it} = b_0 + b_1 To\_Con_{it} + \varepsilon_{it}}$$

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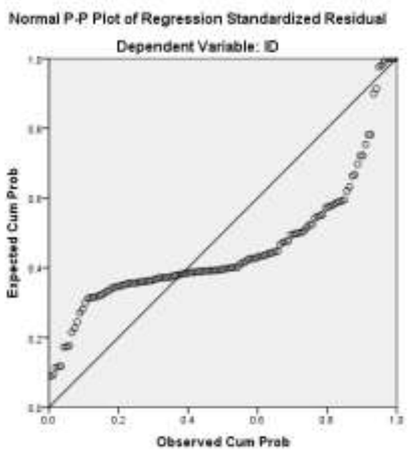
Hypothesis regression function coefficients

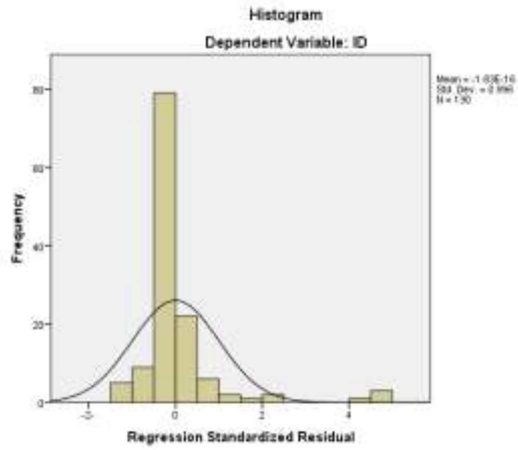
Coefficients						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.116	.015		7.922	.000
	To-Con	.115	.015	.571	7.862	.000

The above table shows that the value of the slope of the regression equation for the intermediate variable (accounting conservatism) amounted to 0.115, which shows the effect of the independent variable on the dependent variable (by parameter B), and the positive value of the coefficient indicates that there is a direct effect between the intermediate and dependent variables, or in other words that any increase In the intermediate variable (accounting conservatism) by one degree leads to an increase of 11.5% in the dependent variable (investors' decisions) with the stability of all other variables. in the foreseeable future.

The following two figures show the normal distribution of the statistical residuals of the regression equation. The vertex of the curve at the top of the vertical bars and the distribution of points around the straight line indicate that the statistical residuals follow the normal distribution, and this shows the accuracy of the data of the previous regression equation and the absence of large fluctuations in the real accounting conservatism values and its predicted value according to the statistical model above.

Histograms and normal distribution of residuals of the hypothesis





CONCLUSIONS

Through what was reviewed in the research, the most important conclusions reached by the researcher can be identified as follows: -

1- The great controversy and criticism about the exclusion of accounting conservatism from accounting practices resulted from the wrong application of accounting conservatism, which in turn is reflected in the financial statements of the economic unit
2- The practice of accounting conservatism results in many benefits and economic benefits such as increasing the credit capacity, reducing the cost of capital and reducing profit practices, and this is reflected positively on the value of the company.
3- The accounting information included in the financial statements and published by companies listed in the stock market greatly affects the process of trading in securities inside or outside the financial market through its impact on investors' decisions by providing them with financial information that helps them in evaluating the future trends of companies and the possibility of predicting their profitability Investment, market risk, and the trade-off between alternatives
4- There is a direct effect between accounting conservatism and investors' decisions, and this indicates the investors' tendency towards accounting conservatism as it contributes to preserving the company's assets.

RECOMMENDATIONS

1- The company's management should not neglect the use of accounting conservatism, as well as not overuse it. Rather, it should think wisely and prudently to determine the appropriate level of conservatism.

2- The management of the Iraqi Stock Exchange should direct the departments of listed companies to report all information related to these companies, because the higher the degree of reporting, the greater the confidence of dealers in the information provided, and thus increasing the accuracy and strengthening of their investment decisions.

3- The bank administrations should review the objectives set and develop new strategies that are compatible with the current economic conditions to prevent them from falling into the decay stage.

4- Measurement and analysis of accounting conservatism practices should be taken into consideration when studying the impact of the company's life cycle on investor decisions.

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